



14 November 2016

## **INTERIM MANAGEMENT STATEMENT**

Sterling Energy plc (the 'Company' or 'Sterling') together with its subsidiary undertakings (the 'Group') is today issuing its Interim Management Statement and financial results for the third quarter ended 30 September 2016. All figures are unaudited unless stated otherwise.

### **Highlights**

- Production, net to the Company (including royalty barrels) from the Chinguetti field, averaged 351 barrels of oil per day ('bopd') (Q3 2015: 303 bopd).
- Adjusted Earnings before Interest, Tax, Depreciation and Amortisation and Exploration Expense ('EBITDAX') loss for the Group of \$992k (Q3 2015: \$2.1 million loss).
- Loss after tax of \$420k (Q3 2015: \$1.6 million).
- Cash (zero debt) as at 30 September 2016 of \$91.0 million.
- Somaliland 2D seismic campaign expected to commence Q2 2017.
- Efforts to recruit Non Executive Directors following resignations on 13 October.
- Continued mandate to execute M&A driven transformational growth (both corporate and at the asset level).
- Ongoing focus on capital discipline, through G&A cost reductions.

### **CEO Statement**

Subsequent to the end of the third quarter, on 13 October 2016, the Company announced Nicholas Clayton (Non Executive Chairman), Keith Henry (Senior Independent Non Executive Director) and Malcolm Pattinson (Independent Non Executive Director) resigned from the Board with immediate effect, citing strategic differences on the future direction of the Company.

The Board currently consists of the CEO, Eskil Jersing, as well as Michael Kroupeev as a Non Executive Director. Mr Kroupeev is the representative (and beneficiary) of Waterford Finance, the largest shareholder (29.9%) in the Company. The Company intends to appoint appropriately qualified replacement non-executive directors in due course, consistent with the Company's corporate governance framework.

On the Chinguetti oil field, we continue to work assiduously with Société Mauritanienne Des Hydrocarbures et de Patrimoine Minier ('SMHPM') and relevant stakeholders to ensure that the Abandonment and Decommissioning ('A&D') project is safe, robust in implementation and leverages the full benefits of the current cost deflated landscape. Chinguetti is due to cease production in 2017, with decommissioning operations due to commence shortly thereafter. The A&D plan currently lies with the

Government of Mauritania for approval. Once fully sanctioned, Sterling will be able to better inform the market of our net liability exposure for the decommissioning of this asset.

As mentioned in the Half Year statement on 28 July 2016, we have continued with our portfolio re-alignment efforts, relinquishing exploration assets (at little to no cost to Sterling) with limited near to mid-term value triggers or monetisation options. We intend to retain and execute operational activity on both the Somaliland Odewayne and Mauritania C-10 exploration assets in 2017.

Given the aforementioned context and our robust cash position, the overwhelming focus of the Company has been to continue to originate, conduct full due diligence and ultimately implement transformative growth driven M&A projects.

During the last quarter, the Company has been actively involved and at advanced stages in a number of potential transactions, this is despite depressed deal volumes across the industry. The Company remains confident that it can identify and source the right projects to drive growth and shareholder value.

In terms of cost savings initiatives, the Company has been working proactively, to reduce the Group's administrative expenses in reaction to external market conditions. These efforts have, over the last year, reduced the Group's wages and salary expenses by ca.40%. Furthermore, we will have a ca.30% reduction in office (floor space) expenses from Q1 2017. As a result, 2017 administrative expenses are estimated to be ca.28% lower than in 2015 (based on current work programme and budget assumptions).

Looking forward, we intend to appoint a Non Executive Chairman and new Non Executive Directors as soon as practical and will continue our focus on limiting liability exposure on Chinguetti, delivering on our current portfolio and pursuing transformative growth projects for the Company and its shareholders.

## **Mauritania**

### **Chinguetti oil field**

The Company has economic interests in the Chinguetti field through a funding agreement with SMHPM, Mauritania's national oil company, and a royalty agreement with Premier Oil.

Chinguetti field production, net barrels of oil ('bbls') to the Group (including royalty bbls), in the period totalled 32,284 bbls (Q3 2015: 27,904 bbls), an average of 351 barrels of oil per day ('bopd'), compared to 303 bopd for the equivalent period in Q3 2015. The increase in net production is primarily due to an increase in cost oil barrels attributed under the Funding Agreement (due to a reduction in operating expenditures), notwithstanding the consistent Chinguetti field decline curve.

Production from the Chinguetti field is stored on location in the Berge Helene floating, production storage and offloading vessel ('FPSO'). One cargo lifting was undertaken during the period totalling 34,167 bbls net (Q3 2015: one lifting totalling 30,789 bbls net).

