MESSAGE TO SHAREHOLDERS

During the first quarter of this year and the weeks following, the Company's focus has been upon the recapitalization process to resolve our financing challenges and improve our financial strength in order to build our operations in the North Sea. Over the past two years the Company had been unable to comply with the terms of its bond agreement without several successive waivers and amendments and had aggressively pursued a number of prospective refinancing, asset sale and corporate merger initiatives without success.

On March 11, 2016, the Company announced the entrance into a recapitalization agreement (as amended) with Sterling Resources (UK) Ltd. and Nordic Trustee ASA pursuant to which the Sterling group would undertake a recapitalization process. Pursuant to the recapitalization, the Company has undertaken a rights offering of 441,572,956 rights to acquire common shares of the Company at a subscription price of C$0.015398 per common share (for aggregate proceeds of up to C$219.8 million). The rights offering will expire at 5:00 pm (EST) on May 19, 2016. The gross proceeds of the rights offering, if any and after conversion to US dollars, will be used solely to satisfy a portion of the liabilities associated with the senior secured bonds issued by Sterling Resources (UK) Ltd. Any common shares not acquired by shareholders pursuant to the rights offering will be acquired by bondholders in exchange for the release and cancellation, as applicable, of bond liabilities equal to the subscription price of the unsubscribed common shares under the rights offering (after conversion to US dollars) (the "Bond Exchange"). The bondholders will pay the same subscription price per common share as shareholders who exercised Rights. Following the rights offering and the Bond Exchange, no less than $40 million of bond debt will remain. A super senior credit facility of up to $40 million (in two $20 million tranches) is being provided as part of the recapitalization. Closing of the rights offering and the Bond Exchange is anticipated to occur on May 27, at which point the bondholders will hold up to 97 percent of the common shares outstanding.

At Breagh strong production performance continued through the first quarter of 2016 with high facilities uptimes and with production levels exceeding management forecasts. First quarter average gross sales gas rates reached 80 million standard cubic feet per day ("MMscf/d"), net 24 MMscf/d to Sterling. Gross condensate sales during the quarter averaged 240 barrels per day ("bbls/d"), net 72 bbls/d to Sterling. During the quarter the planned infill drilling campaign and onshore compression project were both deferred by the new operator of the Breagh field. Both of these initiatives are expected to re-start in early 2017.

With the deferral of the infill drilling campaign, gas production for the field during 2016 is forecast to average 71 MMscf/d, net 21.3 MMscf/d to Sterling due to the natural decline from the existing wells. Inherent to this forecast is the assumption of uptime of 92 percent and a one-week maintenance shutdown in June. Development costs for the remainder of Breagh Phase I are anticipated to reach in aggregate $51 million with $5 million to be spent in 2016, $13 million in 2017, $30 million in 2018 and $3 million in 2019. Phase 2 development at Breagh remains on hold to allow for the assimilation of results from the 2014 3D seismic interpretation, including reservoir characterization of the south-eastern area of the field. Given the current low UK gas price environment, developing an economically viable means to proceed with Phase 2 will be challenging.

Initial production from the Cladhan field occurred late in 2015 with production rates as expected from two wells. Stable production was achieved during the first quarter of 2016 and water injection via well W1 has been started. Oil production during the first quarter averaged 10,082 bbls/d gross (202 bbls/d net to Sterling's 2 percent interest) Final project completion at Cladhan development is anticipated to occur in mid-2016 with minimal further cash expenditure.

Following the drilling and abandonment of appraisal well 42/15a-3, completed in February 2015 at Crosgan (blocks 42/10a and 42/15a, where Sterling holds a 30 percent interest) approximately half of the licence was relinquished during February 2016. The Company continues a farm-down process for blocks 42/2a, 42/3a, 42/4, 42/5 and 36/30 (Sterling 100 percent interest) which are located approximately 25 kilometres north of the Breagh gas field and contain the Carboniferous Darach and Permian reef Ossian prospects. The UK Oil & Gas Authority has agreed to extend the licence expiry date to December 2018, by which time a commitment well needs to be drilled. A farm-down process also continues for block 49/19b (Sterling 100 percent) which contains the Niadar prospect and the OGA has extended this licence to December 2017. The licence covering blocks 42/13b, 42/17a and 42/18a which contains the Lochran prospect was relinquished effective March 15, 2016.

