STERLING RESOURCES

FIRST QUARTER INTERIM REPORT

For the three months ended March 31, 2013

MESSAGE TO SHAREHOLDERS – FIRST QUARTER 2013

A further delay in the projected start-up at the Breagh field in the UK North Sea announced in November 2012 required us to focus our attention in the first quarter of 2013 on the procurement of additional financing.

As 2013 began, a US$12 million bridge loan facility was secured with a subsidiary of the Vitol Group. The proceeds of the bridge loan were used to fund the remaining cost of the Ioana and Eugenia wells offshore Romania, certain other exploration costs on the Romanian oil and gas licences, and the repayment of funds advanced from the UK subsidiary used to fund Romanian exploration costs in December 2012.

Early in February, as it became apparent that a number of strategic options needed to be considered in light of ongoing delays and cost overruns at Breagh and severely constrained cash resources, a Special Committee composed of the independent directors of the Sterling Board of Directors was formed, with RBC Capital Markets retained as a financial advisor.

On February 12, 2013 Vitol Anker International B.V., a subsidiary of the Vitol Group, announced its intention to make an offer to acquire all of the outstanding common shares of Sterling for a cash consideration of $0.85 per share.

In response to the Vitol announcement, Sterling advised the market to take no action until the Board of Directors had an opportunity to review and respond appropriately, noting that at the time of Vitol's announcement Sterling had been in discussion with Vitol regarding a potential transaction that the Board of Directors believed could be in the best interest of Sterling shareholders and that might provide Sterling with additional interim financing and had also had discussions with third parties regarding other potential transactions, including business combinations, sales of subsidiaries and assets, and other financing opportunities.

Because of Vitol's significant shareholdings of Sterling, and as required by law in the circumstances, Vitol requested that Sterling retain an independent valuator to value the shares subject to its proposal. The Special Committee retained an independent valuator, at the sole expense of Vitol, though the independent valuator was never requested by Vitol to provide a formal valuation and Vitol ultimately abandoned its proposal entirely.

As a result of third-party discussions, and after discussion with the Special Committee and its financial and legal advisors, Sterling announced on February 19, 2013 that it had entered into an agreement with a syndicate of underwriters led by Casimir Capital Ltd. to sell an aggregate 73,333,334 shares for a price of $0.75 per share through a bought deal of 20,000,000 shares and a private placement of 53,333,334 shares. The first tranche private placement portion of the equity financing of 50,000,000 shares closed on March 4, raising gross proceeds of $37.5 million. The remainder of the equity offering, including underwriters' over-allotment options totalling 11,000,000 shares, closed on March 11, 2013 raising total net proceeds of $59.1 million. The net proceeds of the equity offering were used to fund Breagh phase one development costs, interest and other costs related to the Sterling senior credit facility, repayment of the aforementioned US$12 million bridge loan from Vitol, and certain exploration, appraisal and pre-development expenditures in Romania.

In late March, Sterling announced its 2012 year-end Reserves and Resources information. Proved and Proved plus Probable reserves increased by 1.7 and 2.7 million barrels of oils equivalent ("MMboe") respectively, an increase of approximately 8 percent over year-end 2011. Similarly P50 Contingent Resources increased by 3.6 MMboe, an increase of 4 percent over year-end 2011. Best Estimate Prospective Resources increased by 103.3 MMboe, an increase of 22 percent over year-end 2011. In spite of the financial challenges faced by Sterling throughout 2012, these numbers indicate that the Company continued to grow its attractive portfolio of assets.

In early April 2013, subsequent to the end of the first quarter, an update on the progress at Breagh was provided to us by the operator RWE Dea. A further significant delay to the modifications to the Teesside Gas Processing Plant means the earliest estimate for first gas is now mid-July, with a best estimate of early August and a late case of the final week of August 2013. At the date of writing, substantially all mechanical construction works are completed and the commissioning phase is progressing satisfactorily with the first gas timing unchanged. During the quarter, the 4th production well was completed. The fifth well encountered problems when cementing the 7" liner, which has required a sidetrack of the well from the intermediate section. Five development wells are expected to be on production as the field comes on stream in August. Initial gross production at Breagh is expected to be approximately 150 million standard cubic feet per day ("MMscf/d") with five of the seven planned production wells on-stream. Average production for the final five months of 2013, assuming production begins in early August, is expected to be approximately 170 MMscf/d dependent on plant up-time after first gas, and timing of start-up of the 6th and 7th production wells.

Forecast costs for Phase 1 completion (7 wells) are now estimated to be £561 million ($897 million) for 100 percent of the field or £168 million ($269 million) net to Sterling, an increase of £16 million (100 percent interest) since the 2012 Operating and Financial Results issued on April 29. This comprises an increase in well costs of £13 million mainly to complete drilling on A05 and a £3 million increase in facilities costs (mainly onshore plant and onshore pipeline) and additional time-writing costs.

Phase 2 of the Breagh development project, targeting reserves in the eastern area of the field, is currently being evaluated and is likely to comprise a second unmanned platform ("Breagh Bravo"), installation of a six kilometre, 20 inch pipeline from the Breagh Bravo to the Breagh Alpha platform, and development drilling of seven or eight deviated wells from Breagh Bravo to locations arrayed up to approximately two to three kilometres from the platform.

An appraisal well at Crosgan, a gas discovery located some 25 kilometers northeast of the Breagh field, remains an outstanding obligation for the licence and a well is planned for the first quarter 2014 utilizing the ENSCO 70 rig, following completion of the seventh development well at Breagh and necessary annual survey work with the rig. Should Crosgan be declared commercially viable, a development project will be initiated with the intent to tie a small gas platform back to the Breagh Bravo platform on the east side of Breagh.

Development of the Cladhan field in the UK Northern North Sea has progressed, having received field development plan (FDP) approval from DECC in mid-April. First oil production is expected at the start of 2015.

In addition to the sale of a 13.5 percent interest to TAQA Bratani Limited ("TAQA") in April of 2012, Sterling signed further agreements in April 2013 which ensured that the company was in a position to submit evidence of funding ability for its share of development costs to expedite approval by DECC. The agreements provide for a permanent transfer in stages of a cumulative 12.6 percent interest in the Cladhan field to TAQA and a repayable carry by TAQA of development expenditures on an 11.8 percent interest, which will be transferred to TAQA for the duration of the additional second carry. Sterling retains a 2.0 percent interest in Cladhan throughout, which is funded out of a portion of the initial carry negotiated in April of 2012. The initial carry, which is not repayable, is to be utilized to fund development costs on the 11.8 percent interest into approximately the second quarter of 2014, at which point the second carry begins to fund ongoing development costs. A 17 percent per annum uplift is applicable to the second carry. Repayment of the second carry to TAQA is expected to occur by the third quarter of 2015, with the 11.8 percent interest then returned to Sterling. In the event of a downside case, such as higher capital costs, lower oil prices or lower than expected production, the time allotment for pay-out would be delayed, but Sterling

has no further liability to TAQA. At the conclusion of this arrangement with TAQA, assuming payout, Sterling will hold a 13.8 percent interest in Cladhan. As part of the arrangement, Sterling will transfer its 12.5 percent interest in South Cladhan to TAQA for nominal consideration; however Sterling retains the contingent upside payments linked to future reserves pursuant to the April 2012 agreement.

On April 17, 2013 Sterling was pleased to announce the successful placing of a US$225 million senior secured bond with an interest coupon of 9.0 percent per annum, issued by its UK subsidiary. The net proceeds of approximately US$219 million from the bond have been used or are expected to be used (i) to prepay the entire secured credit facility of approximately $140 million (including related costs) with the group of lending banks, (ii) towards funding ongoing development costs of the Breagh field (including Phase 2), (iii) to prefund the first interest payment due October 2013, and (iv) up to $20 million, for general corporate purposes. The bond has a wide ranging security package including a charge over the interests in the Breagh and Cladhan fields, the shares of the issuer and a parent company guarantee. Under the terms of the bond, the Company is also required to maintain certain financial and non-financial covenants. Significantly, the bond agreement allows immediate access to Breagh Phase 1 cash flow and does not restrict the movement of funds from the UK to other group companies.

With funding now in place, the Company is poised to move forward with the development of its attractive asset portfolio. During the remainder of 2013 we intend in the UK North Sea to: (i) achieve first gas production from Breagh during July or August; (ii) in conjunction with the operator at Breagh, RWE Dea, finalize a FDP for Breagh Phase 2 and present a draft FDP to the UK regulator (DECC) by mid-year, providing evidence of funding ability in the third quarter of 2013 with the intent of receiving development approval by year-end; (iii) advance the development of Cladhan through the procurement of long-lead items, with the intent to commence drilling by year-end; and (iv) drill a fully carried well on the Beverley oil prospect on UK Block 22/26c.

In the Romanian Black Sea we intend to remain active during the remainder of 2013 and progress commerciality by: (i) acquiring seismic over parts of the Midia and Pelican blocks in the second half of the year, (ii) reviewing the front-end engineering and design work at Ana and Doina; (iii) purchasing the land required for onshore pipelines and a gas processing terminal for future Midia gas development; (iv) completing seismic over a portion of the Luceafarul block; and (v) drilling one exploration well in the Muridava block.

The process for a farm-down of the Company’s interest offshore Romania has been adversely affected by the recent uncertainty of Sterling’s future due to the announcement by Vitol of a proposed take-over offer. Sterling had been very close to executing an agreement with the preferred bidder which then withdrew during this period. A review of the farm-out options is now being conducted. Completion of the previously announced sale of a carve-out portion of the Midia block to ExxonMobil and OMV Petrom, generating an initial upfront cash payment of US$29.25 million, is now not expected before the end of June 2013.

We look forward to the commencement of production at Breagh this summer, which will be a transformational event for Sterling, and to an exciting program of exploration, appraisal and development activity for remainder of the year.

On Behalf of the Board of Directors,

Mike Azancot
President and Chief Executive Officer
May 21, 2013

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, 2013 is dated May 21, 2013, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2013 as well as Sterling's audited consolidated financial statements for the year ended December 31, 2012 which have been prepared in accordance with IAS 34 Interim Financial Reporting, and International Financial Reporting Standards (IFRS), respectively.

