

27 July 2018

## **Sterling Energy plc**

### **Results for the six months ending 30 June 2018**

#### **Overview**

Sterling Energy plc ('Sterling' or the 'Company'), together with its subsidiary undertakings (the 'Group'), an upstream oil and gas company listed on the AIM market of the London Stock Exchange (Ticker Symbol: SEY) today announces its results for the six month period ending 30 June 2018.

The Company is an experienced operator of international exploration and production licences, with a primary geographic focus on Africa and the Middle East. The Group has a high potential exploration asset in Somaliland and an active strategy to deliver shareholder value through disciplined, material exploration and production projects; leveraging the Company's experience, with an emphasis on securing near term cash flow generative opportunities.

#### **Corporate summary**

- January 2018: Chinguetti, Mauritania; cessation of production ('CoP') and negotiated termination of the Funding Agreement.
- June 2018: David Marshall appointed as CEO.
- Continued merger and acquisition ('M&A') mandate for growth (at both asset and corporate level).
- Continued focus on capital discipline.

#### **Operations summary**

- Odewayne block, Somaliland; trial line 2D seismic processing completed, with initial deliverables currently being assessed.

#### **Financial summary**

- Cash net to Group, as at 30 June 2018 of \$46.9 million (30 June 2017: \$83.5 million), debt free.
- Group turnover of \$534k (1H 2017: \$2.2 million) from the Chinguetti field, offshore Mauritania.
- Loss after tax of \$1.1 million (1H 2017: loss \$2.2 million).
- Adjusted EBITDAX loss of \$932k (1H 2017: loss \$1.6 million).

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## **Chairman's Statement**

As of January 2018, through the termination of its Funding Agreement for the Chinguetti oil field in Mauritania, Sterling now has a cleaner and simpler platform from which to grow the business. We have a sizeable cash position, are free of abandonment liabilities and have no debt. We now have a clear mandate for transformative M&A transactions to leverage our position.

Trial line 2D seismic processing initiated by Sterling over the Odewayne block in Somaliland is showing encouraging signs in this large frontier licence. During the second half of 2018 we will use the data to further develop our understanding of the asset potential ahead of a drilling decision where Sterling will be carried through the cost of any well.

In June David Marshall joined us as Chief Executive Officer. David has 35 years' experience in oil and gas production and development specialising in technical solutions for accessing production from stranded assets. David's extensive knowledge of the production and development sector will drive the group forward towards its goal of executing the purchase of a material cash flow generating asset.

I look forward to updating our shareholders in due course as we seek to maximise our value proposition.

## **CEO Statement**

In January 2018, Sterling completed the successful exit from the Chinguetti project allowing the Company to now focus on its efforts on securing a material M&A transaction. Activity has now doubled on opportunity and asset screening and we are gaining deal traction due to the renewed focus and simplicity of the Group's financial position. Sterling still retains a unique position in the AIM listed E&P sector with a strong cash platform of \$46.9 million and no debt or other liabilities.

### **Market Landscape**

In 2017 we saw an oil price in the \$50-\$60 per barrel range. In 2018 we have seen Russia, Venezuela and OPEC trimming back production, which combined with the reintroduction of sanctions on Iran and Iranian entities in parallel with the USA withdrawing from the Joint Comprehensive Plan of Action, we have seen oil prices pushed over the \$70 per barrel level. Majors are stepping back from large scale projects, investing more capital into projects with shorter payback timeframes. There is a clear appetite in the market for buying and selling existing production rather than investing in long-term development projects or exploration.

We have a clear mandate and focus and can move quickly and decisively for the right opportunity, leveraging our cash balance and technical capabilities to good effect.

We remain very optimistic about finding a suitable acquisition in 2018.

## **Operations Review**

### **Somaliland**

#### **Odewayne (WI 34%) Exploration block**

Sterling Energy (East Africa) Limited ('SE(EA)L') currently holds a 34% interest in the Odewayne Block and is fully carried by Genel Energy for its share of the costs of all exploration activities during the Third and Fourth Periods of the Production Sharing Agreement 'PSA'.

This large, unexplored frontier block comprises an onshore area of 22,840km<sup>2</sup>. Extensive legacy geological field data provides strong encouragement for a deep sedimentary basin and has additionally highlighted the presence of oil seeps at surface, suggesting that a working hydrocarbon system exists.

The PSA was awarded in 2005. It is in the Third Period with an outstanding minimum work obligation of 500km of 2D seismic. The Third Period was extended in 2016 by two years to 2 November 2018. The minimum work obligation during the optional Fourth Period of the PSA (also extended by 2 years to May 2020) is for 1,000km of 2D seismic and one exploration well.

