26 July 2019

Sterling Energy plc

Results for the six months ending 30 June 2019

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 2019.

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

Operations summary

- Odewayne block, Somaliland - Operating Committee Meeting ('OCM') held early March where the work program for 2019 was finalised by the Joint Venture ('JV') partners, including the reprocessing of 1,000km of 2D seismic to Pre-Stack Time Migration ('PSTM').
- The reprocessing of 1,000km of 2D seismic data to Pre-Stack Time Migration commenced early in the second quarter and is currently ca. 45% complete. Delivery of final products is expected for mid Q3 2019.
- Sterling continued to support the Operator in progressing the technical understanding of the block.

Corporate summary

- Continued merger and acquisition ('M&A') mandate for transformational growth (asset and corporate options).

Financial summary

- Adjusted EBITDAX loss of $417k (1H 2018: loss $932k).
- Loss after tax of $645k (1H 2018: loss $1.1 million).
- Cash resources as at 30 June 2019 of $45.5 million (30 June 2018 of $46.9 million).
- The Group remains debt free and fully carried for Odewayne operations (Third and the Fourth Period).
- Ongoing focus on capital discipline, cash general and administrative overheads ('G&A') expenses reduced by ca. 25% to $1.2 million (1H 2018: $1.6 million).
- Proactive focus on treasury management, with interest received totaling $574k (1H 2018: $477k).

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CEO Statement

Market Landscape

Commodity prices in 2019 have seen oil prices in the $50-70 per barrel range. Oil price has shown steady increase from mid-$50's in December 2018 to mid-$60's at end of Q2 2019. This growth is backlit by US imposed sanctions on Venezuela's state oil company PDVSA, which sparked supply fears and continuing unease in Libya and Nigeria.

The sanctions on Iran have caused Iran exports to fall by ca. 60% since Spring 2018 to just above 1 million bpd, however this was much less than had been anticipated defying pre sanction fears. OPEC has moved with allies such as Russia to support prices by tightening supplies, with production reportedly falling by 800,000 bpd at end of Q2 2019.

The USA is putting political pressure on OPEC to keep prices low. Oil production from US shale production has increased by nearly 63,000 bpd, to a record high of ca. 8 million bpd. Although the backdrop to global growth is slowing, oil demand is thought to grow to ca. 1.4 million bpd, from 1.3 million bpd in 2018.

Majors are exiting the North Sea and are being replaced by leaner independents. North Africa is buoyant given recent large discoveries in Egypt and the reversal of its long running receivables problem. There remains a clear appetite in this market for buying and selling existing production.

The Company remains well financed and is positioned to take advantage of acquisition opportunities during these market conditions. Our ability to filter opportunities quickly in a congested market, combined with the leverage our cash balance allows, provides confidence that we can secure a deal.

Operations

During the first two quarters of 2019, work on the Odewayne block in Somaliland was focused on the reprocessing to Pre-Stack Time Migration of the full 2D seismic dataset that was acquired in 2017. Sterling continues to support the operator and we are looking forward to receiving final deliverables by mid Q3 2019. The costs associated with the current period (Third Period) and the Fourth Period are fully carried by Genel Energy Somaliland Limited ('Genel Energy'), hence the minimal capital investment shown within the accounts.

Corporate

Activity levels on opportunity and asset screening remains high and Sterling are well entrenched in the deal flow. Many smaller companies with viable developments but low cash reserves are looking for merger opportunities, giving them access to cash that is currently not available from capital markets.

Sterling retains a strong position on the AIM listed oil and gas sector with a strong cash platform of $45.5 million and no debt or other liabilities. The Company has continued to reduce G&A and focus on robust treasury management, in line with the Board mandate for cash preservation to maximise our ability to deploy capital into new assets. For 2019 the Company hopes to achieve G&A savings in comparison to 2018, whilst increasing interest received.

Operations Review

Somaliland

Somaliland offers one of the last opportunities to target an undrilled onshore Mesozoic rift basin in Africa. The Odewayne block, with access to the Berbera deepwater port less than a 100km to the north, is ideally located to explore this frontier basin. A 2D geophysical survey acquired in 2017, along with potential field data and legacy geological field studies, help corroborate the presence of a sedimentary basin with further evidence for a working hydrocarbon system.

Odewayne (WI 34% - Fully carried by Genel Energy) Exploration block

This large and unexplored frontier acreage position comprises an area of 22,840km^2, the equivalent of ca. 100 UK North Sea blocks. Exploration activity prior to the 2017 regional 2D seismic acquisition program has been limited to the acquisition of airborne gravity and magnetic data and surface fieldwork studies, with no wells drilled on block.

The Odewayne production sharing agreement ('PSA') was awarded in 2005. It is in the Third Period, with a minimum work obligation of 500km of 2D seismic. The Third Period has been extended, through the 6th deed of amendment and its minimum work obligation was met in 2017 when the Somali Government (Ministry of Energy and Minerals) contracted BGP (Geophysical contractor) to undertake a 1,000km (full fold, 1,076km surface) 10km by 10km, 2D seismic campaign. The minimum work obligation during the optional Fourth Period of the PSA (also extended by 2 years) 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'), holds a 34% working interest in the PSA. SE(EA)L originally acquired a 10% position from Petrosoma Limited ('Petrosoma') in November 2013 and an additional 30% from Jacka Resources Somaliland Limited ('Jacka') in two transactions during 2014.

