



## MESSAGE TO SHAREHOLDERS

### First Quarter 2012

Ongoing uncertainty in the financial markets and political instability in Europe continue to present macroeconomic challenges for all market participants including Sterling. Against the backdrop of this difficult environment we continued to make progress on a number of initiatives during the first quarter.

Development of the first phase of Breagh continues but as a result of delays with the completion of onshore work announced on May 21, 2012 development costs are likely to increase and first sales gas may be delayed into the fourth quarter of 2012. The onshore work relates to modifications being carried out at the existing Teesside Gas Processing Plant (TGPP), so that the Breagh production can be received and processed at TGPP. Significant efforts are on-going to evaluate the true potential risk of a delay to start-up and implement measures to mitigate any such delay. If such mitigation is not achieved the overall development expenditure for the first phase of Breagh could be in the range of £590 to £595 million, 4 to 5 percent over the estimate provided in the Company's 2011 Annual Report, subject to downward revision should remediation measures be successfully implemented.

The development drilling program at Breagh with the Ensco 70 jack-up rig commenced in mid May 2012, which had been delayed due to the retention of the rig on previous contracts. Work has begun on both of the previously suspended wells 42/13-3 and 42/13-5Z, rerunning conductors through the platform and, on the 42/13-3 well, rerunning the production casing. Operations on the 42/13-3 well to sidetrack over the reservoir interval and to complete the well for production are expected during June. Similar operations on the 42/13-5Z well are planned for July. Following operations on these two suspended wells, up to eight further development wells will be drilled.

Sanction of Phase 2 of Breagh development has been postponed until later in 2012. Sterling and RWE continue to consider options for Phase 2, including a second platform and a subsea development tied-back to the existing Breagh platform. Recently reprocessed seismic data, further reservoir modeling, and data from the first production wells from Phase 1 will all be taken into account in selecting the incremental development plan.

Early in 2012 we announced our further success in the UK 26th Offshore Licensing Round in which Sterling was awarded three additional traditional licences. The first of these licences covers 100 per cent of Blocks 43/15a and 43/20a in the UK Southern North Sea which contain a prospect in the Carboniferous Westphalian and Namurian formations as well as the abandoned Gordon gas field. The second licence, also in the UK Southern North Sea, covers 100 per cent of Blocks 49/18b and 49/19b which contain an undeveloped gas discovery, an additional prospect and further leads in the Rotliegend Lemans sandstone. The final licence covers 50 per cent of Block 16/3d in the Central North Sea which contains part of the Cairngorm discovery. Earlier this month we announced that Sterling has concluded a transaction with Enquest for the exchange of our interest in Block 16/3d for their 10 percent interest in the F and L Quad blocks in the Netherlands increasing our equity interest to 35 percent.

In Romania, we continued with our strategy of building on our existing offshore acreage with the announcement in mid-March that the National Agency for Mineral Resources (NAMR) had approved our procurement of a 40 percent interest in the 1,000 square kilometre Block 27 (Muridava) concession, operated by Melrose Resources. Block 27 was one of a number of offshore concessions awarded during the 10th Round in June of 2010, and ratified by the government in October 2011. This shallow water block is adjacent to Sterling's Pelican Block, contains multiple exploration plays, has existing 2D seismic coverage and contains the existing Olimpiyskaya oil discovery made in 2001. We believe Muridava is a highly prospective block and we look forward to shooting 3D seismic over it this summer, with the intention to drill as early as 2013.

In early February we announced the results of appraisal well F17-09 in Block F17a in the Dutch North Sea. An oil-water contact (OWC) at approximately 2,000 metres sub-sea was higher than anticipated, but similar to that observed in previous wells in the neighbouring compartments indicating communication with the previously drilled F17-3 well, with a resultant updip potential of up to 120 metres. F17-09 was intended to further define the extent of the oil accumulation first discovered nearly 30 years ago, and was useful in identifying the OWC and providing intelligence regarding the trapping mechanism. Evaluation of a number of development options for the greater F-quadrant are currently underway, incorporating previously drilled wells on Blocks F17a and F18, as well as further exploration prospects.


We further expanded our footprint in the Netherlands with the announcement in early March that Sterling was awarded a 50 percent interest in exploration licences E3 and F1 in the Dutch North Sea. These licences, covering 792 square kilometres, are located in the northern sector of the Dutch North Sea and have been awarded for a period of four years with a commitment to acquire approximately 600 square kilometres of 3D seismic.

During March and April we drilled the South Cladhan exploration prospect located in Block 210/29c of the UK Northern North Sea and although encountering Upper Jurassic sand channels these were not considered to be hydrocarbon bearing. The well was however drilled at no cost to Sterling as a result of farm-out arrangements, as it was part of the broader Cladhan sale and farm-out with TAQA Bratani Limited (TAQA) subsequently announced in late April which resulted in TAQA earning one half of Sterling's 25 percent interest in South Cladhan.

On April 20<sup>th</sup>, subsequent to the quarter end, we were pleased to announce the divestment of a portion of Sterling's interest in Cladhan and a significant improvement to the terms of the Breagh credit facility whereby the minimum group cash level required to be held over a 12 month look-ahead period is reduced from £35 to £20 million, freeing up £15 million (approximately US\$24 million) for general corporate purposes. A sales and purchase agreement was signed with TAQA for the sale of a 13.5 percent interest in the North Cladhan area (Blocks 210/29a and 210/30a) for an initial consideration of US\$47 million. This initial consideration will be received in three installments: US\$22.3 million upon completion, expected mid-2012; US\$4.3 million to be paid upon the achievement of certain milestones likely to be attained by around July 2012; and the balance as a carry of a portion of Sterling's Cladhan development expenditures of up to US\$53.6 million or, subject to satisfaction of certain conditions linked to project approval, in whole or in part (at Sterling's election) a cash payment of up to US\$20.4 million, or a combination of the two. In addition, a further payment of up to US\$10 million could be received if, after first production, proven plus probable reserves are certified to be in the range of 30 to 45 million barrels for 100 percent of the field. TAQA will assume operatorship upon approval of a final field development program which is expected to be submitted around the end of the third quarter.

The Cladhan transaction is consistent with our primary strategy, namely to explore and appraise a prospect, then partially divest at an opportune time and acceptable price, with the proceeds used to fund the pursuit of other additional highly prospective opportunities. In combination with the additional funds available from the reduction in the minimum cash requirement under the Breagh credit facility, the Cladhan divestment proceeds should allow us to proceed with the drilling of the Ioana and Eugenia prospects in Romanian Black Sea and with seismic acquisition on the Midia and Muridava Blocks offshore Romania, the Beverley prospect in the UK Central North Sea, and the E3/F1 Blocks in the Dutch North Sea. In the event that a full assessment of the financial impact of the Breagh cost overrun and production delay indicates that additional funding is required to satisfy undertakings under the Breagh credit facility, the Company would seek to renegotiate loan terms, to defer non-committed activities, or to raise additional funds by further asset sales or other financing transactions. A reduction in Sterling's equity interest in its Midia and Pelican licence blocks offshore Romania is already being pursued. The Company is looking forward to resuming an active drilling and seismic program and to its transformation from a pure exploration company to one that is also a producer.

On Behalf of the Board of Directors,



Mike Azancot,  
President & Chief Executive Officer  
May 22, 2012

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the operating results and financial condition of Sterling Resources Ltd. ("Sterling" or the "Company") for the three months ended March 31, 2012 is dated May 22, 2012, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2012 as well as Sterling's audited consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and International Financial Reporting Standards (IFRS), respectively. Unless otherwise noted, all financial measures are expressed in Canadian dollars and tabular dollar amounts are in thousands.

## CORPORATE OVERVIEW AND STRATEGY

Sterling is a publicly-traded, international energy company engaged in the acquisition of petroleum and natural gas rights, and the exploration for, and the development and production of, crude oil and natural gas. The Company operates primarily in the United Kingdom, Romania, the Netherlands and France, and is domiciled in Calgary, Alberta.

The Company's primary strategy for achieving growth is to source and initiate international projects with the potential to yield large, low-cost reserves. It concentrates on accumulating, exploring and exploiting licences and prospects in selected core areas of the world. Sterling's strategy includes targeting blocks with high initial working interests where possible. Financial exposure and technical risk are managed by obtaining partner participation through farm-out and other arrangements. Under these arrangements, a portion of the Company's interest is given up in exchange for the partner paying a share of the costs of exploration, appraisal or development of the licence. A secondary strategy is to acquire interests in discoveries where the Company believes that its technical and operational expertise can accelerate development, especially where there are multiple development candidates or significant exploration prospectivity nearby.

## FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS

Certain statements in this MD&A are forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "would", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "intend", or the negative of these terms or other comparable terminology. In addition, statements relating to reserves or resources are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in future.

