STERLING RESOURCES

SECOND QUARTER INTERIM REPORT

For the three and six month periods ended June 30, 2013

MESSAGE TO SHAREHOLDERS – SECOND QUARTER 2013

During the second quarter of 2013 three principal initiatives were accomplished: (1) restructuring the debt portion of the balance sheet; (2) advancing the Breagh gas field towards first production; and (3) significantly reducing the need for cash to fund Cladhan development expenditures.

In April, the Company refinanced its £105 million senior secured credit facility through a senior secured bond issue of US $225 million. The bond was issued by Sterling's wholly owned UK subsidiary and has a wide-ranging security package including a charge over the interests in the Breagh and Cladhan fields, a charge over the shares in the UK subsidiary and a parent company guarantee. In addition to providing further financing and enabling Sterling accelerated access to the cash flow from the Breagh field, the other terms and conditions of the bond issue is significantly less restrictive than those of the previous bank credit facility.

Net proceeds of approximately US $218 million from the bond issue were used to prepay the credit facility, to continue to fund development of the Breagh field including development of the eastern portion of the field (Phase 2) and to fund US $20 million of general corporate expenditures. Consequently, the proceeds from the bond issue and the access to Breagh cashflow provide the Company with the flexibility to resume a disciplined growth strategy.

During early May the Company reached agreement with several of its largest shareholders, collectively representing approximately 40 percent of the issued and outstanding common shares, to support the ongoing growth of Sterling as a public company. At the same time, Vitol confirmed that it had abandoned its previously announced intention to make a take-over bid for Sterling's common shares. Subsequently, Messrs. Jacob S. Ulrich, James H. Coleman and Gavin Wilson were elected as directors at the annual general and special meeting of shareholders held on June 11th with Mr. Ulrich named as Chair. In conjunction with the election of these new directors, incumbent directors Walt DeBoni, Graeme Phipps and Stewart Gibson agreed not to stand for re-election to the board. The Company would like to express profound thanks and gratitude to these retiring board members for their service and dedication to the Company during the course of their tenure.

During late July the Company was informed by the operator RWE Dea that first gas sales from the Breagh field would be delayed by a few weeks due to remedial work identified during the commissioning of the Teesside Gas Processing Plant (TGPP). Planned leak tests conducted prior to the introduction of hydrocarbon gas revealed the need to address high pressure vessel and line issues. Remediation of these TGPP site issues is progressing well and all other work is progressing as expected, however it is likely that start-up will slip to mid-September. Offshore facilities and the export pipeline to the terminal are fully commissioned and pressured with hydrocarbon gas, ready to commence production immediately upon completion of the TGPP related work.

In early August, the Breagh A05 well was completed and production tested. Despite encountering a similar geological section to the A03 well, it flowed at a rate of 21 million standard cubic feet of gas per day ("MMscf/d"), considerably less than A03 test rate of 57 MMscf/d. RWE Dea is evaluating the well data and may recommend prompt remedial actions to improve production from zones that may have experienced clay swelling from influx of water during the completion phase. The A04 well, which was originally completed in February 2013, was also production tested and flowed at a rate of 26 MMscf/d. The average production rate for the field is now forecast by

Sterling to be circa 102 MMscf/d (31 MMscf/d net to Sterling) for the remainder of 2013, assuming first gas production in mid-September. In 2014, total average daily production is now estimated to be 112 MMscf/d (33 MMscf/d net to Sterling). These estimates reflect appropriate field uptime assumptions following production start-up of the wells and the processing plant, and start-up of the A06 well in November 2013 and the A07 well in February 2014.

At the end of June, a revised timetable for the regulatory approval of Phase 2 of the Breagh development was agreed with the UK Department of Energy and Climate Control ("DECC"). This postpones the date for submitting an Addendum to the existing Field Development Plan ("FDP") to end December 2013 with approval not expected before June 2014. The postponement is needed to ensure the development of the eastern side of the field is optimized to reflect the results of the recently drilled A03 and A05 wells. Consequently, at this juncture Phase 2 first gas could be expected no sooner than late in 2016. The Company intends to fund the Phase 2 development from Phase 1 cash flow and potentially from a portion of the proceeds from the bond issue.

In April, the Company signed agreements with TAQA Bratani Limited ("TAQA") which ensured that the Company was in a position to provide evidence of its ability to fund its share of Cladhan development costs to DECC by the end of that month in order to obtain FDP approval. Under the terms of the agreement with TAQA a full carry of development costs through to first oil (expected at the beginning of 2015) is provided. The full carry of the Cladhan development costs removes any cost exposure through to initial oil production with an acceptable transfer of equity to TAQA. The development program is progressing with many major contracts awarded and plans for drilling the first development well to start late 2013 to early 2014.

The exploration well on the Beverley prospect in the UK central North Sea cannot be drilled this year due to the very tight rig market. This well, in which Sterling will be fully carried by Shell, will therefore be drilled as soon as possible in 2014.

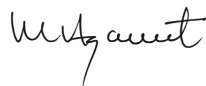
In Romania, work with the government continues in order to expedite the closing of the sale of the Midia Block carve-out acreage to ExxonMobil/OMV Petrom and the receipt of approximately US $29 million by the end of 2013.

Plans have been finalized for the drilling of an exploration well in the fourth quarter of 2013 on the Muridava block in the Romanian Black Sea, in which Sterling holds a 40 percent interest. The well is due east of the Eugenia well, drilled last year in the Pelican block, and is targeting a 169 Bcf prospect according to the operator Petroceltic International plc. In addition, we intend to acquire 3D seismic over part of the Luceafarul block, in which we are operator with a 50 percent equity interest. The acquisition of 3D seismic over the Midia and Pelican blocks and additional exploration and appraisal drilling is now expected to be conducted in 2014.

We continue to review the options and timing for a farm down of our large equity positions in our offshore Romania blocks.

The delays and cost increases at Breagh have been intensely frustrating for shareholders, bondholders and all those associated with Sterling. However with our balance sheet strengthened and Breagh production and cash flow imminent, the Company is now well positioned to pursue the exploration and development of its attractive portfolio of assets. We look forward to the commencement of production at Breagh and the opportunity to execute these plans in order to deliver value to our shareholders whose patience is greatly appreciated.

On Behalf of the Board of Directors,



President and Chief Executive Officer

August 20, 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 and six month periods ended June 30, 2013 is dated August 20, 2013, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 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;
- 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 18 under "2013 Plans".