In April 2017, the Company agreed to revised farm-out terms to reduce the staged contingent consideration payments due to Petrosoma and reduce SE(EA)L's interest in the Odewayne asset by 6%. The farm-out agreement was amended such that the parties cancelled the $8.0 million contingent consideration in return for: (i) a payment by SE(EA)L to Petrosoma of $3.5 million; and (ii) a transfer from SE(EA)L to Petrosoma of a 6% interest in the PSA. Post Government of Somaliland approval, SE(EA)L holds a 34% interest in the Odewayne Block, fully carried by Genel Energy for its share of the costs of all exploration activities during the Third and Fourth Periods of the PSA.

In addition to studies undertaken by the operator to support the interpretation of the 2D seismic data acquired in 2017, Sterling performed test reprocessing to full Pre-Stack Time Migration on 3 seismic lines in 2018. Following this work, the JV partners elected in Q1 2019 to reprocess the entire 2D seismic dataset to full Pre-Stack Time Migration. This reprocessing started in Q2 and is currently ca. 45% complete with final deliverables expected by mid Q3 2019. An option remains to process these data to Pre-Stack Depth Migration.

Outlook

Once final deliverables of the Pre-Stack Time Migrated data have been received, the JV partners' focus will turn to the interpretation of these new seismic products and their integration with the geological models developed for the basin. It is anticipated that the enhanced imaging of the subsurface will allow a refining of these models and the identification of a number of leads for further investigation. Concurrently, the JV partners will take a view on whether to reprocess the seismic data to Pre-Stack Depth Migration. Alongside this seismic reprocessing, contingent activity includes a surface seep study focused on areas highlighted by the seismic interpretation as most likely to be situated above migration pathways from hydrocarbon kitchens.

Future work could include infill 2D seismic data acquisition over the most prospective areas with a view to maturing a number of prospects to drill-ready status. Such infill seismic would be acquired in 2020 or 2021 ahead of a decision to enter the next exploration period (Fourth Period), which includes the commitment to drill an exploration well.

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.

Financial Review

Selected financial data

	1H 2019	1H 2018	FY 2018
Adjusted EBITDAX [1] ($m)	**(0.4)**	(0.9)	(1.5)
Loss after tax ($m)	**(0.6)**	(1.1)	(2.0)
Cash and cash equivalents net to Group ($m)	**45.5**	46.9	46.3
Debt ($m)	-	-	-
NAVPS [2] (at period end) (GBP pence)	**23.8**	24.3	24.0
Share price (at period end) (GBP pence)	**10.4**	13.3	10.4

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

[2] Net asset value per share

Loss from operations

The loss from operations for 1H 2019 was $1.2 million (1H 2018: loss $1.6 million).

During the period, net administrative expenditure decreased by ca. 25% to $1.2 million (1H 2018: $1.6 million) and includes pre-licence costs of $782k (1H 2018: $623k).

The Group continues to focus on such expenditures and forecasts G&A of ca. $2.4 million in 2019, a ca. 20% decrease from the 2018 full year results of $3.0 million.

Adjusted EBITDAX and loss after tax

Adjusted EBITDAX totalled a loss of $417k (1H 2018: loss $932k).

Finance income of $574k represents interest received on cash held by the Group (1H 2018: $477k). The Group continues to focus on treasury management to maximise interest received and preserve cash.

Finance costs totalled $19k (1H 2018: $28k).

The loss after tax totalled $645k (1H 2018: loss $1.1 million). Basic loss per share was 0.29 US¢ per share (1H 2018: 0.50 US¢ loss per share). No dividend is proposed to be paid for the six months to 30 June 2019 (30 June 2018: nil).

Cash flow

Net cash outflow from operating activities (pre-working capital movements) totalled $1.2 million (1H 2018: outflow $34.1 million). After working capital, net cash outflow from operating activities totalled $1.4 million (1H 2018: outflow $34.9 million).

Cash generated from investing activities totalled $554k (1H 2018: $439k).

Statement of financial position

At 30 June 2019, Sterling held $45.5 million cash and cash equivalents available for its own use (30 June 2018: $46.9 million).

Group net assets at 30 June 2019 were $66.7 million (30 June 2018 were $68.2 million). Non-current assets totalled $21.1 million (30 June 2018: $21.1 million) with net current assets reducing to $45.6 million (30 June 2018: $47.1million).

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 2019.