These statements are only predictions. Actual events or results may differ materially. In addition, this MD&A may contain forward-looking statements attributed to third-party industry sources; these sources are not endorsed or adopted by Sterling expressly or implicitly. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will prove inaccurate. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- Capital expenditure programs, including without limitation the timing of, the sources of capital and expenses related to, and the nature of, the development of the Breagh, Cladhan and Ana/Doina fields;
- Development activities in the greater Breagh area;
- Expectations regarding the Company's cost structure;
- Factors upon which the Company will decide whether to undertake a specific course of action;
- The quantity and timing of hydrocarbon production from the Company's development projects, including Breagh, Cladhan and Ana/Doina;
- The sale, partial sale, farming-in or farming-out of certain properties;
- The realization of anticipated benefits of acquisitions and dispositions;
- The possible impact of changes in government policy with respect to onshore and offshore drilling;
- The Company's ability to obtain certain government and regulatory approvals;
- The Company's cash requirements and funding for the next year;
- The Company's expectations regarding its ability to raise additional financing;
- The Company's drilling plans and plans for completion and installation of production platforms or other infrastructure, on any of its licences;
- The Company's tax horizon;
- The Company's strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- The Company's expectations regarding government policies with respect to concerns about climate change and the protection of the environment; and
- The Company's plans and expectations that are described on page 15 under "2012 Plans".

With respect to forward-looking statements in this MD&A the Company has assumed, among other things, that the Company:

- Will, together with its subsidiaries, be able to satisfy the undertakings and conditions under the Breagh loan facility agreement;
- Will produce hydrocarbons and receive cash flows in connection therewith which are consistent with the production and cash flows as estimated in the reserves report prepared by RPS Energy evaluating the reserves of the Breagh field as at December 31, 2011;
- Operates in an environment of fiscal and political stability;
- Operates in an environment of increasing competition;
- Is able to obtain additional financing or farm-out, sell or partially sell licence interests on satisfactory terms;
- Is able to continue to attract and retain qualified personnel; and
- Is able to obtain necessary approvals from partners for a particular course of action.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance, or achievements. Certain of these risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to:

- Recoverable reserves and resources estimates may prove incorrect;
- The finding, determination, evaluation, assessment and measurement of oil and gas deposits or reserves may vary materially from the estimates, plans and assumptions of the Company;
- Exploration and development activities are capital-intensive and involve a high degree of risk and, accordingly, future appraisal of potential oil and natural gas properties may involve unprofitable efforts;
- Oil and natural gas price fluctuations;
- Without the addition of reserves through exploration, acquisition or development activities, the Company's reserves and production will decline over time as reserves are exploited;
- Production operations may prove more difficult or costly than planned;
- Transportation of hydrocarbons may prove more difficult or costly than planned;
- Permits, approvals, authorizations, consents and licences may be difficult to obtain, sustain or renew;
- Regulatory requirements can be onerous and expensive;
- The Company cannot completely protect itself against title disputes;
- The Company is substantially dependent on its executive management;
- Environmental legislation can have an impact on the Company's operations;
- Additional funding may be required to carry out the Company's business operations and to expand reserves and resources;

- The Company's operations are subject to the risk of litigation;
- Negative operating cash flow could increase the need for additional funding;
- Issuance or arrangement of debt to finance acquisitions would increase the Company's debt levels and further changes in circumstances may lead these debt levels to be beyond the Company's ability to service and repay that debt;
- Significant competition in attracting and retaining skilled personnel;
- Intense competition in the international oil and gas industry could limit the Company's ability to obtain licences and key supplies such as drilling rigs;
- Future acquisitions may not meet expectations;
- Insurance may not be sufficient to cover the full extent of all liabilities;
- Fluctuations in foreign exchange rates, interest rates and inflation may cause financial harm to the Company;
- Political or governmental changes in legislation or policy in the countries in which the Company operates may have a negative impact on those operations;
- Labour unrest could affect the Company's ability to explore for, produce and market its oil and gas production;
- Uncertainties of legal systems in jurisdictions in which the Company operates;
- Failure to meet contractual agreements may result in the loss of the Company's interests; and
- Failure to follow corporate and regulatory formalities may call into question the validity of the Company, its subsidiaries or its assets.

These factors should not be considered exhaustive. Readers should also carefully consider the matters discussed under the heading "Risk Factors" beginning on page 16 of the Company's Annual Information Form.

The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statement. Subject to applicable securities laws, the Company is under no duty to update any of the forward-looking statements after the date hereof or to confirm such statements to actual results or to changes in the Company's expectations. Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

## **SIGNIFICANT ESTIMATES**

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the financial results of the Company. Significant estimates in the financial statements include amounts recorded for the provision for future decommissioning obligations, share-based compensation expense and capital expenditure accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets

for impairment purposes, including oil and natural gas prices, exchange rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty and the effect on future consolidated financial statements from changes in such estimates could be significant.

## OPERATING HIGHLIGHTS

Three Months Ended March 31,	2012	2011
\$000s except per share information		
Revenue	66	–
Expenses	7,686	21,486
Net financing (income) and expense	27	(7)
Net loss	(7,647)	(21,479)
Per weighted average common share – basic and diluted	\$ (0.03)	\$ (0.11)
Development, exploration and evaluation asset additions	22,818	47,215

As at	March 31, 2012	December 31, 2011
\$000s except share information and acreage		
Net working capital	31,279	35,988
Total assets, end of period	383,058	370,879
Share capital, end of period	337,884	337,711
Net licence acreage (000s of acres)	1,906	1,807
Common shares outstanding 000s – basic, end of period	222,719	222,644
Common share options outstanding 000s – end of period	14,985	14,865

Subsequent to March 31, 2012, employee stock options were exercised resulting in the issuance of 150,000 shares.

For the period ended March 31, 2012, the Company recorded a net loss of \$7,647,000 (\$0.03 per share) compared with a net loss of \$21,479,000 (\$0.11 per share) for the period ended March 31, 2011.

## DRY HOLE EXPENSE

For the period ended March 31, 2012, there were no dry hole costs. On April 12, 2012 the Company announced that the South Cladhan exploration well, 210/29c-5, was not believed to have encountered hydrocarbons and will be plugged and abandoned. The well was drilled at no cost to the Company pursuant to a farm-out agreement, and no dry hole costs will be recorded.

For the period ended March 31, 2011, the Company expensed dry hole costs of \$9,733,000 relating to the unsuccessful Grian exploration well on Block 48/28b (Sterling 57 percent) in the UK Southern North Sea.

## PRE-LICENCE AND OTHER EXPLORATION COSTS

For the period ended March 31, 2012, pre-licence and other exploration costs were \$1,939,000, a decrease of \$3,022,000 over the same period in 2011. Of the \$1,939,000 expensed in the period \$628,000 related to Romania (2011 – \$1,072,000), \$536,000 (2011 – \$2,419,000) to the Netherlands and other international ventures and \$775,000 (2011 – \$1,470,000) related to the Company's interests in its various licences offshore the UK. General and administrative expenditures charged to exploration licences and expensed as pre-licence costs in the period were \$134,000 higher in 2012 compared to 2011 due to the mix of time spent in the quarters.



## FOREIGN EXCHANGE

The Company's cash balances are largely maintained in the currencies in which they are expected to be utilized. Exchange gains and losses reflected in the income statement are then largely offset by corresponding reductions or increases in underlying capital and other expenditures. Foreign exchange losses of \$270,000 for the period ended March 31, 2012 were primarily due to the weakening of the US dollar against the UK pound on translation of US dollar cash balances.

Foreign exchange losses of \$4,449,000 for the first quarter of 2011 arose mainly on translation of US dollar cash balances into the respective functional currencies of the operations holding the funds. During the first quarter, the US dollar weakened from par with the Canadian dollar to US\$1.00=C\$0.9725, and from US\$1.00=£0.6465 to US\$1.00=£0.6237.

## EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

Three Months Ended March 31,	2012	2011
	\$000s	\$000s
Gross employee, and general and administration expense	<b>5,710</b>	4,927
Recovered from third parties	<b>(797)</b>	(1,228)
Capitalized to assets	<b>(1,231)</b>	(1,334)
Expensed as pre-licence and other exploration expenditures	<b>(181)</b>	(47)
	<b>(2,209)</b>	(2,609)
Net employee, and general and administration expense	<b>3,501</b>	2,318

### Employee Expense

For the period ended March 31, 2012, net employee expense was \$2,818,000, an increase of \$1,225,000 over 2011. Of the total, \$1,420,000 relates to non-cash share-based compensation and \$1,398,000 relates to wages and salaries. The increased number of employees and consultants is commensurate with staffing levels of an exploration and production company with a high proportion of operated licences including the Cladhan and Ana/Doina developments. Recoveries from partners and amounts capitalized to assets were higher in the first quarter 2011 due to increased overhead charges linked to capital expenditure particularly with respect to Cladhan.

### General and Administration Expense

For the period ended March 31, 2012, net general and administration expense of \$683,000 was similar to the \$725,000 charged in the same period in 2011 after recoveries.