With respect to forward-looking statements in this MD&A the Company has assumed, among other things, that 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 updated reserves and forecasts report dated May 21, 2013, prepared by RPS Energy;
- 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 June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
$000s except per share information				
Revenue	**–**	–	**–**	66
Expenses	**19,102**	7,129	**25,923**	14,816
Net financing expense	**871**	(87)	**2,950**	(61)
Net loss	**19,973**	7,042	**28,873**	14,689
Per weighted average common share – basic and diluted ($)	**0.06**	0.03	**0.10**	0.07
Property, plant and equipment and exploration and evaluation asset additions	**18,687**	19,600	**34,521**	42,808

As at	**June 30, 2013**	December 31, 2012
$000s except share information and acreage		
Net working capital (excluding current portion of long-term debt)	**90,309**	111
Total assets	**516,465**	413,026
Total liabilities	**262,238**	193,246
Share capital	**398,935**	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)	**9,573**	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 9,526,669 due to certain forfeitures.

For the three months ended June 30, 2013, the Company recorded a net loss of $19,973,000 ($0.06 per share) compared with a net loss of $7,042,000 ($0.03 per share) for the three months ended June 30, 2012. The year-over-year increase in the net loss is mostly due to refinancing costs relating to the replacement of the previous Reserves-Based Loan (the "Credit Facility") with a Senior Secured Bond (the "Bond") and related banking and professional fees, including the expensing of previously capitalized transaction costs relating to the Credit Facility.

The loss largely comprises the following elements:

PRE-LICENCE AND OTHER EXPLORATION COSTS

For the three month period ended June 30, 2013, pre-licence and other exploration costs expensed were $2,181,000, a decrease of $3,930,000 over the same period in 2012 due to lower activity in its various licences in the UK.

For the six month period ended June 30, 2012, pre-licence and other exploration costs were $3,496,000, a decrease of $4,556,000. Of the total, $695,000 (2012 – $4,646,000) related to the Company's interests in its various licences in the UK, $1,960,000 related to Romania (2012– $2,095,000) and $841,000 (2012 – $1,311,000) to the Netherlands and other international ventures. The 2012 UK pre-licence figure was higher due to seismic costs of $3,179,000 related to the 42,13b, 42/17 and 42/18 (Lochran) licences which were purchased and expensed in the period. Employee expense and general and administrative expenditures charged to exploration licences and expensed as pre-licence costs in the relative periods were $1,426,000 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.

For the three month period ended June 30, 2013 the Company recorded a realized foreign exchange loss of $4,123,000, which arose mainly on the repayment of the UK pound denominated Credit Facility from the US dollar denominated Bond as a result of the UK pound strengthening against the Canadian dollar. This followed a foreign exchange loss of $639,000 for the period ended March 31, 2013 which arose on the US dollar denominated short-term loan as a result of the Canadian dollar weakening against the US dollar as compared to a small foreign exchange loss of $192,000 incurred in the six month period ended June 30, 2012.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
Gross employee, and general and administration expense	**5,412**	4,182	**9,677**	9,893
Recovered from third parties	**(236)**	(563)	**(568)**	(1,360)
Capitalized to assets	**(1,264)**	(1,617)	**(2,098)**	(2,848)
Expensed as pre-licence and other exploration expenditures	**(899)**	(74)	**(1,681)**	(255)
	(2,399)	(2,254)	**(4,347)**	(4,463)
Net employee expense	**1,936**	1,445	**3,814**	4,263
Net general and administration expense	**1,077**	483	**1,516**	1,167

EMPLOYEE EXPENSE

For the six month period ended June 30, 2013, net employee expense was $3,814,000, a decrease of $449,000 from the same period in 2012. Of the total, $857,000 relates to non-cash share-based compensation and $2,957,000 relates to wages and salaries. The charge to non-cash share-based compensation was down from the 2012 figure of $2,533,000 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 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 six month period ended June 30, 2013, net general and administration expense after recoveries was $1,516,000, an increase of $349,000 over the same period in 2012, due principally to increased head office professional and legal fees.

REFINANCING AND STRATEGIC REVIEW

The Company incurred $9,641,000 of non-recurring costs relating to the refinancing of the business in the three months ended June 30, 2013, $6,028,000 relating to bank and professional consultants fees, and $3,613,000 of previously capitalized transaction costs related to the Credit Facility. This followed $1,641,000 of non-recurring corporate costs incurred in the three month period ending March 31, 2013, also relating to certain bank and professional consultants fees relating to financing (see "Financing Activities"), and a strategic review in the first quarter of 2013.

FINANCING COSTS

Total financing costs in the second quarter of 2013 were $947,000. These included $838,000 relating to the expensing of accrued interest and the amortization of transaction costs on those parts of the Bond which do not relate to the costs of the Breagh development. The balance of the 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.

During the first quarter of 2013, $2,110,000 was charged to financing costs, of which $1,987,000 related to transaction costs on the bridging loan facility (see "Financing Activities") which were expensed following its repayment.

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 June 30, 2013 are estimated at £319 million ($511 million) and SCT losses at £303 million ($485 million) (lower than for CT, as financing costs are not allowable deductions for SCT).

In addition, Sterling UK expects to claim RFES, which are 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 June 30, 2013, other principal tax losses and allowances available include tax pools of approximately $61 million and non-capital losses of approximately $40 million available to shield future income taxable in Canada; approximately $76 million of remaining cumulative past costs available and expected to shield future taxable income of the Company in Romania; and approximately $15 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 the 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 ($4,339,000). On May 3, 2013 the Company paid the entire outstanding deferred hedging premiums at the same time as repayment of the entire Credit Facility, extinguishing any derivative financial liability. All the future hedges remain in place.

The derivatives are revalued to their fair value at each period end. Any gain or loss arising is recorded through the income statement in the period in which it arises. For the three and six month periods ended June 30, 2013, the Company recognized unrealized losses of $97,000 and $956,000 respectively as compared to the period ended June 30, 2012 when a gain of $930,000 and a loss of $786,000 were recognized respectively.

As at June 30, 2013 the forward curve for the period covered by the options ranges between 62 pence and 75 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 June 30, 2013.