In November 2017, Sterling undertook an integrated geological review of the basic post-stack processed 2D dataset provided by the Operator Genel Energy. Following encouraging technical indications, the Company then undertook a highly focused and rigorous processing effort, independent of the Operator, with the primary technical objective of improving the deeper subsurface image. An initial 3 seismic lines of approximately 235km in length have now been processed to a full pre-stack time migrated dataset. This new processing has resulted in a material increase in the subsurface imaging quality, and technical work is underway to integrate this new insight in to our technical understanding of the block. The option to process the remaining 765km (13 lines) of data remains in place and the decision to progress to this second phase is currently under review while the initial deliverables are being assessed. This workflow will allow for an informed technical and commercial perspective on the block in 2H 2018.

#### **M&A strategy**

Sterling has actively transitioned the portfolio out of long cycle exploration assets requiring third party funding and continues to actively search for near to mid-term value creation and transformative growth / monetisation options in both Africa and the Middle East (although the board would also consider options further afield for the right project).

A prudent, selective and persistent M&A led effort is directed towards shorter-cycle revenue generating projects that will deliver in a sustained lower oil price landscape, in progressive jurisdictions.

The Company maintains a disciplined approach to all M&A efforts at a corporate and asset level, only pursuing and executing those growth options that the Company believes to have the best opportunity to ultimately deliver value for shareholders.

#### **Qualified person**

In accordance with the guidelines of the AIM Note for Mining, Oil and Gas Companies, Mr Anish Airi, Subsurface Manager of Sterling Energy plc, a Chemical Engineer who has been involved in the oil industry for over 20 years, is the qualified person that has reviewed the technical information set out above. Mr Anish Airi has an MEng in Chemical Engineering and is a member of the Society of Petroleum Engineers.

## Financial Review

### Selected financial data

	1H 2018	1H 2017	FY 2017
Net entitlement from production (bopd)	-	320	199
Net cargo liftings (bbls) / # liftings	9,222 / 1	41,950 / 1	92,056 / 3
Sales revenues (including royalty) (\$m)	0.5	2.2	4.4
Average realised oil price (\$/bbl)	58.3	48.7	48.2
G&A cash expenditures (\$m)	1.5	1.9	3.9
Adjusted EBITDAX <sup>1</sup> (\$m)	(0.9)	(1.6)	(5.9)
Loss after tax (\$m)	(1.1)	(2.2)	(9.0)
Cash and cash equivalents net to Group (\$m)	46.9	83.5	81.4
Debt (\$m)	-	-	-
Share price (at period end) (GBP pence)	13.3	15	13.8

<sup>1</sup>Adjusted EBITDAX is calculated as earnings before interest, taxation, depreciation, amortisation, impairment, pre-licence expenditure, provisions and share-based payments.

### Revenues and cost of sales

During the period, there was one final lifting from the Chinguetti field of 9,222 bbls (net to the Company) (1H 2017: 41,950 bbls, from one lifting) resulting in Group turnover of \$534k (1H 2017 \$2.2 million).

Total cost of sales totalled \$515k (1H 2017: \$2.7 million).

### Loss from operations

The loss from operations for 1H 2018 was \$1.6 million (1H 2017: loss \$2.5 million).

During the period, net administrative expenditure decreased by 22% to \$1.6 million (1H 2017: \$2.0 million) and includes pre-licence costs of \$623k (1H 2017: \$1.0 million). The Group continues to focus on such expenditures and forecasts G&A of ca. \$2.9 million in 2018, a ca. 27% decrease from the 2017 full year results.

### Adjusted EBITDAX and loss after tax

Adjusted EBITDAX totalled a loss of \$932k (1H 2017: loss \$1.6 million).

The loss after tax totalled \$1.1 million (1H 2017: loss \$2.2 million). Basic loss per share was 0.50 US¢ per share (1H 2017: 0.99 US¢ loss per share).

Finance income of \$477k represents interest received on cash held by the Group (1H 2017: \$596k, included interest received \$522k and foreign exchange gains \$74k). The Group continues to focus on treasury management to maximise interest received. Finance costs totalled \$28k (1H 2017: \$264k).

No dividend is proposed to be paid for the six months to 30 June 2018 (30 June 2017: nil).

### Cash flow

During the period \$32.5 million was paid under the Deed of termination in relation to the Funding Agreement.

Net cash outflow from operating activities (pre-working capital movements) totalled \$34.1 million (1H 2017: outflow \$2.7 million). After working capital, net cash outflow from operating activities totalled \$34.9 million (1H 2017: outflow \$1.5 million).

### Statement of financial position

At 30 June 2018, Sterling held \$46.9 million cash and cash equivalents available for its own use (30 June 2017: \$83.5 million).