Financial figures throughout this MD&A are stated in Canadian dollars ($) unless otherwise indicated.

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 seeking licences or concessions 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 which 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, particularly the Phase 2 development of Breagh;

- 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, particularly offshore Romania and Cladhan;
- The realization of anticipated benefits of acquisitions and dispositions;
- The possible impact of changes in government policy with respect to onshore and offshore drilling and development requirements;
- 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 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 "2013 Plans".

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

- The Company will be able to satisfy the undertakings and conditions under the Bond;
- 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, 2012;
- Operates in an environment of political stability;
- Will be able to obtain all necessary regulatory approvals for its operations on satisfactory terms;
- 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 either as staff or consultants;
- Is able to continue to obtain services and equipment in a timely manner; 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. 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 prices fluctuate;
- 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;
- All modes of transportation of hydrocarbons include inherent and significant risks;
- Interruptions in availability of exploration, production or supply infrastructure;
- Third party contractors and providers of capital equipment can be scarce;
- Reliance on other operators and stakeholders limits the Company's control over certain activities;
- Availability of joint venture partners and terms of agreement between them and the Company will depend upon factors beyond the Company's control;
- 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 exists 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 involve many common acquisition risks and may not meet expectations;
- Managing the Company's expected growth and development costs could be challenging;
- 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;

- Risks related to the countries in which the Company operates;
- 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 "Risk Factors" beginning on page 20 of the Company's Annual Information Form filed on the Company's SEDAR profile at www.sedar.com.

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 compare such statements to actual results or 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 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 Company's financial results. Significant estimates in the financial statements include amounts recorded for the provision for future decommissioning obligations, income taxes, share-based compensation expense, exploration and evaluation assets, commitments, capital expenditure accruals and timing of production start-up. 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, may be beyond management's control and the effect on future consolidated financial statements from changes in such estimates could be significant and affect the going concern of the Company.

OPERATING HIGHLIGHTS

Three Months Ended March 31,	**2013**	2012
$000s except per share information		
Revenue	**–**	66
Expenses	**6,821**	7,686
Net financing expense	**2,079**	27
Net loss	**(8,900)**	(7,647)
Per weighted average common share – basic and diluted ($)	**(0.04)**	(0.03)
Property, plant and equipment and exploration and evaluation asset additions	**15,834**	23,208

As at	**March 31, 2013**	December 31, 2012
$000s except share information and acreage		
Net working capital (excluding current portion of long-term debt)	**36,279**	111
Total assets	**434,951**	413,026
Total liabilities	**169,000**	193,246
Share capital	**398,950**	338,221
Net licence acreage (000s of acres)	**1,892**	1,902
Common shares outstanding (000s) – basic	**309,621**	222,869
Common share options outstanding (000s)	**12,803**	12,803

Between the reporting date and the release of this MD&A, there was no change to the number of shares outstanding over this period, but the number of stock options outstanding has decreased to 12,686,662.

For the three months ended March 31, 2013, the Company recorded a net loss of $8,900,000 ($0.04 per share) compared with a net loss of $7,647,000 ($0.03 per share) for the three months ended March 31, 2012. The year-over-year increase in the net loss is mostly due to increased finance costs relating to a short-term loan taken out during the period and to additional banking and professional fees. The loss largely comprises the following elements:

PRE-LICENCE AND OTHER EXPLORATION COSTS

For the period ended March 31, 2013, pre-licence and other exploration costs expensed were $1,315,000, a decrease of $762,000 over the same period in 2012. Of the total, $789,000 (2012 – $775,000) related to the Company's interests in its various licences in the UK, $177,000 related to Romania (2012– $628,000) and $349,000 (2011 – $536,000) to the Netherlands and other international ventures. Employee expense and general and administrative expenditures charged to exploration licences and expensed as pre-licence costs in the relative periods were $604,000 higher in 2013 than in 2012 due to the different mix of projects being worked on during 2013 than in 2012.

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. A foreign exchange loss of $639,000 for the period ended March 31, 2013 arose on the US dollar denominated short-term loan as a result of the Canadian dollar

weakening against the US dollar. 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.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

Three Months Ended March 31,	**2013**	2012
	$000s	$000s
Gross employee, and general and administration expense	**4,267**	5,710
Recovered from third parties	**(332)**	(797)
Capitalized to assets	**(833)**	(1,231)
Expensed as pre-licence and other exploration expenditures	**(785)**	(181)
	(1,950)	(2,209)
Net employee expense	**1,878**	2,818
Net general and administration expense	**439**	683

EMPLOYEE EXPENSE

For the period ended March 31, 2013, net employee expense was $1,878,000, a decrease of $940,000 from the same period in 2012. Of the total, $584,000 relates to non-cash share-based compensation and $1,294,000 relates to wages and salaries. The charge to non-cash share-based compensation was down from the 2012 figure of $1,420,000 as certain options became fully amortized and no new options were issued. Recoveries from partners and amounts capitalized to assets were down in the relative period following the passing of operatorship on the Cladhan licence to TAQA Bratani Limited ("TAQA") and no operated drilling activity in 2013 compared to the same period in 2012 when two wells were being drilled. Amounts expensed to pre-licence costs were higher than in 2012 due to the different mix of projects being worked on during 2013 than in 2012.

GENERAL AND ADMINISTRATION EXPENSE

For the period ended March 31, 2013, net general and administration expense was $439,000, $244,000 lower than in 2012 after recoveries.

REFINANCING AND STRATEGIC REVIEW

The Company incurred $1,641,000 of one-off corporate costs relating to bank and professional consultants fees relating to financing (see "Financing Activities"), and a strategic review in the first quarter.

FINANCING COSTS

Financing costs include accretion of the discount on decommissioning obligations and have increased in the period due to greater decommissioning obligations on the Breagh development.

In Canada, transaction costs relating to the bridging loan facility (see "Financing Activities") were expensed following its repayment resulting in a charge to financing costs of $1,987,000.

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. The situation will be reviewed again, however, when the Company enters large-scale production in Breagh.

Sterling Resources (UK) Ltd. ("Sterling UK") is chargeable to UK ring-fence corporation tax ("CT") currently charged at 30 percent, and supplementary charge corporation tax ("SCT") currently charged at 32 percent, on its activities within the UK oil and gas ring-fence.

Sterling UK has very material tax losses available for corporation tax as a result of allowances generated principally by past exploration, appraisal and development costs and the application of ring fence expenditure supplement ("RFES") claims. CT losses at March 31, 2013 are estimated at GBP 300 million ($465 million) and SCT losses at GBP 294 million ($455 million) (slightly lower than for CT, as financing costs are not allowable deductions for SCT).

In addition, Sterling UK expects to claim RFES, which is available as an additional allowance against CT and SCT at a rate of 10 percent per annum (compounded) on eligible losses, for 2013 to 2015 inclusive. Together with forecast UK ring fence expenditures over the next few years, Sterling is not expecting to pay UK tax prior to 2018 under management's base case assumptions, taking account of the anticipated tax relief on committed UK exploration expenditures and expected general and administration costs. The net value of the UK tax loss at year-end 2012 (together with future RFES available to claim on this loss) is estimated by management to be approximately $259 million, on a discounted basis at 10 percent per annum using base case assumptions.

As at March 31, 2013, other principal tax losses and allowances available include tax pools of approximately $61 million and non-capital losses of approximately $39 million available to shield future income taxable in Canada; approximately $75 million of remaining cumulative past costs available and expected to shield future taxable income of the Company in Romania; and approximately $16 million of tax deductible expenses and losses available to shield future taxable income in the Netherlands. The Canadian non-capital losses expire over the next twenty years, the Romanian unused cumulative past costs and losses expire over the next seven years and the Netherlands losses expire over the next nine years from year of claim (for Dutch corporate income tax purposes only, there is no expiry for Dutch State Profit Share). There is no fixed time limit for the expiry of UK ring-fence tax losses for CT and SCT.

UNREALIZED LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

In 2011, as a requirement of its bank credit facility, the Company purchased monthly cash-settled put options to hedge 40 percent of its forecast natural 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 100,000 British thermal units (therm) 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 – ($3,543,000), and the other half were purchased on a deferred premium basis for a total cost of £2,713,000 ($4,207,000).

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 each period end. 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 period in which it arises. For the three months ended March 31, 2013, the Company has recognized an unrealized loss of $859,000 (March 31, 2012 – $1,716,000). Subsequent to the quarter end, in May 2013 the Company paid the entire outstanding deferred hedging premiums at the same time as repayment of the entire bank credit facility. All the future hedges remain in place.

As at March 31, 2013 the forward curve for the period covered by the options ranges between 64 pence and 76 pence per therm and, as a result, 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 2012 and 2011. The following table summarizes the Company's income statements for the eight most recently completed quarters ended March 31, 2013.