## FINANCING COSTS

Financing costs include interest expense and accretion of the discount on decommissioning obligations. Bank fees and costs pertaining to the set-up of the credit facility began to be amortized with the first drawdown in the fourth quarter of 2011 and have then been capitalized to the Breagh asset. These costs will then be depleted along with the capital costs of developing the asset when Breagh enters production.

## INCOME TAXES

No deferred tax asset has yet been recognized in relation to the losses incurred because of the uncertainty regarding future taxable profits against which such losses can be offset, given the Company's lack of meaningful current production. However, the situation will be reviewed again as we near large scale production in Breagh.

As at March 31, 2012, the Company had estimated UK tax losses carried forward of approximately \$332,548,000 and other capital allowances of \$64,581,000 available to shield future taxable income in Canada, Romania and other jurisdictions. These losses do not expire. In addition, the Company has approximately \$33,949,000 of Canadian and other international non-capital allowances which expire over the next 20 years.

## UNREALIZED LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

In 2011, as a requirement of its credit facility, the Company has purchased monthly cash-settled put options to hedge 40 percent of its forecast gas production volumes from proved reserves (P90) for the first phase of Breagh development, for a 24-month period starting on October 1, 2012. The strike price for the options is 55 pence per therm (1 therm equals 100,000 British thermal units) and the total volume hedged is 10.1 billion cubic feet (Bcf). Half of the put options were purchased in the third quarter of 2011 for an upfront cash premium of £2,195,000, (\$3,543,000) and the other half were purchased in the fourth quarter of 2011, on a deferred premium basis for a total cost of £2,713,000 (\$4,326,000.)

The Company has recognized the upfront premium paid for the put options as a derivative financial asset. The derivatives are then revalued to their fair value at period-ends. For the deferred premium put options the Company has recognized a derivative financial liability for the discounted cost of those premiums offset by their revaluation at period-ends. Any gain or loss is recorded through the income statement in the period that it arises. As at March 31, 2012 the Company has recognized \$1,716,000 as an unrealized loss on derivative financial instruments (March 31, 2011 – nil).

As at March 31, 2012 the forward curve for the period covered by the options sits in a range between 60 pence and 79 pence per therm, and so the options purchased are currently out-of-the-money.

## OVERVIEW AND SUMMARY OF RESULTS FOR THE EIGHT MOST RECENTLY COMPLETED QUARTERS

The Company had only minor commercial production in 2011 and 2012. To date, Sterling's results from operations have not been affected by seasonal factors. The following table summarizes the Company's income statements for the eight most recently completed quarters ended March 31, 2012.

	<b>2012</b>	2011			2010			
Quarters Ended	<b>Mar. 31</b>	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
<i>\$000s except per share information</i>								
Revenue	<b>66</b>	136	793	329	–	–	–	–
Net (loss) income:								
Canada	<b>(1,932)</b>	(1,946)	(1,945)	(1,784)	(2,955)	914	(1,694)	(857)
United Kingdom	<b>(4,230)</b>	(8,447)	(4,272)	(8,649)	(13,011)	(6,105)	(5,111)	(2,232)
Romania	<b>(695)</b>	(1,165)	(1,608)	(1,732)	(2,945)	(956)	(861)	(1,686)
Other International	<b>(790)</b>	(1,246)	980	(530)	(2,568)	(839)	(865)	(476)
Net (loss) income	<b>(7,647)</b>	(12,084)	(6,845)	(12,695)	(21,479)	(6,986)	(8,531)	(5,251)
Net (loss) income per share								
Basic	<b>(0.03)</b>	(0.06)	(0.03)	(0.07)	(0.11)	(0.04)	(0.05)	(0.04)
Diluted	<b>(0.03)</b>	(0.06)	(0.03)	(0.07)	(0.11)	(0.04)	(0.05)	(0.04)

Note: The net income or loss per common share for each quarter is required to be calculated independently of the calculation for the year. Consequently, due to the issuance of shares in a given year, the aggregate of the four quarters may differ from the year's total.

Under the Company's successful efforts accounting policy for exploration and appraisal activity, the Company's results from quarter to quarter are affected significantly by the level and success of its drilling program.

Key factors relating to the comparison of the net loss for the last eight quarters are as follows:

- In the first quarter of 2011, the Company expensed dry-hole costs of \$9,733,000 relating to the unsuccessful Grian exploration well on Block 48/28b (Sterling 57 percent) in the UK Southern North Sea. In the second quarter of 2010, dry-hole costs of \$4,200,000 relating to the unsuccessful Macanta exploration well in Quad 42 of the UK Southern North Sea were expensed;
- During the second quarter of 2011, the Company wrote-off \$6,792,000 relating to overdue amounts receivable from a co-venturer in the unsuccessful Grian well, drilled on Block 48/28b in the UK Southern North Sea in the first quarter of 2011;
- Since the third quarter of 2011 the Company has recognized unrealized losses relating to the derivative financial instrument agreements which it has entered into. The total unrealized loss recognized in the Income statement for the third and fourth quarter of 2011 was \$2,499,000 and a further \$1,716,000 in the first quarter of 2012;
- In the fourth quarter of 2011, the Company recognized an impairment of its producing UK onshore asset Kirkleatham of \$2,930,000;
- Over the two-year period ended March 31, 2012, the Company has increased staffing levels significantly, but commensurate with an exploration and production company with a high proportion of operated licences including the Cladhan and Ana/Doina developments. These increases have had a progressive impact over the quarters; and
- Foreign exchange gains and losses varied significantly from quarter to quarter based on prevailing foreign exchange rates as well as amounts of monetary assets held by an entity in currencies other than its functional currency.

## **DEVELOPMENT ACTIVITY**

Work on the Breagh gas field development project continued during Q1 2012. Offshore facilities are now largely complete while the development drilling program commenced on May 14, 2012. Onshore facilities expenditures on the overland section of pipeline and the gas reception terminal progressed throughout the period. All fabricated equipment packages were installed during the period and hook-up works commenced.

As a result of delays with the completion of onshore modifications to the Teeside Gas Processing Plant, the operator's projected development expenditures for Phase 1 of the project is now expected to be in the range of £590 to £595 million (100 percent), £177 to £178.5 million net Sterling share. At the end of the period cumulative expenditure was £90.4 million with the balance of £86.6 to £88.1 million still to be incurred relating to completion of the onshore pipeline, onshore gas plant modifications, onshore gas compression and the development drilling program.

The current total Phase 1 development cost estimate represents a cost increase of around 22 percent over the original FDP budget of £485 million. This is attributable to cost over-runs in the offshore pipeline installation, onshore pipeline and plant modifications plus expected increases in the development drilling costs. The drilling program costs have escalated due to a combination of general industry pressures and increased well complexity.

The potential schedule overrun may result in production being delayed from late summer into the fourth quarter of 2012. Sanction of the second phase of the development (Phase 2) has been moved to later in 2012.

## EXPLORATION AND EVALUATION ACTIVITY

During the period ended March 31, 2012 key operational activity and expenditures included:

- On January 12, 2012 the Company announced that it had been successful in the final portion of the UK 26th Offshore Licensing Round, being awarded 100 percent of two additional licences in the UK Southern North Sea Gas Basin (covering Blocks 43/15a, 43/20a, 49/18b and 49/19b), and a 50 percent interest in a licence in the Central North Sea (covering Block 16/3d) which contains the Cairngorm discovery, partnered with Stratic Energy Corporation (now Enquest plc);
- On February 7, 2012 the Company announced completion and preliminary results of the F17-09 well in Block F17 of the Dutch North Sea. After reaching a depth of 2,200 metres below mean sea level, the well encountered hydrocarbons, with results suggesting an oil-water contact at approximately 2,000 metres subsea. No testing was performed, and the well was plugged and abandoned;
- On March 5, 2012 the Company announced that its wholly-owned subsidiary in the Netherlands had been awarded the exploration licences E3 and F1 in the Dutch North Sea jointly with Wintershall Noord Zee BV, which will be operator. Each company will have a 50 percent interest. These licences cover an area of 792 square kilometres and were awarded for a period of four years with a commitment to acquire approximately 600 square kilometres of 3D seismic;
- On March 22, 2012 the Company announced that its wholly owned subsidiary in Romania had obtained approval from the National Agency for Mineral Resources for a 40 percent interest in the 1,000-square-kilometre Romanian Black Sea concession Block 27 (Muridava). The shallow water block, adjacent to Sterling's Pelican Block, contains multiple exploration plays, has existing 2D seismic coverage and contains a hydrocarbon discovery, Olimpiyskaya, drilled in 2001. This well has limited historical data. The licence has an initial three year exploration period with a commitment to undertake seismic acquisition and drill three wells; and
- On April 12, 2012 the Company announced that the South Cladhan exploration well, 210/29c-5, did not encounter hydrocarbons and will be plugged and abandoned. The well was drilled at no cost to the Company pursuant to a farm-out agreement.

