MESSAGE TO SHAREHOLDERS

During the quarter Sterling experienced mixed fortunes: operational performance was excellent and we reached agreement to sell our Romanian business, but on the financial side we were unable to move forward with the Romanian sale or other sales quickly enough to bring in proceeds before April 30, 2015 when we needed to make our next semi-annual payments to bondholders.

The Breagh field continued to perform very well, with a record quarterly production rate of 37 million cubic feet of gas per day net to Sterling and operational uptime of 96 percent, providing revenue of $26 million.

On March 26, we announced the sale of all four of our Romanian licence blocks and our Romanian subsidiary to the Carlyle Group. Closing of this transaction is expected to occur around the end of June 2015. Carlyle will pay a cash consideration of $42.5 million to Sterling and concurrently Sterling will terminate an investment agreement with Gemini Oil & Gas Fund II signed in 2007 under the terms of which the drilling costs of the successful Ana well on the Midia block were funded. At closing of the Romanian sale, Sterling will pay $10 million to Gemini and issue to Gemini 60,372,876 common shares having a market value of $7.5 million based on the ten day volume-weighted average price of the common shares of CAD $0.157 per share for the period ended March 24, 2015. Sterling's entitlement to further contingent payments from the sale in 2014 of the 65 percent interest in the deepwater portion of the Midia Block in the Romanian Black Sea to ExxonMobil and OMV Petrom is unaffected by the sale of the Romanian assets. These contingent payments relate to future exploration and development success occurring in the deepwater portion, and comprise $29.25 million upon a commercial discovery being made and an additional $19.5 million upon first production.

There was clearly future potential in the Romanian assets, however the significant ongoing well commitments attached to the licences and material future development costs were inappropriate for a company of Sterling's size. We believe that the full value of the Romanian assets can only be realized by a company with much greater financial strength and with a longer term investment horizon. The sale of the Romanian assets will leave the Company as a predominantly UK based business focused upon the Breagh gas field, with ancillary contingent resource assets in the Dutch North Sea with minimal ongoing costs.

Subsequent to the quarter end, Sterling had insufficient cash to pay the semi-annual amortization instalment payment of $24 million to bondholders on April 30, 2015 although the interest payment was paid in full. Accordingly, on April 23, a bondholder meeting was summoned to approve a further set of bond amendments which were subsequently approved at the meeting on May 8 by holders of over 99 percent of the bonds. The intention of the bond amendments was to provide Sterling with sufficient liquidity over the next six months while we pursue longer term financing solutions by way of a strategic review. Such a long term solution would take the form of a sale or merger of the Company, a refinancing of the bond, the sale of 10 to 15 percent of Breagh, or some combination of these.

We have also taken steps to reduce capital and general & administrative expenditures. As a result of the Romanian sale, material licence well commitments on the Romanian licences will no longer be incurred by Sterling. Efforts to farm-down or defer UK licence well commitments also continue. Finally, combined net employee and net general and administrative costs have been reduced sharply and are expected to fall from approximately $11 million in 2014 to $6.5 million in 2016.

We will continue to work diligently to pursue the initiatives that will deliver a longer term financing solution for our Company for the benefit of all stakeholders.

On Behalf of the Board of Directors,

Jacob S. Ulrich
Chief Executive Officer
May 21, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of Sterling Resources Ltd. ("Sterling" or the "Company") for the three months ended March 31, 2015 is dated May 21, 2015, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2015 as well as Sterling's audited consolidated financial statements for the year ended December 31, 2014 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 United States 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 and the Netherlands, and is in the process of exiting France. It is domiciled in Calgary, Alberta.

The Company's primary strategy for achieving growth is to focus on the efficient development of the UK Breagh gas field and to exit or materially reduce exposure to exploration, appraisal and early stage development assets that cannot easily be financed. In practice, this means focusing on the UK North Sea and to a much lesser extent the Netherlands. Asset sales are likely to be needed to improve liquidity and to facilitate a refinancing of the Company's balance sheet. In time, when the Company's finances have stabilized, Sterling would consider acquisitions of additional UK producing assets on a value-accretive basis in order to diversify sources of production, to boost medium term cash flow, and to optimize the Company's tax attributes.

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", "target" 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, including the performance testing of the gas terminal plant and equipment and the timing of completion of commissioning works, potential Phase 2 development of Breagh (including the timing and significance of new 3D seismic for understanding and defining the scope of the eastern area of the Breagh field, development drilling campaign timing, the development and implementation of a program to re-enter and hydraulically stimulate well A06 and another existing well), the timing and completion of front-end engineering and design work on onshore compression at TGPP (as defined herein) and final investment decision and expectations for the timing and impact on production once operational, the timing of submission of a Field Development Plan addendum for Phase 2, the remaining development costs and the Company's net obligation on Phase 1 and pre-sanction costs on Phase 2;

- Expectations regarding timing of completion of topsides modification work at the Tern platform in relation to the Cladhan development;
- Expectations for drilling or development plans regarding the Belinda and Evelyn oil discoveries;
- Expectations for the repayment of a portion of the Second Carry and the timing of pay-out of the Second Carry in relation to the Cladhan field;
- Expectations for the abandonment of two wells on the Sheryl licence and the timing thereof;
- Expectations for the timing of completion of mapping and prospectivity assessment for the Ana and Doina fields;
- Expectations for the drilling of commitment wells on the Muridava block and Luceafarul block in Romania;
- Expectations for the processing and interpretation of seismic data over the F17 and F18 blocks in the Netherlands;
- Timing for drilling decision for the E03 and F01 blocks in the Netherlands;
- Expectations regarding the Company's cost structure;
- Expectations regarding the disposition of Midia pursuant to the Romanian Sale (as defined herein), the receipt of all necessary regulatory approvals and consents in connection therewith, the timing of completion thereof, the net proceeds to be received by the Company, the ability to issue the Gemini Shares (as defined herein) to Gemini (as defined herein) and the transfer of certain commitments and contingencies in respect of the Romanian assets to CIEP (as defined herein);
- Expectations regarding the timing of signing of a further Amended and Restated Bond Agreement to give effect to the May Bond Amendments (as defined herein), and the sufficiency of liquidity provided by the May Bond Amendments;
- Expectations for the Company's ability to complete a corporate sale or merger, to refinance the Bond (as defined herein) and/or to sell 10-15 percent of the Breagh field, all by October 28, 2015;
- Expectations for the Company's ability to satisfy the minimum UK liquidity covenant under the Bond;
- Factors upon which the Company will decide whether to undertake a specific course of action;
- The quantity, timing and volumes of hydrocarbon production from the Company's development projects, including Breagh, Cladhan and Ana/Doina, including expected sales gas and condensate production for 2015 from Breagh and expected first oil from Cladhan (and the associated remaining development costs);
- The sale, partial sale, farming-in or farming-out of certain properties, including a 10-15 percent interest in the UK Breagh gas field, its UK Niadar, Darach and Ossian prospects, and its offshore Romania assets;
- 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 ability to satisfy the terms of the Bond Agreement (as defined herein) in the future, refinance the Bond or complete incremental financings;
- 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 expectations regarding production from both existing and future Breagh development wells, including benefits from hydraulic stimulation performed on the wells;
- Tax matters, including: the Company's tax horizon in each of the UK, Romania, the Netherlands and Canada; its expectations with respect to claiming RFES (as defined herein) and the implications on CT and SCT losses (each as defined herein); its intention to claim field allowances as applicable in relation to the Breagh and Cladhan fields and the impact thereof to Sterling;

- 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;
- The Company's expectations regarding the expected sale by LetterOne Holdings S.A. ("LetterOne") of its UK upstream business required by the UK government as a consequence of its acquisition of such business from RWE AG; and
- The Company's plans and expectations that are described on page 19 under "2015 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, as revised pursuant to the approval of the Second Bond Amendments;
- Will produce hydrocarbons which are consistent with the production profiles prepared by the independent reserves evaluator in the Company's NI51-101 F1 filing, dated March 26, 2015, as revised by management;
- Is able to obtain additional financing or farm-out, sell or partially sell licence interests on satisfactory terms, including potentially a 10-15 percent interest in the UK Breagh gas field and a potential refinancing of the Bond;
- Operates in an environment of political stability;
- Will be able to obtain all necessary regulatory approvals for its operations on satisfactory terms;
- Will be able to obtain all necessary approvals, including statutory Romanian approvals and the consent of certain participants in the Romanian concessions, to complete the transactions contemplated by the Romanian Sale;
- Operates in an environment of increasing competition;
- 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;
- Will be able to progress plans for future investments in Breagh and achieve expected production from Breagh without any adverse impact arising from the sale of LetterOne's UK upstream business, or on this business's reversion to RWE AG in the event such a sale is not completed, or any other UK government actions in relation to these transactions; and
- Is able to obtain necessary approvals from partners and regulators 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:

- Reserves, resources and production 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 and processing operations may prove more difficult, more costly or less efficient 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 the 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 and/or a refinancing of existing debt to remain solvent to carry out the Company's business operations may not be available or may be very expensive and restrictive;
- The Company's operations are subject to the risk of litigation;
- 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 and indemnities 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 21 of the Company's Annual Information Form for the year ended December 31, 2014, 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 JUDGMENTS AND 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 judgments in the financial statements include going concern, joint arrangements, funding arrangements, impairment indicators and determination of cash generating units. Significant estimates in the financial statements include amounts recorded for the provision for future decommissioning obligations, embedded derivatives, commitments, income taxes and deferred tax assets, share-based compensation expense, exploration and evaluation assets, 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

	2015	2014				2013		
Quarters Ended	**Mar. 31**	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
$000s except where defined								
Average daily sales from production								
Natural gas (MMscf/day) (2)	**37.2**	32	27.9	14.5	22.4	0.9	-	-
Liquids (barrels/day) (2)	**158.6**	81.6	133.1	52.2	30.2	-	-	-
Average realized prices								
Natural gas ($/Mscf) (2)	**7.25**	8.34	7.11	7.2	9.98	10.27	-	-
Liquids ($ per barrel) (2)	**53.17**	53.36	93.9	100.07	95.33	-	-	-
Other revenues including from hedging	**80**	36	217	215	86	120	-	-
Revenues	**25,816**	25,889	21,526	12,154	20,483	3,513	-	-
Third party entitlement	**(3,019)**	(2,966)	(2,263)	(1,197)	(2,381)	(465)	-	-
Operating expense	**(5,187)**	(4,912)	(4,161)	(2,373)	(2,615)	(1,475)	-	-
Operating expense ($) per barrel of oil equivalent	**8.90**	9.84	9.46	10.47	7.69	26.8	-	-
Operating netback (3) (6)	**17,610**	18,011	15,102	8,584	15,487	1,573	-	-
Other expenses	**(36,299)**	(25,990)	(19,387)	(15,407)	(9,201)	(2,820)	5,144	(18,668)
Impairment of oil and gas properties	**-**	(78,419)	-	-	-	-	-	-
Net financing cost	**(5,743)**	(6,756)	(6,465)	(6,289)	(6,191)	(6,109)	(644)	(851)
(Loss) gain on disposal	**(4)**	-	-	-	27,332	-	-	-
Income tax:								
Income tax expense	**-**	-	-	(9)	(4,321)	-	-	-
Deferred tax (debit) credit	**(20,103)**	37,676	8,458	19,374	144,520	-	-	-
Net (loss) income	**(44,539)**	(55,478)	(2,292)	6,253	167,626	(7,356)	4,334	(19,519)
Canada	**(869)**	(1,658)	(424)	(1,426)	(541)	(955)	(872)	(1,990)
United Kingdom	**(41,540)**	(9,000)	(253)	16,662	146,239	(5,326)	6,392	(15,095)
Romania	**(1,686)**	(44,760)	(1,072)	(8,343)	22,756	199	(458)	(1,934)
Other International	**(444)**	(60)	(543)	(640)	(828)	(1,274)	(728)	(500)
Net (loss) income	**(44,539)**	(55,478)	(2,292)	6,253	167,626	(7,356)	4,334	(19,519)
Per weighted average common share – basic and diluted ($)	**(0.12)**	(0.19)	(0.01)	0.02	0.54	(0.03)	0.01	(0.06)
Funds flow from (used in) operations (FFFO) (4) (6)	**6,965**	25,173	12,492	(2,912)	11,172	(7,159)	(3,868)	(14,591)
FFFO per common share outstanding	**0.01**	0.07	0.03	(0.01)	0.04	(0.02)	(0.01)	(0.05)
Property, plant and equipment and exploration and evaluation asset expenditures (5)	**14,238**	36,230	23,080	19,354	13,088	22,024	25,440	18,262

As at								
US$000s except share information, acreage and well data								
Net working capital (deficit) surplus (1) (6)	**(36,496)**	(29,956)	(7,080)	(21,582)	21,921	2,202	59,655	90,309
Total assets	**631,825**	684,817	736,063	723,435	691,304	526,514	530,412	516,465
Total liabilities	**316,042**	307,714	284,677	278,044	267,038	271,725	264,685	262,238
Shareholders' equity	**315,783**	377,102	451,386	445,391	424,266	254,789	265,727	254,227
Net licence acreage (000s of acres) (2)	**1,384**	1,482	1,510	1,510	1,510	1,632	1,887	1,892
Number of producing wells (2)	**8**	8	8	6	6	6	-	-
Common shares outstanding (000s) – basic (2)	**381,200**	381,200	381,200	309,621	309,621	309,621	309,621	309,621
Common share options outstanding (000s) (2)	**13,988**	16,208	16,652	17,490	6,555	7,955	9,016	9,573

(1) – Non-GAAP measure. See p.17 for definition.
(2) - Non-financial data.
(3) - Operating netback is a non-GAAP measure defined as revenue less third party entitlement and operating expenses.
(4) - FFFO is a Non-GAAP measure defined as net income (loss) less adjustments for non-cash items (See consolidated statement of cash flows in the Company's unaudited condensed interim consolidated financial statements for the three month period ending March 31, 2015 and 2014).
(5) – Defined as expenditures on Property, plant and equipment and exploration and evaluation assets including the effects of accruals (See notes 5 & 6 in the Company's unaudited condensed interim consolidated financial statements for the three month period ending March 31, 2015 and 2014).
(6) – Non-GAAP financial measures Company do not have any standardized meaning prescribed by the Company's GAAP as are therefore unlikely to be comparable to similar measures presented by other issuers and are used by the Company and others to better analyze the performance of the Company.

