

Sterling Energy plc

Results for the six months ending 30 June 2020

Overview

Sterling Energy plc ('Sterling' or the 'Company') 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 2020.

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 Meetings ('OCM') held in Q3 2020 where the Operator presented an update on their latest technical work.
- The final products of the reprocessing of 1,000km of 2D seismic data to Pre-Stack Time Migration were delivered Q1 2020. Sterling's assessment of the technical data is underway.
- 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).
- Screened over 20 separate opportunities globally in 2020 with 3 of these progressing to the level of indicative offer (one of which from 2019 remains under consideration).
- Both asset and corporate screening levels remain high. Sterling has noted an increase in the number of M&A opportunities on the market due to the impact of Covid-19, and remains well positioned to capitalise on potential future opportunities.

Financial summary

- Cash resources as at 30 June 2020 of \$43.8 million (30 June 2019 of \$45.5 million).
- The Group remains debt free and fully carried for Odewayne operations (Third and the Fourth Period).
- Adjusted EBITDAX loss of \$289k (1H 2019: loss \$256k).
- Loss after tax of \$870k (1H 2019: loss \$603k).
- Ongoing focus on capital discipline, cash general and administrative overheads ('G&A') reduced by ca. 3% to \$1.1 million (1H 2019: \$1.1 million). A further ca. 10% decrease is forecasted for the 2020 full year in comparison with 2019 full year costs of \$2.6 million.
- Proactive focus on treasury management, with interest received totaling \$288k (1H 2019: \$574k).

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CEO Statement

Market Landscape

Commodity prices in 1H 2020 have averaged ca. \$40/bbl, with the price being effectively capped by the Covid-19 situation and general market uncertainty. Global oil demand fell by ca. 16 mmbbls/d as world-wide Covid-19 related lockdowns continue to reduce demand. There is an upward improvement in demand from China and India, but uncertainty around a Covid-19 'second wave' continues to impact the forecast which is expected to average a fall of 9.3 mmbbls/d from 2019.

North Africa is buoyant given a number of large discoveries coming on-stream and in Egypt the situation continues to improve with the reversal of its long running receivables problem. There remains a clear appetite in this market for buying and selling existing production. The majors are selling their smaller land positions to focus on the larger deep water targets.

As stated before, Sterling 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

Operating Committee Meetings ('OCM') for the Odewayne licence were held in Q3 2020, where the Operator presented an update on their latest technical work. The costs associated with the Third 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 has noted an increase in opportunities in recent months.

Sterling retains a strong position in the sector with a strong cash position of ca. \$44 million and no debt or other liabilities. This is reflected in our share price increase from 8.7p at year end 2019 to 12.5p at the start of September, as investors look for stable companies with a healthy balance sheet. 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. The Company is forecast to achieve further G&A savings, whilst focusing on treasury management in 2H of 2020, against difficult market conditions.

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 22,840km², 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 and 8th deeds 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.

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 2019 and final products were received in Q1 2020. An option was in place to process these same data to Pre-Stack Depth Migration, but was not exercised.

Operating Committee Meetings were held in Q3 2020 where the Operator shared a technical update on their progress interpreting the newly processed seismic data.

Outlook

Whilst Sterling's progress on interpreting the results of the reprocessing of the 2D seismic data has been hindered by Covid-19, Sterling intends to finalise this work by year end 2020. Once this interpretation is complete, a review of the prospectivity will be concluded and inform on the next steps for Sterling on the licence.

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 2020	1H 2019	FY 2019
Adjusted EBITDAX ¹ (\$m)	(0.3)	(0.3)	(0.9)
Loss after tax (\$m)	(0.9)	(0.6)	(1.6)
Cash and cash equivalents net to Group (\$m)	43.8	45.5	44.9
Debt (\$m)	-	-	-
NAVPS ² (at period end) (GBP pence)	23.9	23.8	22.6
Share price (at period end) (GBP pence)	11.5	10.4	8.7

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

²Net asset value per share

Loss from operations

The loss from operations for 1H 2020 was \$1.1 million (1H 2019: loss \$1.1 million).