Group net assets at 30 June 2018 were \$68.2 million (30 June 2017: \$76.1 million). Non-current assets totalled \$21.1 million (30 June 2017: \$22.5 million) with net current assets reducing to \$47.1 million (30 June 2017: \$78.1million).

### Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the CEO Statement and in the Operations Review. The financial position of the Group is described in the Financial Review.

The Company has sufficient cash resources for its working capital needs and its committed capital expenditure programme for at least the next 12 months. As a consequence, the Directors believe the Company is well placed to manage its business risks. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the results for the six months ended 30 June 2018.

**Disclaimer**

This document contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. Whilst the Group believes the expectation reflected herein to be reasonable in light of the information available to it at this time, the actual outcome may be materially different owing to factors either beyond the Group's control or otherwise within the Group's control but where, for example, the Group decides on a change of plan or strategy. Accordingly, no reliance may be placed on the figures contained in such forward-looking statements.

## Glossary

\$	US Dollars
2D	two dimensional
bbl	barrel(s) of oil
bopd	barrels of oil per day
Adjusted EBITDAX	earnings before interest, taxation, depreciation, amortisation, impairment, pre-licence expenditure, provisions and share based payments
km	kilometre
Post-stack	Processing of raw seismic data into a geological representation of the subsurface
Pre-stack time migrated dataset	More advance technique of processing of raw seismic data; used when considering complex geology
PSA	production sharing agreement
Seismic	Geophysical investigation method that uses seismic energy to interpret the geometry of rocks in the subsurface
Subsurface image	Geological representation of the subsurface typically using geophysical investigation methods such as seismic
km <sup>2</sup>	square kilometre
WI	working interest

**Condensed consolidated income statement for the six months to 30 June 2018**

	Six months to 30th June 2018	Six months to 30th June 2017	Year ended 31st December 2017
	\$000	\$000	\$000
	(unaudited)	(unaudited)	(audited)
Revenue	534	2,217	4,433
Cost of sales	(515)	(2,704)	(7,917)
<b>Gross profit/(loss)</b>	<b>19</b>	<b>(487)</b>	<b>(3,484)</b>
Other administrative expenses	(956)	(1,047)	(2,379)
Impairment of oil and gas exploration assets	-	-	(2,834)
Pre-licence costs	(623)	(977)	(1,628)
Chinguetti cessation credit	-	-	866
<b>Total administrative expenses</b>	<b>(1,579)</b>	<b>(2,024)</b>	<b>(5,975)</b>
<b>Loss from operations</b>	<b>(1,560)</b>	<b>(2,511)</b>	<b>(9,459)</b>
Finance income	477	596	1,089
Finance expense	(28)	(264)	(630)
<b>Loss before tax</b>	<b>(1,111)</b>	<b>(2,179)</b>	<b>(9,000)</b>
Tax	-	-	-
<b>Loss for the period attributable to the owners of the parent</b>	<b>(1,111)</b>	<b>(2,179)</b>	<b>(9,000)</b>
<b>Other comprehensive expense - items to be reclassified to the income statement in subsequent periods</b>			
Currency translation adjustments	(3)	(2)	(20)
Total comprehensive expense for the period	(3)	(2)	(20)
<b>Total comprehensive expense for the period attributable to the owners of the parent</b>	<b>(1,114)</b>	<b>(2,181)</b>	<b>(9,020)</b>
<b>Basic loss per share (US cents)</b>	<b>(0.50)</b>	<b>(0.99)</b>	<b>(4.09)</b>
<b>Diluted loss per share (US cents)</b>	<b>(0.50)</b>	<b>(0.99)</b>	<b>(4.09)</b>

**Condensed consolidated statement of financial position as at 30 June 2018**

	As at 30th June 2018	As at 30th June 2017	As at 31st December 2017
Note	\$000 (unaudited)	\$000 (unaudited)	\$000 (audited)
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	3 <b>21,076</b>	22,483	21,041
Property, plant and equipment	<b>11</b>	13	14
	<b>21,087</b>	22,496	21,055
<b>Current assets</b>			
Inventories	-	2,501	363
Trade and other receivables	<b>410</b>	707	868
Cash and cash equivalents	<b>46,900</b>	83,493	81,365
	<b>47,310</b>	86,701	82,596
<b>Total assets</b>	<b>68,397</b>	109,197	103,651
<b>Equity</b>			
Share capital	<b>28,143</b>	28,143	28,143
Share premium	-	-	-
Currency translation reserve	<b>(192)</b>	(171)	(189)
Retained earnings	<b>40,232</b>	48,161	41,343
<b>Total equity</b>	<b>68,183</b>	76,133	69,297
<b>Non-current liabilities</b>			
Long-term provisions	-	24,456	-
	-	24,456	-
<b>Current liabilities</b>			
Trade and other payables	<b>214</b>	1,463	5,695
Short-term provisions	-	7,145	28,659
	<b>214</b>	8,608	34,354
<b>Total liabilities</b>	<b>214</b>	33,064	34,354
<b>Total equity and liabilities</b>	<b>68,397</b>	109,197	103,651