Note: The net income or loss for each quarter is calculated using the average rates for that quarter, whilst the cumulative period used elsewhere in the MD&A and financial statements is calculated using the average rates for that cumulative period. Therefore due to exchange rate fluctuations the aggregate of the quarters may differ from the cumulative period total. In addition, 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.

Between March 31, 2015 and the release of this MD&A, there was no change to the number of common shares outstanding, but the number of stock options outstanding has decreased to 13,868,324 due to forfeitures.

For the three month period ended March 31, 2015, the Company recorded net loss of $44,539,000 ($0.12 per common share) compared with net income of $167,626,000 ($0.54 per common share) for the three month period ended March 31, 2014. The change from net income to net loss is mostly due to the recognition of a deferred tax asset and a gain on disposal relating to the Carve-out Transaction both in the comparative period, as hereinafter defined (see "Financing Activities").

Net (loss) income largely comprises the following elements:

REVENUE

For the three month period ended March 31, 2015, revenue was $25,816,000 (three month period ended March 31, 2014 - $20,483,000). These revenues came from sales of gas production of approximately 3.3 billion cubic feet at an average realized gas price of 46.6 pence per therm ($7.25 per thousand cubic feet), 1,709 tonnes of condensate (14,271 barrels) at an average price of £286 ($444) per tonne. In the three month period ended March 31, 2014 the Company recorded gas sales of 2.0 billion cubic feet at an average realized price of $9.98 per thousand cubic feet and 325 tonnes of condensate at an average price of $796 per tonne. Gas is sold under a Gas Trading and Services Agreement ("GTSA") with Vitol SA ("Vitol") signed in 2011 whereby Sterling nominates volumes on a day ahead or month ahead basis and achieves a price very close to the UK reference spot price at the National Balancing Point ("NBP"). If Sterling nominates gas to Vitol it must deliver such a volume, and Vitol must take and pay for this volume. The GTSA provides for payment to Sterling for over-deliveries, and a charge for under-deliveries, on normal market terms. Sterling is paid by Vitol in the month following production and one hundred percent of these revenues are derived from one customer and one contract.

The Breagh field produces a small amount of condensate (the condensate gas ratio is approximately 3.3 barrels per million standard cubic feet) which is sold to Petrochem Carless Ltd at a price linked to North West European spot prices for naphtha and other products, with cargoes typically being sold every one to three months. One hundred percent of these revenues are derived from one customer and one contract.

THIRD PARTY ENTITLEMENT

For the three month period ended March 31, 2015, a third party entitlement of $3,019,000 (three month period ended March 31, 2014 – $2,381,000), higher due to increased revenues, was recorded pursuant to a funding agreement originally signed with Gemini Oil & Gas Fund II, L.P ("Gemini") in 2007, which provided payments linked to any future production revenues from the Breagh field (which at the time had not been determined to be commercial). Cumulative payments from the fourth quarter of 2013 (during which period first production occurred) to March 31, 2015 amount to $12,324,000.

The original Gemini funding agreement related to the funding of an appraisal well on the Breagh field, and was amended to provide funding for an additional appraisal well in 2008 and was amended again in 2009 when Sterling sold one third of its Breagh interest to RWE Dea UK ("RWE") and made a payment to Gemini to reduce the future entitlement payments by one third (the "2009 Reduction"). The stream of future entitlement payments was purchased by FlowStream Commodities Ltd ("FlowStream") with effect from July 1, 2014. Under the funding agreement, FlowStream is entitled to payments calculated with reference to a share of gas and condensate production revenue from Breagh. This share is equal to 12.23 percent of Sterling's 30 percent revenue until cumulative payments exceed twice the funding amount of $7,333,000 (net of adjustment for the 2009 Reduction), then 6.10 percent up to three times the funding amount, and 2.77 percent thereafter until a defined percentage (currently 85 percent) of the field's ultimate reserves have been produced. This percentage is itself dependent on the ultimate reserves for the whole field, being 95 percent for reserves of up to 300 billion cubic feet (Bcf), 90 percent for reserves of 300 Bcf to less than 400 Bcf, 85 percent for reserves of 400 to less than 500 Bcf, and 80 percent for reserves of 500 Bcf or more. In the absence of production there is no obligation to repay the funding amount. The funding arrangement has been accounted for as a reduction in the carrying value of the Breagh asset on the Company's balance sheet. Entitlement payments under the funding agreement are not deductible for UK ring fence corporation tax or supplementary charge

corporate tax. During the quarter, all entitlement payments were made at the highest rate of 12.23 percent as a result of cumulative entitlement payments being less than two times the funding amount.

OPERATING EXPENSES

For the three month period ended March 31, 2015 operating expenses were $5,187,000 (three month period ended March 31, 2014 - $2,615,000). Operating expenses relate to fixed and variable costs at the Breagh field and onshore gas processing plant costs, including allocations of certain Sterling costs. These costs are up from the previous year reflecting greater production volumes from the Breagh field with new wells added during 2014.

DEPLETION, DEPRECIATION AND AMORTIZATION (DD&A)

For the three month period ended March 31, 2015 depletion of $11,313,000 (three month period ended March 31, 2014 – $6,230,000) on the Breagh asset and depreciation of $32,000 (three month period ended March 31, 2014 – $46,000) on corporate and other assets was charged to the income statement. Depletion was higher in 2015 compared to 2014 commensurate with higher production.

PRE-LICENCE AND OTHER EXPLORATION COSTS

For the three month period ended March 31, 2015, pre-licence and other exploration costs expensed were $6,446,000, an increase of $5,066,000 over the same period in 2014 (three month period ended March 31, 2014 - $1,380,000) as a result of the expensing of activity on previously impaired assets in Romania and the UK. Of the total, $5,179,000 (2014 – $514,000) related to the Company's interests in its various licences in the UK chiefly the remainder of the Crosgan well costs ($4,846,000), $829,000 (2014– $141,000) related to Romania and $438,000 (2014 – $725,000) related to the Netherlands and other international ventures.

FOREIGN EXCHANGE

The Company's cash balances are generally maintained in the currencies in which they are expected to be utilized.

For the three month period ended March 31, 2015, the Company recorded a foreign exchange loss of $10,456,000 due to the strengthening of the US dollar in the first quarter of 2015, continuing the trend seen in the second half of 2014. The foreign exchange loss derived from the strengthening of the US dollar (in which the Bond issued by the UK subsidiary is denominated) against the UK pound (which is the functional currency for the UK subsidiary), with any partial offset being reduced by lower bank balances held in US dollars. Conversely for the three month period ended March 31, 2014, the Company recorded a foreign exchange gain of $1,824,000 due to a moderate weakening of the US dollar against the UK pound.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

Three month period ended March 31,	**2015**	2014
	$000s	$000s
Gross employee, and general and administration expense	**4,387**	3,815
Recovered from third parties	**(180)**	(310)
Capitalized to assets	**(262)**	(881)
Expensed as pre-licence and other exploration expenditures	**(1,138)**	(245)
Total recoveries and allocations	**(1,580)**	(1,436)
Net employee expense	**1,786**	1,782
Net general and administration expense	**1,021**	597

EMPLOYEE EXPENSE

For the three month period ended March 31, 2015, net employee expense after allocations and recoveries was $1,786,000, in line with the $1,782,000 incurred in the same period in 2014. Of the total, $193,000 relates to non-cash share-based compensation and $1,593,000 relates to wages and salaries. The charge to non-cash share-based compensation was up from the 2014 figure of $117,000 as new options were issued on May 30, 2014, while no new options were issued during 2013. Recoveries from partners and amounts capitalized to assets were both down compared to the corresponding three month period in 2014 due to lesser activity on operated assets. Amounts expensed to pre-licence and other exploration expenditures were $893,000 higher in the three month period to March 31, 2014, though allocations in total are broadly similar to the three month period ending March 31, 2014.

GENERAL AND ADMINISTRATION EXPENSE

For the three month period ended March 31, 2015, net general and administration ("G&A") expense after allocations and recoveries was $1,021,000, an increase of $424,000 over the same period in 2014 due to increased legal and professional fees, increased corporate activity and lower recoveries partly offset by cost saving initiatives. The Company is pursuing further savings in G&A costs with significant staff reductions which took place in the first quarter of 2015 and in the UK has again relocated its small London office and its Aberdeen office for a further significant reduction in annual costs.

REFINANCING AND STRATEGIC REVIEW

In the first quarter of 2015, the Company incurred $5,161,000 of non-recurring costs related to a refinancing and strategic review: $1,620,000 relating to severance payments, $784,000 of costs in relation to the sale of the Romanian business and $2,757,000 of costs for the amortization of the First Bond Amendment (as defined herein) (see "Financing Activities").

FINANCING COSTS

Financing costs for the three month period ended March 31, 2015 were $5,919,000 (three month period ended March 31, 2014 - $6,277,000) consisting primarily of borrowing costs of $5,651,000 on the Bond (three month period ended March 31, 2014 - $6,093,000) and were lower following the first amortization payment made in October 2014. Interest expense of $1,416,000 relating to the Cladhan funding arrangements has been capitalized as borrowing costs. 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 (principally arising from the drilling of more production wells and revisions to estimates) and the drilling of two producer and one water injector oil wells on the Cladhan development recognized later in 2014.

INCOME TAXES

In the UK, Sterling is subject to UK ring fence corporation tax ("CT"), currently at 30 percent, and supplementary charge corporate tax ("SCT"), which reduced from 32 to 20 percent with effect from January 1, 2015, on its activities within the UK oil and gas ring fence.

Sterling has material UK tax losses available for offset against income subject to corporate tax as a result of allowances generated principally by past exploration, appraisal and development costs and the application of ring fence expenditure supplement ("RFES") claims. CT losses at March 31, 2015 are estimated at £451 million ($667 million) and SCT losses at £402 million ($595 million) (lower than for CT, as financing costs are not allowable deductions for SCT).

In the first quarter of 2014 the Company recognized for the first time a net deferred tax asset in the amount of $144,520,000, increased to $194,013,000 as at December 31, 2014. This principally relates to Sterling UK tax losses as noted above. With sustained production history, management considered that, based on its profit forecast and reserves available, there was sufficient evidence to recognize the deferred tax asset from the first quarter of 2014. As at March 31, 2015 the deferred tax asset has been decreased to $164,621,000, mainly due to lower estimated future SCT relief as a result of the 12% reduction in the statutory SCT rate and foreign exchange rate effects partly offset by CT losses and further allowances for ring fence expenditure supplement in the quarter.

Sterling expects to claim RFES, which provides an uplift of 10 percent per annum (compounded) on eligible, cumulative ring-fence tax losses, for 2014 and 2015, and also intends to claim Small Field Allowance in relation to the Cladhan oil field which

represents an aggregate allowance of approximately £9 million ($14 million) net to Sterling applicable against the SCT rate of currently 20 percent. In addition, the UK government introduced a further allowance in March 2015, effective from April 1, 2015, which provides for an uplift of 62.5 percent on eligible ring fence capital expenditures available against profits chargeable to SCT. Together with forecast UK ring fence expenditures over the next few years, the Company is not expecting to pay UK tax until late in the 2020s under RPS's pricing assumptions.

As at March 31, 2015, other principal tax losses and allowances available include tax pools of approximately $32 million and non-capital losses of approximately $44 million available to shield future income taxable in Canada; approximately $17 million of corporate tax losses expected to shield any future local taxable income of the Company's Romanian subsidiary; and approximately $22 million of tax deductible expenses and losses available to shield future taxable income in the Netherlands. The Canadian non-capital tax losses expire over the next twenty years, the Romanian corporate tax 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. There is no deferred tax asset recognized on the non-UK losses.

UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

In January 2015, the Company purchased monthly cash-settled UK gas price put options for the second and third quarters of 2015 at a strike price of 40 pence per therm (NBP) for a volume equivalent to 4.0 Bcf of gas, or approximately 75 percent of expected production for the period. The put options were purchased from BNP Paribas and Vitol SA for a total consideration of approximately $1.4 million. 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 arose. For the three month period ended March 31, 2015, the Company recognized an unrealized loss of $1,152,000. For the three month period ended March 31, 2014, the Company recognized an unrealized gain of $1,324,000 on put options purchased in 2011 and now expired.

As at March 31, 2015 the prepayment option on the Bond was revalued at $4,368,000 (December 31, 2014 - $3,300,000), which resulted in a gain of $1,068,000 in the three month period ended March 31, 2015. The increase in the value of the prepayment option results principally from a decline in the risk free interest rates and an increase in interest rate volatility in the debt markets.

The combined movements in derivative financial instruments resulted in an unrealized loss of $84,000 being recorded through the income statement in the three month period ended March 31, 2015 (three month period ended March 31, 2014 – loss of $990,000).

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

Under the Company's 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 income or loss for the last eight quarters (see "operating highlights" table) not discussed above are as follows:

- In the first quarter of 2014, the Company recognized a deferred tax asset ("DTA") resulting in a credit of $144,520,000 to the income statement and further credits were recognized in the income statement of $19,374,000, $8,458,000 and $37,676,000 in the second, third and fourth quarters respectively. The revaluation of the DTA at March 31, 2015 resulted in a debit to the income statement of $20,103,000;
- In the second quarter of 2014, dry hole expense of $7,798,000 was incurred following the plugging and abandoning of the Muridava-1 well in Romania after the well failed to encounter hydrocarbons;
- In the fourth quarter of 2014, impairment of oil and gas properties resulted in an expense of $45,275,000 on its Romanian exploration assets and $35,342,000 on a number of UK development and exploration and evaluation assets;
- In October 2013, the Company's UK Breagh field came on production. The Company's first material production has seen increased revenues since then (see "operating highlights" table) along with associated costs of operating expenditures, third party entitlement and depletion;

- In the first quarter of 2014, the Company completed the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a sub-divided portion of block 15 Midia in the Romanian Black Sea as announced in October 2012, which resulted in a net gain on disposal of $27,301,000, and $4,325,000 of taxes payable on the transaction;
- The unrealized gains and losses on derivative financial instruments held by the Company varied significantly from quarter to quarter based on prevailing gas prices as well as the underlying inputs into the redemption option on the bond;
- In the first quarter of 2015, the Company incurred increased corporate costs relating to severance payments, costs in relation to the sale of the Romanian business and amortization of the First Bond Amendment costs related to refinancing and a strategic review. This has resulted in an amount of $5,161,000 being expensed to the income statement. A previous refinancing and strategic review resulted in $9,422,000, $1,849,000 and $90,000 being expensed to the income statement in the second, third and fourth quarters of 2013; 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

Steady production from Breagh has been achieved throughout the first quarter of 2015 at average rates of 125.7 million standard cubic feet per day (“MMscfd”) gross (net 37.7 MMscf/d to Sterling) and at uptimes averaging 95.8 percent for the period. Condensate production during the period averaged 0.48 thousand barrels per day (“Mbbls/d”) (0.14 Mbbls/d net to Sterling).

Preparatory work for the planned infill drilling campaign, anticipated to commence in late 2015, continued throughout the first quarter. Main activities include preparation of rig tender documentation and procurement of long lead items for the planned activities. Early stage engineering work for the planned onshore compression project also continued during the first quarter with expected sanction now mid-year 2015.

Processing of the newly acquired 3D seismic continued during the first quarter with delivery of first package of information expected end May 2015.

Phase 2 development planning continues to be on hold pending interpretation of new 3D seismic information.

ACQUISITION OF RWE DEA BY LETTERONE

LetterOne Holdings S.A, a private investment vehicle, completed the acquisition of RWE Dea AG from its parent company, RWE AG, on March 2, 2015. RWE Dea AG was the upstream arm of RWE AG and the operator of the Breagh field. However, the UK Secretary of State refused to consent to the transaction and the Department of Energy and Climate Change (“DECC”), the UK regulator at the time, announced shortly before completion that the Secretary of State was minded to require LetterOne to sell on RWE Dea’s UK business to a suitable third party. The stated reason was that the Secretary of State was concerned about the impact of possible future sanctions on LetterOne (which has Russian shareholders). Sterling understands that LetterOne has commenced preparation for a sale with and that completion may occur September or October 2015. Sterling does not expect the short term uncertainty in the ownership of the remaining 70 percent of Breagh to have any material impact on the operation of the field or on future investments, but this may make a sale by Sterling of 10-15 percent of Breagh more difficult until the LetterOne deal has been announced.

FORWARD VIEW

Average expected gas production for 2015 for Breagh (100% field) is 103 MMscf/d (30.8 MMscf/d net to Sterling), as stated in the 2014 Annual Report. A further campaign of development drilling is expected from the Breagh Alpha platform starting in the fourth quarter 2015 with two to four new wells (A09-A12), of which the first two wells (A09 and A10) are currently budgeted. In addition to the new wells, the operator L1 and Sterling are developing a program to re-enter (possibly with a sidetrack) and hydraulically stimulate production well A06 and possibly to sidetrack and hydraulically stimulate another

existing production well. Final confirmation of the 2015/2016 drilling and hydraulic stimulation campaign will follow the preliminary evaluation of the 2014 3D survey, expected in the second half of 2015.

Front-end engineering and design work on onshore compression at the Teesside Gas Processing Plant (“TGPP”) started in early 2015 and is expected to lead to a final investment decision for the project mid-year 2015. The compression would be expected to achieve beneficial operation in the second half of 2017 and could boost production rates by 40-50 percent initially.

Phase 2 development planning was placed on hold in mid-2014 to allow for the assimilation of results from and reservoir characterization of the southeastern areas of the field from the 2014 3D seismic acquisition. Submission of a field development plan addendum for Phase 2 is expected to occur in 2016.

The remaining development cost for the remainder of Breagh Phase 1, reflecting the drilling and stimulation plans outlined above (with four new wells and two existing lower performance wells being re-entered, sidetracked and stimulated) together with onshore compression to be installed over 2015-2017, is $123 million net to the Company from April 1, 2015 as estimated by the Company’s reserves evaluator RPS Energy (“RPS”). Based on an adjusted phasing made by Sterling management to reflect latest expected well timings, and prepared on a cash basis, this includes $7 million net in the last three quarters of 2015 and $65 million in 2016. Pre-sanction costs for Breagh Phase 2 are expected to amount to $3 million net to the Company in the last three quarters of 2015.

CLADHAN DEVELOPMENT

The Cladhan development drilling program was completed during the period and the John Shaw rig was demobilized.

Topsides modifications work at the Tern platform in preparation to receive Cladhan production continued during the period. This included achievement of the significant milestone regarding preparatory works to enable commencement of the riser pull-ins at the Tern platform. These are now on schedule to be completed in June.

FORWARD VIEW

First oil from Cladhan is forecast at the end of the third quarter of 2015 with most significant remaining works being completion of riser pull-ins, hook up of subsea equipment and commissioning. All remaining subsea workscopes now all scheduled within the summer construction window for work in the North Sea. The total development cost of Cladhan has increased and post carry arrangements with TAQA Bratani (“TAQA”) (see “Financing Activities”), Sterling’s exposure to the cash funding of remaining development costs from April 1, 2015 is forecast to be approximately $4 million, incurred in the last three quarters of 2015.

EXPLORATION AND EVALUATION ACTIVITY

During the three month period ended March 31, 2015 and up to the date of this report, key exploration and evaluation activities were as described below:

UK

Technical evaluation continues on block 21/30f (Sterling 20 percent, non-operator) containing the Belinda and Evelyn discoveries with plans for drilling or development to be agreed with the Oil & Gas Authority (which since April 2015 is acting as the UK regulator, as an agent of DECC) by November 2015, otherwise the licence would need to be relinquished.

On the Crosgan gas discovery (block 42/10a & 42/15a, Sterling 30 percent, non-operator) an appraisal well 42/15a-3 completed drilling in February 2015. The Crosgan well spudded in November 2014 using the Ensco 70 rig, following on from the drilling activity on the Breagh field. The well reached a total depth of 8,401 feet measured depth and encountered gas bearing sands in the Carboniferous Yoredale Formation. The gas sands were however thinner and deeper than prognosis and the well has been plugged and abandoned. The carrying amounts on Crosgan were fully impaired at December 31, 2014 and additional drilling costs of $4,846,000 were expensed as other exploration costs in the first quarter of 2015.

On blocks 42/2a, 42/3a, 42/4, 42/5 & 36/30 (Sterling 100 percent), which are located approximately 25 kilometres north of the Breagh gas field and contain the Carboniferous Darach and Permian reef Ossian prospects, the Company is continuing a farm-down process for its interest during 2015 prior to drilling the commitment well prior to licence expiry in December 2017.

The terms for the licence covering blocks 42/13b, 42/17a and 42/18a containing the Lochran prospect have been amended to reflect a new drill-drop work program, with a one year licence extension until January 2016. The expectation is that a well commitment will not be made and L1/Sterling will surrender the agreed remaining area of the licence prior to this date.

In comparison, during the three month period ended March 31, 2014, key operational activity and expenditures focused on preparation for the drilling of an exploration well on the Beverley oil prospect in block 22/26c and an appraisal well on Crosgan in the UK North Sea. Work also continued on the acquisition and re-processing of a number of existing seismic data sets including over the Lochran prospect (blocks 42/17 and 42/18) and Nia and Niadar prospects (bocks 49/18b and 49/19b respectively).

ROMANIA

In March, 2015 the Company entered into an agreement (the "Romanian Sale" to sell its entire Romanian business to CIEP (hereinafter defined) (see "Financing Activities"). All of the Romanian licence commitments referred to above are expected to be transferred to the purchaser pursuant to the Romanian Sale.

In Romania, during the three month period ended March 31, 2014 the focus was on the preparation of the non-operated drilling of an exploration well in the Muridava block, on processing and interpretation of the 3D-seismic that was shot over the Midia and Pelican and Luceafarul blocks which commenced in late November 2013 and was completed in January 2014.

NETHERLANDS

In the Netherlands, acquisition of 500 square kilometres of 3D seismic over the F17 and F18 blocks (Sterling 35 percent, operator) was completed in June 2014. Processing is expected to be completed by the middle of 2015 and interpretation is expected to be completed by the end of 2015. The seismic was acquired over the oil discoveries and prospects in the Jurassic and Early Cretaceous horizons to improve resolution of reservoir distribution and reduce structural uncertainty, to assist in evaluating new exploration potential in the area and to aid in the evaluation of development options such as a tieback to a potential Wintershall oil hub. Licence extensions have been granted to January 2017.

For the E03 and F01 blocks in the Netherlands (Sterling 30 percent, non-operator), the 3D seismic survey acquired during 2012 has been processed and is currently being evaluated. A one-year extension has been granted by the Ministry of Economic Affairs and by December 2015 the partnership will be required to make a drilling decision or relinquish the licence.

FRANCE

In France, an application to relinquish the Donzacq licence (Sterling 33.42 percent, non-operator) has been submitted as a result of no extension being received from the regulatory authority to the adjacent St. Laurent licence (Sterling 33.42 percent, non-operator). The partners to the St. Laurent licence retain an obligation to decommission the Grenade-3 well on the licence, for which the cost is expected to be minimal. In the Paris Basin, Sterling is seeking to withdraw applications for all of its three licences, covering nine blocks. As a result, Sterling has minimal business activity in France and expects to withdraw completely as soon as practicable. The Company had no carrying value for any of the French licences.

FINANCING ACTIVITIES

BOND

In April, 2013 the Company's UK subsidiary Sterling Resources (UK) Limited, re-registered as Sterling Resources (UK) plc (the "Issuer"), and completed the issuance of a $225 million senior secured Bond (the "Bond"). Terms of the Bond have been revised as a result of two sets of amendments to the terms of the Bond approved by bondholders in December 2014 (the "First Bond Amendments") and in May 2015 (the "Second Bond Amendments"). The Bond matures on April 30, 2019 and at the time of issuance carried an interest coupon of 9 percent payable semi-annually on April 30 and October 30 of each year for the life of the Bond; pursuant to the Second Bond Amendments, the coupon will be increased to 14 percent per annum as from November 1, 2015.

At the time of issue, the Bond was callable (prepayable) at the option of the Issuer at any time with a call price of 105 percent of par value for the first three years (with a roll-up of outstanding interest for the first two years), a call price of 103.5 percent of par value in year 4, 102 percent in year 5, and finally 101 percent and 100.5 percent for the first and second halves of the final year. Pursuant to the Second Bond Amendments, the call price will be set at 107.5 percent of par value from May 1, 2015 until maturity.