During the period, net administrative expenditure decreased by ca. 3% to \$1.1 million (1H 2019: \$1.1 million) and includes pre-licence costs of \$716k (1H 2019: \$782k).

The Group continues to focus on such expenditures and forecasts G&A of ca. \$2.3 million in 2020, a further ca. 10% decrease from the 2019 full year results of \$2.6 million.

Adjusted EBITDAX and loss after tax

Adjusted EBITDAX totalled a loss of \$289k (1H 2019: loss \$256k).

Finance income of \$288k represents interest received on cash held by the Group (1H 2019: \$574k). The Group continues to focus on treasury management to maximise interest received and preserve cash.

Finance costs totalled \$60k (1H 2019: \$45k).

The loss after tax totalled \$870k (1H 2019: loss \$603k). Basic loss per share was 0.40 US¢ per share (1H 2019: 0.27 US¢ loss per share). No dividend is proposed to be paid for the six months to 30 June 2020 (30 June 2019: nil).

Cash flow

Net cash outflow from operating activities (pre-working capital movements) totalled \$992k (1H 2019: outflow \$1.1 million). After working capital, net cash outflow from operating activities totalled \$1.2 million (1H 2019: outflow \$1.2 million).

Cash generated from investing activities totalled \$261k (1H 2019: \$554k), with net cash used in financing activities totalling \$133k (1H 2019: \$188k).

Statement of financial position

At 30 June 2020, Sterling held \$43.8 million cash and cash equivalents available for its own use (30 June 2019: \$45.5 million).

Group net assets at 30 June 2020 were \$64.9 million (30 June 2019 were \$66.8 million). Non-current assets totalled \$22.0 million (30 June 2019: \$22.2 million) with net current assets reducing to \$43.7 million (30 June 2019: \$45.5 million).

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 for at least the next 12 months. As a consequence, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This assessment has been made by the Directors who remain confident the group has sufficient cash resources to meet its liabilities as they fall due for a period of at least 12 months from the date of signing these financial statements, and notwithstanding the impact that Covid-19 has had internationally. The Directors believe that the Group is in a strong position to absorb any potential impact on the Group arising from Covid-19. Accordingly, they continue to adopt the going concern basis in preparing the results for the six months ended 30 June 2020.

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
Group	Sterling Energy plc, together with its subsidiary undertakings (the 'Group')
km	kilometre
NAVPS	Net asset value per share
Petrosoma	Petrosoma Limited (JV partner in Somaliland)
Post-stack	Processing of raw seismic data into a geological representation of the subsurface
PSTM or Pre-stack time migrated dataset	More advanced 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 2020

	Six months to 30th June 2020	Restated Six months to 30th June 2019	Year ended 31st December 2019
	\$000 (unaudited)	\$000 (unaudited)	\$000 (audited)
Other administrative expenses	(382)	(350)	(1,108)
Pre-licence costs	(716)	(782)	(1,444)
Total administrative expenses	(1,098)	(1,132)	(2,552)
Loss from operations	(1,098)	(1,132)	(2,552)
Finance income	288	574	1,068
Finance expense	(60)	(45)	(116)
Loss before tax	(870)	(603)	(1,600)
Tax	-	-	-
Loss for the period attributable to the owners of the parent	(870)	(603)	(1,600)
Other comprehensive expense - items to be reclassified to the income statement in subsequent periods			
Currency translation adjustments	6	(5)	(3)
Total comprehensive Income/(expense) for the period	6	(5)	(3)
Total comprehensive expense for the period attributable to the owners of the parent	(864)	(608)	(1,603)
Basic and diluted loss per share (US cents)	(.40)	(.27)	(.73)