In the Netherlands seismic processing was completed in September 2015 with the seismic acquired over the oil discoveries and prospects in the Jurassic and Early Cretaceous horizons to assist in evaluating new exploration potential in the area and to aid in the evaluation of development options including a potential tieback to a potential Wintershall oil hub.

With the focus upon the recapitalization process this year, the Annual General Meeting ("AGM") has been deferred and we are pleased to now announce that the AGM will be held July 5th at the Metropolitan Centre (Royal Room) in Calgary, Alberta, Canada at 10:00 AM Mountain Daylight Time.

On Behalf of the Board of Directors,

Jacob S. Ulrich
Chief Executive Officer
May 19, 2016

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, 2016 is dated May 19, 2016, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2016 as well as Sterling's audited consolidated financial statements for the year ended December 31, 2015 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 and the Netherlands, has exited Romania and is seeking to exit 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. Opportunities for a corporate merger or sale will be keenly pursued where this can lead to a superior return for shareholders. Asset sales will be considered where these improve liquidity and facilitate a refinancing of the Company's balance sheet. In time, if a corporate merger or sale is not consummated, and 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", "outlook", "goal", "project", "can", "shall", "is designed to", "with the intent", "strategy" 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:

- The use of proceeds of the Rights Offering (as defined herein) and its impact on the Company;
- The benefits of the Recapitalization (as defined herein);
- The timing and completion of the Recapitalization and the various components thereof, and the subsequent effect on the financial health of the Company;
- The terms and timing of the Fourth Bond Amendments (as defined herein);
- The timing and receipt of Shareholder approval (as defined herein) to the Recapitalization Resolutions (as defined herein);
- The impact of the Recapitalization on the shareholders and the relevant bondholders;

- The Company's future financial and operational situation after the completion of the Rights Offering and issuance of the Exchange Shares (as defined herein);
- The fees and expenses associated with the completion of the Rights Offering and the issuance of the Exchange Shares and with the Recapitalization more generally;
- The focus of capital expenditures;
- Future debt levels and annual interest costs;
- 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 and Cladhan fields;
- Development activities relating to Breagh, including the , the results of new 3D seismic interpretation, the remaining Phase 1 development including the timing and cost of new wells and hydraulic stimulation of new wells, the timing, cost and implementation of onshore compression at TGPP (as defined herein) and the timing, extent and cost of the potential Phase 2 development;
- Expectations for the pay-out (if achieved at all) of the Second Carry (as defined herein) in relation to the Cladhan field and the impact thereof on the Company;
- Expectations for the abandonment of two wells on the Sheryl licence and the timing thereof;
- Expectations for the processing and interpretation of seismic data over the F17 and F18 blocks in the Netherlands;
- Expectations regarding the Company's cost structure;
- Expectations regarding the subscription by shareholders for new Common Shares (as defined herein) as part of the Rights Offering;
- Expectations for the Company's ability to satisfy the financial covenants under the Bond Agreement (as defined herein) and, after execution, under the SSRCF (as defined herein);
- Expectations regarding certain counterparties to one or more agreements with any member of the Sterling Group seeking to use the Recapitalization as a basis to assert certain rights against the Company or SRUK (as defined herein), including based on change of control arguments, to terminate or seek monetary compensation or penalties against the Corporation or SRUK;
- 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 Breagh and Cladhan fields, including for Breagh benefits from hydraulic stimulation performed on wells;
- The sale, partial sale, farming-in or farming-out of certain properties, including the UK licences containing its Niadar, Darach and Ossian prospects;
- 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 expectations regarding commitments, future cash flows and cash balances and its plans for mitigating risks that may affect its cash position;
- The Company's drilling plans and plans for completion and installation of production platforms or other infrastructure, on any of its licences;

- Tax matters, including: the Company's tax profile in each of the UK, 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 investment 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; and
- The Company's plans and expectations that are described on page 23 under "2016 Plans".