In the first quarter 2011 the Company's exploration and evaluation activity included:

- The first well in the multi-well Cladhan drilling program. Total costs incurred at Cladhan in the quarter were \$10,732,000;
- The drilling of the non-operated East Breagh appraisal well 42/13a-6 costing \$6,626,000; and
- The drilling of the operated Grian 48/28b-2 exploration well, costing a total of \$9,733,000.

During the period ended March 31, 2011 the Company relinquished its interest in Blocks 42/2b, 42/3 and 42/4 containing the Darach prospect in the UK Southern North Sea, following the operator's decision not to proceed with future work after the evaluation of seismic data acquired in 2010.

## FINANCING ACTIVITIES

The Company has a senior secured credit facility for up to £105 million with BNP Paribas, Commonwealth Bank of Australia, GE Energy Financial Services and Societe Generale to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility").

The Credit Facility comprises a main tranche of £95 million and a cost-overrun tranche of £10 million, with a term of six-and-a-half years. The interest rate on the main tranche currently has a margin of 4 percent over LIBOR, which will drop to 3.5 percent over LIBOR in the period following project completion, and for the cost-overrun tranche the margin is

4.5 percent over LIBOR. Utilization of the cost-overrun tranche requires a matching use of equity funds by the Company. In common with most other asset-secured financings of this type, no proceeds of gas sales from the field are available to the Company until the satisfaction of project completion tests (Project Completion), which is currently expected around mid 2014. The loan repayment schedule runs from January 1, 2014 to the end of the loan life, but the Credit Facility contains a cash sweep mechanism whereby 75 percent of surplus cash (after meeting capital and operating costs and debt service requirements as defined in the Credit Facility agreement) is used to pay down the loan ahead of scheduled loan repayment obligations. The Credit Facility also requires the Company to maintain a minimum level of cash within the group over a 12-month period, as demonstrated by forward-looking cash flow statements prepared at the end of each quarter. Subsequent to the period end the Company announced that it had reached agreement with the lending banks to reduce this minimum group cash requirement from £35 million (\$56,000,000) to £20 million (\$32,000,000) from April 1, 2012 until Project Completion, £10 million of which is held as non-current restricted cash as we do not expect to have access to these funds within a year. The Company believes it was in compliance with the undertakings and obligations under the Credit Facility as at March 31, 2012.

Subsequent to period end the Company announced that it had signed a sale and purchase agreement with TAQA Bratani Limited (TAQA) for the sale of a 13.5 percent interest in the North Cladhan area (Blocks 210/29a and 210/30a) for an initial consideration of US\$47 million including an allocation to tax allowances. In addition it also confirmed that TAQA will earn a 12.5 percent interest in Blocks 210/29c and 210/30b through a farm-in agreement as a result of which TAQA will fund Sterling's remaining equity interest in the recently drilled well 210/29c-5 on the South Cladhan prospect.

## FINANCING, LIQUIDITY AND SOLVENCY

### Net Working Capital

As at	March 31, 2012	December 31, 2012
	\$000s	\$000s
Cash and cash equivalents	<b>36,630</b>	49,963
Restricted cash	<b>7,723</b>	5,492
Trade and other receivables	<b>9,386</b>	8,419
Derivative financial asset	<b>53</b>	-
Prepaid expenses	<b>270</b>	158
Trade and other payables	<b>(21,352)</b>	(26,881)
Derivative financial liability	<b>(255)</b>	-
Provisions	<b>(1,176)</b>	(1,163)
	<b>31,279</b>	35,988

Net working capital of \$31,279,000 at March 31, 2012 decreased slightly from year-end 2011 mainly due to the continued operational activity at Breagh, and the drilling campaigns in South Cladhan and Netherlands in the North Sea.

Cash and cash equivalents at March 31, 2012 include term deposits of \$11,108,000 (December 31, 2011 – \$25,563,000).

Restricted cash of \$7,723,000 at March 31, 2012 (December 31, 2011 – \$5,492,000) comprised cash held in escrow, including an amount of \$4,053,000 relating to the Netherlands F17-09 well which was drilled over year-end 2011, an amount of \$3,670,000 relating to the UK 210/29c-5 well which was being drilled at period end. This does not reflect the farm in agreement signed with TAQA on April 3, 2012, in which the Company's costs for this well were carried.

Under its Credit Facility, the Company is required to hold £10,000,000 (\$15,965,000) in a separate account until Project Completion which is treated as non-current restricted cash, as the Company does not expect to have access to these funds within a year. This figure is not included in the net working capital above.

As at March 31, 2012, there are only minor trade receivables greater than 90 days.

Trade and other payables of \$21,352,000 at March 31, 2012 were comprised mainly of accrued expenditures related to the Breagh development project and the liability for amounts held in escrow for the 210/29c-5 well. The level of this figure is indicative of the continued high level of activity in exploration and development assets.

A provision of \$1,176,000 at March 31, 2012 was reduced from \$1,900,000 at December 31, 2010. This provision was set up in 2010 to provide for an underpayment of employment taxes, associated interest and possible penalties relating to the Company's share option plan for UK employees. In the first quarter of 2011, certain affected individuals were determined to be non-resident and, therefore unaffected by the UK regulations, and the provision was reduced accordingly.

### Commitments and Contingencies

Commitments for the years 2012 through 2016 and thereafter, excluding amounts held in escrow and shown as restricted cash are comprised of the following:

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Thereafter</b>	<b>Total</b>
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Facilities, oil and gas drilling	39,462	20,920	27,946	–	–	–	<b>88,328</b>
Seismic	3,739	6,964	–	–	–	–	<b>10,703</b>
Licence fees	1,248	1,553	1,961	2,663	3,247	–	<b>10,672</b>
Other operating	554	2,034	1,984	291	556	947	<b>6,366</b>
Office and other leases	758	755	668	600	600	3,000	<b>6,381</b>
	<b>45,761</b>	<b>32,226</b>	<b>32,559</b>	<b>3,554</b>	<b>4,403</b>	<b>3,947</b>	<b>122,450</b>

The above facilities, oil and natural gas drilling commitment in 2012 relates to the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1.

### Liquidity and Solvency

As at March 31, 2012, the Company's net working capital totaled \$31,279,000. Subsequent to quarter end the Company announced a sale and purchase agreement with TAQA for the sale of a 13.5 per cent interest in the Cladhan field for an initial consideration of US\$47,000,000 of which at least US\$26,600,000 will be received as cash prior to approval of Cladhan development. As at March 31, 2012 the Company had access to sufficient cash to settle its trade and other payables and meet its immediate joint venture commitments and licence obligations through a combination of existing available cash, access to undrawn amounts available under the Credit Facility, and, from the start of gas sales from Breagh (which may be delayed into the fourth quarter of 2012), production revenues which are available to fund costs related to Breagh. In the event that a full assessment of the financial impact of the Breagh cost overrun and production delay indicates that additional funding is required to satisfy undertakings under the Credit Facility regarding minimum group cash levels, the Credit Facility allows for a period of three months for a remedial plan to rectify any shortfall. If the Company is not able to renegotiate loan terms, the Company should have sufficient time to raise additional funds by completing further asset sales currently being pursued such as a partial interest in its Midia and Pelican licence blocks offshore Romania, by deferring non-committed activities, by other financing transactions, or by a combination of these measures.

Additional funding would also be required for Phase 2 of the Breagh development, for the development of Cladhan and Ana/Doina subject to the relevant approvals, and for any material new exploration and appraisal activity not currently planned or for unforeseen materially increased expenditures under existing commitments. To meet such additional expenditure requirements, which should not arise before 2013, the Company believes that it will refinance its current Credit Facility at end 2012 or early 2013 in order to include development financing for Cladhan and make a portion of Breagh cash flow available for general corporate purposes and sell down its interest in its Romanian offshore licences or other assets.

The Company became cash-generating through its Kirkleatham onshore UK development in the second quarter of 2011, although revenues from the field are not significant.

## DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas licences in which there has been exploration, appraisal and development activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately \$15,947,000, all of which will be incurred between 2015 and 2036. The figure increased in 2011 due to the development of the Breagh facilities, and will increase again at the beginning of production. Risk-free interest rates based on UK long-term government bond rates varying from 3.75 percent to 4.75 percent (December 31, 2011 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2011 – 2 percent) were used to calculate the fair value of decommissioning obligations. There were no revisions to estimates in 2012.