	2013		2012				2011	
Quarters Ended	**Jun. 30**	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30
$000s except per share information								
Revenues	**–**	–	–	–	–	66	136	793
Net (loss) income:								
Canada	**(2,036)**	(3,957)	(919)	(1,060)	(1,450)	(1,932)	(1,946)	(1,945)
United Kingdom	**(15,445)**	(3,617)	(19,563)	(4,072)	(3,365)	(4,230)	(8,015)	(4,513)
Romania	**(1,979)**	(919)	(2,611)	(3,822)	(1,490)	(695)	(1,165)	(1,608)
Other International	**(513)**	(407)	(1,712)	(1,013)	(737)	(790)	(1,246)	980
Net loss	**(19,973)**	(8,900)	(24,805)	(9,967)	(7,042)	(7,647)	(12,372)	(7,086)
Net loss per share								
Basic	**(0.06)**	(0.04)	(0.12)	(0.04)	(0.03)	(0.03)	(0.06)	(0.03)
Diluted	**(0.06)**	(0.04)	(0.12)	(0.04)	(0.03)	(0.03)	(0.06)	(0.03)

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:

- Since the third quarter of 2011 the Company 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 and second quarters of 2013 $859,000 and $97,000 respectively were 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 half of 2013 the Company incurred increased corporate costs such as bank fees and professional consultants related to refinancing and a strategic review (see "Financing Activities"). This has resulted in $9,641,000 being expensed to the income statement in the second quarter of 2013. In the first quarter of 2013, the Company entered into a bridging loan agreement with an affiliate of Vitol (S.A.); amortization of debt issue costs and interest payments of this loan in the period resulted in a charge of $2,020,000 charged to financing costs; 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 and liabilities 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 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. Gas has been flowed from the wells into the pipeline for a brief duration.
2. **Development Drilling**. Development drilling of seven deviated wells from the Breagh Alpha platform to an array of locations up to approximately 2 kilometres from the platform is in progress:
   - Most recently well A05 finished drilling and completion of operations. The well was subsequently tested at a maximum rate of 21 million standard cubic feet per day ("MMscf/d"). Following the testing of the A05 well, the A04 well that was drilled, completed and suspended in February 2013, was tested and produced at a maximum rate of 26 MMscf/d. Both wells are expected to provide an initial production capacity of 45 MMscf/d at expected production conditions. Flowlines and instrumentation is being installed and these wells are expected to be on-line ready for first gas.
   - Five wells have now been drilled, completed and tested (A01, A02, A03, A04 and A05) with a combined initial flow capacity of 136 MMscf/d, slightly below pre-drill expectations of 150 MMscf/d.
   - Well A06 is currently being drilled and is expected to contribute to production from November 2013. This will be followed by well A07, expected to contribute from February 2014.

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 with an expected date for first gas sales of mid-September 2013.

The average production rate for the field is now forecast to be circa 102 MMscf/d (31 MMscf/d net to Sterling) for the remainder of 2013, assuming first gas production in mid-September. This estimate reflects appropriate field uptime assumptions following production start-up of the wells and the processing plant and compares to the previous forecast of May 21, 2013 of 170 MMscf/d (51 MMscf/d net to Sterling), which assumed an early August production start.

Total average production during 2014 at Breagh is now estimated to be 112 MMscf/d (33 MMscf/d net to Sterling). This compares to the previous forecast average production rate of 146 MMscf/d (44 MMscf/d net to Sterling). This reduction is a combination of reduced well rates from A04 and A05, a delayed contribution from A07, and reduced plant uptime assumption.

Forecast costs at Phase 1 completion (7 wells) are now estimated to be £565 million ($904 million) for 100 percent of the field or £170 million ($271 million) net to Sterling, an increase of £4 million (100 percent interest) from the figure reported in the financial statements for the first quarter of 2013. The increase principally relates to higher forecast well 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 and A05 results into an optimized development plan for the field. The current timing is for submission of a draft field development plan (“FDP”) addendum by December 31, 2013, submission of evidence of financing capability by March 30, 2014, and approval of the FDP addendum by June 30, 2014.

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 the UK Department of Energy and Climate Change (“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 on April 23, 2013.

The planned development calls for two subsea producers and one subsea water injector tied back 17 kilometres to the Tern platform operated by TAQA. Export of oil is planned via the Brent Pipeline System to Sullom Voe in the Shetland Islands, with first oil expected at the start of 2015. All major well, subsea and topsides major equipment and installation contracts have been awarded. Drilling is due to commence with the Transocean, John Shaw drilling unit in late 2013/early 2014.

Pursuant to 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 six month period ended June 30, 2013 and to the date of this report, key operational activity and expenditures were focused on the following:

- In the United Kingdom, preparation for the drilling of an exploration well on the Beverley oil prospect on block 22/26c. The site survey has now been completed, however due to a lack of rig availability this well has now been delayed until 2014. When drilled this well will be fully carried under a farm-out arrangement.
- In Romania, preparation for the non-operated drilling of an exploration well in the Muridava block in the second half of 2013, interpretation of the 2D-seismic that was shot over the Midia and Pelican blocks in the second half of 2012, preparation for the Luceafarul block 3D-seismic shoot in the second half of 2013, and reviews of the results of the drilling campaign on the Midia and Pelican blocks in late 2012.

For comparison purposes in the first two quarters 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 2012, 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;
- In March 2012, 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;
- Also in March 2012, approval was obtained from the National Agency for Mineral Resources for a 40 percent interest in the Romanian Black Sea Muridava block. The shallow water block, adjacent to the Company's Pelican block, contains multiple exploration plays, has existing 2D seismic coverage and contains a hydrocarbon discovery, Olimpiyskaya, drilled in 2001;
- In April 2012, the South Cladhan exploration well, 210/29c-5, was plugged and abandoned after no hydrocarbons were encountered. The well was drilled at no cost to the Company pursuant to farm-out agreements; and
- In May 2012, the Company exchanged its 50 percent interest in UK Block 16/3d (Cairngorm) for a 10 percent interest in the Netherlands F and L Quad licences held by Enquest plc.

FINANCING ACTIVITIES

In April, 2013 the Company completed a US$225 million ($228.3 million) Bond by its UK subsidiary Sterling Resources (UK) Ltd (the "Issuer"). The uses of the net proceeds from the Bond which totalled approximately US$218.4 million ($220.9 million) after transaction costs are (i) prepayment of the Credit Facility including related costs, (ii) funding ongoing development costs of the Breagh field, including development of the eastern portion of the field (Phase 2), (iii) prefunding the first interest payment on the Bond due October 2013, and (iv) 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 instalment 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 interests in the Breagh and Cladhan fields and over the shares of the Issuer, as well as a parent company guarantee.