	2013	2012				2011		
Quarters Ended	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
$000s except per share information								
Revenues	**–**	–	–	–	66	136	793	329
Net (loss) income:								
Canada	**(3,957)**	(919)	(1,060)	(1,450)	(1,932)	(1,946)	(1,945)	(1,784)
United Kingdom	**(3,617)**	(19,563)	(4,072)	(3,365)	(4,230)	(8,015)	(4,513)	(9,311)
Romania	**(919)**	(2,611)	(3,822)	(1,490)	(695)	(1,165)	(1,608)	(1,732)
Other International	**(407)**	(1,712)	(1,013)	(737)	(790)	(1,246)	980	(530)
Net loss	**(8,900)**	(24,805)	(9,967)	(7,042)	(7,647)	(12,372)	(7,086)	(13,357)
Net loss per share								
Basic	**(0.04)**	(0.12)	(0.04)	(0.03)	(0.03)	(0.06)	(0.03)	(0.07)
Diluted	**(0.04)**	(0.12)	(0.04)	(0.03)	(0.03)	(0.06)	(0.03)	(0.07)

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, its 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:

- 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 its derivative financial instrument agreements. The total unrealized loss recognized in the income statement for the third and fourth quarters of 2011 was $2,499,000 and a further $1,716,000 in the first quarter of 2012, partially offset by an unrealized gain of $930,000 in the second quarter of 2012, followed by an unrealized loss of $3,396,000 in the third and fourth quarters of 2012. In the first quarter of 2013 $859,000 was recognized as an unrealized loss on financial instruments;
- In the fourth quarter of 2011, the Company recognized an impairment of Kirkleatham, a UK onshore asset, of $2,930,000, and in the fourth quarter of 2012, the Company decided to fully write down the remaining value of $2,647,000. Also in the fourth quarter of 2012, the Company relinquished block 21/23a (Sheryl) exploration licence in the UK North Sea, resulting in a charge to pre-licence and other exploration expenditures of $12,770,000;
- In the first quarter of 2013, the Company entered into a bridging loan agreement with an affiliate of Vitol (S.A.) (see "Financing Activities"). Amortization of debt issue costs and interest payments in the period resulted in a charge of $2,020,000 charged to financing costs. In addition the Company incurred increased corporate costs such as bank fees and professional consultants related to financing (see "Financing Activities"); 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 various Company entities in currencies other than their functional currency.

DEVELOPMENT ACTIVITY

BREAGH DEVELOPMENT

Since sanction of the Breagh development (July 2011), the operator RWE Dea UK SNS Limited ("RWE") and the Company have been progressing the first phase of the development of the field. Phase 1 establishes the infrastructure to access the gas reserves of the western area of the Breagh field and ship the produced gas to shore for processing prior to sale.

Updates of the significant individual elements that make up the infrastructure of Phase 1 are as follows:

1. **Offshore Platform**. The platform is fully functional and ready for first production.
2. **Development Drilling**. Development drilling of seven deviated wells from the Breagh Alpha platform to an array of locations up to approximately 2 kilometers from the platform is in progress:
    - Three wells drilled, completed and tested (A01, A02 & A03) and ready for production with a combined flow capacity of 90 MMscf/d, in line with pre-drill expectations.
    - Well A04 is completed but not yet perforated. Perforation and production testing of this well will be performed in conjunction with the A05 well, once this has been drilled and completed.
    - Well A05 drilling is in progress. The intermediate section of the well is currently being re-drilled following problems with cementing the 7" liner. Well operations, including completion and well testing, are forecast to be complete by the end of June.
    - Two firm wells are yet to be drilled (A06 & A07). 20" casing has been has been installed on the A06 well while preparing remedial plans for the A05 well.
3. **Export pipeline**. The offshore 20" pipeline is fully commissioned and has been placed in gas-service after de-watering in April. Similarly, the 3" pipeline has been filled with hydrate inhibitor awaiting production operations to commence. The fibre-optic cable has been commissioned with communications established with the platform.
4. **Reception facilities**. The preparation of the onshore facilities continues on schedule with an earliest estimate for first gas sales of mid-July 2013, a best estimate of early August and a late case of the final week of August, 2013.

Initial production at Breagh is anticipated to range from 150 standard cubic feet per day (MMscf/d) with five of the seven planned production wells on-stream. Average production for the last five months of 2013, assuming production starts in the first week of August, is expected to be 170 MMscf/d.

Forecast costs at Phase 1 completion (7 wells) are now estimated to be £561 million ($897 million) for 100 percent of the field or £168 million ($269 million) net to Sterling, an increase of £16 million (100% interest) since the 2012 Operating and Financial Results issued on April 29. This comprises an increase in well costs of £13 million mainly to complete drilling on A05 and a £3 million increase in facilities costs (mainly onshore plant and onshore pipeline) and additional time-writing costs.

Phase 2 of the Breagh development targeting reserves in the field's eastern area is being evaluated as part of development planning activity, with much of the work relating to integration of the A03 results into an optimized development plan for the field. The current timing is for submission of a field development plan ("FDP") addendum by June 30, 2013, submission of evidence of financing capability by September 30, 2013, and approval of the FDP addendum by the end of 2013.

CLADHAN DEVELOPMENT

Subsequent to the 2011 appraisal program, the Company worked towards a development plan for the field as Operator. A draft of the FDP was prepared by Sterling, at which time a 13.5 percent interest was purchased by TAQA who then became operator and submitted an updated version of the FDP to DECC. Following comments received from DECC, a final version of the FDP was submitted to DECC at the beginning of February 2013, and approval was received April 23, 2013.

The planned development calls for two subsea producers and one subsea water injector tied back 18 kilometers to the Tern platform operated by TAQA. Export of oil is planned via the Brent Pipeline System and then onto Sullom Voe in the Shetland Islands, with first oil expected at the start of 2015. Subsea christmas trees, linepipe, wellheads and subsea controls have been procured. Drilling is due to commence with the Transocean, John Shaw drilling unit in late 2013.

Pursuant to recent agreements entered into with TAQA, the Company's share of development costs will be carried through two separate carry arrangements resulting in a final working interest of 13.8 percent (see "Financing Activities").

EXPLORATION AND EVALUATION ACTIVITY

During the period ended March 31, 2013 and to the date of this report, key operational activity and expenditures focused on preparation for the drilling of an exploration well on the Beverley oil prospect on block 22/26c with the site survey now conducted. This well will be fully carried under a farm out arrangement. In Romania, focus has been on preparation of the non-operated drilling of an exploration well in the Muridava block in the second half of 2013, on interpretation of the 2D-seismic that was shot over the Midia and Pelican blocks in the second half of 2012, and on reviews of the results of the drilling campaign on the Midia and Pelican blocks in late 2012.

In the first quarter of 2012 the Company's exploration and evaluation activity included:

- In January, the award of 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);
- In February, the completion of the F17-09 well in block F17 of the Dutch North Sea at a cost of $6,763,000. The well encountered hydrocarbons, with results suggesting an oil-water contact at approximately 2,000 meters subsea, but no testing was performed; and
- In March, the award of the exploration licences E3 and F1 in the Dutch North Sea jointly with Wintershall Noord Zee BV (operator). Each company will have a 50 percent interest. These licences cover an area of 792 square kilometers and were awarded for a period of four years with a commitment to acquire approximately 600 square kilometers of 3D seismic, which has now been completed.

FINANCING ACTIVITIES

In April 2013, the Company closed the book for a US$225 million ($229 million) senior secured bond issue (the "Bond") by its UK subsidiary Sterling Resources (UK) Ltd (the "Issuer"). The stated uses of the net proceeds of approximately US$219 million ($222 million) from the Bond were (i) to prepay the entire senior secured credit facility with a group of lending banks (approximately $140 million), (ii) towards funding ongoing development costs of the Breagh field, including development of the eastern portion of the field (Phase 2), (iii) to prefund the first interest payment on the Bond due October 2013, and (iv) for general corporate purposes ($20 million).

Proceeds were received from Bond investors on April 30, 2013 (the "Settlement Date"). The Bond has a tenor of six years, maturing on April 30, 2019. The Bond carries an interest coupon of 9 percent payable semi-annually and is callable at the option of the Issuer at any time with a call premium of 105 percent for the first three years and a

roll-up of outstanding interest for the first two years. Commencing 18 months after the Settlement Date, the Bond will amortize 10 percent of the issue amount every six months. The amortizations will be performed at a price of 105 percent of par value except for the final installment which shall be repaid at 100 percent of par value. An application will be made for the Bond to be listed on the Oslo stock exchange or the Nordic Alternative Bond Market (Oslo), which will require the UK subsidiary to be re-registered as a public limited company. The Bond is governed under Norwegian Law and the trustee for the Bond is Norsk Tillitsmann ASA. There is a wide-ranging security package in favour of the Bond Trustee including a charge over the Issuer's interest in the Breagh and Cladhan fields and the shares of the Issuer, as well as a parent company guarantee.

At March 31, 2013 the Company had a senior secured credit facility for up to £105 million ($162 million) with BNP Paribas, Commonwealth Bank of Australia, GE Energy Financial Services and Societe Generale (the "Senior Lenders") to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility"). This facility was entirely repaid out of the proceeds of the Bond on May 3, 2013. The Credit Facility comprised a main tranche of £95 million ($146 million) and a cost-overrun tranche of £10 million ($16 million). The interest rate on the main tranche had a margin of 4 percent over LIBOR, and for the cost-overrun tranche the margin was 4.5 percent over LIBOR.

The security package provided to the Senior Lenders included a fixed and floating charge over the assets of Sterling's wholly-owned UK subsidiary, a charge of the shares of that subsidiary, a parent guarantee and other security arrangements common for a loan of this nature.

Availability under the two tranches was normally recalculated every six months with reference to the future cash flows expected to be generated by the Breagh gas field and certain cover ratios and other loan parameters. At the end of December 2012, a redetermination indicated a reduction of main tranche availability of £15.0 million ($23 million) (availability under the cost overrun tranche was unaffected), leading to a requirement to repay this amount of the loans. The Credit Facility was amended on December 31, 2012 to defer the partial loan repayment date, which (after several other amendments) was subsequently extended to the earlier of: (1) the completion of the Romanian Carve-out Transaction (see below) and (2) June 30, 2013. As of March 31, 2013, the main tranche of the Credit Facility was £77.9 million ($120.3 million) drawn and the cost overrun tranche of the Credit Facility was £10.0 million drawn ($16 million), with no further availability under either tranche.

The Credit Facility originally had a requirement for the Company to prepare cash flow statements (the "Cash Flow Statements") at the end of every quarter demonstrating a minimum aggregate cash balance within the Company of at least £20 million ($32 million) at the end of each of the following 12 months. A waiver was received by the Company from the Senior Lenders removing this requirement in any Cash Flow Statements submitted before June 30, 2013.