	<b>2012</b>	2011
	<b>\$000s</b>	\$000s
At beginning of the period	<b>7,056</b>	1,814
Arising during the period	–	3,865
Revisions to estimates	–	1,134
Foreign exchange differences	<b>98</b>	55
Accretion of discount	<b>74</b>	188
Balance, end of the period	<b>7,228</b>	7,056

## 2012 PLANS

The Company outlined its plans for 2012 in its Annual Report for the year ended December 31, 2011. Several of the specific plans have been completed:

- An appraisal well to the existing oil discovery in Block F17 offshore the Netherlands was drilled. This well, designated F17-09, was spudded in late 2011 and completed in the first quarter of 2012; the well was originally planned to have been completed in 2011.
- An exploration well was drilled on the South Cladhan prospect in UK Northern North Sea Block 210/29c. This well, designated 210/29c-5 was spudded in March 2012, did not encounter hydrocarbons and was subsequently plugged and abandoned. The well was drilled at no cost to the Company pursuant to a farm-out agreement.
- The Company stated in its 2011 Annual Report its plan to sell down the Company's interests in one or more of the Cladhan, Breagh and offshore Romania licences in order to release cash for reinvestment in these or other projects or to meet liquidity requirements under the Credit Facility. Subsequent to March 31, 2012, the Company announced a sale and purchase agreement with TAQA for the sale of a 13.5 per cent interest in the Cladhan area for an initial consideration of US\$47,000,000. This would not however, preclude further deals in the rest of the year; divestment efforts will now focus on the Midia and Pelican blocks offshore Romania.

Several plans in the 2011 Annual Report are unchanged:

- Drill two exploration wells offshore Romania. The Company plans to drill the Ioana (gas prospect) well in the summer of 2012 and the Eugenia (oil prospect) well in late 2012 or early 2013.
- Complete four to five production wells as part of the Breagh Phase 1 development.
- Move ahead with the Ana/Doina development offshore Romania, with the intention of achieving development approval in 2013.
- Farm-out 50 percent of the Company's working interest in the Craiova block onshore Romania in order to fund acquisition of seismic and potentially a well to be drilled in 2013. This plan continues from 2011.
- Reach an approval on the optimum development scheme for the Cladhan field by late 2012.
- Acquire seismic over part of the Midia block offshore Romania closest to the Exxon Mobil/Petrom Domino gas discovery made in early 2012.
- Acquire seismic over the Beverley oil prospect in the UK Central North Sea.
- Acquire seismic over part of the South Cladhan Blocks 210/29c and 210/30b.
- Acquire seismic over the E3/F1 blocks offshore the Netherlands.

These plans remain contingent on partner approval as well as availability of suitable financing and (if appropriate) farm-out partners or purchasers of licence interests.

Corporately, the Company is still considering a listing on the main board of the London Stock Exchange. The timing of the London listing depends on several factors including finalization of appraisal and development plans for Cladhan, progress on exploration and development activities offshore Romania, and wider equity market conditions. Management remains of the view that a London listing is appropriate for the Company. In addition, the Company intends to arrange debt financing for part of the development costs of its Cladhan project by the first quarter of 2013, possibly involving a refinancing of the existing Breagh Credit Facility.

## **ADDITIONAL INFORMATION**

Additional information about Sterling Resources Ltd. and its business activities, including Sterling's Annual Information Form, is available via SEDAR at [www.sedar.com](http://www.sedar.com).



# CONSOLIDATED BALANCE SHEETS

As at	March 31, 2012	December 31, 2011
(Unaudited)	\$000s	\$000s
<b>ASSETS</b> (note 10)		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	36,630	49,963
Restricted cash (note 4)	7,723	5,492
Trade and other receivables (note 5)	9,386	8,419
Prepaid expenses	270	158
Derivative financial asset (note 8)	53	–
	<b>54,062</b>	64,032
<b>Non-current assets</b>		
Restricted cash (note 4)	15,965	15,763
Exploration and evaluation assets (note 6)	128,398	121,152
Property, plant and equipment (note 7)	182,919	167,346
Derivative financial asset (note 8)	1,714	2,586
	<b>328,996</b>	306,847
	<b>383,058</b>	370,879
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Trade and other payables	21,352	26,881
Provisions (note 9)	1,176	1,163
Derivative financial liability (note 8)	255	–
	<b>22,783</b>	28,044
<b>Non-current liabilities</b>		
Derivative financial liability (note 8)	2,256	1,624
Decommissioning obligations (note 9)	7,228	7,056
Long-term debt (note 10)	93,364	72,818
	<b>102,848</b>	81,498
<b>Commitments and contingencies</b> (note 11)		
<b>Equity</b>		
Share capital (note 12)	337,884	337,711
Contributed surplus	15,211	13,857
Accumulated other comprehensive loss	(24,760)	(26,970)
Deficit	(70,908)	(63,261)
	<b>257,427</b>	261,337
	<b>383,058</b>	370,879

The accompanying notes are an integral part of the condensed interim consolidated financial statements as at and for the three month period ended March 31, 2012 ("the Financial Statements").

# CONSOLIDATED INCOME STATEMENTS

Three Months Ended March 31,	<b>2012</b>	2011
(Unaudited)	<b>\$000s except per share</b>	\$000s except per share
<b>Revenue</b>	<b>66</b>	–
<b>Expenses</b>		
Operating expense	<b>138</b>	–
Pre-licence and other exploration expenditures	<b>1,939</b>	4,961
Dry-hole expense (note 6)	–	9,733
Depletion, depreciation and amortization (note 7)	<b>122</b>	25
Unrealized loss on derivative financial instruments (note 8)	<b>1,716</b>	–
Employee expense (note 14)	<b>2,818</b>	1,593
General and administration	<b>683</b>	725
Foreign exchange loss	<b>270</b>	4,449
<b>Total expenses</b>	<b>7,686</b>	21,486
Financing income	<b>(47)</b>	(90)
Financing costs (note 15)	<b>74</b>	83
<b>Net loss for the period</b>	<b>7,647</b>	21,479
 Net loss per common share (note 16)		
Basic	<b>0.03</b>	0.11
Diluted	<b>0.03</b>	0.11

The accompanying notes are an integral part of the Financial Statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Three Months Ended March 31, (Unaudited)	2012 \$000s	2011 \$000s
Net loss for the period	7,647	21,479
Foreign currency translation adjustment	(2,210)	(20,722)
Comprehensive loss	5,437	757

The accompanying notes are an integral part of the Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
(Unaudited)	\$000s	\$000s	\$000s	\$000s	\$000s
Balance at January 1, 2011	290,444	9,283	(33,489)	(9,438)	256,800
Exercise of stock options (note 12)	3,266	-	-	-	3,266
Transferred from contributed surplus on exercise of options	1,255	(1,255)	-	-	-
Share-based compensation (note 14)	-	1,482	-	-	1,482
Foreign currency translation into presentation currency	-	-	20,722	-	20,722
Loss for the period	-	-	-	(21,479)	(21,479)
<b>Balance at March 31, 2011</b>	<b>294,965</b>	<b>9,510</b>	<b>(12,767)</b>	<b>(30,917)</b>	<b>260,791</b>
Balance at January 1, 2012	<b>337,711</b>	<b>13,857</b>	<b>(26,970)</b>	<b>(63,261)</b>	<b>261,337</b>
Exercise of stock options (note 12)	<b>107</b>	-	-	-	<b>107</b>
Transferred from contributed surplus on exercise of options	<b>66</b>	<b>(66)</b>	-	-	-
Share-based compensation (note 14)	-	<b>1,420</b>	-	-	<b>1,420</b>
Foreign currency translation into presentation currency	-	-	<b>2,210</b>	-	<b>2,210</b>
Loss for the period	-	-	-	<b>(7,647)</b>	<b>(7,647)</b>
<b>Balance at March 31, 2012</b>	<b>337,884</b>	<b>15,211</b>	<b>(24,760)</b>	<b>(70,908)</b>	<b>257,427</b>

The accompanying notes are an integral part of the Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	2012	2011
(Unaudited)	\$000s	\$000s
<b>Cash flows from operating activities</b>		
Loss for the period	(7,647)	(21,479)
Adjustments to add (deduct) non-cash items		
Unrealized foreign exchange loss	124	1,265
Unrealized loss on derivative financial instruments	1,716	–
Share-based compensation (note 14)	1,420	1,482
Accretion (note 15)	74	83
Depletion, depreciation and amortization (note 7)	122	25
Change in non-cash working capital	(445)	(1,291)
Cash flows (used in) operating activities	(4,636)	(19,915)
<b>Cash flows from investing activities</b>		
(Increase) in restricted cash (note 4)	(2,231)	(22,875)
Exploration and evaluation asset additions (note 6)	(7,545)	(47,215)
Property, plant and equipment additions (note 7)	(15,663)	(123)
Change in non-cash working capital	(6,150)	41,310
Cash flows (used in) investing activities	(31,589)	(28,903)
<b>Cash flows from financing activities</b>		
Proceeds from loan funds (note 10)	20,478	–
(Increase) in restricted cash (note 4)	(202)	–
(Increase) in transaction costs on debt (note 10)	(124)	–
Proceeds from exercise of share options (note 12)	107	3,266
Change in non-cash working capital	202	–
Cash flow provided by financial activities	20,461	3,266
Effect of translation on foreign currency cash and cash equivalents	2,431	(124)
Decrease in cash and cash equivalents during the period	(13,333)	(45,676)
Cash and cash equivalents, beginning of the period	49,963	142,624
Cash and cash equivalents, end of the period	36,630	96,948

The accompanying notes are an integral part of the Financial Statements.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As at and for the Three Months Ended March 31, 2012

## 1. CORPORATE INFORMATION

Sterling Resources Ltd. (the “Company”) is a publicly traded energy company incorporated and domiciled in Canada. The Company is engaged in the exploration, appraisal and development of crude oil and natural gas in the United Kingdom, Romania, the Netherlands and France. The registered office is located at Suite 1450, 736 Sixth Avenue S.W., Calgary, Alberta, Canada.