Condensed consolidated statement of changes in equity for the six months ended 30 June 2018

	Share capital \$000	Share premium \$000	Currency translation reserve \$000	Retained earnings* \$000	Total \$000
<b>At 1 January 2017</b>	149,014	378,863	(169)	(449,318)	78,390
Total comprehensive expense for the period attributable to the owners of the parent	-	-	(2)	(2,179)	(2,181)
Share option credit for the period	-	-	-	(76)	(76)
Transfer between reserves	(120,871)	(378,863)	-	499,734	-
<b>At 30 June 2017</b>	28,143	-	(171)	48,161	76,133
Total comprehensive expense for the period attributable to the owners of the parent	-	-	(18)	(6,821)	(6,839)
Share option charge for the period	-	-	-	3	3
<b>At 31 December 2017</b>	28,143	-	(189)	41,343	69,297
Total comprehensive expense for the period attributable to the owners of the parent	-	-	(3)	(1,111)	(1,114)
<b>At 30 June 2018</b>	<b>28,143</b>	-	<b>(192)</b>	<b>40,232</b>	<b>68,183</b>

\*The share option reserve has been included within the retained earnings reserve.

**Condensed consolidated statement of cash flows for the six months ended 30 June 2018**

	Six months to 30th June 2018 \$000 (unaudited)	Six months to 30th June 2017 \$000 (unaudited)	Year ended 31st December 2017 \$000 (audited)
Note			
<b>Operating activities:</b>			
Loss before tax	(1,111)	(2,179)	(9,000)
Finance income and gains	(477)	(596)	(1,089)
Finance expense and losses	2	257	609
Depletion and amortisation	5	5	10
Impairment expense	-	-	2,834
Chinguetti cessation credit	-	-	(866)
Share-based payment charge	-	(76)	(73)
Decommissioning costs	(32,500)	(125)	(125)
Operating cash outflow prior to working capital movements	(34,081)	(2,714)	(7,700)
Decrease/(increase) in inventories	363	(553)	1,585
Decrease in trade and other receivables	458	5,833	5,672
(Increase)/decrease in trade and other payables	(1,640)	100	4,332
Decrease in provisions	-	(4,200)	(8,041)
<b>Net cash outflow from operating activities</b>	<b>(34,900)</b>	<b>(1,534)</b>	<b>(4,152)</b>
<b>Investing activities</b>			
Interest received	477	522	1,089
Purchase of property, plant and equipment	(3)	(1)	(7)
Exploration and evaluation costs	(35)	(3,637)	(3,690)
<b>Net cash generated from/(used in) investing activities</b>	<b>439</b>	<b>(3,116)</b>	<b>(2,608)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(34,461)</b>	<b>(4,650)</b>	<b>(6,760)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>81,365</b>	<b>88,058</b>	<b>88,058</b>
Effect of foreign exchange rate changes	(4)	85	67
<b>Cash and cash equivalents at end of period</b>	<b>46,900</b>	<b>83,493</b>	<b>81,365</b>

## Notes to the consolidated results for the six months ended 30 June 2018

### 1. Basis of preparation

The financial information contained in this announcement does not constitute statutory financial statements within the meaning of Section 435 of the Companies Act 2006.

The financial information for the six months ended 30 June 2018 is unaudited. In the opinion of the Directors, the financial information for this period fairly represents the financial position of the Group. Results of operations and cash flows for the period are in compliance with International Financial Reporting Standards as adopted by the EU ('EUIFRS'). The accounting policies, estimates and judgements applied are consistent with those disclosed in the annual financial statements for the year ended 31 December 2017. These financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

All financial information is presented in USD, unless otherwise disclosed.

An unqualified audit opinion was expressed for the year ended 31 December 2017, as delivered to the Registrar.

The Directors of the Company approved the financial information included in the results on 27 July 2018.

### 2. Results & dividends

The Group has retained earnings at the end of the period of \$40.2 million (30 June 2017: \$48.2 million retained earnings) to be carried forward. The Directors do not recommend the payment of a dividend (1H 2017: nil).

### 3. Intangible exploration and evaluation (E&E) assets

	<b>Total \$000 (unaudited)</b>
Net book value at 31 December 2016	18,846
Additions during the period	3,637
Net book value at 30 June 2017	22,483
Additions during the period	1,392
Impairment reversal for the period	(2,834)
Net book value at 31 December 2017	21,041
Additions during the period	35
<b>Net book value at 30 June 2018</b>	<b>21,076</b>