The Company is still moving forward with efforts to complete the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a portion of block 15 Midia in the Romanian Black Sea as announced in October 2012 (the "Carve-out Transaction"). The consideration for this transaction payable to Sterling comprises US$29.25 million ($30 million) upon closing, a contingent payment of US$29.25 million ($30 million) upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the portion sold, and a further contingent payment of US$19.5 million ($20 million) upon first commercial production from the portion sold. Completion is subject amongst other things to governmental approvals and is expected late in the second quarter of 2013. On May 3, 2013, following the settlement of the Bond the Credit Facility was repaid in full and therefore the Company's long-term debt is presented in the financial statements as a current liability at the reporting date.

In 2013 the Company entered into the following asset and financing transactions:

- In January 2013, the Company and Midia Resources entered into a US$12 million ($12 million) bridging loan agreement with a subsidiary of Vitol (the "Vitol Loan"), an existing shareholder. The Vitol Loan was used to fund the remaining costs of the Ioana and Eugenia wells in offshore Romania, certain other exploration costs on Sterling's Romanian oil and gas licences, and ordinary course of business corporate costs in Canada and

Romania, as well as to repay funds temporarily advanced from Sterling UK to Midia Resources to fund Romanian exploration costs in December, 2012. The Vitol Loan was completed on January 8, 2013 and was repaid on March 22, 2013 ahead of its contractual maturity date of March 31, 2013. The Vitol Loan was secured by a first-ranking security package over the Company's offshore and onshore licences in Romania, a pledge of the shares of Midia Resources and a pledge of the consideration received from proceeds of the Carve-Out Transaction. In addition, Midia Resources had guaranteed the Company's obligations under the Vitol Loan. The Vitol Loan bore interest at LIBOR plus 1.0 percent, payable in arrears, subject to a maximum LIBOR rate of 2.0 percent per annum during the loan's term. As consideration for the Vitol Loan, Vitol was issued with 2,418,500 common shares of Sterling. As a condition for consenting to the creation of financial indebtedness and the granting of security pursuant to the Vitol Loan, the Senior Lenders were granted a second-ranking charge over the same security package as was granted to Vitol;

- In February 2013, the Company entered into an agreement to sell an aggregate of 73,333,333 common shares of Sterling to a syndicate of underwriters led by Casimir Capital Ltd. (the "Underwriters") on a bought deal basis at a price of $0.75 per share for gross proceeds of $55 million (the "Equity Offering"). The Equity Offering was structured as a combination of a short form prospectus offering and a private placement pursuant to applicable exemptions from prospectus requirements. Sterling granted to Casimir and the Underwriters options to acquire up to an additional 11,000,000 common shares at a price of $0.75 per share, which were exercised in full in March 2013. Consequently, an aggregate of 84,333,334 common shares were issued pursuant to the Equity Offering, representing aggregate gross proceeds of $63.3 million. The net proceeds of approximately $59.1 million, after fees and expenses, are being used for Breagh Phase 1 development costs, interest and hedging primarily related to Sterling's existing senior Credit Facility, repayment of the US$12 Vitol Loan ($12 million) and certain exploration, appraisal and pre-development expenditures in Romania, the UK and the Netherlands with a small contingency for other corporate purposes; and

Subsequent to period-end, other financing transactions that took place were:

- In April 2013, the Company announced that it had signed agreements with TAQA which ensured that the Company was in a position, regardless of the closing of the then contemplated Bond, to submit evidence of funding ability for its share of the development costs of Cladhan (the "Financing Condition") to DECC by April 17, 2013 to enable FDP approval (the "Cladhan Farm-Down"). These agreements also provide a full carry of development capital costs until first oil, anticipated in 2015. The agreements provide for a permanent transfer in stages of up to a 12.6 percent interest in the Cladhan field to TAQA and a repayable carry by TAQA of development expenditures on an 11.8 percent interest in Cladhan (the "Second Carry"), which will be transferred to TAQA for the duration of the carry. The 12.6 percent interest is to be transferred in three stages, all of which would be expected to complete in the third quarter of 2013, such that if the Company provides evidence of its funding ability to DECC and/or TAQA by different dates a smaller interest is permanently transferred. A 3.0 percent interest will be transferred because the Financing Condition was not satisfied on April 17, 2013, a further 3.0 percent interest will be transferred if the Financing Condition is not satisfied by May 31, 2013 and the remaining 6.6 percent if not satisfied by June 30, 2013. The consideration for the transfers is the provision by TAQA of the Second Carry.

- The Company retains a 2.0 percent interest in Cladhan throughout, which is funded through the budgeted development cost out of a portion of the First Carry. The rest of the First Carry, which is not repayable, is available to fund development costs on the 11.8 percent interest into approximately the second quarter of 2014, at which point the Second Carry starts funding the ongoing development costs. A 17 percent per annum uplift is applicable to such carried costs. After pay-out of the Second Carry, which is expected to occur in the second or third quarter of 2015, the 11.8 percent interest is returned to Sterling whose equity interest would then be 13.8 percent. In a downside case of higher capital expenditures, low oil prices or low production, the timing for pay-out would be delayed but Sterling would have no further liability to TAQA. Should the 12.6 percent interest be transferred and the Second Carry received, the overall economics of this transaction are improved considerably by the fact that Sterling does not lose any of the significant historical capital allowances (approximately $20 million as at January 1, 2013) associated with the 12.6 percent interest. As a condition of the Bond, Sterling has undertaken to complete the Cladhan farm-down transaction and hence will not satisfy the Financing Condition prior to June 30, 2013, and the farm-down of equity and the Second Carry

will be triggered. At the conclusion of this arrangement, assuming pay-out, the partnership interests will be Sterling 13.8 percent, TAQA (operator) 52.7 percent and Wintershall 33.5 percent. As part of this agreement, Sterling will transfer its 12.5 percent interest in South Cladhan to TAQA for nominal consideration. Sterling retains the contingent upside payments linked to future reserves pursuant to the 2012 sale and purchase agreement ("SPA"). The Cladhan farm-down agreements are subject to regulatory and partner approvals. Consent of the Senior Lenders to the Credit Facility has been granted.

- In May 2013, following the settlement of the Bond, the Credit Facility was repaid in full along with certain related costs.

FINANCING, LIQUIDITY AND SOLVENCY

Net Working Capital (excluding current portion of long-term debt)

As at	**March 31, 2013**	December 31, 2012
	$000s	$000s
Cash and cash equivalents	**21,048**	9,438
Restricted cash	**29,347**	21,913
Trade and other receivables	**10,686**	12,443
Derivative financial asset	**27**	189
Prepaid expenses	**205**	408
Trade and other payables	**(20,975)**	(40,381)
Derivative financial liability	**(2,157)**	(1,921)
Decommissioning obligations	**(760)**	(790)
Provisions	**(1,142)**	(1,188)
	36,279	111

Net working capital (excluding current portion of long-term debt) of $36,279,000 at March 31, 2013 represents an increase in working capital from year-end 2012 mainly due to the wind down of the drilling campaign in Romania and funds received from the share issue partly offset by the continued operational activity at Breagh. The current portion of long-term debt of $132,521,000 has been refinanced in May 2013 and has been excluded from the above net working capital calculation.

Cash and cash equivalents at March 31, 2013 include term deposits of $3,069,000 (December 31, 2012 – $4,035,000).

Restricted cash of $29,347,000 at March 31, 2013 (December 31, 2012 – $21,913,000) comprised minor amounts of cash held in escrow, $5,935,000 held in joint venture bank accounts in Romania for the drilling campaign, and $22,987,000 to be used for expenditure on Breagh.

As at March 31, 2013, the Company had approximately $2.4 million of receivables due from one joint venture partner, which has subsequent to period end been paid. There were no other material concentrations of receivables with joint venture partners at March 31, 2013.

Trade and other payables of $20,975,000 at March 31, 2013 were comprised mainly of accrued expenditures related to the Breagh development project and the drilling campaign in Romania.

A provision of $1,142,000 at March 31, 2013 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 2013 through 2017 and thereafter, excluding amounts shown as restricted cash are comprised of the following:

	2013	2014	2015	2016	2017	Thereafter	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and gas drilling	**27,215**	38,418	19,318	–	–	–	84,951
Seismic	**3,660**	2,254	–	–	–	–	5,914
Licence fees	**1,236**	1,414	1,814	2,412	3,102	–	9,978
Other operating	**758**	336	294	561	466	522	2,937
Office and other leases	**858**	721	648	606	605	2,423	5,861
	33,727	43,143	22,074	3,579	4,173	2,945	109,641

The above facilities, and oil and natural gas drilling commitments in 2013 relate to the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1 development, plus drilling obligations in Romania.

LIQUIDITY AND SOLVENCY

As at March 31, 2013, the Company's net working capital (excluding current portion of long-term debt) totaled $36,279,000. The significant increase in the Phase 1 development cost of Breagh and the extensive delay in the timing of first revenues from the field have resulted in the Company fully utilizing its Credit Facility, making an Equity Offering in February 2013 and, the Bond issuance in April 2013. During 2013, cash flow from operating activities are estimated to be approximately $35 million. This is estimated to increase to approximately $120 million in 2014 due to a full year of production from the Breagh field, with further significant increases in 2015 and 2016.

Capital expenditures in 2013 could be approximately $118 million, of which approximately $68 million is related to the UK Breagh field development and the balance is largely exploration and appraisal expenditure. In 2014, capital expenditures are expected to be approximately $80 million. These are subject to partner and board approval.

The net proceeds of the Bond, amounting to approximately US$218.6 million ($222 million) after fees and expenses, were received into an escrow account on April 30, 2013 and disbursed to the Company shortly thereafter following perfection of security. Following settlement of the Bond issue and the Cladhan Farm-Down, together with access to Breagh cash flow, the Company expects to be fully financed for all of its planned activities during the life of the Bond. Adjusting for the Bond Issue and repayment of the bank debt, management estimates pro forma group cash (including restricted cash) at March 31, 2013 to be approximately $125 million. By the end of 2013, assuming Breagh starts production in August 2013, in accordance with reserves assumptions and assuming commitment exploration expenditure and no further farm-downs, management expects group cash to be approximately $70 million providing a healthy buffer even in the event that Breagh production is further delayed or proceeds from the Carve-out Transaction (see "Financing Activities") are delayed.