At the beginning of the quarter, the Company had a senior secured credit facility 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 amount drawn under the Credit Facility was £87.9 million ($137.8 million), comprising £77.9 million under the main tranche and £10.0 million under the cost overrun tranche. This amount was repaid in full out of the proceeds of the Bond on May 3, 2013 together with associated costs including certain advisory fees incurred by the Senior Lenders, interest and commitment fees, outstanding waiver fees (amounting to £3 million) and payment of premiums relating to certain UK gas price put options which had previously been deferred pursuant to the Credit Facility (amounting to £2.1 million) giving a total payment to the Senior Lenders of £93.3 million ($149.4 million). The interest rate on the main tranche was at a margin of 4 percent over LIBOR, and for the cost-overrun tranche the margin was 4.5 percent over LIBOR. The security package which had been 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.

Of the net Bond proceeds of US$218.4 million, an amount of US$145.3 million ($149.4 million) was used to repay the Credit Facility as noted above, US$10.1 million was transferred into escrow towards payment of the first coupon payment in October 2013, and US$20 million ($21 million) has been transferred to unrestricted Company accounts, leaving US$43.0 million ($45.2 million) in escrow as of May 3, 2013 to be used towards Breagh Phase 1 and Phase 2 development costs.

In April 2013, the Company 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 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 of a 12.6 percent interest in the Cladhan field to TAQA and (in consideration for the transfer) 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. Transfer of the 12.6 percent interest was completed in August 2013 and the second carry is now available.

The Company retains a 2.0 percent interest in Cladhan throughout, for which the budgeted development cost is funded out of a portion of an earlier, non-repayable carry (the "First Carry") pursuant to a sale of a 13.4 percent interest in Cladhan to TAQA in 2012 (the "2012 Sale"). The rest of the First Carry, which amounts to US$53.6 million ($54.5 million) in total, 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. 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. 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 has also transferred its 12.5 percent interest in South Cladhan to TAQA for nominal consideration, a transaction which was also completed in August 2013. Sterling retains the contingent upside payments linked to future reserves pursuant to the 2012 Sale.

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 $59 million).

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 $0.717 per common share which was the market value on the date of issue. This loan was repaid on March 22, 2013, ahead of its contractual maturity date of March 31, 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. The governmental approval process required to accomplish completion of the Carve-out Transaction has been protracted and approval is not now expected until around the end of 2013.

FINANCING, LIQUIDITY AND SOLVENCY

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

As at	**June 30, 2013**	December 31, 2012
	$000s	$000s
Cash and cash equivalents	**53,789**	9,438
Restricted cash	**48,173**	21,913
Trade and other receivables	**9,044**	12,443
Derivative financial asset	**79**	189
Prepaid expenses	**308**	408
Trade and other payables	**(15,571)**	(40,381)
Accrued interest payable	**(3,548)**	–
Derivative financial liability	–	(1,921)
Decommissioning obligations	**(785)**	(790)
Provisions	**(1,180)**	(1,188)
	90,309	111

Net working capital of $90,309,000 as at June 30, 2013 represents an increase in working capital from year-end 2012 mainly due to the refinancing, 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 $137,591,000 was refinanced in the second quarter of 2013 and was excluded from the above net working capital calculation as at December 31, 2012. There is no current portion of long-term debt at June 30, 2013.

Cash and cash equivalents at June 30, 2013 include term deposits of $5,157,000 (December 31, 2012 – $4,035,000).

Restricted cash of $48,173,000 as at June 30, 2013 (December 31, 2012 – $21,913,000) comprised $34,983,000 to be used for expenditures on Breagh, $10,413,000 in a retention account to cover the first bond interest payment due on the October 30, 2013, minor amounts of cash held in escrow and $2,657,000 held in joint venture bank accounts in Romania.

As at June 30, 2013, the Company had approximately $9 million of receivables due, of which $5 million related to outstanding value added taxes in Romania. There were no other material concentrations of receivables at June 30, 2013.

Trade and other payables of $15,571,000 as at June 30, 2013 were comprised mainly of accrued expenditures related to the Breagh development project. $3,548,000 of Accrued interest payable relates to the Bond.

A provision of $1,180,000 at June 30, 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, comprise the following:

	2013	2014	2015	2016	2017	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	**$000s**
Facilities, oil and gas drilling	6,694	45,434	19,194	–	–	–	**71,322**
Seismic	3,660	2,239	–	–	–	–	**5,899**
Licence fees	1,157	1,405	1,803	2,396	3,082	–	**9,843**
Other operating	758	336	292	558	464	519	**2,927**
Office and other leases	578	717	643	602	602	2,407	**5,549**
	12,847	50,131	21,932	3,556	4,148	2,926	**95,540**

The above facilities, and oil and natural gas drilling commitments in 2013 relate to drilling obligations in Romania. 2013 expenditures related to the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1 development are fully covered by amounts held in restricted cash.

LIQUIDITY AND SOLVENCY

As at June 30, 2013, the Company's net working capital totaled $90,309,000. The Company expects to be fully financed for all of its planned activities during the life of the Bond, even in the event that 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 June 30, 2013 to be approximately $28,622,000, which will be incurred between 2013 and 2036. Two wells on the Sheryl licence are planned to be abandoned in 2014 and this portion of the decommissioning obligation, $785,000, 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 June 30, 2013.

	Six Months Ended June 30, 2013	Year Ended Dec 31, 2012
	$000s	$000s
Balance, beginning of the period	**10,810**	7,056
Arising during the period	**1,462**	3,406
Obligation disposal	**–**	(131)
Revisions to estimates	**–**	–
Foreign exchange differences	**40**	178
Accretion of discount	**199**	301
Balance, end of the period	**12,511**	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 August 20, 2013:

- In the UK, approval was received from DECC for the Cladhan FDP on April 23, 2013; and
- Corporately, the review of strategic options that may be accretive for shareholder value has been completed following the completion of the Bond 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 September 2013;
- Begin development drilling on Cladhan by late 2013;
- 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; and
- Corporately, consider graduation to the main board of the Toronto Stock Exchange.