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

- Will complete the Recapitalization Agreement and all associated agreements;
- Will be able to satisfy the undertakings and conditions under the Bond Agreement, as revised pursuant to the approval of the Fourth Bond Amendments (as defined herein) and the SSRCF;
- 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 April 14, 2016, as revised by management;
- Operates in an environment of political stability;
- Will be able to obtain all necessary regulatory approvals for its operations on satisfactory terms;
- Operates in an environment of increasing competition;
- Is able to 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; 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. The 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:

- The Company will be unable to complete the Recapitalization;
- 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;
- 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;
- 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 and tax 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 23 of the Company's Annual Information Form for the year ended December 31, 2015, 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, the Cladhan funding arrangements, 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, discount 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

	2016	2015				2014		
Quarters Ended $000s except where defined	**Mar. 31**	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Average daily sales from Breagh production								
Natural gas (MMscf/day) (1)	**24.0**	28.1	32.1	25.8	37.2	32	27.9	14.5
Liquids (barrels/day) (1)	**72**	130.1	79.1	82.7	158.6	81.6	133.1	52.2
Average Breagh realized prices								
Natural gas ($/Mscf) (1)	**4.33**	5.50	6.34	6.85	7.25	8.34	7.11	7.20
Liquids ($ per barrel) (1)	**37.51**	45.26	46.77	57.46	53.17	53.36	93.90	100.07
Breagh revenues	**9,460**	14,746	19,065	16,508	25,016	25,026	19,380	9,985
Other revenues including from hedging	**254**	238	270	215	800	863	2,146	2,169
Cladhan oil sales revenues	**2,784**	-	-	-	-	-	-	-
Revenues	**12,498**	14,984	19,335	16,723	25,816	25,889	21,526	12,154
Third party entitlement	**(596)**	(801)	(1,483)	(1,925)	(3,019)	(2,966)	(2,263)	(1,197)
Operating expense	**(2,989)**	(3,917)	(4,322)	(4,297)	(5,187)	(4,912)	(4,161)	(2,373)
Operating expense ($) per barrel of oil equivalent (2) (4)	**7.88**	8.79	8.53	10.64	8.90	9.84	9.46	10.47
Operating netback (3) (4)	**8,913**	10,266	13,530	10,501	17,610	18,011	15,102	8,584
Other expenses	**(16,529)**	(4,270)	(22,430)	(2,695)	(36,299)	(25,990)	(19,387)	(15,407)
Impairment of oil and gas properties	**(1,593)**	(28,127)	(9,776)	-	-	(78,419)	-	-
Net financing cost	**(8,158)**	(5,009)	(7,648)	(6,465)	(5,743)	(6,756)	(6,465)	(6,289)
(Loss) gain on disposal	**-**	(1,494)	(924)	-	(4)	-	-	-
Income tax:								
Income tax expense	**-**	-	-	-	-	-	-	(9)
Deferred tax (debit) credit	**-**	(122,020)	16,493	3,408	(20,103)	37,676	8,458	19,374
Net (loss) income	**(17,367)**	(150,654)	(10,755)	4,749	(44,539)	(55,478)	(2,292)	6,253
Canada	**(1,496)**	(2,029)	(2,427)	(758)	(869)	(1,658)	(424)	(1,426)
United Kingdom	**(15,728)**	(148,552)	(8,541)	7,185	(41,540)	(9,000)	(253)	16,662
Romania (8)	**-**	-	565	(1,380)	(1,686)	(44,760)	(1,072)	(8,343)
Other International	**(143)**	(73)	(352)	(298)	(444)	(60)	(543)	(640)
Net (loss) income	**(17,367)**	(150,654)	(10,755)	4,749	(44,539)	(55,478)	(2,292)	6,253
Per weighted average common share - basic & diluted ($)	**(0.04)**	(0.34)	(0.03)	0.01	(0.12)	(0.19)	(0.01)	0.02
Funds flow from (used in) operations (FFFO) (4) (5)	**184**	4,612	3,135	10,566	6,965	25,173	12,492	(2,912)
FFFO per common share outstanding	**0.00**	0.01	0.01	0.03	0.01	0.07	0.03	(0.01)
Property, plant and equipment and exploration and evaluation asset expenditures (6)	**4,502**	11,183	9,433	13,025	14,238	36,230	23,080	19,354

As at								
US$000s except share information, acreage and well data								
Net working capital (deficit) surplus (4) (7)	**(186,769)**	(179,589)	(35,142)	(63,246)	(36,496)	(29,956)	(7,080)	(21,582)
Total assets	**429,403**	453,440	630,491	660,017	631,825	684,817	736,063	723,435
Total liabilities	**278,243**	278,667	306,055	321,253	316,042	307,715	284,677	278,044
Shareholders' equity	**151,160**	174,773	324,436	338,764	315,783	377,102	451,386	445,391
Net licence acreage (000s of acres) (1)	**379**	397	504	1,285	1,384	1,482	1,510	1,510
Number of producing wells (1)	**10**	10	8	8	8	8	8	6
Common shares outstanding (000s) – basic (1)	**441,573**	441,573	441,573	381,200	381,200	381,200	381,200	309,621
Common share options outstanding (000s) (1)	**21,923**	24,432	24,568	12,025	13,988	16,208	16,652	17,490