Commencing on October 30, 2014, the Bond began to amortize 10 percent of the issue amount every six months. At the time of issue, the amortization instalments were due to 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. Pursuant to the Second Bond Amendments, the amortization price will be set at 107.5 percent of par value for all remaining instalments including the instalment deferred from April 30, 2015 (see below). The amortization premium will now include the final instalment; this was offered by the Company subsequent to the issuance of the bondholder meeting summons letter on April 23, 2015, as a further concession to facilitate approval of the Second Bond Amendments. The amortization instalment due on April 30, 2015 has been deferred until the earlier of (i) the closing date of the Romanian Sale and (ii) October 30, 2015.

On the 30th day of each month from October, 2013 a sum equal to one sixth of the sum of the next semi-annual interest payment and debt amortization payment was to be made to the Debt Service Retention Account ("DSRA"). Pursuant to the First Bond Amendments, no such monthly transfers were made from November 2014 until March 2015 inclusive and pursuant to the Second Bond Amendments, no such monthly transfers will be made from April 2015 until October 2015 inclusive. From October 2015 onwards, monthly transfers will be made one month later than previously as a result of the Second Bond Amendments. The DSRA is charged and blocked in favour of the Bond trustee.

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. Pursuant to the First Bond Amendments, this security package was extended to the Company's Romanian business comprising a first-ranking security package over the Company's offshore and onshore licences in Romania, a pledge of the shares of Sterling's Romanian subsidiary Midia Resources SRL, a pledge of certain of the Company's receivables, and a guarantee of certain obligations by Midia Resources SRL.

There are two financial covenants under the Bond agreement. At the time of issue, the UK subsidiary was required to maintain at all times a minimum level of liquidity (unrestricted cash and cash equivalents) of $10 million and at the consolidated group level, the Company was required to maintain at all times a minimum equity ratio of 40 percent (defined as total Equity divided by total Assets calculated in accordance with IFRS). Pursuant to the First Bond Amendments, the minimum UK liquidity was reduced to $7.5 million from November 30, 2014 to January 30, 2015 and pursuant to the Second Bond Amendments, the minimum UK liquidity was reduced to $5 million from April 30, 2015 to October 30, 2015. The Bond is governed by Norwegian Law and the trustee for the Bond is Nordic Trustee ASA (formerly Norsk Tillitsmann ASA).

In December 2014 the Company and the bondholders agreed the First Bond Amendments which were reflected in an Amended and Restated Bond Agreement dated December 12, 2014. As described above, this provided benefits to the Company in relation to the temporary suspension of the requirement to make monthly transfers of funds into the DSRA and the temporary reduction in the UK minimum liquidity.

An amendment fee of $2.5 million in relation to the First Bond Amendments was paid to bondholders in December 2014, with the balance of the DSRA transferred back to an unrestricted bank account of Sterling UK. In addition, bondholders were provided with the additional security relating to Romania as described above.

On May 8, 2015 the Second Bond Amendments were approved in a bondholder meeting. These amendments take effect from that date and will be reflected in a further Amended and Restated Bond Agreement expected to be signed by May 22, 2015 (the "Bond Agreement"). As described above, this provided benefits to the Company in relation to the deferral of the amortization instalment due on April 30, 2015 the further temporary suspension of transfers of funds into the DSRA, the temporary reduction in the minimum UK liquidity requirement to $5 million and the permanent one month deferral in monthly transfers to the DSRA, from when these would otherwise resume on October 30, 2015.

In return, as well as the increase in the coupon, amortization premium and call premium described above the bondholders benefit from the following in relation to the Second Bond Amendments:

- Net proceeds from the Romanian Sale (i.e. gross proceeds less the required payment to Gemini, certain fees and tax liabilities) are to be used to pay the amortization instalment deferred from April 30, 2015, with any excess being transferred to the DSRA;
- The redemption price to be paid on any mandatory prepayment amount payable by the Company upon the occurrence of asset sales of Breagh or Cladhan, as well as in the event of a prepayment following exercise by Sterling of its call option, shall be increased to 107.5% for the remaining term of the Bonds;

- An amendment fee of $3 million, payable by May 30, 2015;
- In the event the completion of the Romanian Sale is delayed beyond July 15, 2015, a further amendment fee of $0.75 million and up to three further successive payments of the same amount for each further month's delay up to a maximum of $3 million if completion has not occurred by October 15, 2015; and
- Certain extensions to the work scope of the financial adviser shall be made and, at the request of the Bond Trustee, Sterling shall appoint a reputable international investment bank as its financial adviser to assist the Company in the assessment and implementation of strategic options available to it including a sale of all or part of its assets.

Together, the Second Bond Amendments are anticipated to provide necessary incremental liquidity which the Company believes will be sufficient to ensure it is properly funded through to October 28, 2015.

As at March 31, 2015 and to the date of this report, the Company was in compliance with the terms of the Bond other than in relation to payment of the April 30, 2015 amortization instalment, the minimum UK liquidity from April 28, 2015 and the DSRA monthly transfer on April 30, 2015 for which waivers were received on May 8, 2015.

ROMANIAN SALE AND CARVE-OUT TRANSACTION

In March, 2015, the Company entered into an agreement (the "Romanian Sale") to sell its entire Romanian business to Carlyle International Energy Partners ("CIEP"), an affiliate of The Carlyle Group. The sale includes licence blocks 13 Pelican, 15 Midia, 25 Luceafarul and 27 Muridava, structured as a corporate sale of the Company's wholly-owned subsidiary Midia Resources SRL, and is expected to complete around the end of the second quarter of 2015 subject to satisfaction of certain conditions including statutory Romanian approvals and the consent of certain participants in the Romanian concessions.

CIEP will pay a cash consideration of $42.5 million to the Company at completion (prior to any Romanian tax liabilities). Concurrent with the above sale the Company has entered into an agreement ("Termination Agreement") with Gemini to terminate an investment agreement signed with Gemini in 2007. Under the investment agreement, Gemini provided funding to the Company towards its drilling costs of the successful Ana discovery well on the Midia block in return for an entitlement for Gemini to receive payments equivalent to a share of the Company's gross revenue from any future production from a designated area within the block. Upon completion of the Romanian sale, the Company will make a termination payment to Gemini comprising a cash consideration of $10 million out of the proceeds received from CIEP and issuance to Gemini of 60,372,876 common shares of the Company (the "Gemini Shares") having a market value of $7.5 million (based on the ten day volume-weighted average price of the common shares on the TSX-V for the period ending March 24, 2015, being CAD $0.157 per share at an average exchange rate of US$1 = CAD$1.2664.) Following the issuance of the Gemini Shares, the Company's issued capital will total 441,572,956 shares, an increase of approximately 15.8 percent, following the transaction Gemini's holding in the enlarged share capital will be 13.7 percent.

Net of the Gemini cash payment, the Company will receive cash proceeds of $32.5 million, less any required Romanian tax liabilities, from the Romanian sale. Pursuant to the bond agreement relating to the Bond and the Romanian Sale, the net cash proceeds will be applied according to a defined procedure which (in summary form) will in order (i) fund advisory costs and any transaction-related taxes, (ii) pre-fund the next amortization and interest payment due to bondholders to the extent not already pre-funded, (iii) in relation to half of any excess from (i) and (ii), fund the redemption of Bonds, and finally (iv) in relation to the other half of any excess from (i) and (ii), provide unrestricted cash to the Company.

In January 2014 the Company completed the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a sub-divided portion of block 15 Midia in the Romanian Black Sea as announced in October 2012 (the "Carve-out Transaction"). Sterling received an initial net payment of $24.9 million after Romanian tax in the first quarter of 2014 and could receive a contingent payment of a further $29.25 million upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the portion sold, and a final contingent payment of $19.5 million upon first commercial production from the portion sold. Existing Canadian tax losses and allowances were used to shelter the proceeds from Canadian tax.

EQUITY PLACEMENT

On July 15, 2014 Sterling announced that it had entered into agreements with certain existing shareholders to issue 71,579,746 new common shares at C$0.482 per common share on a private placement basis to raise $32.1 million (the "Placement"). The Placement closed on July 25, 2014 and no commission fees were payable.

CLADHAN FUNDING ARRANGEMENTS

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 field development plan approval. In conjunction with an earlier non-repayable carry arising from a transaction with TAQA in 2012 (the “First Carry”), these agreements also provided for a full carry of the then anticipated development capital costs until first oil, anticipated in 2015. As part of the 2013 transaction, the Company made a permanent transfer of a 12.6 percent interest in the Cladhan field to TAQA in exchange for 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.

Pursuant to these TAQA funding arrangements the Company retains a 2.0 percent interest in Cladhan throughout, for which the original budgeted development cost is funded out of a portion of the fixed First Carry. As at March 31, 2015, the cost overruns on the project mean that the Company is forecasting to have to fund an additional $2 million in development costs in relation to the 2.0 percent interest. The rest of the First Carry, which amounted to $53.6 million in total at December 31, 2013, was available to fund development costs on the 11.8 percent interest and was fully utilized in the third quarter of 2014, at which point the Second Carry has started to fund the ongoing development costs for the 11.8 percent interest only. A 17 percent per annum uplift is applicable to such carried costs on the Second Carry. As at March 31, 2015 the balance of the Second Carry was $35,829,000, of which $19,541,000 is recorded as a current liability on the balance sheet as it is expected to be repaid out of revenues in the current year and $16,288,000 as a non-current liability due to be repaid in 2016-18. After pay-out of the Second Carry, which is expected to occur in the first quarter of 2018 under RPS price assumptions, the 11.8 percent interest will be 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. As part of this agreement, Sterling also transferred its 12.5 percent interest in South Cladhan to TAQA for nominal consideration in August 2013. Sterling retains the contingent upside payments linked to future reserves pursuant to the First Carry.

FINANCING, LIQUIDITY AND SOLVENCY

Net Working Capital

As at	**March 31, 2014**	December 31, 2014
	$000s	$000s
Cash and cash equivalents	**17,599**	17,710
Trade and other receivables	**11,431**	14,534
Inventory	**471**	483
Prepaid expenses	**1,187**	3,829
Derivative financial asset	**243**	-
Trade and other payables	**(11,959)**	(15,404)
Accrued interest payable	**(7,492)**	(3,091)
Current portion of decommissioning obligations	**(726)**	(767)
Current portion of long-term debt	**(47,250)**	(47,250)
	(36,496)	(29,956)

Net working capital, defined as current assets less current liabilities excluding the Cladhan funding arrangements, was a deficit of $36,496,000 as at March 31, 2015, compared to a net working capital deficit of $29,956,000 at year-end 2014 mainly due to increased accrued interest payable. The Cladhan funding arrangements (see “Financing Activities”) will be repaid from oil revenues from the property itself and have therefore been excluded from the net working capital calculation.

Cash and cash equivalents at March 31, 2015 include term deposits of $15,860,000 (December 31, 2014 – $9,283,000).

As at March 31, 2015, the Company had approximately $11,431,000 of receivables due, including $7,513,000 of revenue receivable from Breagh gas sales which was paid in April 2015 (December 31, 2014 - $9,876,000).

Trade and other payables of $11,959,000 as at March 31, 2015 mainly comprised accrued expenditures related to the Breagh development project.

COMMITMENTS AND CONTINGENCIES

Commitments as at March 31, 2015 for the years 2015 through 2019 and thereafter, comprise the following:

	2015	2016	2017	2018	2019	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and gas drilling	**27,609**	78,856	-	-	-	-	**106,465**
Seismic	**-**	-	-	-	-	-	**-**
Licence fees	**977**	1,095	1,163	1,679	2,196	-	**7,110**
Other operating	**705**	618	445	383	189	-	**2,340**
Office and other leases	**913**	902	580	558	558	1,116	**4,627**
	30,204	81,471	2,188	2,620	2,943	1,116	**120,542**

The above facilities, oil and natural gas drilling commitments in 2015 relate to additional facilities on Cladhan and Breagh Phase 1 development costs and amounts for long lead items for drilling in 2016.

Included in the table above are $38,500,000 of costs under facilities, oil and gas drilling, $242,000 of costs under office and other leases and $834,000 of costs under other operating category relating to the Company's Romanian operations which on completion of the Romanian Sale (see "Financing Activities") will be transferred to CIEP.

Included in the table above under the office and other leases subtotal is a commitment for office space that was assigned to a third party in December 2013. Under the terms of the sublease, Sterling continues to be liable to the landlord for any default under the lease caused by the assignee. It is expected that after the granting of an inducement of a rent-free period which ended in May 2014, approximately $3,768,000 of the office and other leases commitment will be covered by this sub-lease.

LIQUIDITY AND SOLVENCY

The Company's net working capital deficit as at March 31, 2015, was $36,496,000 compared to a net working capital deficit of $29,956,000 as at December 31, 2014. The Company did not have sufficient funds to make a required $32.7 million payment to bondholders and to make the first monthly transfer of $5.3 million to the DSRA on April 30, 2015 following the temporary lifting of this requirement pursuant to the First Bond Amendments (see "Financing Activities"). To address this, and to avoid a potential event of default arising under the Bond Agreement, the Second Bond Amendments were approved on May 8, 2015 (see "Financing Activities") which inter alia provided for a deferral of the amortization instalment due on April 30, 2015 (the interest payment due on this date was however paid in full). The Second Bond Amendments are expected to provide incremental liquidity which the Company believes will be sufficient to ensure it is properly funded through to October 28, 2015 when a transfer to the DSRA in respect of the semi-annual interest payment and debt amortization payment is required to be made.