Several plans have changed since the 2012 MD&A:

- Breagh Phase 2 development - we now have agreement with DECC to submit a draft FDP Addendum by end 2013, to provide evidence of funding ability by the end of the first quarter of 2014 and expect to receive development approval by mid-2014;
- 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 second quarter of 2014;
- Drill an exploration well on the Beverley oil prospect on UK block 22/26c (for which the costs will be fully carried under a farm-out arrangement) - this is now expected to occur in the second half of 2014;
- Seismic over parts of the Midia and Pelican blocks offshore Romania planned for 2013 - this is now expected to be acquired during the second half of 2014;
- Listing on the main board of the London Stock Exchange - this is not now considered to be required in 2013; and
- Farming down a portion of the Company's equity position in its licences offshore Romania, which was originally envisaged for 2013 - this may now be concluded in the first half of 2014.

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 six month periods ended June 30, 2013 or 2012. From January 8, 2013 until March 22, 2013 a US$12 million loan had been provided by an affiliate of Vitol (which is a shareholder of the company).

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	**June 30, 2013**	December 31, 2012
(Unaudited)	**$000s**	$000s
ASSETS (note 10)		
Current assets		
Cash and cash equivalents (note 3)	**53,789**	9,438
Restricted cash (note 4)	**48,173**	21,913
Trade and other receivables (note 5)	**9,044**	12,443
Prepaid expenses	**308**	408
Derivative financial asset (note 8)	**79**	189
	111,393	44,391
Non-current assets		
Exploration and evaluation assets (note 6)	**73,747**	112,557
Property, plant and equipment (note 7)	**331,276**	255,712
Derivative financial asset (note 8)	**49**	366
	405,072	368,635
	516,465	413,026
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**15,571**	40,381
Accrued interest payable	**3,548**	–
Derivative financial liability (note 8)	**–**	1,921
Decommissioning obligations (note 9)	**785**	790
Provisions (note 9)	**1,180**	1,188
Current portion of long-term debt (note 10)	**–**	137,591
	21,084	181,871
Non-current liabilities		
Derivative financial liability (note 8)	**–**	1,355
Decommissioning obligations (note 9)	**11,726**	10,020
Long term debt (note 10)	**229,428**	–
	241,154	11,375
Commitments and contingencies (note 11)		
Equity		
Share capital (note 12)	**398,935**	338,221
Contributed surplus	**17,823**	16,965
Accumulated other comprehensive loss	**(20,936)**	(22,684)
Deficit	**(141,595)**	(112,722)
	254,227	219,780
	516,465	413,026

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 2013 (“the Financial Statements”).

CONSOLIDATED INCOME STATEMENTS

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
(Unaudited)	$000s except per share		$000s except per share	
Revenue	**–**	–	**–**	66
Expenses				
Operating expense	**–**	–	**–**	138
Pre–licence and other exploration expenditures	**2,181**	6,111	**3,496**	8,052
Depletion, depreciation and amortization (note 7)	**47**	97	**97**	218
Unrealized loss (gain) on derivative financial instruments	**97**	(930)	**956**	786
Employee expense (note 14)	**1,936**	1,445	**3,814**	4,263
General and administration expense	**1,077**	483	**1,516**	1,167
Refinancing and strategic review (note 15)	**9,641**	–	**11,282**	–
Foreign exchange loss (gain)	**4,123**	(77)	**4,762**	192
Total expenses	**19,102**	7,129	**25,923**	14,816
Financing income	**(76)**	(162)	**(107)**	(210)
Financing costs (note 16)	**947**	75	**3,057**	149
Net loss for the period	**19,973**	7,042	**28,873**	14,689
Net loss per common share (note 17)				
Basic	**0.06**	0.03	**0.10**	0.07
Diluted	**0.06**	0.03	**0.10**	0.07

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
(Unaudited)	**$000s**	$000s	**$000s**	$000s
Net loss	**19,973**	7,042	**28,873**	14,689
Items that may be subsequently reclassified to profit and loss:				
Foreign currency translation adjustment	**(7,990)**	(1,475)	**(1,748)**	(3,685)
Comprehensive loss	**11,983**	5,567	**27,125**	11,004

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)	343	–	–	–	343
Transferred from contributed surplus on exercise of options	167	(167)	–	–	–
Share-based compensation (note 14)	–	2,533	–	–	2,533
Foreign currency translation into presentation currency	–	–	3,685	–	3,685
Loss for the period	–	–	–	(14,689)	(14,689)
Balance at June 30, 2012	338,221	16,223	(23,285)	(77,950)	253,209
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)	**(4,247)**	**–**	**–**	**–**	**(4,247)**
Shares issued in connection with short-term loan (note 12)	**1,711**	**–**	**–**	**–**	**1,711**
Share-based compensation (note 14)	**–**	**858**	**–**	**–**	**858**
Foreign currency translation into presentation currency	**–**	**–**	**1,748**	**–**	**1,748**
Loss for the period	**–**	**–**	**–**	**(28,873)**	**(28,873)**
Balance at June 30, 2013	**398,935**	**17,823**	**(20,936)**	**(141,595)**	**254,227**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
(Unaudited)	**$000s**	$000s	**$000s**	$000s
Cash flows used in operating activities				
Loss for the period	**(19,973)**	(7,042)	**(28,873)**	(14,689)
Adjustments for non-cash items				
Unrealized foreign exchange loss	**76**	50	**384**	174
Unrealized loss (gain) on derivative financial instruments	**97**	(930)	**956**	786
Depletion, depreciation and amortization	**47**	97	**97**	218
Share-based compensation (note 14)	**274**	1,114	**858**	2,533
Accretion (note 16)	**109**	75	**199**	149
Transaction costs on short-term loan (note 16)	**–**	–	**1,711**	–
Non-cash financing charges (note 16)	**4,515**	–	**4,515**	–
Change in non-cash working capital	**(73)**	94	**(2,330)**	(351)
Cash flows used in operating activities	**(14,928)**	(6,542)	**(22,483)**	(11,180)
Cash flows used in investing activities				
Decrease (increase) in restricted cash	**(8,413)**	3,055	**(15,847)**	825
Exploration and evaluation asset additions	**1,109**	39	**(1,194)**	(7,506)
Property, plant and equipment additions	**(19,796)**	(19,639)	**(33,327)**	(35,302)
Proceeds from sale of assets (note 6)	**–**	–	**4,339**	–
Change in non-cash working capital	**(3,755)**	2,385	**(18,993)**	(3,765)
Cash flows used in investing activities	**(30,855)**	(14,160)	**(65,022)**	(45,748)
Cash flows from financing activities				
Increase in restricted cash	**(10,413)**	(74)	**(10,413)**	(276)
Premium paid on derivative financial instruments	**(3,414)**	–	**(3,798)**	–
Proceeds from loan funds (note 10)	**228,311**	18,347	**228,311**	38,825
Repayment of Credit Facility (note 10)	**(137,796)**	–	**(137,796)**	–
(Increase) decrease in transaction costs on debt (note 10)	**(7,460)**	13	**(7,460)**	(111)
Net proceeds from equity issuances (note 12)	**(15)**	–	**59,003**	–
Proceeds from exercise of share options (note 12)	**–**	236	**–**	343
Proceeds from short-term loan (note 15)	**–**	–	**11,841**	–
Repayment of short-term loan (note 15)	**–**	–	**(12,294)**	–
Change in non-cash working capital	**3,548**	(134)	**3,548**	68
Cash flows provided by financing activities	**72,761**	18,388	**130,942**	38,849
Effect of translation on foreign currency cash and cash equivalents	**5,763**	(3,069)	**914**	(637)
Increase (decrease) in cash and cash equivalents during the period	**32,741**	(5,383)	**44,351**	(18,716)
Cash and cash equivalents, beginning of the period	**21,048**	36,630	**9,438**	49,963
Cash and cash equivalents, end of the period	**53,789**	31,247	**53,789**	31,247