(1) Non-financial data.
(2) Operating expense ($) per barrel of oil equivalent is a Non-GAAP measure defined as total operating expenses in dollars divided by the number of equivalent barrels of oil sold, and is used to analyze operating performance.
(3) Operating netback is a Non-GAAP measure defined as revenue less third party entitlement and operating expenses, and is used to analyze operating performance.
(4) Non-GAAP financial measures do not have any standardized meaning prescribed by the Company's GAAP and 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.

(5) FFFO is a Non-GAAP measure defined as net income (loss) less adjustments for non-cash items (see "Condensed consolidated statement of cash flows" in the Company's unaudited condensed interim consolidated financial statements for the three month period ending March 31, 2016 and 2015) and is used to analyze operating performance.
(6) Non-GAAP measure defined as expenditures on Property, plant and equipment and Exploration and evaluation assets including the effects of accruals (see notes 6 & 7 in the Company's unaudited condensed interim consolidated financial statements for the three month period ending March 31, 2016 and 2015).
(7) Non-GAAP measure. See p.21 for definition.
(8) The Company's interests in Romania have now been sold – see "Financing Activities – Romanian Sale and Carve-out Transaction"
Note: The net income or loss for each quarter is calculated using the average rates for that quarter, while 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, 2016 and the release of this MD&A, there was no change to the number of common shares in the capital of the Company ("Common Shares") however 523,330 stock options have expired or been cancelled during that period.

For the three month period ended March 31, 2016, the Company recorded a net loss of $17,367,000 ($0.04 per common share) compared with a net loss of $44,539,000 ($0.12 per common share) for the three month period ended March 31, 2015. The net loss in 2016 was mostly due to lower revenues, due to lower prices and production, whereas in 2015 the increased loss was due to a reduction of the deferred tax asset following a twelve percent reduction in the rate of supplementary charge corporate tax ("SCT").

Net (loss) income largely comprises the following elements:

REVENUE

For the three month period ended March 31, 2016, revenue was $12,498,000 (three month period ended March 31, 2015 - $25,816,000).

BREAGH

For the three month period ended March 31, 2016, Breagh revenue was $9,714,000 (three month period ended March 31, 2015 - $25,816,000). These revenues came from sales of gas production of approximately 2.2 billion cubic feet ("Bcf") at an average realized gas price of 30.6 pence per therm ($4.33 per thousand cubic feet) and 890 tonnes of condensate (6,542 barrels) at an average price of $276 per tonne. For the three month period ended March 31, 2015, 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 $444 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 3.1 barrels per million standard cubic feet) ("MMscf") 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.

CLADHAN

First sales from the Cladhan oil development occurred in the first quarter of 2016. Sales relating to the Company's 2 percent equity interest totalled $407,000 which came from the sale of 11,700 barrels of oil equivalent ("boe") at an average realized price of $35 per barrel.

The Company also recognized $2,377,000 of Cladhan revenues relating to sales of oil on the 11.8 per cent of the Cladhan development which is being funded by TAQA Bratani ("TAQA") (see "Financing Activities - Cladhan funding arrangements") for which no cash was received as the amount was withheld by TAQA to reduce the amounts it had previously paid on the Company's behalf under the carry arrangement.

While production on the Cladhan development commenced in mid-December 2015, no oil was sold and no revenues were recorded in the year ended December 31, 2015.

THIRD PARTY ENTITLEMENT

For the three month period ended March 31, 2016, a third party entitlement of $596,000 (three month period ended March 31, 2015 – $3,019,000), was lower due to a reduction to the rate of the entitlement payments from 12.23 percent to 6.10 percent during 2015 and commensurate with lower production revenues. This amount 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 costs from the fourth quarter of 2013 (during which period first production occurred) to March 31, 2016 amount to $16,814,000.

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 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 fourth quarter of 2015, entitlement payments were reduced from the highest rate of 12.23 percent to 6.10 percent as a result of cumulative entitlement payments exceeding twice the funding amount.