The Company’s Financial Statements comprise the financial statements of the Company and the wholly owned group of companies: Sterling Resources (UK) Ltd., Sterling Resources Netherlands B.V., and Midia Resources SRL.

These unaudited condensed interim consolidated financial statements (“the Financial Statements”) were approved for issue at a meeting of the Audit Committee on May 22, 2012.

## 2. BASIS OF PREPARATION

Statement of Compliance

These Financial Statements were prepared in accordance with IAS 34, *Interim Financial Reporting* on a going-concern basis, under the historical cost convention. They do not contain all disclosures required by IFRS for annual financial statements and, accordingly, should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2011.

The presentation currency of these Financial Statements is the Canadian dollar.

These Financial Statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2011.

## 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at	March 31, 2012	December 31, 2011
	\$000s	\$000s
Cash	25,522	24,401
Cash equivalents	11,108	25,562
	<b>36,630</b>	49,963
Balances held in:		
Canadian dollars	3,578	3,914
US dollars	5,217	3,744
UK pounds	25,027	37,306
Other	2,808	4,999
Cash and cash equivalents	<b>36,630</b>	49,963

As at March 31, 2012, cash equivalents carried interest rates between 0.03 percent and 1.75 percent (December 31, 2011 – between 0.03 percent and 1.75 percent).

#### 4. RESTRICTED CASH

Restricted cash of \$7,723,000 at March 31, 2012 (December 31, 2011 – \$5,492,000) comprised cash held in escrow, including an amount of \$4,053,000 relating to the Netherlands F-17 well and an amount of \$3,369,000 relating to the South Cladhan well. This does not reflect the farm in agreement signed subsequently with TAQA Bratani Limited (TAQA) on April 3, 2012, in which the Company's costs for the South Cladhan well were carried (refer to note 17). Under its credit facility, the Company is required to hold £10,000,000 (\$15,965,000) in a separate account which is treated as non-current restricted cash as the Company does not expect to have access to these funds within a year.

#### 5. FINANCIAL INSTRUMENTS

The Company's financial instruments, including cash and cash equivalents, restricted cash, trade and other receivables, derivative financial instruments, trade and other payables and long-term debt have been categorized as follows:

- Cash and cash equivalents and restricted cash – held for trading;
- Trade and other receivables – loans and receivables;
- Derivative financial instruments – held for trading; and
- Trade and other payables and long-term debt – other financial liabilities.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of derivative financial instruments is discussed in note 8. The carrying values of all other financial assets and liabilities approximate their fair values due to their relatively short-term maturities or variable interest rates.

The Company is exposed to various financial risks arising from normal-course business exposure as well as its use of financial instruments. These risks include market risks relating to foreign exchange rate fluctuations and interest rate risk, as well as liquidity risk, commodity price risk and credit risk as described below.

##### Foreign Exchange Rate Risk

The Company's functional currencies for the UK and Netherlands, Canadian and Romanian operations are the UK pound, Canadian dollar and US dollar, respectively. Foreign exchange gains or losses can occur on translation of working capital denominated in currencies other than the functional currency of the jurisdiction which holds the working capital item. Excluding the impact of changes in the cross-rates, a 1 percent fluctuation in translation rates would have the following impact on net income or loss, based on foreign currency balances held at March 31, 2012.

	\$000s
Canadian dollar vs. UK pound	(15)
Canadian dollar vs. US dollar	39
UK pound vs. Euro	30
UK pound vs. US dollar	7

##### Interest Rate Risk

The interest rate charged under the credit facility is LIBOR plus a margin that varies at different stages of the life of the loan. Based on the balance at March 31, 2012, a 1 percentage point change over a full year in the average LIBOR interest rate on the loan amount would increase or decrease net income or loss by approximately \$979,000.

In addition, from time to time the Company may have significant cash or cash-equivalent balances invested at prevailing short-term interest rates. Accordingly, cash flows are sensitive to changes in interest rates on these investments. Based on total cash and cash equivalents and restricted cash at March 31, 2012, a 1 percentage point change in average interest rates over a full year would increase or decrease net income or loss by approximately \$366,000.

#### Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at March 31, 2012 the Company had access to sufficient cash to settle its trade and other payables and meet its immediate joint venture commitments and licence obligations through a combination of existing available cash, access to undrawn amounts available under the credit facility, and, from the start of gas sales from Breagh (which may be delayed into the fourth quarter 2012), production revenues which are available to fund costs related to Breagh. In the event that a full assessment of the financial impact of the Breagh cost overrun and production delay announced on May 21, 2012 indicates that additional funding is required to satisfy undertakings under the Credit Facility regarding minimum group cash levels, the Credit Facility allows for a period of three months for a remedial plan to rectify any shortfall. If the Company is not able to renegotiate loan terms, the Company should have sufficient time to raise additional funds by completing further asset sales currently being pursued such as a partial interest in its Romanian offshore licences, by deferring non-committed activities, by other financing transactions, or by a combination of these measures. The Company monitors and manages its liquidity through comparisons of working capital with budgets and regular forecasts of cash requirements, and by adjusting discretionary expenditures when appropriate.

Subsequent to March 31, 2012, the Company announced that it had signed a sale and purchase agreement with TAQA for the sale of a 13.5 percent interest in the North Cladhan area (Blocks 210/29a and 210/30a) for an initial consideration of US\$47 million. In addition it also confirmed that TAQA will earn a 12.5 percent interest in Blocks 210/29c and 210/30b through a farm-in agreement. As a result, TAQA will fund Sterling's remaining equity interest in the recently drilled well 210/29c-5 on the South Cladhan prospect.

#### Commodity Price Risk

The Company is exposed to the risk of fluctuations in prevailing market commodity prices on natural gas produced. For Breagh, the Company sells gas produced at a price linked to the UK spot market which is a liquid market. The Company's policy is only to manage this risk to the extent that it supports debt service requirements, through the use of derivative commodity contracts. The Company was required under its credit facility to purchase monthly cash-settled put options to hedge 40 percent of its forecast gas production volumes from proved reserves (P90) from the first phase of Breagh development, for a 24-month period starting on October 1, 2012 (see note 8). The Company would consider further hedging to provide greater certainty of its ability to meet debt service requirements, especially if the current credit facility is expanded to provide funding for Cladhan or Ana/Doina development costs.

#### Credit Risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Company. The Company's trade and other receivables are primarily with governments for recoverable amounts of value added taxes (VAT) or joint venture partners in the oil and natural gas industry. At March 31, 2012 there is no material concentration of receivables with one joint venture partner. Impairment to a financial asset is only made when there is objective evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated. Evidence of impairment may include default or delinquency by a



debtor or indicators that the debtor may enter bankruptcy. In the second quarter of 2011, \$6,792,000 had been written off against a receivable due from a partner in the Grian well, drilled in the first quarter of 2011. Collection efforts are continuing. There are no other significant amounts past due at March 31, 2012.

The Company has entered into derivative financial instruments and deposited its cash, cash equivalents and restricted cash with reputable financial institutions, with which management believes the risk of loss to be remote. The maximum credit exposure associated with financial assets is their carrying values. At March 31, 2012 the cash, cash equivalents and restricted cash were held with six different financial institutions from five different countries. The derivative contracts were held with three of the same financial institutions providing the credit facility thereby further mitigating credit risk.

### Capital Management

The primary objective of the Company's capital management is to ensure sufficient funds are available for operational purposes while retaining flexibility to cope with adverse movements in production rates, commodity prices and interest rates. A secondary objective is to have a capital structure broadly comparable with its peer group of international exploration and production companies, to assist in achieving an efficient market valuation. In addition, the Company must comply with the terms of its credit facility which include a cash sweep, a loan repayment schedule and undertakings relating to minimum consolidated group cash levels (refer to note 10).

The Company may amend its capital structure to fit with its corporate objectives by issuing equity or equity-linked instruments and by issuing debt or entering into, or extending, credit facilities with banks. No dividend payment or return of capital to shareholders is contemplated for the foreseeable future.

The Company assesses its capital structure on a forward-looking basis by modelling net cash flows over the next few years and considering the economic conditions and operational factors which could lead to financial stress. A range of measurement tools is used, including gearing (net debt divided by the sum of equity and net debt), net cash flow coverage of net interest payments, and the time to repay net debt from net cash flow. No specific numerical range for each of these parameters is targeted, as the overall assessment reflects a consideration of a wide range of factors.

No changes were made in the objectives, policies or processes during the period ended March 31, 2012.

## **6. EXPLORATION AND EVALUATION ASSETS**

During the period ended March 31, 2012, \$1,129,000 of directly attributable general and overhead costs were capitalized to exploration and evaluation assets (March 31, 2011 – \$1,334,000).