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 and Six Months Ended June 30, 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 August 20, 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 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	**June 30, 2013**	December 31, 2012
	$000s	$000s
Cash	**48,632**	5,403
Cash equivalents	**5,157**	4,035
	53,789	9,438
Balances held in:		
Canadian dollars	**5,603**	280
US dollars	**25,623**	3,734
UK pounds	**20,813**	4,017
Other	**1,750**	1,407
Cash and cash equivalents	**53,789**	9,438

As at June 30, 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 $48,173,000 at June 30, 2013 (December 31, 2012 – $21,913,000) comprised $34,983,000 to be used for expenditures on Breagh, $10,413,000 in a retention account to cover the first bond interest payment due on October 30, 2013 (refer to note 10), minor amounts of cash held in escrow and $2,657,000 held in joint venture bank accounts in Romania.

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 fair value of Bond is discussed in note 10. 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 June 30, 2013.

The UK pound vs. US dollar exchange rate risk has increased as the Bond is denominated in US dollars, while the UK entity retains its functional currency as the UK pound.

	$000s
Canadian dollar vs. UK pound	(17)
Canadian dollar vs. US dollar	–
UK pound vs. Euro	25
UK pound vs. US dollar	(2,533)

INTEREST RATE RISK

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 June 30, 2013, a 1 percentage point change in average interest rates over a six month period would increase or decrease net income or loss by approximately $510,000.

The interest rate charged under the Bond is fixed at 9 percent per annum and therefore the Company is not exposed to interest rate risk on its borrowings.

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

With currently available cash and the carry arrangements in place for Cladhan (see note 6), 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 during the fourth quarter of 2013 or the first quarter of 2014.

The following table as of June 30, 2013 for the years 2013 through 2017 and thereafter, shows the maturities of financial liabilities:

	2013	2014	2015	2016	2017	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	**$000s**
Coupon payment	10,590	21,180	18,003	13,767	9,531	6,354	**79,425**
Principal payment	–	23,533	47,066	47,066	47,066	70,599	**235,330**
Bonus Principal payment	–	1,177	2,353	2,353	2,353	2,353	**10,589**
Trade And other payables	15,571	–	–	–	–	–	**15,571**
	26,161	45,890	67,422	63,186	58,950	79,306	**340,915**

COMMODITY PRICE RISK

The Company is exposed to the risk of commodity price fluctuations on its future 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 now repaid 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. There were no material concentrations of receivables with joint venture partners at June 30, 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 June 30, 2013, approximately $1.8 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 June 30, 2013, approximately $5 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 June 30, 2013 the cash, cash equivalents and restricted cash were held with six different institutions from five countries.

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 June 30, 2013, the Company was required to comply with the terms of its senior secured bond which includes an equity ratio and a minimum level of cash in the UK subsidiary (see 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 June 30, 2013, other than to ensure compliance at all times with the financial covenants under the Bond Agreement as noted above.

6) EXPLORATION AND EVALUATION ASSETS

During the six months ended June 30, 2013, $1,240,000 of directly attributable general and administration costs were capitalized to exploration and evaluation assets ("E&E") (June 30, 2012 – $2,710,000).

The field development program for the Cladhan area received approval of the UK Department of Energy and Climate Change on April 23, 2013, and consequently the Cladhan carrying values were transferred from the E&E category to the development oil and gas properties category. The asset was tested for impairment on transfer and none was found.

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) 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).

In April 2013, the Company 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 to DECC by April 17, 2013 to enable FDP approval to be received. These agreements also provide a full carry of development capital costs until first oil, anticipated in 2015. The agreements provide for a permanent transfer of a 12.6 percent interest in the Cladhan field to TAQA and (in consideration for the transfer) 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. Transfer of the 12.6 percent interest was completed in August 2013.

The Company retains a 2.0 percent interest in Cladhan throughout, for which the budgeted development cost is funded out of a portion of an earlier, non-repayable carry (the "First Carry") pursuant to a sale of a 13.4 percent interest in Cladhan to TAQA in 2012 (the "2012 Sale"). The rest of the First Carry, which amounts to US$53.6 million ($54.5 million) in total, 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 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. 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. 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 has also transferred its 12.5 percent interest in South Cladhan to TAQA for nominal consideration, a transaction which was also completed in August 2013. Sterling retains the contingent upside payments linked to future reserves pursuant to the 2012 Sale.

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.

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
	$000s	$000s
Balance, beginning of the period	**112,557**	121,152
Additions		
Cash expenditures	**1,194**	31,155
Transfers to Development Oil and Gas properties (note 7)	**(41,465)**	–
Disposal of assets	**–**	(27,680)
Exploration assets relinquished	**–**	(12,770)
Foreign exchange	**1,461**	700
Balance, end of the period	**73,747**	112,557

7) PROPERTY, PLANT AND EQUIPMENT

Within the development oil and gas properties category are the amounts transferred in from exploration and evaluation assets for Breagh and Cladhan. They are not subject to depletion as they are not ready for the use intended by management.