Cash proceeds of $32.5 million, less fees and any required tax liabilities, are due to be received from the sale of the Company's Romanian business to CIEP (see "Financing Activities") upon completion of the transaction around the end of June 2015. The net proceeds will be applied first towards payment of the amortization instalment deferred from April 30, 2015, with any excess being transferred to the DSRA towards the next semi-annual interest and instalment payment due on October 30, 2015.

To address the Company's longer term financing needs, the Company is pursuing a corporate sale or merger, progressing a potential refinancing of the Bond, and continuing discussions with a number of potential purchasers for a sale of a 10-15 percent interest in the UK Breagh gas field.

Without the completion of the Romanian Sale and any of the initiatives described above for the longer term financing of the Company, there is a material risk that the Company will not be able to satisfy the terms of the Bond Agreement as from October 28, 2015 when the next semi-annual interest and instalment payment is due to be transferred to the DSRA. In that case, bondholders may require immediate repayment of the Bond which would cast significant doubt as to the Company's

ability to continue as a going concern and the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. However, at the date of approving the financial statements, the Directors are confident that a combination of one or more of financing initiatives currently being pursued will ensure that the Company has sufficient liquidity and capital resources available to settle and meet its obligations as they fall due or within remedy periods.

DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at March 31, 2015 to be approximately $76,819,000, which will be incurred between 2015 and 2036. Additions to the decommissioning obligations in the year ended December 31, 2014 relate to two oil producing wells and a water injector well on the Cladhan licence and the Breagh A07 and A08 wells. Two wells on the Sheryl licence are planned to be abandoned in 2015 and this portion of the decommissioning obligation, $726,000, has been disclosed as a current liability (December 31, 2014 - $767,000). Revisions to estimates in the twelve months ended December 31, 2014 resulted from a revised operator abandonment assessment on the Breagh development and a reduction in the risk free interest rates (used for discounting) based on UK and US long-term government bond rates varying from 1.39 percent to 2.41 percent (December 31, 2014 – 1.39 to 2.41 percent) and an inflation rate of 2 percent (December 31, 2014 – 2 percent) were used to calculate the longer term decommissioning obligations at March 31, 2015.

	Three months ended March 31, 2015	Twelve months ended December 31, 2014
	$000s	$000s
Balance, beginning of the period	**55,564**	17,646
Arising during the period	**-**	9,268
Revisions to estimates	**-**	30,370
Foreign exchange differences	**(2,681)**	(2,857)
Accretion of discount	**268**	1,137
Balance, end of the period	**53,151**	55,564

2015 PLANS

The Company outlined its plans for 2015 in its MD&A for the year ended December 31, 2014. Two of these plans have been largely or fully completed:

- Progress a short term financing to address the Company's inability to meet its scheduled bondholder payments on April 30, 2015. This was completed through the approval of the Second Bond Amendments on May 8, 2015; and
- Further reduce G&A costs through rent and staff reductions. This has largely been completed through the relocation of both the London and Aberdeen offices to smaller premises, and a UK headcount reduction of nine people.

Other plans which remain in place are set out below:

In the UK:

- Move forward with Breagh Phase 2 planning ensuring that this is optimized and in particular reflects results of Phase 1 early production and hydraulic stimulation;
- Proceed with the Cladhan development, aiming to have first production by September 2015;
- Move forward with farm-outs of the UK licences containing the Niadar and Ossian/Darach prospects;
- Drill an appraisal well, for which nearly all of the costs will be carried under a farm-out arrangement, on either the Evelyn or Belinda oil discoveries in late 2015; and
- Continue discussions with a number of potential purchasers for a sale of a 10-15 percent interest in the UK Breagh gas field.

In Romania:

- To progress the steps required in order to achieve completion of the Romanian Sale (see “Financing Activities”); and
- Conduct Ana and Doina early stage engineering work at a low level of activity (until such time as the Company’s Romanian assets are disposed of pursuant to the Romanian Sale).

Corporately:

- Progress a longer term financial solution by a potential refinancing of the Bond and/or incremental financings;
- Consider corporate transactions that are not only value accretive for shareholders but also aim to reduce the large valuation discount at which the Company’s shares trade;
- Continue to consider a graduation to the main board of the Toronto Stock Exchange and a listing on the London Stock Exchange/Alternative Investment Market (“AIM”) at the appropriate time; and
- Where appropriate, these plans remain contingent on partner approval, governmental approval and (if appropriate) farm-out partners or purchasers of licence interests or subsidiary companies.

RELATED PARTY AND OFF-BALANCE SHEET TRANSACTIONS

The Company had no off-balance sheet or related party transactions in the three month periods ended March 31, 2015 or 2014. The Company has the GTSA with Vitol (which is a shareholder in the Company and an insider in accordance with Canadian securities rules) signed in 2011 in relation to gas produced from the Breagh field and as at March 31, 2015 the Company had a receivable of $7,513,000 (December 31, 2014 – $9,876,000) from Vitol for gas sold in March 2015, which was paid in April 2015. For a description of the key terms of the GTSA, see “Revenue”. In addition, in January 2015 the Company purchased gas price put options for the second and third quarters of 2015 from Vitol for a volume equivalent to 12 percent of production.

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.

CONDENSED CONSOLIDATED BALANCE SHEET

As at	**March 31, 2015**	December 31, 2014
(Unaudited)	US$000s	US$000s
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	**17,599**	17,710
Trade and other receivables (note 4)	**11,431**	14,534
Inventory	**471**	483
Prepaid expenses	**1,187**	3,829
Derivative financial asset (note 7)	**243**	-
	30,931	36,556
Non-current assets		
Exploration and evaluation assets (note 5)	**50,906**	51,844
Property, plant and equipment (note 6)	**380,999**	399,104
Repayment option on long-term debt (notes 7 & 9)	**4,368**	3,300
Deferred tax asset (note 17)	**164,621**	194,013
	600,894	648,261
	631,825	684,817
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**11,959**	15,404
Decommissioning obligations (note 8)	**726**	767
Accrued interest payable (note 9)	**7,492**	3,091
Current portion of long-term debt (note 9)	**47,250**	47,250
Cladhan funding arrangements (note 10)	**19,541**	9,300
	86,968	75,812
Non-current liabilities		
Decommissioning obligations (note 8)	**52,425**	54,797
Long-term debt (note 9)	**160,360**	160,420
Cladhan funding arrangements (note 10)	**16,288**	16,685
Long-term incentive plan liability (note 14)	**1**	1
	229,074	231,903
Commitments and contingencies (note 11)		
Equity		
Share capital (note 12)	**419,940**	419,940
Contributed surplus	**19,070**	18,877
Accumulated other comprehensive loss	**(45,088)**	(28,115)
Deficit	**(78,139)**	(33,600)
	315,783	377,102
	631,825	684,817

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements as at and for the three month period ended March 31, 2015 (“the Financial Statements”).

CONDENSED CONSOLIDATED INCOME STATEMENT

Three months ended March 31,	2015	2014
(Unaudited)	US$000s except per share	US$000s except per share
Revenue	**25,816**	20,483
Third-party entitlement	**(3,019)**	(2,381)
	22,797	18,102
Expenses		
Operating expense	**(5,187)**	(2,615)
Pre–licence and other exploration expenditures	**(6,446)**	(1,380)
Depletion, depreciation and amortization (note 6)	**(11,345)**	(6,276)
Loss on derivative financial instruments (notes 7 & 9)	**(84)**	(990)
Employee expense (note 14)	**(1,786)**	(1,782)
General and administration expense	**(1,021)**	(597)
Refinancing and strategic review	**(5,161)**	-
Foreign exchange (loss) gain	**(10,456)**	1,824
Total expenses	**(41,486)**	(11,816)
Financing income	**176**	86
Financing costs (note 15)	**(5,919)**	(6,277)
Net financing cost	**(5,743)**	(6,191)
(Loss) gain on disposal (notes 5 & 6)	**(4)**	27,332
(Loss) income before income taxes	**(24,436)**	27,427
Income tax		
- Current income tax expense	**-**	(4,321)
- Deferred tax (debit) credit (note 17)	**(20,103)**	144,520
	(20,103)	140,199
Net (loss) income for the period	**(44,539)**	167,626
Net (loss) income per common share (note 16)		
Basic	**(0.12)**	0.54
Diluted	**(0.12)**	0.54

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Three months ended March 31,	**2015**	2014
(Unaudited)	US$000s	US$000s
Net (loss) income	**(44,539)**	167,626
Items that may be subsequently reclassified to profit and loss:		
Foreign currency translation adjustment	**(16,973)**	1,734
Comprehensive (loss) income	**(61,512)**	169,360

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Surplus / (deficit)	Total
(Unaudited)	US$000s	US$000s	US$000s	US$000s	US$000s
Balance at January 1, 2014	387,902	17,454	(5,957)	(144,610)	254,789
Share-based compensation (note 14)	-	117	-	-	117
Foreign currency translation	-	-	1,734	-	1,734
Income for the period	-	-	-	167,626	167,626
Balance at March 31, 2014	387,902	17,571	(4,223)	23,016	424,266
Balance at January 1, 2015	**419,940**	**18,877**	**(28,115)**	**(33,600)**	**377,102**
Share-based compensation (note 14)	**-**	**193**	**-**	**-**	**193**
Foreign currency translation	**-**	**-**	**(16,973)**	**-**	**(16,973)**
Loss for the period	**-**	**-**	**-**	**(44,539)**	**(44,539)**
Balance at March 31, 2015	**419,940**	**19,070**	**(45,088)**	**(78,139)**	**315,783**

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31,	2015	2014
(Unaudited)	US$000s	US$000s
Cash flows from operating activities		
(Loss) income for the period	**(44,539)**	167,626
Adjustments for:		
Unrealized foreign exchange loss (gain)	**11,276**	(2,497)
Loss (gain) on disposal (notes 5 & 6)	**4**	(27,332)
Depletion, depreciation and amortization (note 6)	**11,345**	6,276
Unrealized loss on derivative financial instruments (notes 7 and 9)	**84**	990
Share-based compensation (note 14)	**193**	117
Accretion of decommissioning discount (note 15)	**268**	184
Financing income	**(176)**	(86)
Financing costs (note 15)	**5,651**	6,093
Amortization of bond amendment costs (note 15)	**2,756**	-
Income tax	**-**	4,321
Deferred tax debit (credit) (note 17)	**20,103**	(144,520)
	6,965	11,172
Change in non-cash working capital	**(5,381)**	(219)
Cash flows from operating activities	**1,584**	10,953
Cash flows from investing activities		
Decrease in restricted cash	**-**	2,787
Proceeds from sale of assets (note 5)	**-**	24,926
Exploration and evaluation asset additions	**3,512**	(10,601)
Property, plant and equipment additions	**(3,807)**	(8,401)
Cash flows (used in) provided by investing activities	**(295)**	6,224
Cash flows from financing activities		
Decrease (increase) in restricted cash	**-**	(5,062)
Financing income	**176**	86
Premium paid on derivative financial instruments (note 7)	**(1,441)**	-
Cash flows used in financing activities	**(1,265)**	(4,976)
Effect of translation on foreign currency cash and cash equivalents	**(135)**	(705)
(Decrease) increase in cash and cash equivalents during the period	**(111)**	11,496
Cash and cash equivalents, beginning of the period	**17,710**	34,680
Cash and cash equivalents, end of the period	**17,599**	46,176

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
As at and for the Three months ended March 31, 2015.

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 and the Netherlands. The Company's 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) plc ("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 by the Company's Board of Directors on May 21, 2015, on the recommendation of the Audit Committee.

2) BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

These Financial statements were prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting on a going-concern basis, under the historical cost convention. They do not contain all disclosures required by International Financial Reporting Standards 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, 2014.

The presentation currency of these Financial Statements is the United States dollar.

GOING CONCERN

Using the Company's latest cash flow projections which reflect the current forward curve for UK spot gas prices, and assuming completion of the Romanian Sale around the end of June 2015, management expects that Sterling will have a shortfall of approximately $15 million to meet its requirements under the Bond Agreement (as further amended and restated to reflect the Second Bond Amendments, see note 9) on October 30, 2015. The Company is seeking to address such a potential cash shortfall by pursuing a corporate sale or merger, progressing a potential refinancing of the Bond, and continuing discussions with a number of potential purchasers for a sale of a 10-15 percent interest in the UK Breagh gas field and progressing a potential refinancing of the Bond. There can be no assurance that the steps management is taking will be successful. Without the completion of the Romanian Sale or any of the sale, merger or financing transactions described above, there is a material risk that the Company will not be able to satisfy the terms of the Bond Agreement as from October 28, 2015 when the next semi-annual interest and instalment payment is due to be transferred to the restricted Debt Service Retention Account. In this case, bondholders may require immediate repayment of the Bond which would cast significant doubt as to the Company's ability to continue as a going concern and the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

BASIS OF CONSOLIDATION

The Financial Statements comprise the financial statements of the Company and its subsidiaries as at March 31, 2015. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company's, using consistent accounting policies.