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.

DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests 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 as at March 31, 2013 to be approximately $25,705,000, which will be incurred between 2013 and 2036. This figure increased during 2013 due to the continued drilling campaign for Breagh and in 2012 due to the Breagh facilities development and the drilling campaign, though this was partly offset by a reduction in the obligation due to the Company's sale of equity in Cladhan. Two wells on the Sheryl licence are to be abandoned during 2013 and this portion of the decommissioning obligation, $760,000, has been made a current liability. Risk free interest rates based on UK long-term government bond rates varying from 3.75 percent to 4.75 percent (December 31, 2012 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2012 – 2 percent) were used to calculate the decommissioning obligations at March 31, 2013.

	2013	2012
	$000s	$000s
Balance, beginning of the period	**10,810**	7,056
Arising during the period	**718**	3,406
Obligation disposal	**–**	(131)
Revisions to estimates	**–**	–
Foreign exchange differences	**(322)**	178
Accretion of discount	**90**	301
Balance, end of the period	**11,296**	10,810

2013 PLANS

The Company outlined its plans for 2013 in its MD&A for the year ended December 31, 2012. The following plans have been completed as of May 21, 2013:

- In the UK, approval was received from DECC for the Cladhan FDP in mid April 2013; and
- Corporately, the review of strategic options that may be accretive for shareholder value initiated in February 2013 has been completed following the closing of the US$225 million bond financing and the decision by Vitol not to proceed with its intention to make an offer for the common shares of Sterling (as announced on May 13).

Other plans remain substantially unchanged since the 2012 MD&A:

- Complete onshore construction and commissioning activities and achieve first gas from Breagh in August;
- Agree with RWE on a development plan for Breagh Phase 2 and present a draft FDP Addendum for this to DECC by mid-year, provide evidence of funding ability by the end of the third quarter 2013 and receive development approval by year-end;
- Begin development drilling on Cladhan by late 2013;
- Drill an exploration well on the Beverley oil prospect on UK block 22/26c. This well will be fully carried under a farm out arrangement;
- Acquire seismic over parts of the Midia and Pelican blocks offshore Romania in the second half of the year, so as to better define the prospects;
-

- Conduct Ana and Doina pre-FEED work;
- Purchase land required for part of the onshore pipeline and gas processing terminal for the future Midia gas development in Romania;
- Complete a seismic survey, over part of the Luceafarul block offshore Romania in the second half of the year;
- Drill an exploration well on the Muridava block offshore Romania in the second half of the year;
- Farm down a portion of the Company's equity position in its licences offshore Romania; and
- Corporately, consider graduation to the main board of the Toronto Stock Exchange ("TSX").

Two plans have changed since the 2012 MD&A:

- Drill an appraisal well on the Crosgan gas discovery in UK blocks 42/10 and 42/15- this is now expected to occur in the first quarter of 2014; and
- The listing on the main board of the London Stock Exchange is not now considered to be required in 2013.

Where appropriate, these plans remain contingent on partner approval, governmental approval and (if appropriate) farm-out partners or purchasers of licence interests.

RELATED PARTY AND OFF-BALANCE SHEET TRANSACTIONS

The Company had no related party or off-balance sheet transactions in the periods ended March 31, 2013 or 2012. From January 8, 2013 until March 22, 2013 the Vitol Loan was in place (see "Financing Activities").

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.

CONSOLIDATED BALANCE SHEETS

As at	**March 31, 2013**	December 31, 2012
(Unaudited)	**$000s**	$000s
ASSETS (note 10)		
Current assets		
Cash and cash equivalents (note 3)	**21,048**	9,438
Restricted cash (note 4)	**29,347**	21,913
Trade and other receivables (note 5)	**10,686**	12,443
Prepaid expenses	**205**	408
Derivative financial asset (note 8)	**27**	189
	61,313	44,391
Non-current assets		
Exploration and evaluation assets (note 6)	**112,856**	112,557
Property, plant and equipment (note 7)	**260,671**	255,712
Derivative financial asset (note 8)	**111**	366
	373,638	368,635
	434,951	413,026
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**20,975**	40,381
Derivative financial liability (note 8)	**2,157**	1,921
Decommissioning obligations (note 9)	**760**	790
Provisions (note 9)	**1,142**	1,188
Current portion of long-term debt (note 10)	**132,521**	137,591
	157,555	181,871
Non-current liabilities		
Derivative financial liability (note 8)	**909**	1,355
Decommissioning obligations (note 9)	**10,536**	10,020
	11,445	11,375
Commitments and contingencies (note 11)		
Equity		
Share capital (note 12)	**398,950**	338,221
Contributed surplus	**17,549**	16,965
Accumulated other comprehensive loss	**(28,926)**	(22,684)
Deficit	**(121,622)**	(112,722)
	265,951	219,780
	434,951	413,026

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements as at and for the three month period ended March 31, 2013 (“the Financial Statements”).

CONSOLIDATED INCOME STATEMENTS

Three Months Ended March 31,	**2013**	2012
(Unaudited)	**$000s except per share**	$000s except per share
Revenue	**–**	66
Expenses		
Pre–licence and other exploration expenditures	**1,315**	2,077
Depletion, depreciation and amortization (note 7)	**50**	122
Unrealized loss on derivative financial instruments (note 8)	**859**	1,716
Employee expense (note 14)	**1,878**	2,818
General and administration expense	**439**	683
Refinancing and strategic review (note 15)	**1,641**	–
Foreign exchange loss	**639**	270
Total expenses	**6,821**	7,686
Financing income	**(31)**	(47)
Financing costs (note 16)	**2,110**	74
Net loss for the period	**8,900**	7,647
Net loss per common share (note 17)		
Basic	**0.04**	0.03
Diluted	**0.04**	0.03

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Three Months Ended March 31,	**2013**	2012
(Unaudited)	**$000s**	$000s
Net loss	**8,900**	7,647
Items that may be subsequently reclassified to profit and loss:		
Foreign currency translation adjustment	**6,242**	(2,210)
Comprehensive loss	**15,142**	5,437

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, 2012	337,711	13,857	(26,970)	(63,261)	261,337
Exercise of stock options (note 12)	107	–	–	–	107
Transferred from contributed surplus on exercise of options	66	(66)	–	–	–
Share-based compensation (note 14)	–	1,420	–	–	1,420
Foreign currency translation into presentation currency	–	–	2,210	–	2,210
Loss for the period	–	–	–	(7,647)	(7,647)
Balance at March 31, 2012	337,884	15,211	(24,760)	(70,908)	257,427
Balance at January 1, 2013	**338,221**	**16,965**	**(22,684)**	**(112,722)**	**219,780**
Equity issuances (note 12)	**63,250**	**–**	**–**	**–**	**63,250**
Share issuance costs (note 12)	**(4,232)**	**–**	**–**	**–**	**(4,232)**
Shares issued in connection with short-term loan (note 12)	**1,711**	**–**	**–**	**–**	**1,711**
Share-based compensation (note 14)	**–**	**584**	**–**	**–**	**584**
Foreign currency translation into presentation currency	**–**	**–**	**(6,242)**	**–**	**(6,242)**
Loss for the period	**–**	**–**	**–**	**(8,900)**	**(8,900)**
Balance at March 31, 2013	**398,950**	**17,549**	**(28,926)**	**(121,622)**	**265,951**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31	**2013**	2012
(Unaudited)	**$000s**	$000s
Cash flows from operating activities		
Loss for the period	**(8,900)**	(7,647)
Adjustments for non-cash items		
Unrealized foreign exchange loss	**308**	124
Unrealized loss on derivative financial instruments (note 8)	**859**	1,716
Depletion, depreciation and amortization (note 7)	**50**	122
Share-based compensation (note 14)	**584**	1,420
Accretion (note 16)	**90**	74
Transaction costs on short-term loan (note 16)	**1,711**	–
Change in non-cash working capital	**(2,257)**	(445)
Cash flows (used in) operating activities	**(7,555)**	(4,636)
Cash flows from investing activities		
Increase in restricted cash (note 4)	**(7,434)**	(2,231)
Exploration and evaluation asset additions (note 6)	**(2,303)**	(7,545)
Property, plant and equipment additions (note 7)	**(13,531)**	(15,663)
Proceeds from sale of assets (note 6)	**4,339**	–
Change in non-cash working capital	**(15,238)**	(6,150)
Cash flows (used in) investing activities	**(34,167)**	(31,589)
Cash flows from financing activities		
Increase in restricted cash (note 4)	**–**	(202)
Premium paid on derivative financial instruments	**(384)**	–
Proceeds from loan funds (note 10)	**–**	20,478
Increase in transaction costs on debt (note 10)	**–**	(124)
Net proceeds from equity issuances (note 12)	**59,018**	–
Proceeds from exercise of share options (note 12)	**–**	107
Proceeds from short-term loan (note 15)	**11,841**	–
Repayment of short-term loan (note 15)	**(12,294)**	–
Change in non-cash working capital	**–**	202
Cash flows provided by financing activities	**58,181**	20,461
Effect of translation on foreign currency cash and cash equivalents	**(4,849)**	2,431
Increase (decrease) in cash and cash equivalents during the period	**11,610**	(13,333)
Cash and cash equivalents, beginning of the period	**9,438**	49,963
Cash and cash equivalents, end of the period	**21,048**	36,630

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, 2013

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 consolidated financial statements comprise the financial statements of the Company and the wholly-owned group of companies: Sterling Resources (UK) Ltd. ("Sterling UK"), Sterling Resources Netherlands B.V., and Midia Resources SRL.

These unaudited condensed interim consolidated financial statements ("the Financial Statements") were approved for issuance at a meeting of the Audit Committee on May 21, 2013.

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, 2012.

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

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's financial statement presentation.

These Financial Statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2012. The Company adopted IFRS 10, 11, 12 and 13 on January 1, 2013 as described in the notes to the financial statements for the year ended December 31, 2012. There was no impact to the Company's consolidated financial statements as a result of the adoption of these standards.