During the six months ended June 30, 2013, $858,000 directly attributable general and administration costs were capitalized to development oil and gas properties (June 30, 2012 – $138,000).

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.

	Six Months Ended June 30, 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	**33,325**	**2**	**33,327**	83,196	553	83,749
– Non-cash decommissioning costs	**1,462**	**–**	**1,462**	3,406	–	3,406
Transfers from exploration and evaluation properties (note 6)	**41,465**		**41,465**			
Foreign exchange differences	**(634)**	**–**	**(634)**	4,273	19	4,292
Balance, end of the period	**337,283**	**1,692**	**338,975**	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	**–**	**(97)**	**(97)**	(40)	(376)	(416)
Impairment of oil and gas properties	**–**	**–**	**–**	(2,647)	–	(2,647)
Foreign exchange differences	**43**	**(2)**	**41**	(8)	(10)	(18)
Balance, end of the period	**(6,654)**	**(1,045)**	**(7,699)**	(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	**330,629**	**647**	**331,276**	254,968	744	255,712

8) DERIVATIVE FINANCIAL INSTRUMENTS

As a requirement of the credit facility, described below, the Company had 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. 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 ($4,339,000), to be settled on a monthly basis during the option exercise period. In May 2013 the Company paid the entire outstanding deferred hedging premiums at the same time as repayment of the entire bank credit facility, extinguishing any derivative financial liability. All the future hedges remain in place.

The derivatives are revalued to their fair value at period-ends. Any gain or loss arising is recorded through the income statement in the same period. For the three and six month periods ended June 30, 2013, the Company has recognized an unrealized loss of $97,000 , and $956,000 respectively (June 30, 2012 a gain of $930,000 and a loss of $786,000, respectively) on derivative financial instruments.

As at June 30, 2013 the forward curve for the period covered by the options ranges between 62 pence and 75 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:

	Six Months Ended June 30, 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	**1,462**	**–**	**1,462**	3,406	–	3,406
Obligation disposal	**–**	**–**	**–**	(131)	–	(131)
Foreign exchange differences	**40**	**(8)**	**32**	178	25	203
Accretion of discount	**199**	**–**	**199**	301	–	301
Balance, end of the period	**12,511**	**1,180**	**13,691**	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 June 30, 2013 to be approximately $28,622,000, which will be incurred between 2013 and 2036. Two wells on the Sheryl licence are to be abandoned by the end of 2014 and this portion of the decommissioning obligation, $785,000, has been disclosed as 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 June 30, 2013.

OTHER PROVISIONS

Provisions of $1,180,000 at June 30, 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.

10) LONG-TERM DEBT

In April, 2013 the Company completed a US$225 million ($228.3 million) senior secured bond issue (the "Bond") by its UK subsidiary Sterling Resources (UK) Ltd (the "Issuer"). The uses of the net proceeds from the bond, which totalled approximately US$218.4 million ($220.9 million) from the Bond after transaction costs are (i) prepayment of the entire senior secured credit facility with a group of lending banks and related costs(approximately $140 million), (ii) funding of ongoing development costs of the Breagh field, including development of the eastern portion of the field (Phase 2), (iii) prefunding the first interest payment on the Bond due October 2013, and (iv) for general corporate purposes ($20 million).

Proceeds were received 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 instalment which will 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). There is a wide-ranging security package in favour of the Bond Trustee including a charge over the Issuer's interests in the Breagh and Cladhan fields and over the shares of the Issuer, as well as a parent company guarantee.

There are only two financial covenants under the Bond agreement. First, at the consolidated group level, the Company must maintain at all times a minimum equity ratio of 40 percent (defined as total Equity divided by total Assets according to IFRS). Second, the UK subsidiary must maintain at all times a minimum level of liquidity (cash and cash equivalents according to IFRS) of US$10 million. As at June 30, 2013 the Company was in compliance with both these covenants.

At the start of the quarter, the Company had a senior secured credit facility to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility"). The amount drawn under the Credit Facility was £87.9 million ($137.8 million), comprising £77.9 million under the main tranche and £10.0 million under the cost overrun tranche. This full amount was repaid out of the proceeds of the Bond on May 3, 2013 together with associated costs and the Credit Facility was terminated as of this date.

	Six Months Ended June 30, 2013			Year Ended December 31, 2012		
	Credit Facility	**Bond**	**Total**	Credit Facility	Bond	Total
	$000s	**$000s**	**$000s**	$000s	$000s	$000s
Balance, beginning of the period	**137,591**	**–**	**137,591**	72,818	–	72,818
Proceeds from (repayment of) loan funds	**(137,796)**	**228,311**	**90,515**	64,116	–	64,116
Transaction costs	**–**	**(7,460)**	**(7,460)**	(41)	–	(41)
Amortization of transaction costs	**3,876**	**624**	**4,500**	823	–	823
Foreign exchange differences	**(3,671)**	**7,953**	**4,282**	(125)	–	(125)
Balance, end of the period	**–**	**229,428**	**229,428**	137,591	–	137,591

11) COMMITMENTS AND CONTINGENCIES

Commitments as of June 30, 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	**6,694**	45,434	19,194	–	–	–	**71,322**
Seismic	**3,660**	2,239	–	–	–	–	**5,899**
Licence fees	**1,157**	1,405	1,803	2,396	3,082	–	**9,843**
Other operating	**758**	336	292	558	464	519	**2,927**
Office and other leases	**578**	717	643	602	602	2,407	**5,549**
	12,847	50,131	21,932	3,556	4,148	2,926	**95,540**

The above facilities, oil and natural gas drilling commitments in 2013 relate to drilling obligations in Romania. 2013 expenditures related to the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1 development are fully covered by amounts held in restricted cash.