The field development program for Phase 1 of the Breagh Gas Field received approval of the UK Department of Energy and Climate Change on July 25, 2011, and consequently the Breagh carrying values were transferred from the exploration and evaluation category to the property, plant and equipment category. The asset was tested for impairment on transfer and none was found.

In accordance with the Company's impairment policy, exploration and evaluation assets were reviewed for indicators of impairment at the reporting dates. Based upon these reviews, management determined that no impairment test was needed.

	Three Months Ended March 31, 2012	Year Ended December 31, 2011
	\$000s	\$000s
Balance, beginning of the period	<b>121,152</b>	119,991
Additions		
Cash expenditures	<b>7,545</b>	170,693
Non cash decommissioning costs	-	1,216
Dry hole expense	-	(9,733)
Exploration assets relinquished	-	(5,715)
Transfers to producing oil and gas properties	-	(156,786)
Foreign exchange	<b>(299)</b>	1,486
Balance, end of the period	<b>128,398</b>	121,152

## 7. PROPERTY, PLANT AND EQUIPMENT

Within the development oil and gas properties category is the amount transferred from exploration and evaluation assets for Breagh. This is not subject to depletion as it is not ready for its intended use. During the period ended March 31, 2012, \$102,000 of directly attributable general and overhead costs were capitalized to development oil and gas properties (2011 – nil).

	Three Months Ended March 31, 2012			Year Ended December 31, 2011		
	Development Oil & Gas Properties	Corporate and Other	Total	Development Oil & Gas Properties	Corporate and Other	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>Cost</b>						
Balance, beginning of the period	<b>170,790</b>	<b>1,118</b>	<b>171,908</b>	-	615	615
Additions						
– Cash expenditures	<b>15,273</b>	<b>390</b>	<b>15,663</b>	9,922	496	10,418
– Non-cash decommissioning costs	-	-	-	3,783	-	3,783
Transfers from exploration and evaluation	-	-	-	156,786	-	156,786
Foreign exchange differences	<b>40</b>	<b>5</b>	<b>45</b>	299	7	306
Balance, end of the period	<b>186,103</b>	<b>1,513</b>	<b>187,616</b>	170,790	1,118	171,908
<b>Accumulated depreciation and depletion</b>						
Balance, beginning of the period	<b>(4,002)</b>	<b>(560)</b>	<b>(4,562)</b>	-	(402)	(402)
Depreciation and depletion	<b>(40)</b>	<b>(82)</b>	<b>(122)</b>	(1,053)	(153)	(1,206)
Impairment of oil and gas properties	-	-	-	(2,930)	-	(2,930)
Foreign exchange differences	<b>(10)</b>	<b>(3)</b>	<b>(13)</b>	(19)	(5)	(24)
Balance, end of the period	<b>(4,052)</b>	<b>(645)</b>	<b>(4,697)</b>	(4,002)	(560)	(4,562)
<b>Net Book Value</b>						
Balance, beginning of the period	<b>166,788</b>	<b>558</b>	<b>167,346</b>	-	213	213
Balance, end of the period	<b>182,051</b>	<b>868</b>	<b>182,919</b>	166,788	558	167,346

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

As a requirement of the credit facility, described below, the Company has purchased monthly cash-settled put options to hedge 40 percent of its forecast gas production volumes from proved reserves (P90) from the first phase of Breagh development, for a 24-month period starting on October 1, 2012. The strike price for the options is 55 pence per therm (100,000 British thermal units) and the total volume hedged is 10.1 billion cubic feet (Bcf). Half of the put options were purchased for an upfront cash premium of £2,195,000, (equivalent to \$3,543,000) and the other half on a deferred premium basis for a total cost of £2,713,000, to be settled on a monthly basis during the option exercise period.

The Company has recognized the up-front premium paid for the put options as a derivative financial asset. The derivatives are then revalued to their fair value at period-ends. For the deferred premium put options the Company has recognized a derivative financial liability for the discounted cost of those premiums offset by their revaluation at period-ends. Any gain or loss arising is recorded through the income statement in the same period in which it arises. For the period ended March 31, 2012, the Company has recognized \$1,716,000 (March 31, 2011 – nil) as an unrealized loss on derivative financial instruments.

As at March 31, 2012 the forward curve for the period covered by the options sits in a range between 60 pence and 79 pence per therm, and as a result the options purchased are currently out-of-the-money.

## 9. PROVISIONS

The following is a continuity of provisions:

	Three Months Ended March 31, 2012			Year Ended December 31, 2011		
	Decommissioning	Other	Total	Decommissioning	Other	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Balance, beginning of the period	<b>7,056</b>	<b>1,163</b>	<b>8,219</b>	1,814	1,900	3,714
Arising during the period	–	–	–	3,865	–	3,865
Revisions to estimates	–	–	–	1,134	(653)	481
Foreign exchange differences	<b>98</b>	<b>13</b>	<b>111</b>	55	(84)	29
Accretion of discount	<b>74</b>	–	<b>74</b>	188	–	188
Balance, end of the period	<b>7,228</b>	<b>1,176</b>	<b>8,404</b>	7,056	1,163	8,219

### Decommissioning Obligations

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas exploration stage activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at March 31, 2012 to be approximately \$15,947,000 which will be incurred between 2015 and 2036. This figure increased during 2011 due to the development of the Breagh facilities. Risk free interest rates based on UK long-term Government bond rates varying from 3.75 percent to 4.75 percent (December 31 2011 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2011 – 2 percent) were used to calculate the decommissioning obligations at March 31, 2012.

### Other Provisions

Provisions of \$1,176,000 at March 31, 2012 have been reduced from \$1,900,000 at December 31, 2010. This provision was set up in 2010 to provide for an underpayment of employment taxes, associated interest and possible penalties relating to the Company's share option plan for UK employees. In the first quarter of 2011, certain affected individuals were determined to be non-resident and, therefore unaffected by the UK regulations, and the provision was reduced accordingly. The Company believes that resolution with the relevant parties will be reached in 2012.

## 10. LONG-TERM DEBT

The Company has a senior secured credit facility for up to £105 million with BNP Paribas, Commonwealth Bank of Australia, GE Energy Financial Services and Societe Generale to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility").

The Credit Facility comprises a main tranche of £95 million and a cost-overnrun tranche of £10 million, with a term of six-and-a-half years. The interest rate on the main tranche currently has a margin of 4 percent over LIBOR, which will drop to 3.5 percent over LIBOR in the period following project completion, and for the cost-overnrun facility the margin is 4.5 percent over LIBOR. Utilization of the cost-overnrun tranche requires a matching use of equity funds by the Company. In common with most other asset-secured financings of this type, no proceeds of gas sales from the field are available to the Company until the satisfaction of project completion tests (Project Completion), which is currently expected around mid 2014. The loan repayment schedule runs from January 1, 2014 to the end of the loan life, but the Credit Facility contains a cash sweep mechanism whereby 75 percent of surplus cash (after meeting capital and operating costs and debt service requirements as defined in the Credit Facility agreement) is used to pay down the loan ahead of scheduled loan repayment obligations. The Credit Facility also requires the Company to maintain a minimum level of cash within the group over a 12-month period, as demonstrated by forward-looking cash flow statements prepared at the end of each quarter. Subsequent to the period end the Company announced that it had reached agreement with the lending banks to reduce this minimum group cash requirement from £35 million (\$56,000,000) to £20 million (\$32,000,000) from April 1, 2012 until Project Completion (refer to note 17), £10 million of which is held as non-current restricted cash as we do not expect to have access to these funds within a year. The Company believes it was in compliance with the undertakings and obligations under the Credit Facility as at March 31, 2012.

	Three Months Ended March 31, 2012	Year Ended December 31, 2012
\$000s		
Balance, beginning of period	72,818	–
Proceeds from loan funds	20,478	77,392
Transaction costs	(124)	(4,766)
Amortization of transaction costs	192	192
Balance end of period	93,364	72,818

## 11. COMMITMENTS AND CONTINGENCIES

Commitments for the years 2012 through 2016 and thereafter, excluding amounts held in escrow and shown as restricted cash are comprised of the following:

	2012	2013	2014	2015	2016	Thereafter	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Facilities, oil and gas drilling	39,462	20,920	27,946	–	–	–	88,328
Seismic	3,739	6,964	–	–	–	–	10,703
Licence fees	1,248	1,553	1,961	2,663	3,247	–	10,672
Other operating	554	2,034	1,984	291	556	947	6,366
Office and other leases	758	755	668	600	600	3,000	6,381
	45,761	32,226	32,559	3,554	4,403	3,947	122,450

The above facilities, oil and natural gas drilling commitment in 2012 relates to the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1, which will be funded from the Credit Facility, from revenues when gas sales from Breagh commence (which may be delayed into the fourth quarter of 2012) and/or from existing cash.