Substantially all of the Company's exploration activities are conducted jointly with others, including through farm-in and farm-out arrangements. These are classified as joint operations as they are not structured through separate legal vehicles. These Financial Statements include the Company's proportionate share of the assets, liabilities, revenue and expenses with items of a similar nature presented on a line-by-line basis, from the date the joint arrangement commences until it ceases.

Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions with the Company's subsidiaries, are eliminated in preparing the Financial Statements.

3) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at	**March 31, 2015**	December 31, 2014
	$000s	$000s
Cash	**1,739**	8,426
Cash equivalents	**15,860**	9,284
	17,599	17,710
Balances held in:		
Canadian dollars	**79**	79
US dollars	**10,873**	8,289
UK pounds	**5,668**	8,882
Other	**979**	460
Cash and cash equivalents	**17,599**	17,710

As at March 31, 2015, cash and cash equivalents (including short term deposits) carried annual interest rates between 0.05 percent and 0.55 percent (December 31, 2014 – between 0.05 percent and 0.55 percent).

4) 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, restricted cash and derivative financial instruments – held for trading;
- Trade and other receivables – loans and receivables;
- Trade and other payables;
- Cladhan funding arrangement; 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 7. The fair value of the long-term debt is discussed in note 9.

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, commodity price risk and interest rate risk, as well as liquidity risk and credit risk as described below.

FOREIGN EXCHANGE RATE RISK

The Company's functional currencies for the UK and Netherlands, Canadian and Romanian operations are the UK pound, Canadian dollar and US dollar, respectively. Foreign exchange gains or losses can occur on translation of working capital denominated in currencies other than the functional currency of the jurisdiction which holds the working capital item. Excluding the impact of changes in the cross-rates, a 1 percent fluctuation in translation rates would have the following impact on net income or loss, based on foreign currency balances held at March 31, 2015.

	$000s
Canadian dollar vs. UK pound	4
Canadian dollar vs. US dollar	2
UK pound vs. Euro	1
UK pound vs. US dollar	1,943

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

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 March 31, 2015, a 1 percentage point change in average interest rates over a three month period would increase or decrease net income or loss by approximately $44,000.

The interest rate charged under the Bond is currently 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 its financial liabilities.

The Company did not have sufficient funds to make a required $32.7 million payment to bondholders and to make the first monthly transfer of $5.3 million to the Debt Service Retention Account ("DSRA") on April 30, 2015 following the temporary lifting of this requirement pursuant to the First Bond Amendments (see note 9). To address this, and to avoid a potential event of default arising under the Bond Agreement, the Second Bond Amendments were approved on May 8, 2015 (see note 18) which inter alia provided for a deferral of the amortization instalment due on April 30, 2015 (the interest payment due on this date was however paid in full). The Second Bond Amendments are expected to provide incremental liquidity which the Company believes will be sufficient to ensure it is properly funded through to October 28, 2015

Cash proceeds of $32.5 million, less fees and any required tax liabilities, are due to be received from the sale of the Company's Romanian business to CIEP (see note 5) upon completion of the transaction around the end of June 2015. The net proceeds will be applied first towards payment of the amortization instalment deferred from April 30, 2015, with any excess being transferred to the DSRA towards the next semi-annual interest and instalment payment due on October 30, 2015.

To address the Company's longer term financing needs, the Company is pursuing a corporate sale or merger, progressing a potential refinancing of the Bond, and continuing discussions with a number of potential purchasers for a sale of a 10-15 percent interest in the UK Breagh gas field.

Without the completion of the Romanian Sale and any of the initiatives described above for the longer term financing of the Company, there is a material risk that the Company will not be able to satisfy the terms of the Bond Agreement as from October 28, 2015 when the next semi-annual interest and instalment payment is due to be transferred to the DSRA. See the "Going Concern" section of note 2.

The following table as of March 31, 2015 for the years 2015 through 2019 and thereafter, shows the maturities of financial liabilities:

	2015	2016	2017	2018	2019	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Coupon payment	**17,213**	13,162	9,113	5,062	1,013	-	**45,563**
Principal repayment	**45,000**	45,000	45,000	45,000	22,500	-	**202,500**
Bonus principal repayment	**2,250**	2,250	2,250	2,250	-	-	**9,000**
Trade and other payables	**11,959**	-	-	-	-	-	**11,959**
Cladhan funding arrangement	**19,541**	16,288	-	-	-	-	**35,829**
	95,963	76,700	56,363	52,312	23,513	-	**304,851**

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 bank 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 9). Such contracts expired during the third quarter of 2014. In January 2015, the Company purchased monthly cash-settled UK gas price put options for the second and third quarters of 2015 at a strike price of 40 pence per therm (National Balancing Point "NBP") for a volume equivalent to 4.0 Bcf of gas, or approximately 75 percent of expected production for the period. The put options were purchased from BNP Paribas and Vitol SA for a total consideration of approximately $1.4 million. The Company may consider future hedging through the purchase of further gas price put options when sufficient funds are available.

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 for gas sold in one month and paid in the following month, with governments for recoverable amounts of value added taxes ("VAT") or joint venture partners in the oil and natural gas industry. The Company currently sells its gas to only one customer Vitol (which is a shareholder in the Company). At March 31, 2015 the amount receivable from Vitol was $7,513,000, which was paid within the following month and the Company had no other material concentrations of receivables with any third party.

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.

The Company's receivables are subject to normal industry risk and management believes collection risk is minimal. There were no material amounts past due but not impaired at March 31, 2015 (December 31, 2014 - nil)

The Company has deposited its cash, cash equivalents and restricted cash with reputable financial institutions, with which management believes the risk of loss to be remote. The maximum credit exposure associated with financial assets is their carrying value. At March 31, 2015 the cash, cash equivalents and restricted cash were held with seven different institutions from five countries, mitigating the credit risk of a collapse of one particular bank.

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 all times the Company is required to comply with the terms of its Bond which includes a minimum group equity ratio and a minimum level of unrestricted cash in the UK subsidiary (see note 9). As such, the Company considers working capital, debt and equity as part of its capital management planning. The Company's capital management should be read in conjunction with the Liquidity Risk section of this note. Other than these plans, no changes were made in the Company's capital management objectives, policies or processes during the period ended March 31, 2015.

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.

5) EXPLORATION AND EVALUATION ASSETS

Minimal amounts have been capitalized to E&E assets during the three month period ending March 31, 2015.

On January 29, 2014 the Company completed the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a sub-divided portion of block 15 Midia in the Romanian Black Sea as announced in October 2012 (the “Carve-out Transaction”). Sterling received an initial net payment of $24.9 million after-tax in the first quarter of 2014 and could receive a contingent payment of a further $29.25 million upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the portion sold, and a final contingent payment of $19.5 million upon first commercial production from the portion sold. A gain on disposal after fees of $27,301,000 was recorded in the income statement in the year ended December 31, 2014.

Dry hole costs in 2014 of $7,798,000 related to block 27 Muridava licence in Romania.

In March, 2015 the Company announced details for the Romanian Sale in which the Company entered into an agreement to sell its entire Romanian business to Carlyle International Energy Partners (“CIEP”). Based on the market value established in this transaction the Company has impaired the amount carried in exploration and evaluation assets for this segment by $45,275,000 as at December 31, 2014.

Other impairment costs in the year ending December 31, 2014 related to:

- UK blocks 42/10a & 15a containing the Crosgan discovery ($8,970,000) where, following the recent well results and lower than expected reservoir size, it was decided to impair the costs capitalized;
- UK block 21/27b containing the Blakeney oil discovery ($3,296,000) where, despite previous successes no commercial offtake could be engineered; and
- Relinquishment of UK block 22/26c containing the Beverley prospect ($274,000), but retaining block 21/30f containing the Evelyn and Belinda prospects.

As at	**March 31, 2015**	December 31, 2014
	$000s	$000s
Balance, beginning of the period	**51,844**	82,830
E&E expenditures	**524**	35,823
Non-cash decommissioning costs (note 8)	**-**	656
Dry hole costs	**-**	(7,798)
Impairment	**-**	(57,815)
Foreign exchange	**(1,462)**	(1,852)
Balance, end of the period	**50,906**	51,844

6) PROPERTY, PLANT AND EQUIPMENT (“PP&E”)

Within the development oil and gas properties category are the amounts transferred in from exploration and evaluation assets for Breagh and Cladhan. Depletion on the Breagh asset commenced with first production on October 12, 2013. No depletion has yet been charged on the Cladhan asset as it is not expected to produce until the end of the third quarter of 2015.

Development oil and gas properties are assessed for indicators of impairment at each reporting date. At December 31, 2014, the Cladhan UK offshore property was indicated to be impaired due to lower commodity prices and capital overruns. The recoverable amounts were based on the fair value less cost of disposal method and were determined at the level of the cash generating unit determined to be the Cladhan development oil and gas property. The recoverable amounts were based on discounted future cash flows over the next seven years, derived using proved plus probable reserves as at December 31, 2014. The cash flows (based on level III fair value hierarchy) used commodity prices based on Sterling’s independent reserves report, produced by RPS Energy (“RPS”), December 31, 2014 price forecast (see note 17) and a pre-tax discount rate of 10 percent. After comparison of the carrying value and its fair value the property was impaired by $22,802,000.

As at	March 31, 2015			December 31, 2014		
	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	**457,628**	**1,565**	**459,193**	390,259	1,529	391,788
Additions						
– PP&E expenditures	**13,714**	**-**	**13,714**	55,692	237	55,929
– Non-cash decommissioning costs (note 8)	**-**	**-**	**-**	38,981	-	38,981
Disposals	**-**	**(23)**	**(23)**	-	(8)	(8)
Reclassification to inventory	**-**	**-**	**-**	(1,068)	-	(1,068)
Foreign exchange differences	**(23,170)**	**(76)**	**(23,246)**	(26,236)	(193)	(26,429)
Balance, end of the period	**448,172**	**1,466**	**449,638**	457,628	1,565	459,193
Accumulated depreciation and depletion						
Balance, beginning of the period	**(58,991)**	**(1,098)**	**(60,089)**	(7,948)	(1,050)	(8,998)
Depreciation and depletion	**(11,313)**	**(32)**	**(11,345)**	(31,218)	(167)	(31,385)
Impairment	**-**	**-**	**-**	(22,802)	-	(22,802)
Disposals	**-**	**23**	**23**	-	-	-
Foreign exchange differences	**2,725**	**47**	**2,772**	2,977	119	3,096
Balance, end of the period	**(67,579)**	**(1,060)**	**(68,639)**	(58,991)	(1,098)	(60,089)
Net book value						
Balance, beginning of the period	**398,637**	**467**	**399,104**	382,311	479	382,790
Balance, end of the period	**380,593**	**406**	**380,999**	398,637	467	399,104

7) DERIVATIVE FINANCIAL INSTRUMENTS

In January 2015, the Company purchased monthly cash-settled UK gas price put options for the second and third quarters of 2015 at a strike price of 40 pence per therm (NBP) for a volume equivalent to 4.0 Bcf of gas, or approximately 75 percent of expected production for the period. The put options were purchased from BNP Paribas and Vitol SA for a total consideration of $1,441,000 and a current derivative financial asset was recognized. The derivatives are revalued to their fair value at each period end. At March 31, 2015 they were valued at $243,000. Any gain or loss arising is recorded through the income statement in the period in which it arose. For the three month period ended March 31, 2015, the Company recognized an unrealized loss of $1,152,000. For the three month period ended March 31, 2014, the Company recognized an unrealized gain of $1,324,000 on put options purchased in 2011 and now expired.

As at March 31, 2015 the prepayment option on the bond was revalued at $4,368,000 (December 31, 2014 - $3,300,000), which resulted in a gain of $1,068,000 in the three month period ended March 31, 2015 (see note 9). The increase in the value of the prepayment option results principally from a decline in the risk free interest rates and an increase in interest rate volatility in the debt markets.

The combined movements in derivative financial instruments resulted in an unrealized loss of $84,000 being recorded through the income statement in the three month period ended March 31, 2015 (three month period ended March 31, 2014 – unrealized loss of $990,000).

8) PROVISIONS

The following table sets out a continuity of provisions:

	Three months ended March 31, 2015	Year ended December 31, 2014
	$000s	$000s
Balance, beginning of the period	**55,564**	17,646
Arising during the period	**-**	9,268
Revisions to estimates	**-**	30,370
Foreign exchange differences	**(2,681)**	(2,857)
Accretion of decommissioning discount	**268**	1,137
Balance, end of the period	**53,151**	55,564
Total current liabilities	**726**	767
Total non-current liabilities	**52,425**	54,797

DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at March 31, 2015 to be approximately $76,819,000, which will be incurred between 2015 and 2036. Additions to the decommissioning obligations in the year ended December 31, 2014 relate to two oil producing wells and a water injector well on the Cladhan licence and the Breagh A07 and A08 wells. Two wells on the Sheryl licence are planned to be abandoned in 2015 and this portion of the decommissioning obligation, $726,000, has been disclosed as a current liability (December 31, 2014 - $767,000). Revisions to estimates in the year ended December 31, 2014 resulted from a revised operator abandonment assessment on the Breagh development and a reduction in the risk free interest rates (used for discounting) based on UK and US long-term government bond rates varying from 1.39 percent to 2.41 percent (December 31, 2014 – 1.39 to 2.41 percent) and an inflation rate of 2 percent (December 31, 2014 – 2 percent) were used to calculate the longer term decommissioning obligations at March 31, 2015.