12) SHARE CAPITAL

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

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Shares 000s	**Amount $000s**	Shares 000s	Amount $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	**–**	**(4,247)**	–	–
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**	**398,935**	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 $0.717 per common share which was the market value on the date of issue. This loan was repaid 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 $59 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 June 30, 2013					
Revenues	–	–	–	–	–
Net loss	**(2,036)**	**(15,445)**	**(1,979)**	**(513)**	**(19,973)**
Six Months Ended June 30, 2013					
Revenues	–	–	–	–	–
Net loss	**(5,993)**	**(19,062)**	**(2,898)**	**(920)**	**(28,873)**
Three Months Ended June 30, 2012					
Revenues	–	–	–	–	–
Net loss	(1,450)	(3,365)	(1,490)	(737)	(7,042)
Six Months Ended June 30, 2012					
Revenues	–	66	–	–	66
Net loss	(3,382)	(7,595)	(2,185)	(1,527)	(14,689)

	Canada	United Kingdom	Romania	Other International	Consolidated
Other Segmented Results	$000s	$000s	$000s	$000s	$000s
Six Months Ended June 30, 2013					
E&E assets	–	**14,744**	**50,975**	**8,028**	**73,747**
E&E asset additions	–	**2,094**	**(1,138)**	**238**	**1,194**
Development properties	–	**330,629**	–	–	**330,629**
Development property additions	–	**33,325**	–	–	**33,325**
Six Months Ended June 30, 2012					
E&E assets	–	93,632	29,496	7,407	130,535
E&E asset additions	–	1,761	1,952	3,793	7,506
Development properties	–	204,257	–	–	204,257
Development property additions	–	34,803	–	–	34,803

14) INCENTIVE PLANS

A) STOCK OPTION PLAN

The Company has a stock option plan (the "Stock Option Plan") whereby it may grant equity-settled options to its directors, officers, employees and consultants. On June 30, 2013 there were 9,573,000 (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. No new awards will be made under the Stock Option Plan described above.

The following is a continuity of outstanding stock options:

	Six Months Ended June 30, 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	**(278)**	**1.71**	(730)	3.38
Expired during the period	**(2,952)**	**2.11**	(1,302)	1.89
Outstanding, end of the period	**9,573**	**2.00**	12,803	2.02
Exercisable, end of the period	**7,325**	**2.03**	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 six month period ended June 30, 2013. For the six month period ended June 30, 2013 $858,000 (June 30, 2012 - $2,533,000) of share-based compensation was expensed and was included in the employee expense figure of $3,814,000 (2012 – $4,263,000).

The following stock options were outstanding as at June 30, 2013:

		Options Outstanding			Options Exercisable		
Exercise Price		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	1,758	544	1.39	1,192	351	1.41
1.50	1.99	4,382	636	1.81	2,980	461	1.82
2.00	2.49	1,633	519	2.03	1,620	513	2.03
2.50	2.99	1,000	488	2.64	1,000	488	2.64
3.00	3.49	600	499	3.26	400	309	3.26
3.50	4.25	200	617	4.25	133	434	4.25
1.29	4.25	9,573	574	2.00	7,325	450	2.03

B) LONG TERM INCENTIVE PLANS

On May 1, 2013 the Company introduced two new cash-based long term incentive plans: a Phantom Option plan and a Performance Share Unit plan. Awards were made under both plans in May 2013 with an effective date of May 2012, to reflect the fact that no award was made under the Company's Stock Option Plan in 2012. Neither plan has any options exercisable as at June 30, 2013.

The cost of the incentive plans, which is considered to be the fair value of the award as determined using the Black-Scholes model, is recognized together with a corresponding liability, over the period in which the service conditions are fulfilled. Management re-assesses the likelihood of vesting based on market conditions at each reporting date; the cumulative expense recognized for incentive plan transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of awards that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized at the beginning and end of that period and is recognized in employee benefits expense.

When the terms of a transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the incentive plan compensation transaction, or is otherwise beneficial to the employee as measured at the date of modification.

PERFORMANCE SHARE UNIT PLAN

A total of 3,946,000 Performance Share Units (PSUs) were awarded to certain senior employees 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 on an absolute return basis and in comparison to a group of Sterling's peers. No amounts have been expensed in the three or six month period ending June 30, 2013 relating to the performance share unit plan based on management's estimate at that date of the probability of achieving market conditions required for the PSU's to vet.

PHANTOM OPTION PLAN

Under the Phantom Option plan, a total of 270,000 phantom options were granted to employees who did not receive awards under PSU plan 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. $72,000 has been expensed in the three and six month periods ending June 30, 2013 relating to the phantom option plan.

15) REFINANCING AND STRATEGIC REVIEW

The Company incurred $9,641,000 of non-recurring costs relating to the refinancing of the business in the three months ended June 30, 2013, $6,028,000 relating to bank and professional consultants fees, and $3,613,000 of previously capitalized transaction costs related to the Credit Facility. This followed $1,641,000 of non-recurring corporate costs incurred in the three month period ending March 31, 2013, also relating to certain bank and professional consultants fees relating to financing (see "Financing Activities"), and a strategic review in the first quarter of 2013.

16) FINANCING COSTS

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
Interest expense	**4,189**	1,736	**5,814**	3,609
Amortization of debt issuance expense	**64**	193	**263**	387
Transaction costs on short-term loan	**–**	–	**1,987**	–
Capitalization of borrowing costs	**(3,415)**	(1,929)	**(5,206)**	(3,996)
	838	–	**2,858**	–
Accretion (note 9)	**109**	75	**199**	149
Total financing costs	**947**	75	**3,057**	149

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 was used exclusively to fund the Breagh development, interest expense and the amortization of related transaction costs were capitalized to the Breagh asset. On May 3, 2013 the Credit Facility was repaid and the remaining transaction costs which were being amortized over the life of the facility of $3,613,000 were expensed as refinancing and strategic review costs (see note 15).

The portion of borrowing costs relating specifically to the proportion of the Bond used exclusively to fund the Breagh development is capitalized to the Breagh asset, and the balance is expensed under financing costs. Cash interest paid during the three and six month periods ended June 30, 2013 was $406,000 and $1,711,000, respectively (2012 - $nil and $nil)

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 of $1,987,000 (including $1,711,000 of common shares issued as consideration for the loan – refer to note 12) 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 June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
Weighted average shares outstanding (000s)	**309,621**	222,787	**278,832**	222,739
Net loss ($000s)	**19,973**	7,042	**28,873**	14,689
Weighted average net loss per share ($)				
Basic	**0.06**	0.03	**0.10**	0.07
Diluted	**0.06**	0.03	**0.10**	0.07

For the periods ended June 30 2013 and 2012, the dilutive effect of all of the Company's outstanding options was not included in diluted shares outstanding due to the net loss incurred in each period.

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(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

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