OPERATING EXPENSES

For the three month period ended March 31, 2016 operating expenses were $2,989,000 (three month period ended March 31, 2015 - $5,187,000). Operating expenses relate to fixed and variable costs at the Breagh field and onshore gas processing plant costs, including allocations of certain Sterling costs and since December 15, 2015, operating expenses on the Company's interest on the Cladhan field. These costs are down from the previous year reflecting lower production volumes from the Breagh field partly offset by Cladhan operating expenses.

DEPLETION, DEPRECIATION AND AMORTIZATION (DD&A)

For the three month period ended March 31, 2016 depletion of $10,492,000 (three month period ended March 31, 2015 – $11,313,000) on the Breagh and Cladhan assets and depreciation of $18,000 (three month period ended March 31, 2015 – $32,000) on corporate and other assets was charged to the income statement. Depletion was lower in the three month period ended March 31, 2016 compared to the three month period ending March 31, 2015 commensurate with lower production and carrying values on Breagh partly offset by the commencement of depletion on Cladhan.

IMPAIRMENT OF OIL AND GAS PROPERTIES

Due to cost and time overruns on the Cladhan UK offshore property and the drop in worldwide commodity prices, under RPS Energy Canada Ltd. ("RPS") pricing assumptions pay-out of the Second Carry (as defined herein) (see "Financing Activities – Cladhan funding arrangements") is not now likely to occur and the liability has been re-measured to reflect the amount most likely to be repaid from future revenues of the 11.8 percent of the development being funded by TAQA. At March 31, 2016 after comparison of the carrying value and its fair value the property was impaired by $1,593,000. The recoverable amounts were based on the value in use 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 eight years, derived using proved plus probable reserves as at March 31, 2016. The cash flows (based on level III fair value hierarchy) used commodity prices based on RPS's reserves report and a pre-tax discount rate of 17 percent.

PRE-LICENCE AND OTHER EXPLORATION COSTS

For the three month period ended March 31, 2016, pre-licence and other exploration costs expensed were $968,000, a decrease of $5,477,000 over the same period in 2015 (three month period ended March 31, 2015 - $6,446,000) as a result of lower activity in 2016 while in 2015 there was the expensing of activity on previously impaired assets in Romania and the UK. Of the total, $847,000 (2015 – $5,179,000) related to the Company's interests in its various licences in the UK, much higher in the first quarter of 2015 due to the remainder of the Crosgan well costs ($4,846,000) and $121,000 (2015 – $438,000) related to the Netherlands and other international ventures. In 2015, $829,000 related to Romania, operations discontinued since August 2015.

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, 2016, the Company recorded a foreign exchange loss of $6,361,000 due to the strengthening of the US dollar in the first quarter of 2016. The foreign exchange loss derived from the strengthening of the US dollar (in which both the Bond issued by the UK subsidiary and the Cladhan funding arrangements are denominated) against the UK pound (which is the functional currency for the UK subsidiary), with the partial offset being reduced by lower bank balances held in US dollars. This was similar to the three month period ended March 31, 2015, where 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.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

Three month period ended March 31,	**2016**	2015
	$000s	$000s
Gross employee, and general and administration expense	**1,767**	4,387
Recovered from third parties	**(146)**	(180)
Capitalized to assets	**(84)**	(262)
Expensed as pre-licence and other exploration expenditures	**(318)**	(1,138)
Total recoveries and allocations	**(548)**	(1,580)
Net employee expense	**818**	1,786
Net general and administration expense	**401**	1,021

EMPLOYEE EXPENSE

For the three month period ended March 31, 2016, net employee expense after allocations and recoveries was $818,000, down considerably from $1,786,000 incurred in the same period in 2015 as a result of savings from redundancies incurred in the first quarter of 2015. Of the total, $90,000 (down from the 2015 figure of $193,000) relates to non-cash share-based compensation and $728,000 relates to wages and salaries (three month period ended March 31, 2015 - $1,593,000). Recoveries from partners and amounts capitalized or expensed to assets were all down compared to the corresponding period in 2015 due to lesser activity, particularly on operated assets and the sale of the Romanian business in the third quarter of 2015.

GENERAL AND ADMINISTRATION EXPENSE

For the three month period ended March 31, 2016, net general and administration ("G&A") expense after allocations and recoveries was $401,000, a decrease of $620,000 over the same period in 2015 due to cost saving initiatives partly offset by lower recoveries. The Company has made further savings in G&A costs with a UK staff headcount reduction of 40 percent, which took place in the first quarter of 2015, and in the UK relocated its small London office and its Aberdeen office also in the first quarter of 2015 for a further significant reduction in annual costs.