9) LONG-TERM DEBT

In April 2013 the Company's UK subsidiary Sterling Resources (UK) Ltd, subsequently re-registered as Sterling Resources (UK) plc, (the "Issuer") completed the issuance of a $225 million senior secured bond (the "Bond"). As of March 31, 2015, the Bond had been amortized down to $202.5 million.

Proceeds were received on April 30, 2013 (the "Settlement Date"). The Bond matures on April 30, 2019 and currently carries an interest coupon of 9 percent payable semi-annually on April 30 and October 30 of each year. The Bond is callable (prepayable) at the option of the Issuer at any time with a call price of 105 percent of par value for the first three years and a roll-up of outstanding interest for the first two years. After three years, the call price reduces to 103.5 percent of par value in year 4, 102 percent in year 5, and finally 101 percent and 100.5 percent for the first and second halves of the final year. Having commenced on October 30, 2014, 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. 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. The call option on the bond was valued using the Black-Karasinski model which takes into account interest rate volatility. Key inputs used in the model were related to the credit spread of the Company and the United States dollar discount curve. The fair value of the prepayment option on the Settlement Date was determined to be $5,861,000, and was revalued at March 31, 2015 at $4,368,000. The decrease in the value of the prepayment option results principally from a general increase in the credit spreads in the debt markets.

There are currently 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 (unrestricted cash and cash equivalents) of $10 million; this level was reduced to $7.5 million from November 30, 2014 to January 30, 2015 pursuant to the First Bond Amendments (described below). As at March 31, 2015 the Company was in compliance with both these covenants. The

minimum liquidity level was reduced to $5 million from April 30, 2015 to October 30, 2015 pursuant to the Second Bond Amendments (see below).

In December, 2014 the Company and the holders (“Bondholders”) of the UK senior secured bond (the “Bond”) issued by its subsidiary Sterling Resources (UK) plc approved amendments (the “First Bond Amendments”) to the Bond agreement dated May 2, 2013 at a meeting of Bondholders. On May 8, 2015 further amendments to the terms of the Bond were approved in a Bondholder meeting. These amendments (the “Second Bond Amendments”) take effect from that date and will be reflected in a further Amended and Restated Bond Agreement expected to be signed by May 22, 2015 (the “Bond Agreement”) (see note 18).

The principal benefit to Sterling of the First Bond Amendments is a suspension of the requirement to make monthly transfers of funds into a restricted DSRA from November 30, 2014 until, but excluding, April 30, 2015. The DSRA is charged and blocked in favour of the Bond trustee. At the end of each month, a sum equal to one sixth of the sum of the next semi-annual interest payment and debt amortization payment was to have been transferred into the DSRA. The aggregate amount that was due under the Bond on April 30, 2015 of approximately $32.7 million (being a semi-annual amortization instalment plus 5 percent amortization premium plus semi-annual interest) was to be paid into the DSRA and on to Bondholders on April 30, 2015, together with the first monthly transfer to the DSRA of approximately $5.3 million towards the next amortization instalment and interest payment due on October 30, 2015. In addition, the First Bond Amendments provided for a reduction in the minimum liquidity covenant from $10 million to $7.5 million on a temporary basis until and including January 30, 2015.

An amendment fee was paid to Bondholders of $2.5 million (the “Amendment Fee”) in December 2014, with the balance of the DSRA transferred back to an unrestricted bank account of the Company. In addition, Bondholders were provided with additional security relating to the Company’s Romanian business comprising a first-ranking security package over the Company’s offshore and onshore licences in Romania, a pledge of the shares of the Company’s Romanian subsidiary, Midia Resources SRL, a pledge of certain of the Company’s receivables, and a guarantee of certain obligations by Midia Resources SRL.

On May 8, 2015 the Second Bond Amendments were approved in a Bondholder meeting (see note 18).

The Bond is listed on the Nordic Alternative Bond Market in Oslo, but is not actively traded. Therefore, a value based on the mid-point of the bid/ask price range supplied by Pareto Securities AS, the principal broker for the Company’s bonds, was used to calculate the fair-value of the Bond of $191 million as at March 31, 2015.

Under the effective interest rate method $7,492,000 was recorded as an accrued interest liability at March 31, 2015 (December 31, 2014 - $3,091,000).

	Three months ended March 31, 2015	Year ended December 31, 2014
	$000s	$000s
Balance, beginning of the period	**207,670**	226,368
Amortization of loan funds	-	(23,625)
Borrowing costs	**1,040**	4,426
Accretion of discount	**(1,100)**	501
Balance, end of the period	**207,610**	207,670
Total current liabilities	**47,250**	47,250
Total non-current liabilities	**160,360**	160,420

10) CLADHAN FUNDING ARRANGEMENTS

In April 2013, the Company signed agreements with TAQA Bratani (“TAQA”), a partner in the Cladhan field 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 the Department of Energy and Climate Change by April 17, 2013 to enable field development plan approval. In conjunction with an earlier non-repayable carry arising from a transaction with TAQA in 2012 (the “First Carry”), these agreements also provided for a full carry of the then anticipated development capital costs until first oil, anticipated in the end of the third quarter of 2015. As part of the 2013 transaction, the Company made a permanent transfer of a 12.6 percent interest in the Cladhan field to TAQA in exchange for 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.

Pursuant to these TAQA funding arrangements the Company retains a 2.0 percent interest in Cladhan throughout, for which the original budgeted development cost is funded out of a portion of the fixed First Carry. As at March 31, 2015, the cost overruns on the project mean that the Company is forecasting to have to fund an additional $4 million in development costs relating to the 2.0 percent interest. The rest of the First Carry, which amounted to $53.6 million in total at December 31, 2013, was available to fund development costs on the 11.8 percent interest and was fully utilized in the third quarter of 2014, at which point the Second Carry started to fund the ongoing development costs for the 11.8 percent interest only. A 17 percent per annum uplift is applicable to such carried costs on the Second Carry. As at March 31, 2015 the balance of the Second Carry was $35,829,000. $19,541,000 is recorded as a current liability on the balance sheet as it is expected to be repaid out of revenues in the current year and $16,288,000 as a non-current liability due to be repaid in 2016-2018. After pay-out of the Second Carry, which is expected to occur in the first quarter of 2018 under RPS pricing assumptions, the 11.8 percent interest will be 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. As part of this agreement, Sterling transferred its 12.5 percent interest in South Cladhan to TAQA for nominal consideration in August 2013. Sterling retains the contingent upside payments linked to future reserves pursuant to the First Carry.

11) COMMITMENTS AND CONTINGENCIES

Commitments as at March 31, 2015 for the years 2015 through 2019 and thereafter, comprise the following:

	2015	2016	2017	2018	2019	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and gas drilling	**27,609**	78,856	-	-	-	-	**106,465**
Seismic	**-**	-	-	-	-	-	**-**
Licence fees	**977**	1,095	1,163	1,679	2,196	-	**7,110**
Other operating	**705**	618	445	383	189	-	**2,340**
Office and other leases	**913**	902	580	558	558	1,116	**4,627**
	30,204	81,471	2,188	2,620	2,943	1,116	**120,542**

The above facilities, oil and natural gas drilling commitments in 2015 relate to additional facilities on Cladhan and Breagh Phase 1 development costs and amounts for long lead items for drilling in 2016.

Included in the table above are $38,500,000 of costs under facilities, oil and gas drilling, $242,000 of costs under office and other leases and $834,000 of costs under other operating category relating to the Company's Romanian operations which on completion of the Romanian Sale (see note 5) will be transferred to CIEP.

Included in the table above under the office and other leases subtotal is a commitment for office space that was assigned to a third party in December 2013. Under the terms of the sublease, Sterling continues to be liable to the landlord for any default under the lease caused by the assignee. It is expected that after the granting of an inducement of a rent-free period which ended in May 2014, approximately $3,768,000 of the office and other leases commitment will be covered by this sub-lease.

12) SHARE CAPITAL

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

	Three months ended March 31, 2015		Year ended December 31, 2014	
	Shares	**Amount**	Shares	Amount
	000s	$000s	000s	$000s
Balance, beginning of the period	**381,200**	**419,940**	309,621	387,902
Issued for cash:				
– equity issuances	**-**	**-**	71,579	32,142
Share issuance costs	**-**	**-**	-	(104)
Balance, end of the period	**381,200**	**419,940**	381,200	419,940

On July 25, 2014 the Company announced the closing of a private placement of 71,579,000 common shares in the capital of the Company at a price of C$0.482 per common share, for proceeds of $32.1 million. No commission fees were paid on the placement.

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 the Netherlands. Revenues recorded below were from a single external customer. Information reported to the Company's management for the assessment of segment performance is focussed on the tangible, intangible and financial assets attributable to each segment.

	Canada	United Kingdom	Romania	Other International	Consolidated
Segmented Results	$000s	$000s	$000s	$000s	$000s
Three months ended March 31, 2015					
Revenues	**-**	**25,816**	**-**	**-**	**25,816**
Net loss	**(869)**	**(41,540)**	**(1,686)**	**(444)**	**(44,539)**
Three months ended March 31, 2014					
Revenues	-	20,483	-	-	20,483
Net Income (loss)	(541)	146,239	22,756	(828)	167,626

	Canada	United Kingdom	Romania	Other International	Consolidated
Segmented Assets	$000s	$000s	$000s	$000s	$000s
Three months ended March 31, 2015					
Exploration and evaluation assets	**-**	**15,363**	**25,000**	**10,543**	**50,906**
Exploration and evaluation expenditures	**-**	**439**	**-**	**85**	**524**
Development properties	**-**	**380,593**	**-**	**-**	**380,593**
Development property expenditures	**-**	**13,714**	**-**	**-**	**13,714**
Three months ended March 31, 2014					
Exploration and evaluation assets	-	19,144	65,620	8,810	93,574
Exploration and evaluation expenditures	-	975	9,396	230	10,601
Development properties	-	381,930	-	-	381,930
Development property expenditures	-	2,419	-	-	2,419

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 March 31, 2015 there were 13,988,000 (December 31, 2014 – 16,208,000) common shares reserved for issuance under the plan. The exercise price of each option equals the market price of the Company's common shares on the grant date. An option's maximum term is five years, with a minimum vesting period of 12 months. Stock options currently issued vest over the initial three years. The stock options are denominated in Canadian dollars and all dollar amounts in tables in this note represent the Canadian dollar amount.

The following table sets out a continuity of outstanding stock options:

	Three Months ended March 31, 2015		Year ended December 31, 2014	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Continuity of Common Share Options	000s	C$	000s	C$
Balance, beginning of the period	**16,208**	**0.82**	7,955	1.97
Granted during the period	**-**	**-**	13,290	0.55
Cancelled/forfeited during the period	**(2,220)**	**0.55**	(1,983)	2.04
Expired during the period	**-**	**-**	(3,054)	1.83
Outstanding, end of the period	**13,988**	**0.87**	16,208	0.82
Exercisable, end of the period	**3,228**	**1.93**	3,228	1.93

A Black-Scholes option pricing model was used to calculate the fair value of the options granted during the year ended December 31, 2014 (there was no award during the three month period ended March 31, 2015), using the following weighted-average assumptions:

	Year Ended December 31, 2014
Weighted average share price	C$0.55
Weighted average exercise price	C$0.55
Risk-free interest rate	1.27%
Weighted average forfeiture rate	5.12%
Expected hold period to exercise	3.5 years
Volatility in the price of the Company's shares	77%
Expected annual dividend yield	0%

Volatility in the price of the Company's common 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, 2014 was Canadian $0.30 per share. For the three month period ended March 31, 2015 $193,000 (March 31, 2014 - $117,000) of share-based compensation was expensed and was included in the employee expense figure of $1,786,000 (2014 – $1,782,000).

The following stock options were outstanding as at March 31, 2015:

Exercise Price		Options Outstanding			Options Exercisable		
		Options	Average Remaining Contract	Weighted Average Exercise Price	Options	Average Remaining Contract	Weighted Average Exercise Price
From C$	To C$	000s	Life (Days)	C$	000s	Life (Days)	C$
0.55	0.99	10,760	1,519	0.55	-	-	-
1.00	1.49	567	310	1.36	567	310	1.36
1.50	1.99	1,845	219	1.81	1,845	219	1.81
2.00	2.49	550	57	2.03	550	57	2.03
2.50	2.99	-	-	-	-	-	-
3.00	3.49	133	202	3.18	133	202	3.18
3.50	4.25	133	187	4.25	133	187	4.25
0.55	4.25	13,988	1,216	0.87	3,228	205	1.93

B) LONG TERM INCENTIVE PLANS

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 common share price on that date (C$0.98/share). These PSUs will vest on May 31, 2015 and expire on May 31, 2016. At March 31, 2015, 1,618,000 of these PSUs have been forfeited as a result of employee departures.