Condensed consolidated statement of financial position as at 30 June 2020

	Note	As at 30th June 2020 \$000 (unaudited)	Restated As at 30th June 2019 \$000 (unaudited)	As at 31st December 2019 \$000 (audited)
Non-current assets				
Intangible exploration and evaluation assets	3	21,142	21,109	21,119
Property, plant and equipment		819	1,115	975
		<u>21,961</u>	<u>22,224</u>	<u>22,094</u>
Current assets				
Trade and other receivables		166	296	250
Cash and cash equivalents		43,798	45,507	44,851
		<u>43,964</u>	<u>45,803</u>	<u>45,101</u>
Total assets		<u>65,925</u>	<u>68,027</u>	<u>67,195</u>
Equity				
Share capital		28,143	28,143	28,143
Currency translation reserve		(198)	(206)	(204)
Retained earnings		36,974	38,841	37,844
Total equity		<u>64,919</u>	<u>66,778</u>	<u>65,783</u>
Current liabilities				
Trade and other payables		178	240	439
Lease liability		98	61	208
		<u>276</u>	<u>301</u>	<u>647</u>
Non-current liabilities				
Lease liability		700	918	735
Long-term provision		30	30	30
		<u>730</u>	<u>948</u>	<u>765</u>
Total liabilities		<u>1,006</u>	<u>1,249</u>	<u>1,412</u>
Total equity and liabilities		<u>65,925</u>	<u>68,027</u>	<u>67,195</u>

Condensed consolidated statement of changes in equity for the six months ended 30 June 2020

	Share capital \$000	Currency translation reserve \$000	Retained earnings ¹ \$000	Total \$000
At 1 January 2019	28,143	(201)	39,444	67,386
Total comprehensive expense for the period attributable to the owners of the parent	-	(5)	(603)	(608)
At 30 June 2019 - Restated	28,143	(206)	38,841	66,778
Total comprehensive expense for the period attributable to the owners of the parent	-	2	(997)	(995)
At 31 December 2019	28,143	(204)	37,844	65,783
Total comprehensive expense for the period attributable to the owners of the parent	-	6	(870)	(864)
At 30 June 2020	28,143	(198)	36,974	64,919

¹ The share option reserve has been included within the retained earnings reserve and is a non-distributable reserve.

Condensed consolidated statement of cash flows for the six months ended 30 June 2020

	Note	Six months to 30th June 2020 \$000 (unaudited)	Restated Six months to 30th June 2019 \$000 (unaudited)	Year ended 31st December 2019 \$000 (audited)
Operating activities:				
Loss before tax		(870)	(603)	(1,600)
Depreciation, depletion & amortisation		166	74	191
Finance income and gains		(288)	(574)	(1,068)
Finance expense and losses		-	21	55
Operating cash outflow prior to working capital movements		(992)	(1,082)	(2,422)
Decrease in trade and other receivables		84	94	140
Decrease in trade and other payables		(262)	(235)	(35)
Increase in provision		-	30	30
Net cash outflow from operating activities		(1,170)	(1,193)	(2,287)
Investing activities				
Interest received		284	570	1,068
Purchase of property, plant and equipment		-	-	-
Exploration and evaluation costs	3	(23)	(16)	(26)
Net cash generated from investing activities		261	554	1,042
Financing activities				
Principal paid on lease liability		(108)	(167)	(201)
Interest paid on lease liability		(25)	(21)	(54)
Net cash used in financing activities		(133)	(188)	(255)
Net decrease in cash and cash equivalents		(1,042)	(827)	(1,500)
Cash and cash equivalents at beginning of period		44,851	46,312	46,312
Effect of foreign exchange rate changes		(11)	22	39
Cash and cash equivalents at end of period		43,798	45,507	44,851

Notes to the consolidated results for the six months ended 30 June 2020

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 2020 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 2019. These financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

The financial information for the six months ended 30 June 2019 has been restated as a consequence of IFRS 16 being adopted by the Group. The accounting policies, estimates and judgements applied are consistent with those disclosed in the annual financial statements for the year ended 31 December 2019.

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

An unqualified audit opinion was expressed for the year ended 31 December 2019, as delivered to the Registrar.

The Directors of the Company approved the financial information included in the results on 18 September 2020.

2. Results & dividends

The Group has retained earnings at the end of the period of \$37.0 million (30 June 2019: \$38.8 million retained earnings) to be carried forward. The Directors do not recommend the payment of a dividend (1H 2019: nil).

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

	Total \$000 (unaudited)
Net book value at 31 December 2018	21,093
Additions during the period	16
Net book value at 30 June 2019	21,109
Additions during the period	10
Net book value at 31 December 2019	21,119
Additions during the period	23
Net book value at 30 June 2020	21,142