REFINANCING AND STRATEGIC REVIEW

For the three month period ended March 31, 2016 the Company incurred $4,622,000 of non-recurring costs related to a refinancing and strategic review, mostly various adviser fee costs in relation to the Recapitalization (see "Financing Activities").

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 Amendments (as defined herein) (see "Financing Activities").

FINANCING COSTS

Financing costs for the three month period ended March 31, 2016 were $8,312,000 (three month period ended March 31, 2015 - $5,919,000) consisting primarily of borrowing costs of $5,508,000 on the Bond. In the three months ended March 31, 2015 interest expense of $1,416,000 relating to the Cladhan funding arrangements was capitalized as borrowing costs until the asset entered into production in mid-December whereupon capitalization ceased and the interest expense began to be expensed. In the three months ended March 31, 2016, $2,620,000 of Cladhan funding arrangement interest was expensed.

The balance of the financing costs include accretion of the discount on decommissioning obligations and have decreased in the period due to lower cost estimates on the decommissioning obligations on the Breagh development.

INCOME TAXES

In the UK, Sterling is subject to UK ring fence corporation tax ("CT"), currently at 30 percent, and supplementary charge corporation 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. Subsequent to year end 2015 in the UK 2016 budget the SCT rate will be reduced, to 10 percent with effect from January 1, 2016 though this has not been substantively enacted as at the balance sheet date.

Sterling has material UK tax losses available for offset against profits subject to corporate tax as a result of allowances generated principally by past exploration, appraisal and development costs including funding thereof and the application of ring fence expenditure supplement ("RFES") claims. CT losses at March 31, 2016 are estimated at £490 million ($703 million) and SCT losses at £410 million ($589 million) (lower than for CT, as financing costs are not allowable deductions for SCT).

Sterling presently forecasts that in the current low commodity price environment existing carried-forward UK tax losses as at March 31, 2016 will not sufficiently be utilized in the UK subsidiary company Sterling Resources (UK) Ltd. in future years, both against the reversal of existing taxable temporary differences and against future taxable profits from expected production from the Breagh and Cladhan fields. Under UK tax law, there is no statutory fixed time-limit determining an expiry of carried-forward UK tax losses. Accordingly, a UK deferred tax asset of $63,978,000 as at March 31, 2016 (December 31, 2015 – $66,073,000) has been recognized in the Balance Sheet, the difference relating to changes in foreign exchange rates.

Sterling expects to submit claims for RFES, which provides an uplift of 10 percent per annum (compounded) on eligible, cumulative ring-fence tax losses, for 2015 and 2016. Sterling will also claim investment allowances on the Cladhan oil field and Breagh gas field on qualifying UK ring-fence expenditure – these allowances are available to potentially shelter future taxable profits liable to SCT.

As at March 31, 2016, other principal tax losses and allowances available include tax pools of approximately $4 million and non-capital losses of approximately $32 million available to shield future income taxable in Canada 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 between 2031 and 2035 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

As at March 31, 2016 there was no change to the valuation of the prepayment option on the Bond (March 31, 2016 and December 31, 2015 - $554,000). In the three month period ended March 31, 2015 a gain on the revaluation of the prepayment option on the bond of $1,068,000 was recognized.

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 (at National Balancing Point in the UK) for a volume equivalent to 4.0 Bcf of gas, or approximately 75 percent of expected production for that period, which have now expired. The put options were purchased from BNP Paribas and Vitol SA for a total consideration of approximately $1.4 million. The derivatives were revalued to their fair value at each period end. Any gain or loss arising was 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. In the three month period ended March 31, 2016 the Company held no such options.

No gain or loss in derivative financial instruments was recorded through the income statement in the three month period ended March 31, 2016 but the combined movements in derivative financial instruments in the three month period ended March 31, 2015 resulted in a loss of $84,000.

Subsequent to March 31, 2016, the Company purchased monthly cash-settled UK gas price put options from BNP Paribas and Citigroup to cover a proportion of the Company's expected production.