The Chinguetti JV (Petronas, Tullow Oil, SMHPM, Premier, Kufpec) is evaluating how best to cease production from the Chinguetti field, which is expected in 2017, and commence its abandonment and decommissioning. Discussions continue to be held with the Government of Mauritania and relevant stakeholders on how best to execute this project.

### **PSC C-10 (WI 13.5%) Exploration block**

Block C-10 covers an area of approximately 8,025km<sup>2</sup> and lies in water depths of 50 to 2,400m within the Nouakchott sub-basin, offshore Mauritania, surrounding the Chinguetti field. The C-10 block Production Sharing Contract ('PSC') is held by the Company's wholly owned subsidiary Sterling Energy Mauritania Limited ('SEML') (13.5% working interest), Tullow Oil (76.5% working interest and operator) and SMHPM (10% working interest). SMHPM is carried by Sterling and Tullow Oil, pro-rata to their working interests,

during the exploration phases. The PSC is in the second phase of the exploration period, which is due to expire on 30 November 2017 and has a minimum work obligation of one exploration well. Should the JV not fulfil the minimum work obligation, the gross liability owing to the Mauritanian government would be \$7.5 million (\$1.1 million net to Sterling). Following the completion of Phase 2 the JV may elect to enter into Phase 3 (with a 3 year term) with a minimum work obligation of a further two exploration wells.

Following entry into the C-10 block in mid-2015, Sterling and its JV partners have been maturing and ranking the technical description of the play, prospect and lead portfolio on the merged, reprocessed and depth-migrated 3D seismic dataset. The JV is currently assessing how best to work towards selecting a prospect for drilling to meet the minimum work obligation.

## **Somaliland**

### **Odewayne (WI 40%) Exploration block**

This large, unexplored frontier onshore acreage position comprises an area of 22,840km<sup>2</sup>. Exploration to date has been limited to the acquisition of airborne gravity and magnetic data, with no seismic coverage and no wells drilled on block. Extensive geological field data provide strong encouragement for the presence of a deep sedimentary basin and has highlighted the presence of oil seeps at the surface indicating a working hydrocarbon system is present.

The Odewayne production sharing agreement ('PSA') was awarded in 2005, and is in the Third Period with an outstanding minimum work obligation of 500km of 2D seismic. The Third Period was recently extended by two years (to 2 November 2018) in order to allow time for an Oilfield Protection Unit ('OPU') to be established. The minimum work obligation during the Fourth Period of the PSA (also extended by 2 years to May 2020) is for 1,000km of 2D seismic and one exploration well.

The Company's wholly owned subsidiary, Sterling Energy (East Africa) Limited ('SE(EA)L'), currently holds a 40% working interest in the PSA.

SE(EA)L is fully carried by Genel Energy for its share of the costs of all exploration activities during the Third Period and Fourth Period of the PSA but it retains a contingent liability to Petrosoma for \$8.0 million (net to Sterling) when seismic and well related operational milestones are reached.

Regional 2D seismic acquisition to cover the Odewayne block (and satisfying the minimum work obligation for the Third Phase) is planned as part of a larger government supported multiclient program with the Odewayne component currently scheduled to commence in H1 2017.

## **Cameroon**

### **Ntem (WI 100% & operator) Exploration block**

As previously announced, the Company has issued a notice of surrender in relation to the Ntem Concession, offshore Cameroon. The surrender will be effective by the end of December 2016. The Company does not expect to incur any material costs associated with the surrender.

## **Financial Position**

In the period, the Group reports the following results:

**Q3 2016**

Q3 2015

FY 2015

	<b>(unaudited)</b>	(unaudited)	(audited)
	<b>\$ '000</b>	\$ '000	\$ '000
Revenue	(1) <b>1,499</b>	1,414	5,031
Adjusted EBITDAX	(2) <b>(992)</b>	(2,115)	(6,340)
Loss after tax	(3) <b>(420)</b>	(1,562)	(15,950)
Net to Group - cash and cash equivalents at period end	(4) <b>90,959</b>	99,817	97,524
JV Partner held funds	<b>Nil</b>	1,477	1,129

(1) Revenue in the period is derived from income relating to interests in the Chinguetti field.

(2) Adjusted EBITDAX are (losses)/earnings before interest (plus other finance income and expense), tax, depreciation, depletion, amortisation, provisions and write-offs of oil & gas assets. Adjusted EBITDAX also excludes pre-licence award exploration costs and share based payments; the latter being a non-cash expense charged to the income statement under IFRS 2.

(3) Loss after tax in the period of \$420k compares to a loss after tax in Q3 2015 of \$1.6 million.

(4) Cash balances at the end of the period totalled \$91.0 million (Q3 2015: \$101.3 million, including \$1.5 million of JV partner funds). The Group continues to remain debt free.

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