The Company also adopted the amendments to IAS 1 *Presentation of Items in Other Comprehensive Income*, which requires items within other comprehensive income (loss) to be grouped into two categories: (1) items that will not subsequently be reclassified to profit or loss; and (2) items that may be subsequently reclassified to profit or loss when specific conditions are met. This amendment affected presentation only and had no impact on the Company's financial position or performance.

3) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at	**March 31, 2013**	December 31, 2012
	$000s	$000s
Cash	**17,979**	5,403
Cash equivalents	**3,069**	4,035
	21,048	9,438
Balances held in:		
Canadian dollars	**13,997**	280
US dollars	**5,243**	3,734
UK pounds	**556**	4,017
Other	**1,252**	1,407
Cash and cash equivalents	**21,048**	9,438

As at March 31, 2013, cash equivalents carried annual interest rates between 0.05 percent and 0.50 percent (December 31, 2012 – between 0.05 percent and 0.50 percent).

4) RESTRICTED CASH

Restricted cash of $29,347,000 at March 31, 2013 (December 31, 2012 – $21,913,000) comprised minor amounts of cash held in escrow, $5,935,000 held in joint venture bank accounts in Romania for the drilling campaign, and $22,987,000 to be used for expenditure on Breagh.

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, 2013.

	$000s
Canadian dollar vs. UK pound	(15)
Canadian dollar vs. US dollar	8
UK pound vs. Euro	–
UK pound vs. US dollar	(4)

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, 2013, a 1 percentage point change over a 3-month period in the average LIBOR interest rate on the loan amount would increase or decrease net income or loss by approximately $340,000.

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, 2013, a 1 percentage point change in average interest rates over a 3-month period would increase or decrease net income or loss by approximately $78,000.

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The significant increase in the Phase 1 development cost of Breagh and the extensive delay in the timing of first revenues from the field have resulted in the Company fully utilizing its credit facility and, making an equity offering in February 2013 (note 12). A bond issuance was completed in April 2013 (see note 18).

The net proceeds of the bond issuance (see note 18), amounting to approximately US$219 million ($222 million) after fees and expenses, were received into an escrow account on May 2, 2013 and disbursed to the Company shortly thereafter following perfection of security. Following the settlement of the bond issue and the Cladhan farm-down (see note 18), together with access to Breagh cash flow, the Company expects to be fully financed for all of its planned activities during the life of the Bond.

The Company expects that it will have completed the Carve-out Transaction (see note 6) raising approximately US$22.6 million ($23 million) net of tax and related expenses around the end of the second quarter of 2013.

All financial liabilities are due within one year other than derivatives which mature up to October 2014.

COMMODITY PRICE RISK

The Company is exposed to the risk of commodity price fluctuations on its natural gas production. For Breagh, the Company will sell gas produced at a price linked to the UK spot market, which is a liquid market. The Company's policy is to manage downside price risk in support of debt service obligations, 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).

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, 2013, the Company had approximately $2.4 million (December 31, 2012 - $2.6 million) of receivables due from one joint venture partner, which was received subsequent to period end. There were no other material concentrations of receivables with joint venture partners at March 31, 2013.

Impairment to a financial asset is only recorded 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. Where aged debtors are present, these are secured by the partner's interest in the underlying oil and gas properties the value of which exceeds any debts. At March 31, 2013, approximately $1.3 million (December 31, 2012 - $1.4 million) of receivables in the UK operating segment were considered to be overdue; however, management expects these to be collected upon completion of the licence assignments and other agreements. Also at March 31, 2013, approximately $3.7 million (December 31, 2012 - $2.5 million) of receivables in the Romanian operating segment related to VAT receivable; these amounts are expected to be recovered through a reduction in future VAT payments in 2013 as part of the normal course of business and for VAT due upon the closing of the Romanian Carve-Out Transaction (see note 6).

Other than the overdue amounts described above, the Company's receivables are subject to normal industry risk, and management believes collection risk is minimal.

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 value. At March 31, 2013 the cash, cash equivalents and restricted cash were held with six different institutions from five 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 the Company's peer group of international exploration and production companies, in order to contribute towards an efficient market valuation. In addition, at March 31, 2013, the Company was required to comply with the terms of its credit facility which include a cash sweep, a loan repayment schedule and undertakings relating to minimum consolidated Company 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 Company's capital management objectives, policies or processes during the three months ended March 31, 2013.

6) EXPLORATION AND EVALUATION ASSETS

During the three months ended March 31, 2013, $424,000 of directly attributable general and administration costs were capitalized to E&E assets (March 31, 2012 – $1,129,000).

The 2012 exploration assets' relinquished figure of $12,770,000 relates to the Sheryl area (block 21/23a) after relinquishment of the licence in December 2012.

In August 2012, the Company completed 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 ($46.8 million) to be received in three installments: US$22.6 million ($22.4 million) was received in August 2012, with a further US$0.8 million ($0.8 million) of working capital adjustments and US$4.3 million ($4.3 million) was received in January 2013 following enactment of secondary legislation providing for the application of Small Field Allowance, a tax allowance for UK supplementary corporation tax. As the legislation was passed in 2012 and all the conditions precedent to this part of the sale were complete, this amount was recorded during the year ended December 31, 2012; and the balance as a carry of a portion of the Company's Cladhan development expenditures up to US$53.6 million ($54.5 million), subsequent to field development plan (FDP) approval.

In October 2012, the Company announced that it had entered into the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a portion of block 15 Midia in the Romanian Black Sea (the "Carve-out Transaction"). The consideration for the transaction payable to Sterling comprises US$29.25 million ($30 million) upon closing, a contingent payment of US$29.25 million ($30 million) upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the portion sold, and a further contingent payment of US$19.5 million ($20 million) upon first commercial production from the portion sold. Completion is subject amongst other things to governmental approvals.

	Three Months Ended March 31, 2013	Year Ended December 31, 2012
	$000s	$000s
Balance, beginning of the period	**112,557**	121,152
Additions		
Cash expenditures	**2,303**	31,155
Disposal of assets	**–**	(27,680)
Exploration assets relinquished	**–**	(12,770)
Foreign exchange	**(2,004)**	700
Balance, end of the period	**112,856**	112,557

7) PROPERTY, PLANT AND EQUIPMENT

Within the development oil and gas properties category is the amount transferred from E&E assets for Breagh. This is not subject to depletion as the asset is not ready for its intended use. During the three months ended March 31, 2013, $409,000 directly attributable general and administration costs were capitalized to development oil and gas properties (March 31, 2012 – $102,000).

Development oil and gas properties are assessed for indicators of impairment at each reporting date. At December 31, 2011, the Kirkleatham UK onshore property was indicated to be impaired due to a reduction in its reserves following escalating water production. At December 31, 2012 the remaining costs associated with Kirkleatham were written down, following a reserves report update in which the reserves were moved to contingent resources.

	Three Months Ended March 31, 2013			Year Ended December 31, 2012		
	Development Oil & Gas Properties	**Corporate and Other**	**Total**	Development Oil & Gas Properties	Corporate and Other	Total
	$000s	**$000s**	**$000s**	$000s	$000s	$000s
Cost						
Balance, beginning of the period	**261,665**	**1,690**	**263,355**	170,790	1,118	171,908
Additions						
– Cash expenditures	**13,529**	**2**	**13,531**	83,196	553	83,749
– Non-cash decommissioning costs	**718**	**–**	**718**	3,406	–	3,406
Foreign exchange differences	**(9,473)**	**(48)**	**(9,521)**	4,273	19	4,292
Balance, end of the period	**266,439**	**1,644**	**268,083**	261,665	1,690	263,355
Accumulated depreciation and depletion						
Balance, beginning of the period	**(6,697)**	**(946)**	**(7,643)**	(4,002)	(560)	(4,562)
Depreciation and depletion	**–**	**(50)**	**(50)**	(40)	(376)	(416)
Impairment of oil and gas	**–**	**–**	**–**	(2,647)	–	(2,647)
Foreign exchange differences	**256**	**25**	**281**	(8)	(10)	(18)
Balance, end of the period	**(6,441)**	**(971)**	**(7,412)**	(6,697)	(946)	(7,643)
Net book value						
Balance, beginning of the period	**254,968**	**744**	**255,712**	166,788	558	167,346
Balance, end of the period	**259,998**	**673**	**260,671**	254,968	744	255,712

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 the originally 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 100,000 British thermal units (therm) 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, ($3,543,000) and the other half on a deferred premium basis for a total cost of £2,713,000 ($4,191,000), 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. For the three months ended March 31, 2013, the Company has recognized an unrealized loss of $859,000 (March 31, 2012 – $1,716,000) on derivative financial instruments. Subsequent to the quarter end, in May 2013 the Company paid the entire outstanding deferred hedging premiums at the same time as repayment of the entire bank credit facility. All the future hedges remain in place.

As at March 31, 2013 the forward curve for the period covered by the options ranges between 64 pence and 76 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, 2013			Year Ended December 31,2012		
	Decommissioning	**Other**	**Total**	Decommissioning	Other	Total
	$000s	**$000s**	**$000s**	$000s	$000s	$000s
Balance, beginning of the period	**10,810**	**1,188**	**11,998**	7,056	1,163	8,219
Arising during the period	**718**	**–**	**718**	3,406	–	3,406
Obligation disposal	**–**	**–**	**–**	(131)	–	(131)
Foreign exchange differences	**(322)**	**(46)**	**(368)**	178	25	203
Accretion of discount	**90**	**–**	**90**	301	–	301
Balance, end of the period	**11,296**	**1,142**	**12,438**	10,810	1,188	11,998

DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests 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 as at March 31, 2013 to be approximately $25,705,000, which will be incurred between 2013 and 2036. This figure increased during 2013 due to the continued drilling campaign for Breagh and in 2012 due to the Breagh facilities development and the drilling campaign, though was partly offset by a reduction in the obligation due to the Company's sale of equity in Cladhan. Two wells on the Sheryl licence are to be abandoned during 2013 and this portion of the decommissioning obligation, $760,000, has been made a current liability (December 31, 2012 $790,000). Risk free interest rates based on UK long-term government bond rates varying from 3.75 percent to 4.75 percent (December 31, 2012 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2012 – 2 percent) were used to calculate the decommissioning obligations at March 31, 2013.