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
Adjusted EBITDAX	earnings before interest, taxation, depreciation, amortisation, impairment, pre-licence expenditure, provisions and share based payments
Bpd	Barrels per day
Km	kilometre
NAVPS	Net asset value per share
Post-stack	Processing of raw seismic data into a geological representation of the subsurface
PSTM or 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^2	square kilometre
WI	working interest

Condensed consolidated income statement for the six months to 30 June 2019

	Six months to 30th June 2019 $000 (unaudited)	Six months to 30th June 2018 $000 (unaudited)	Year ended 31st December 2018 $000 (audited)
Revenue	**-**	534	534
Cost of sales	**-**	(515)	(515)
Gross Profit	**-**	19	19
Other administrative expenses	**(418)**	(956)	(1,546)
Pre-licence costs	**(782)**	(623)	(1,453)
Total administrative expenses	**(1,200)**	(1,579)	(2,999)
Loss from operations	**(1,200)**	(1,560)	(2,980)
Finance income	**574**	477	1,044
Finance expense	**(19)**	(28)	(20)
Loss before tax	**(645)**	(1,111)	(1,956)
Tax	**-**	-	-
Loss for the period attributable to the owners of the parent	**(645)**	(1,111)	(1,956)
Other comprehensive expense - items to be reclassified to the income statement in subsequent periods			
Currency translation adjustments	**(6)**	(3)	(12)
Total comprehensive expense for the period	**(6)**	(3)	(12)
Total comprehensive expense for the period attributable to the owners of the parent	**(651)**	(1,114)	(1,968)
Basic and diluted loss per share (US cents)	**(.29)**	(.50)	(.89)

Condensed consolidated statement of financial position as at 30 June 2019

	Note	**As at 30th June 2019 $000 (unaudited)**	As at 30th June 2018 $000 (unaudited)	As at 31st December 2018 $000 (audited)
Non-current assets				
Intangible exploration and evaluation assets	3	**21,109**	21,076	21,093
Property, plant and equipment		**5**	11	8
		21,114	21,087	21,101
Current assets				
Trade and other receivables		**296**	410	390
Cash and cash equivalents		**45,507**	46,900	46,312
		45,803	47,310	46,702
Total assets		**66,917**	68,397	67,803
Equity				
Share capital		**28,143**	28,143	28,143
Currency translation reserve		**(207)**	(192)	(201)
Retained earnings		**38,742**	40,232	39,387
Total equity		**66,678**	68,183	67,329
Current liabilities				
Trade and other payables		**239**	214	474
		239	214	474
Total liabilities		**239**	214	474
Total equity and liabilities		**66,917**	68,397	67,803

Condensed consolidated statement of changes in equity for the six months ended 30 June 2019

	Share capital $000	Currency translation reserve $000	Retained earnings[1] $000	Total $000
At 1 January 2018	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)
At 30 June 2018	28,143	(192)	40,232	68,183
Total comprehensive expense for the period attributable to the owners of the parent	-	(9)	(845)	(854)
At 31 December 2018	28,143	(201)	39,387	67,329
Total comprehensive expense for the period attributable to the owners of the parent	-	(6)	(645)	(651)
At 30 June 2019	**28,143**	**(207)**	**38,742**	**66,678**

[1]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 2019

	Note	**Six months to 30th June 2019 $000 (unaudited)**	Six months to 30th June 2018 $000 (unaudited)	Year ended 31st December 2018 $000 (audited)
Operating activities:				
Loss before tax		**(645)**	(1,111)	(1,956)
Depreciation, depletion & amortisation		**2**	5	10
Finance income and gains		**(574)**	(477)	(1,044)
Finance expense and losses		**-**	2	12
Decommissioning costs		**-**	(32,500)	(32,500)
Operating cash outflow prior to working capital movements		**(1,217)**	(34,081)	(35,478)
Decrease in inventories		**-**	363	363
Decrease in trade and other receivables		**94**	458	478
Decrease in trade and other payables		**(235)**	(1,640)	(41)
Net cash outflow from operating activities		**(1,358)**	(34,900)	(34,678)
Investing activities				
Interest received		**570**	477	1,044
Purchase of property, plant and equipment		**-**	(3)	(4)
Exploration and evaluation costs	3	**(16)**	(35)	(1,391)
Net cash generated from/(used in) investing activities		**554**	439	(351)
Net decrease in cash and cash equivalents		**(804)**	(34,461)	(35,029)
Cash and cash equivalents at beginning of period		**46,312**	81,365	81,365
Effect of foreign exchange rate changes		**(1)**	(4)	(24)
Cash and cash equivalents at end of period		**45,507**	46,900	46,312

Notes to the consolidated results for the six months ended 30 June 2019

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 2019 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 2018. These financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

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

An unqualified audit opinion was expressed for the year ended 31 December 2018, as delivered to the Registrar.

The Directors of the Company approved the financial information included in the results on 26 July 2019.

2. Results & dividends

The Group has retained earnings at the end of the period of $38.7 million (30 June 2018: $40.2 million retained earnings) to be carried forward. The Directors do not recommend the payment of a dividend (1H 2018: nil).

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

	Total $000 (unaudited)
Net book value at 31 December 2017	21,041
Additions during the period	35
Net book value at 30 June 2018	21,076
Additions during the period	17
Net book value at 31 December 2018	21,093
Additions during the period	16
Net book value at 30 June 2019	**21,109**