## 12. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value. The holders of common shares are entitled to one vote per share and are entitled to receive dividends as recommended by the Board of Directors. Share capital issued and outstanding is as follows:

	Three Months Ended March 31, 2012		Year Ended December 31, 2011	
	Shares	Amount	Shares	Amount
Continuity of common shares	\$000s	\$000s	\$000s	\$000s
Balance, beginning of the period	222,644	337,711	188,944	290,444
Issued for cash:				
– public equity issuances	–	–	32,143	45,000
– exercise of stock options	75	107	1,557	3,408
Share issue costs	–	–	–	(2,480)
Transferred from contributed surplus on exercise of options	–	66	–	1,339
Balance, end of the period	222,719	337,884	222,644	337,711

On August 16, 2011 the Company completed a bought-deal financing arrangement with a syndicate of underwriters for the issuance of 32,143,000 common shares at a price of \$1.40 per common share for net proceeds of \$42,520,000, after fees and expenses.

## 13. SEGMENTED INFORMATION

The Company has four geographical reporting segments. Canada is the location of the head office. The United Kingdom, Romania and other international locations are involved in exploration and development operations. Other international comprises operations in France and Netherlands.

	Canada	United Kingdom	Romania	Other International	Consolidated
Segmented Results	\$000s	\$000s	\$000s	\$000s	\$000s
Three Months Ended March 31, 2012					
Revenues	–	66	–	–	66
Net loss	(1,932)	(4,230)	(695)	(790)	(7,647)
Three Months Ended March 31, 2011					
Revenues	–	–	–	–	–
Dry hole expense	–	(9,733)	–	–	(9,733)
Net loss	(2,955)	(13,011)	(2,945)	(2,568)	(21,479)

	Canada	United Kingdom	Romania	Other International	Consolidated
Other Segmented Results	\$000s	\$000s	\$000s	\$000s	\$000s
Three Months Ended March 31, 2012					
Exploration and evaluation assets	-	<b>93,117</b>	<b>27,240</b>	<b>8,041</b>	<b>128,398</b>
Exploration and evaluation asset additions	-	<b>3,421</b>	<b>(304)</b>	<b>4,428</b>	<b>7,545</b>
Development properties	-	<b>182,051</b>	-	-	<b>182,051</b>
Development properties additions	-	<b>15,273</b>	-	-	<b>15,273</b>
Three Months Ended March 31, 2011					
Exploration and evaluation assets	-	140,866	26,159	181	167,206
Exploration and evaluation asset additions (net)	-	47,215	-	-	47,215
Development properties	-	-	-	-	-
Development properties transfers and additions	-	-	-	-	-

#### 14. SHARE-BASED COMPENSATION

The following is a continuity of outstanding stock options:

	Three Months Ended March 31, 2012		Year Ended December 31, 2011	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	000s	\$	000s	\$
Continuity of Common Share Options				
Balance, beginning of the period	<b>14,865</b>	<b>2.07</b>	11,949	2.18
Granted during the period	<b>195</b>	<b>1.71</b>	5,090	1.88
Exercised/forfeited during the period	<b>(75)</b>	<b>1.42</b>	(1,557)	2.19
Expired during the period	-	-	(617)	2.29
Outstanding, end of the period	<b>14,985</b>	<b>2.07</b>	14,865	2.07
Exercisable, end of the period	<b>5,112</b>	<b>2.17</b>	5,070	2.11

The Black-Scholes option pricing model was used to calculate the fair value of the options granted during the period using the following weighted average assumptions:

	Three Months Ended March 31, 2012	Year Ended December 31, 2011
Weighted average share price	<b>\$1.71</b>	\$1.88
Weighted average exercise price	<b>\$1.71</b>	\$1.88
Risk-free interest rate	<b>1.12%</b>	1.97%
Weighted-average forfeiture rate	<b>1.65%</b>	1.98%
Expected hold period to exercise	<b>3.5 years</b>	3.5 years
Volatility in the price of the Company's shares	<b>75.4%</b>	77.3%
Expected annual dividend yield	<b>0%</b>	0%

The weighted average fair value of options granted during the period ended March 31, 2012 was \$0.90 per share (year ended December 31, 2011 – \$1.02 per share). For the period ended March 31, 2012, \$1,420,000 (March 31, 2011 – \$1,482,000) of share-based compensation was expensed and was included in the employee expense figure of \$2,818,000 (March 31, 2011 – \$1,593,000).

The following stock options were outstanding as at March 31, 2012:

Exercise Price		Options Outstanding			Options Exercisable		
		Options 000s	Remaining Contract Life (Days)	Weighted Average Exercise Price	Options 000s	Remaining Contract Life (Days)	Weighted Average Exercise Price
From \$	To \$						
1.29	1.49	3,193	673	1.40	1,380	259	1.42
1.50	1.99	5,060	1,016	1.79	600	199	1.71
2.00	2.49	2,440	775	2.03	807	405	2.03
2.50	2.99	2,842	518	2.60	1,841	296	2.58
3.00	3.49	1,100	949	3.33	367	585	3.33
3.50	4.25	350	1,056	4.25	117	691	4.25
1.29	4.25	14,985	805	2.07	5,112	321	2.17

## 15. FINANCING COSTS

Three Months Ended March 31,	2012	2011
	\$000s	\$000s
Interest expense	1,488	–
Amortization of debt issue expense	192	–
Capitalization of interest and amortization of debt issue expense	(1,680)	–
	–	–
Accretion (note 9)	74	83
Total financing costs	74	83

## 16. NET LOSS PER SHARE

The following reflects the loss and share data used in the computation of basic and diluted earnings per share:

Three Months Ended March 31,	2012	2011
Weighted average shares outstanding (000s)	222,647	189,161
Net loss (\$000s)	7,647	21,497
Weighted average net loss per share (\$ per share)		
Basic	0.03	0.11
Diluted	0.03	0.11

For the periods ended March 31, 2012 and 2011, the dilutive effect of all the Company's outstanding options was not included in diluted shares outstanding due to the net loss incurred in each period.

## **17. SUBSEQUENT EVENTS**

On April 12, 2012 the Company announced that the Cladhan South exploration well, 210/29c-5, was not believed to have encountered hydrocarbons and will be plugged and abandoned. The well was drilled at no cost to the Company pursuant to a farm-out agreement.

On April 20, 2012 the Company announced that it had signed a sale and purchase agreement with TAQA for the sale of a 13.5 percent interest in the North Cladhan area (Blocks 210/29a and 210/30a) for an initial consideration of US\$47 million including an allocation to tax allowances. In addition it confirmed that TAQA will earn a 12.5 percent interest in Blocks 210/29c and 210/30b through a farm-in agreement. As a result, TAQA will fund Sterling's remaining equity interest in the recently drilled well 210/29c-5 on the South Cladhan prospect.

On April 20, 2012 the Company announced that it had reached agreement with the group of banks who provide the Credit Facility to reduce the minimum group cash requirement to £20,000,000 (\$32,000,000) until Project Completion (expected in 2014).

On May 18, 2012 the Company announced that subject to regulatory approvals, it had exchanged its 50 percent interest in UK Block 16/3d (Cairngorm) for a 10 percent interest in the Netherlands F and L Quad licences held by Enquest plc.



# CORPORATE INFORMATION

## DIRECTORS

WALTER DEBONI <sup>(1)</sup> <sup>(5)</sup> <sup>(6)</sup>  
Chair  
Calgary, Canada

MICHAEL J. AZANCOT  
Farnham, England

ROBERT B. CARTER <sup>(3)</sup> <sup>(4)</sup> <sup>(5)</sup>  
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STEWART G. GIBSON <sup>(1)</sup>  
Aboyne, Scotland

TECK SOON KONG <sup>(3)</sup> <sup>(5)</sup>  
London, England

GRAEME G. PHIPPS <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>  
St. Helier, Jersey

<sup>(1)</sup> Reserves Committee

<sup>(2)</sup> Chair of Reserves Committee

<sup>(3)</sup> Audit Committee

<sup>(4)</sup> Chair of Audit Committee

<sup>(5)</sup> Governance and Compensation Committee

<sup>(6)</sup> Chair of Governance and  
Compensation Committee

## MANAGEMENT

MICHAEL J. AZANCOT  
President and Chief Executive Officer

MARK BEACOM  
Vice President and General Manager  
Romania

DAVID M. BLEWDEN  
Chief Financial Officer

STEPHEN BIRRELL  
Vice President and General Manager  
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ROBIN M. CLARKSON  
Head of Legal and General Counsel

SHERRY L. CREMER  
Treasurer and Corporate Secretary

DAVID A. FINDLATER  
Vice President Exploration

GRAEME HETHERINGTON  
Group Financial Controller

GEORGE KESTEVEN  
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## STOCK EXCHANGE LISTING

THE TSX VENTURE EXCHANGE  
Stock Exchange Trading Symbol: SLG

## ANNUAL GENERAL AND SPECIAL MEETING

May 31, 2012, 10:00 a.m. MDT  
The Royal Room  
Metropolitan Conference Centre  
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