OTHER PROVISIONS

Provisions of $1,142,000 at March 31, 2013 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. The Company believes that resolution with the relevant parties will be reached in 2013.

10) LONG-TERM DEBT

At March 31, 2013 the Company had a senior secured credit facility for up to £105 million ($162 million) with BNP Paribas, Commonwealth Bank of Australia, GE Energy Financial Services and Societe Generale (the "Senior Lenders") to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility"). The Credit Facility comprised a main tranche of £95 million ($146 million) and a cost-overrun tranche of £10 million ($16 million). The interest rate on the main tranche had a margin of 4 percent over LIBOR, and for the cost-overrun tranche the margin was 4.5 percent over LIBOR.

The security package provided to the Senior Lenders included a fixed and floating charge over the assets of Sterling's wholly-owned UK subsidiary, a charge of the shares of that subsidiary, a parent guarantee and other security arrangements common for a loan of this nature.

Availability under the two tranches was normally recalculated every six months with reference to the future cash flows expected to be generated by the Breagh gas field and certain cover ratios and other loan parameters. At the end of December 2012, a redetermination indicated a reduction of main tranche availability of £15.0 million ($23 million) (availability under the cost overrun tranche was unaffected) leading to a requirement to repay this amount of the loans. The Credit Facility was amended on December 31, 2012 to defer the partial loan repayment date, which (after several other amendments) was subsequently extended to the earlier of: (1) the completion of the Romanian Carve-out Transaction (see note 6) and (2) June 30, 2013. As of March 31, 2013, the main tranche of the Credit Facility was £77.9 million ($120.3 million) drawn and the cost overrun tranche of the Credit Facility was £10.0 million ($15.4 million) drawn, with no further availability under either tranche.

The Credit Facility originally had a requirement for the Company to prepare cash flow statements (the "Cash Flow Statements") at the end of every quarter demonstrating a minimum aggregate cash balance within the Company of at least £20 million ($31 million) at the end of each of the following 12 months. A waiver was received by the Company from the Senior Lenders removing this requirement in any Cash Flow Statements submitted before June 30, 2013.

On May 3, 2013, following the settlement of the Bond, the Credit Facility was repaid in full and therefore the Company's long-term debt is presented as a current liability at the reporting date (see note 18).

	Three Months Ended March 31, 2013	Year Ended December 31, 2012
	$000s	$000s
Balance, beginning of the period	**137,591**	72,818
Proceeds from loan funds	**–**	64,116
Transaction costs	**–**	(41)
Amortization of transaction costs	**199**	823
Foreign exchange differences	**(5,269)**	(125)
Balance, end of the period	**132,521**	137,591

11) COMMITMENTS AND CONTINGENCIES

Commitments as of March 31, 2013 for the years 2013 through 2017 and thereafter, excluding amounts shown as restricted cash are comprised of the following:

	2013	2014	2015	2016	2017	Thereafter	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and gas drilling	**27,215**	38,418	19,318	–	–	–	84,951
Seismic	**3,660**	2,254	–	–	–	–	5,914
Licence fees	**1,236**	1,414	1,814	2,412	3,102	–	9,978
Other operating	**758**	336	294	561	466	522	2,937
Office and other leases	**858**	721	648	606	605	2,423	5,861
	33,727	43,143	22,074	3,579	4,173	2,945	109,641

The above facilities and oil and natural gas drilling commitment in 2013 relates to the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1 development and drilling obligations in Romania.

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, 2013		Year Ended December 31, 2012	
	Shares	**Amount**	Shares	Amount
	000s	**$000s**	000s	$000s
Balance, beginning of the period	**222,869**	**338,221**	222,644	337,711
Issued for cash:				
– equity issuances	**84,333**	**63,250**	–	–
– exercise of stock options	**–**	**–**	225	343
Share issuance costs	**–**	**(4,232)**	–	–
Shares issued in connection with short-term loan	**2,419**	**1,711**	–	–
Transferred from contributed surplus on exercise of options	**–**	**–**	–	167
Balance, end of the period	**309,621**	**398,950**	222,869	338,221

On January 8, 2013, the Company announced that it had closed on a secured US$12 million ($12 million) bridging loan agreement with a subsidiary of Vitol Holding B.V. ("Vitol"), an existing shareholder, (the "Loan"). The Loan bore interest at a rate of LIBOR plus 1.0 percent, payable in arrears, subject to a maximum of 2.0 percent per annum during its term. As consideration for the Loan, Vitol received 2,418,500 common shares of Sterling at a common fair value calculation of $0.717 per common share which was the market value on the date of issue. This loan was re-paid on March 22, 2013 ahead of its contractual maturity date of March 31, 2013.

On March 11, 2013 the Company announced the closing of the offering of 23,000,000 common shares in the capital of the Company by way of a short form prospectus and 61,333,334 common shares pursuant to a private placement, in each case on a bought deal basis at a price of $0.75 per common share, which represented gross proceeds of $63.3 million (net after transaction costs of $59.1 million).

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, 2013					
Revenues	**–**	**–**	**–**	**–**	**–**
Net loss	**(3,957)**	**(3,617)**	**(919)**	**(407)**	**(8,900)**
Three Months Ended March 31, 2012					
Revenues	–	66	–	–	66
Net loss	(1,932)	(4,230)	(695)	(790)	(7,647)

	Canada	United Kingdom	Romania	Other International	Consolidated
Other Segmented Results	$000s	$000s	$000s	$000s	$000s
Three Months Ended March 31, 2013					
E&E assets	**–**	**53,616**	**51,655**	**7,585**	**112,856**
E&E asset additions	**–**	**1,266**	**990**	**47**	**2,303**
Development properties	**–**	**259,998**	**–**	**–**	**259,998**
Development property additions	**–**	**13,529**	**–**	**–**	**13,529**
Three Months Ended March 31, 2012					
E&E assets	–	93,117	27,240	8,041	128,398
E&E asset additions	–	3,421	(304)	4,428	7,545
Development properties	–	182,051	–	–	182,051
Development property additions	–	15,273	–	–	15,273

14) SHARE-BASED COMPENSATION

The Company has established a stock option plan whereby it may grant equity-settled options to its directors, officers, employees and consultants. On March 31, 2013 there were 12,803,000 (December 31, 2012 – 12,803,000) common shares reserved for issuance under the plan. The exercise price of each option equals the market price of the Company’s shares on the grant date. An option’s maximum term is five years, with the minimum vesting period to be 18 months. Stock options currently issued vest over the initial three years.

The following is a continuity of outstanding stock options:

	Three Months Ended March 31, 2013		Year Ended December 31,2012	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Continuity of Common Share Options	**000s**	**$**	000s	$
Balance, beginning of the period	**12,803**	**2.02**	14,865	2.07
Granted during the period	**–**	**–**	195	1.71
Exercised/released during the period	**–**	**–**	(225)	1.52
Cancelled/forfeited during the period	**–**	**–**	(730)	3.38
Expired during the period	**–**	**–**	(1,302)	1.89
Outstanding, end of the period	**12,803**	**2.02**	12,803	2.02
Exercisable, end of the period	**7,768**	**2.06**	7,636	2.04

The Black-Scholes option pricing model was used to calculate the fair value of the options granted during the year ended December 31, 2012 using the following weighted average assumptions:

	Year Ended December 31, 2012
Weighted average share price	$1.71
Weighted average exercise price	$1.71
Risk-free interest rate	1.12%
Weighted-average forfeiture rate	1.65%
Expected hold period to exercise	3.5 years
Volatility in the price of the Company's shares	75.4%
Expected annual dividend yield	0%

Volatility in the price of the Company's shares is calculated using the daily average price quoted on the TSX Venture Exchange over the period immediately preceding the issue of the option which is equivalent to the expected hold period to exercise.

The calculation of the fair value of options granted assumes an option forfeiture rate based on the cumulative historical level of forfeitures at the time the option is issued.

The weighted average fair value of options granted during the year ended December 31, 2012 was $0.90 per share. There were no options granted during the three month period ended March 31, 2013. For the three months ended March 31, 2013, $584,000 (three months ended March 31, 2012 – $1,420,000) of share-based compensation was expensed and was included in the employee expense figure of $1,878,000 (2012 – $2,818,000).

The following stock options were outstanding as at March 31, 2013:

Exercise Price		Options Outstanding			Options Exercisable		
		Options	Remaining Contract	Weighted Average Exercise	Options	Remaining Contract	Weighted Average Exercise
From $	To $	000s	Life (Days)	Price	000s	Life (Days)	Price
1.29	1.49	2,567	454	1.40	2,000	288	1.41
1.50	1.99	4,660	747	1.81	1,778	395	1.82
2.00	2.49	2,440	427	2.03	1,620	241	2.03
2.50	2.99	2,336	276	2.61	1,837	144	2.60
3.00	3.49	600	282	3.26	400	400	3.26
3.50	4.25	200	708	4.25	133	525	4.25
1.29	4.25	12,803	533	2.02	7,768	279	2.06

15) REFINANCING AND STRATEGIC REVIEW

The Company incurred $1,641,000 of one-off corporate costs relating to bank and professional consultants fees relating to financing and a strategic review in the first quarter.

16) FINANCING COSTS

Three Months Ended March 31,	**2013**	2012
	$000s	$000s
Interest expense	**1,625**	1,488
Amortization of debt issuance expense	**199**	192
Transaction costs on short-term loan	**1,987**	–
Capitalization of interest and amortization of debt issuance expense	**(1,791)**	(1,680)
	2,020	–
Accretion (note 9)	**90**	74
Total financing costs	**2,110**	74

As described in note 10, the Company entered into a Credit Facility and made its first drawdown on September 30, 2011. As the Credit Facility is used exclusively to fund the Breagh development, interest expense and the amortization of related transaction costs are capitalized to the Breagh CGU.