In October 2013, a further award was made of 3,670,899 PSUs with an effective date of June 1, 2013 and an exercise price based on the Company’s common share price on that date (C$0.75/share.) These PSUs will vest on June 1, 2016 and expire on June 1, 2017. At March 31, 2015, 674,085 of these PSUs have been forfeited as a result of employee departures.

The number of PSUs that ultimately vest is based on service conditions and market conditions linked to the Company’s common 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 month period ending March 31, 2015 (three month period to March 31, 2014 – nil) relating to the PSU plans. The intrinsic value of outstanding PSUs at March 31, 2015 was nil (March 31, 2014 – nil).

PHANTOM OPTION PLAN

Under the Phantom Option Plan (“POP”), a total of 270,000 phantom options were granted to employees who did not receive awards under the PSU Plan in May 2013 with an effective date of May 31, 2012 and an exercise price based on the Company’s common share price at that date (C$0.98/share). These Phantom Options will vest in three equal tranches on the first, second and third anniversaries of the award and will expire two years after vesting. At March 31, 2015, 140,000 of these phantom options had been forfeited.

In October 2013, 255,840 Phantom Options were granted with an effective date of May 31, 2013 and an exercise price based on the Company’s common share price on that date (C$0.76/share). At March 31, 2015, 109,945 of these phantom options had been forfeited. The intrinsic value of outstanding POPs at March 31, 2015 was nil (March 31, 2014 – nil).

15) FINANCING COSTS

Three months ended March 31,	**2015**	2014
	$000s	$000s
Interest expense	**7,067**	6,093
Capitalization of borrowing costs	**(1,416)**	-
	5,651	6,093
Accretion of decommissioning discount (note 8)	**268**	184
Total financing costs	**5,919**	6,277

Financing costs for the three month period ended March 31, 2015 were $5,919,000 consisting primarily of borrowing costs of $5,651,000 on the Bond. Interest expense of $1,416,000 relating to the Cladhan funding arrangements has been capitalized as borrowing costs. 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 (principally arising from the drilling of more production wells and revisions to estimates) and the drilling of two producer and one water injector oil wells on the Cladhan development recognised later in 2014. In addition to the above, $2,757,000 of non-recurring expense representing amortization of the First Bond Amendment fees have been separately disclosed within refinancing and strategic review costs.

16) NET (LOSS) INCOME PER SHARE

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

Three months ended March 31,	**2015**	2014
Weighted average shares outstanding (000s)	**381,200**	309,621
Net (loss) income ($000s)	**(44,539)**	167,626
Weighted average net (loss) income per share ($)		
Basic	**(0.12)**	0.54
Diluted	**(0.12)**	0.54

For the periods ended March 31, 2015 and 2014, the potential dilutive effect of the Company's outstanding options was not included in diluted shares as they were antidilutive.

17) DEFERRED TAX

The Company had a recognized deferred tax asset in the amount of $194,013,000 as at December 31, 2014 principally relating to Sterling's UK tax losses. With sustained production history, management considered that, based on its profit forecast and reserves available, there was sufficient evidence to recognize such deferred tax asset.

As at March 31, 2015 the deferred tax asset has been decreased to $164,621,000, mainly due to lower estimated future SCT net relief of approximately $33 million as a result of the 12% reduction in the statutory SCT rate and approximately $10 million decrease due to foreign exchange rate translation effects partly offset principally by CT losses and further allowances for ring fence expenditure supplement in the quarter.

Sterling has prepared a base case economic model which projects that all the existing carried-forward UK tax losses as at March 31, 2015 will ultimately be utilized in the UK subsidiary company Sterling Resources (UK) plc in future years, both against the reversal of existing taxable temporary differences and future taxable profits from expected production from the Breagh and Cladhan fields. Under UK tax law, there is no statutory time-limit determining an expiry of carried-forward UK tax losses. Accordingly, a UK deferred tax asset of $164,621,000 as at March 31, 2015 (December 31, 2014 – $194,013,000) has been recognized in the Statement of Financial Position.

With respect to the economic modelling, the following key inputs and sources have been used as evidence both quantitatively and qualitatively in the preparation of the projected financial and fiscal position:

- Information on reserves and cashflows for Breagh and Cladhan are drawn from the reports produced by Sterling's independent reserves evaluator RPS:
  - i) RPS Energy Report "Executive Summary Reserves and Resources Evaluation for the Breagh Gas Field Quad 42 UK North Sea as at December 31, 2014" and
  - ii) RPS Energy Report "Executive Summary Reserves and Resources Evaluation for the Cladhan Oil Field Quad 210 License Blocks UK North Sea as at December 31, 2014".
- RPS has assumed the following economic assumptions:
  - i) RPS end-2014 NBP sales gas price. $8.52/Mcf for 2015, $8.81/Mcf for 2016, $9.42/Mcf for 2017, $9.77 for 2018 escalated 2 percent thereafter.
  - ii) RPS end-2014 Brent crude oil price. $70.03/bbl for 2015, $74.64/bbl for 2016, $79.50/bbl for 2017, $84.50 for 2018, $89.50 for 2019, $93.85 for 2020 escalated 2 percent thereafter. Cladhan crude is assumed to realise a premium to Brent of $1.13/bbl for 2015, $0.88/bbl in 2016, $0.88/bbl in 2017, $0.92/bbl in 2018, $0.97/bbl in 2019, $1.02/bbl in 2020 and $1.07 /bbl in 2021.
  - iii) Exchange rate GBP/USD 1.60 throughout field life.
- RPS has evaluated the economic life of field up to 2035 for Breagh and up to 2021 for Cladhan for the 2P reserves case.
- As at March 31, 2015 the Company had non-expiring non-capital losses of approximately $667 million (December 31, 2014 – $674 million) and non-expiring supplementary charge losses of approximately $595 million (December 31, 2014 - $615 million) which may be applied against future oil and gas ring-fence income for UK tax purposes.
- Management's best estimates on costs arising from debt-financing, general and administrative expenses (up to 10 years from end 2014) and exploration and appraisal expenses (up to 3 years from end 2014) have been incorporated.
- Subsequent to RPS preparing its reserves report, well timings have slipped by several months and it is now expected that new wells and re-worked existing wells will be hydraulically stimulated on a batch basis. Based on current information, the Company is expected to be tax-paying around 2027.

Taxation is calculated at the rates prevailing for each of the Company's respective jurisdictions. The current year income tax charge is in respect of a Romanian tax liability on the consideration received from Exxon Mobil and OMV Petrom for the sale of the 65 percent interest in a sub-divided portion of Block 15 Midia in the Romanian Black Sea. The deferred tax temporary timing differences at December 31 2014 are translated at the year-end exchange rate.

Analysis of UK deferred tax asset recognized at	**Three months ended March 31, 2015**	Year ended December 31, 2014
	$000s	$000s
Net book value of assets (in excess) of tax pools	**(183,905)**	(235,550)
Loss carry-forwards	**319,498**	398,273
Small field allowance	**2,793**	4,704
Decommissioning obligations	**25,380**	26,586
Other temporary differences	**855**	-
Deferred tax asset recognized at end of period	**164,621**	194,013

No deferred tax assets have been recognised on the following tax losses and other deductible temporary differences:

At March 31, 2015 the Company had non-capital losses of approximately $44 million (December 31, 2014 – $47 million) which may be applied against future income for Canadian tax purposes. These non-capital losses expire after twenty years, primarily between 2027 and 2034.

As at March 31, 2015 the Company also had non-expiring tax pools of approximately $32 million (December 31, 2014 – $35 million) which may be applied against future income for Canadian tax purposes.

As at March 31, 2015 the Company had non-capital losses and other tax deductible costs of approximately $22 million (December 31, 2014 – $20 million) which may be applied against future income for Netherlands tax purposes. These expire after nine years from 2019 onwards.

As at March 31, 2015 the Company had non-capital losses $14 million (December 31, 2014 – $14 million) which may be applied against future income for Romanian tax purposes. These expire after seven years from 2018 onwards.

18) SUBSEQUENT EVENTS

On May 8, 2015 further amendments to the terms of the senior secured bond issued by Sterling UK (a subsidiary of the Company) in 2013 (the "Bond") were approved in a Bondholder meeting. These amendments (the "Second Bond Amendments") take effect from that date and will be reflected in a further Amended and Restated Bond Agreement expected to be signed by May 22, 2015 (the "Bond Agreement").

The principal benefits to the Company of the Second Bond Amendments are as follows:

- A deferral of the amortization instalment (including amortization premium) due on April 30, 2015, until the earlier of (i) the closing date of the Romanian Sale and (ii) October 30, 2015 (for the avoidance of doubt, the semi-annual interest payment due on April 30, 2015 was paid in full);
- A further suspension of transfers of funds into the Debt Service Retention Account ("DSRA") from April 30, 2015 until, but excluding, October 30, 2015 (this represents a continuation of the previous suspension which has been in place since October 30, 2014);
- A reduction in the minimum UK liquidity requirement from $10 million to $5 million from April 30, 2015 to October 30, 2015; and
- A permanent one month deferral in monthly transfers to DSRA, from when these would otherwise resume on October 30, 2015.

In return, the Bondholders benefit from the following:

- Net proceeds from the Romanian Sale (i.e. gross proceeds less the required payment to Gemini, certain fees and tax liabilities) are to be used to pay the amortization instalment deferred from April 30, 2015, with any excess being transferred to the DSRA;
- The redemption price for each of the remaining amortization instalments shall be increased for all remaining instalments (including the April 30, 2015 instalment) from 105% to 107.5% (including the final instalment; this was offered by the Company subsequent to the issuance of the Bondholder meeting summons letter on April 23, 2015, as a further concession to facilitate approval of the Second Bond Amendments);
- The redemption price to be paid on any mandatory prepayment amount payable by the Company upon the occurrence of asset sales of Breagh or Cladhan, as well as in the event of a prepayment following exercise by Sterling of its call option, shall be increased to 107.5% for the remaining term of the Bonds;
- The interest payable on the par value of the outstanding Bonds shall, with effect from November 1, 2015, be increased from 9 percent to 14 percent per annum;
- An amendment fee of $3 million, payable by May 30, 2015;
- In the event the completion of the Romanian Sale is delayed beyond July 15, 2015, a further amendment fee of $0.75 million and up to three further successive payments of the same amount for each further month's delay up to a maximum of $3 million if completion has not occurred by October 15, 2015; and
- Certain extensions to the work scope of the financial adviser shall be made and, at the request of the Bond Trustee, Sterling shall appoint a reputable international investment bank as its financial adviser to assist the Company in the assessment and implementation of strategic options available to it including a sale of all or part of its assets.

Together, the Second Bond Amendments are anticipated to provide necessary incremental liquidity which the Company believes will be sufficient to ensure it is properly funded through to October 28, 2015.

CORPORATE INFORMATION

DIRECTORS

JAMES H. COLEMAN (3) (6)
Chair
Calgary, Canada

ELEANOR J. BARKER (1) (5)
Toronto, Canada

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

JOHN COLLENETTE
London, England

TECK SOON KONG (2) (3)
London, England

JACOB S. ULRICH
London, England

GAVIN WILSON (1)
Zurich, Switzerland

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

OFFICERS

JACOB S. ULRICH
Chief Executive Officer

DAVID M. BLEWDEN
Chief Financial Officer

SHERRY L. CREMER
Treasurer and Corporate Secretary

JOHN M. RAPACH
Chief Operating Officer

INVESTOR RELATIONS

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

AUDITOR

DELOITTE LLP

BANKER

THE ROYAL BANK OF CANADA

LEGAL COUNSEL

STIKEMAN ELLIOTT LLP

RESERVES EVALUATORS

RPS ENERGY

REGISTRAR AND TRANSFER AGENT
Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

COMPUTERSHARE INVESTOR SERVICES INC.
9th Floor, 100 University Avenue Toronto, Ontario, Canada M5J 2Y1
Tel: 800-564-6253
Fax: 888-453-0330/416-263-9394
E-Mail: service@computershare.com

STOCK EXCHANGE LISTING

THE TSX VENTURE EXCHANGE
Stock Exchange Trading Symbol: SLG

OFFICES

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

UK - ABERDEEN
30 Abercrombie Court, Arnhall Business Park, Westhill, AB32 6FE
Scotland
Tel: 44-1224-806610
Fax: 44-1224-806729

UK - LONDON
6-9 The Square, Stockley Park, Uxbridge, UB11 1FW England
Tel: 44-20-3761-0790
Fax: 44-20-3761-0799

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

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

ANNUAL GENERAL AND SPECIAL MEETING

May 28, 2015 at 10.00a.m.

The Royal Room
Metropolitan Conference Centre
333 – Fourth Avenue S.W.
Calgary, Alberta
Canada