On January 8, 2013, the Company announced that it had closed on a secured US$12 million ($12 million) bridging loan agreement with Vitol, an existing shareholder. All interest charged under this loan has been charged to financing costs as interest expense and the debt issuance costs were fully expensed in the three month period ended March 31, 2013 as the loan was repaid on March 22, 2013.

17) 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,	**2013**	2012
Weighted average shares outstanding (000s)	**247,702**	222,647
Net loss ($000s)	**8,900**	7,647
Weighted average net loss per share ($)	**0.22**	0.27
Basic	**0.04**	0.03
Diluted	**0.04**	0.03

For the three months ended March 31, 2013 and 2012, the dilutive effect of the Company's outstanding options was not included in diluted shares outstanding due to the net loss incurred in each period.

18) SUBSEQUENT EVENTS

SENIOR SECURED BOND ISSUE

In April 2013, the Company closed the book for a US$225 million ($229 million) senior secured bond issue (the "Bond") by its UK subsidiary Sterling Resources (UK) Ltd (the "Issuer"). The stated uses of the net proceeds of approximately US$219 million ($222 million) from the Bond were (i) to prepay the entire senior secured Credit Facility (approximately $140 million), (ii) towards funding ongoing development costs of the Breagh field, including development of the eastern portion of the field (Phase 2), (iii) to prefund the first interest payment on the Bond due October 2013, and (iv) for general corporate purposes ($20 million).

Proceeds were received from Bond investors on April 30, 2013 (the "Settlement Date"). The Bond has a tenor of six years, maturing on April 30, 2019. The Bond carries an interest coupon of 9 percent payable semi-annually and is callable at the option of the Issuer at any time with a call premium of 105 percent for the first three years and a roll-up of outstanding interest for the first two years. Commencing 18 months after the Settlement Date, the Bond will amortize 10 percent of the issue amount every six months. The amortizations will be performed at a price of 105 percent of par value except for the final installment which shall be repaid at 100 percent of par value. An application will be made for the Bond to be listed on the Oslo stock exchange or the Nordic Alternative Bond Market (Oslo), which will require the UK subsidiary to be re-registered as a public limited company. The Bond is governed under Norwegian Law and the trustee for the Bond is Norsk Tillitsmann ASA. There is a wide-ranging security package in favour of the Bond Trustee including a charge over the Issuer's interest in the Breagh and Cladhan fields and the shares of the Issuer, as well as a parent company guarantee. Under the terms of the bond, the Company is also required to maintain certain financial and non-financial covenants.

On May 3, 2013, following the settlement of the Bond, the Credit Facility was repaid in full along with certain related costs.

CLADHAN CARRY ARRANGEMENTS

On April 8, 2013, the Company announced that it had signed agreements with TAQA which ensured that the Company was in a position, regardless of the closing of the then contemplated Bond, to submit evidence of funding ability for its share of the development costs of Cladhan (the "Financing Condition") to the Department of Energy and Climate Change ("DECC") by April 17, 2013 to enable FDP approval. These agreements also provide a full carry of development capital costs until first oil production at Cladhan, anticipated in 2015. The agreements provide for a permanent transfer in stages of up to a 12.6 percent interest in the Cladhan field to TAQA and a repayable carry by TAQA of development expenditures on an 11.8 percent interest in Cladhan (the "Second Carry"), which will be transferred to TAQA for the duration of the carry. The 12.6 percent interest is to be transferred in three stages, all of which would be expected to complete in the third quarter of 2013, such that if the Company provides evidence of its funding ability to DECC and/or TAQA by various specified dates, a smaller

interest is permanently transferred. A 3.0 percent interest will be transferred because the Financing Condition was not satisfied on April 17, 2013, a further 3.0 percent interest will be transferred if the Financing Condition is not satisfied by May 31, 2013 and the remaining 6.6 percent if not satisfied by June 30, 2013. The consideration for the transfers is the provision by TAQA of the Second Carry.

The Company retains a 2.0 percent interest in Cladhan throughout, which is funded through the budgeted development cost out of a portion of the First Carry. The rest of the First Carry, which is not repayable, is available to fund development costs on the 11.8 percent interest into approximately the second quarter of 2014, at which point the Second Carry starts funding the ongoing development costs. A 17 percent per annum uplift is applicable to such carried costs. After pay-out of the Second Carry, which is expected to occur in the second or third quarter of 2015, the 11.8 percent interest is returned to Sterling whose equity interest would then be 13.8 percent. In a downside case of higher capital expenditures, low oil prices or low production, the timing for pay-out would be delayed, but Sterling would have no further liability to TAQA. Should the 12.6 percent interest be transferred and the Second Carry received, the overall economics of this transaction are improved considerably by the fact that Sterling does not lose any of the significant historic capital allowances (approximately $20 million as at January 1, 2013) associated with the 12.6 percent interest. As a condition of the Bond (see below), Sterling has undertaken to complete the Cladhan farm-down transaction and hence Sterling will not satisfy the Cladhan Financing Condition prior to June 30, 2013, and the farm-down of equity and the Second Carry will be triggered. At the conclusion of this arrangement, assuming pay-out, the partnership interests will be Sterling 13.8 percent, TAQA (operator) 52.7 percent and Wintershall 33.5 percent. As part of this agreement, Sterling will transfer its 12.5 percent interest in South Cladhan to TAQA for nominal consideration. Sterling retains the contingent upside payments linked to future reserves pursuant to the 2012 sale and purchase agreement.

These arrangements are subject to regulatory and partner approvals. Consent of the Senior Lenders to the Credit Facility has been granted.

A final version of the FDP for Cladhan was submitted to DECC at the beginning of February 2013, and approval was received April 23, 2013.

LONG TERM INCENTIVE PLANS

On May 1, 2013 the Company unveiled two new long term incentive plans: a Phantom Option plan and a Performance Share Unit plan. Under the Phantom Option plan, a total of 652,000 phantom options were granted in May 2013 with an effective date of May 31, 2012 and an exercise price based on the Company's share price at that date ($0.98/share). These Phantom Options will vest in three equal tranches on the first, second and third anniversaries of the award (commencing May 31, 2013) and expire two years after vesting. These options will be paid in cash.

A total of 3,926,000 Performance Share Units (PSUs) were awarded to senior staff during May 2013 with an effective date of May 31, 2012 and an exercise price based on the Company's share price on that date ($0.98/share). These PSUs will vest on May 31, 2015 and expire on May 31, 2016. The number of PSUs that ultimately vest is based on market conditions linked to the Company's share price, both empirically and in comparison to a group of Sterling's peers.

No new awards will be made under the current share based compensation scheme described in note 14.

CORPORATE INFORMATION

DIRECTORS

WALTER DEBONI (1) (5) (6)
Chair
Calgary, Canada

MICHAEL J. AZANCOT
Farnham, England

ROBERT B. CARTER (3) (4) (5)
Calgary, Canada

STEWART G. GIBSON (1)
Aboyne, Scotland

TECK SOON KONG (3) (5)
London, England

GRAEME G. PHIPPS (1) (2) (3)
St. Helier, Jersey

JOHN COLLENETTE
London, England

(1) Reserves Committee
(2) Chair of Reserves Committee
(3) Audit Committee
(4) Chair of Audit Committee
(5) Governance and Compensation Committee
(6) 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 Netherlands and France

SHERRY L. CREMER
Treasurer and Corporate Secretary

DAVID DAVIES
Vice President Business Development

DAVID A.FINDLATER
Vice President UK Exploration

GRAEME HETHERINGTON
Group Financial Controller

GEORGE KESTEVEN
Manager, Corporate and Investor Relations

JOHN M. RAPACH
Chief Operating Officer

PATRICK WHITLEY
Vice President Exploration International

STERLING RESOURCES LTD.

CANADA
Suite 1450, 736 Sixth Avenue S.W.
Calgary, Alberta, Canada T2P 3T7
Tel: 403-237-9256
Fax: 403-215-9279
E-Mail: info@sterling-resources.com
Website: www.sterling-resources.com

LONDON
78 Pall Mall
London SW1Y 5ES
England
Tel: 44-20-3008-8485
Fax: 44-20-3170-5909

INVESTOR RELATIONS

GEORGE KESTEVEN
Tel: 403-215-9265
Fax: 403-215-9279
E-Mail:
george.kesteven@sterling-resources.com

AUDITORS

ERNST & YOUNG LLP

BANKER

THE ROYAL BANK OF CANADA

LEGAL COUNSEL

STIKEMAN ELLIOTT LLP

RESERVES EVALUATORS

RPS ENERGY

REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:
COMPUTERSHARE INVESTOR SERVICES INC.
9th Floor, 100 University Avenue
Toronto, Ontario, Canada M5J 2Y1
Tel: 800-564-6253
Fax: 888-453-0330/416-263-9394
E-Mail: service@computershare.com

STOCK EXCHANGE LISTING

THE TSX VENTURE EXCHANGE
Stock Exchange Trading Symbol: SLG

ANNUAL GENERAL AND SPECIAL MEETING

June 11, 2013, 10:00 a.m. MDT
The Royal Room
Metropolitan Conference Centre
333 Fourth Avenue S.W.
Calgary, Alberta, Canada

STERLING RESOURCES (UK) LTD.

ABERDEEN
27 Rubislaw Den North,
Aberdeen, AB15 4AL
Scotland
Tel: 44-1224-806610
Fax: 44-1224-806729

LONDON
78 Pall Mall
London SW1Y 5ES
England
Tel: 44-20-3008-8485
Fax: 44-20-3170-5909

MIDIA RESOURCES S.R.L.

BUCHAREST
Str Andrei Muresanu Poet nr. 11-13
011841 Bucharest
Sector 1
Romania
Tel: 40-212-313-256
Fax: 40-212-313-312

STERLING RESOURCES NETHERLANDS B.V.

NETHERLANDS
Anna van Buerenplein 41
2595 DA, The Hague
Netherlands
Tel: 31-70-205-1500
Fax: 31-70-205-1501