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 not discussed above are as follows:

- Since the Company recognized a deferred tax asset ("DTA") the income statement has been subject to significant tax debits and credits as losses have increased, rates have changed and recoverability of those losses has altered dependent on the commodity price environment;
- 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 third and fourth quarters of 2015 impairment of UK development and exploration and evaluation assets ("E&E") resulted in charges to the income statement of $9,776,000 and $28,127,000 respectively. 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 $33,144,000 on a number of UK development and E&E assets;
- 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;
- Throughout 2015, the Company incurred increased corporate costs relating to severance payments, costs in relation to the sale of the Romanian business, amortization of the costs of the First Bond Amendments and the Second Bond Amendments related to refinancing and a strategic review. This has resulted in amounts of $5,161,000, $3,904,000, $5,769,000 and $5,778,000 respectively being expensed to the income statement in the four quarters of 2015. In the first quarter of 2016 the Company incurred $4,622,000 of non-recurring costs related to a refinancing and strategic review, mostly various adviser fee costs in relation to the Recapitalization (see "Financing Activities"); and
- Foreign exchange gains and losses varied significantly from quarter to quarter based on prevailing foreign exchange rates as well as amounts of monetary assets and liabilities held by various Company entities in currencies other than their functional currency.

DEVELOPMENT ACTIVITY

BREAGH DEVELOPMENT

Production performance through the first three months of 2016 was ahead of management's forecast supported by high facility uptimes and strong reservoir performance. First quarter average sales gas rates were 80 million standard cubic feet per day ("MMscf/d") gross, net 24 MMscf/d to Sterling. Gross condensate sales for the first quarter averaged 240 barrels per day ("bbls/d"), net 72 bbls/d to Sterling.

During the first quarter of 2016 the intended infill drilling campaign and onshore compression project were both put on hold against a background of new ownership in the field and significant market volatility. Both of these activities are expected to re-start during 2017. Planning for the drilling campaign will ramp up during fourth quarter of 2016 ahead of an anticipated start date during the second quarter of 2017. Front-end engineering and design work on onshore compression at the Teesside Gas Processing Plant ("TGPP") was completed at the end of February, 2016 and is now expected to be sanctioned in the first quarter of 2017 with the project moving straight into the detail engineering stage.

Interpretation of the new seismic volume commenced during the fourth quarter 2015 and continued throughout the first quarter of 2016 with an expectation of completion during the second quarter.

FORWARD VIEW

With the deferral of the infill drilling campaign, 2016 full year sales gas production is forecast to average 71 MMscf/d for 100 percent of the field (21.3 MMscf/d net) due to the natural decline in production from existing wells. This forecast figure incorporates a production uptime factor of 92 percent and a scheduled one week shutdown in June.

The anticipated infill drilling campaign now comprises two new wells (A09 and A10) and the re-entry and hydraulic stimulation of one existing well to improve performance. Wells A11 and A12, and a further hydraulic stimulation of another existing well could follow on as part of the same drilling campaign. Planning for a limited scope intervention on well A04 during 2016 is also ongoing to re-instate production from this well which is currently shut-in.

Following the completion of the seismic data, building of new geological and reservoir models will begin and progress through the third quarter of 2016. These models will provide input into the investment decisions for the deferred infill drilling campaign and the onshore compression project expected in early 2017.

Phase 2 development planning remains on hold to allow for the assimilation of results from the 3D seismic interpretation work, including reservoir characterization of the south-eastern areas of the field. With the current low UK gas price environment however, developing an economically viable incremental plan for Phase 2 is expected to be more challenging.

The development cost for the remainder of Breagh Phase 1, reflecting the drilling and stimulation plans outlined above (with two new wells and one existing lower performance well to be re-entered, side-tracked and stimulated) together with the onshore compression project to be installed over 2017-2018, is anticipated to be approximately $51 million net to the Company from April 1, 2016. These costs are based on Sterling's view of remaining activity which is consistent with individual activity costs estimated by the operator. On a cash basis, this is expected to be phased $5 million in 2016, $13 million in 2017, $30 million in 2018 and $3 million in 2019. Pre-sanction costs for Breagh Phase 2 are expected to amount to $3 million net to the Company through to the first quarter of 2017.

CLADHAN DEVELOPMENT

First production from the Cladhan development was achieved in mid-December 2015. Initial rates from each of the production wells (P1 & P2) were in line with expectations from the log results gathered. Stable production has been achieved during the first quarter of 2016 and water injection via well W1 has been initiated. The oil production rate for the first three months of 2016 averaged 10,082 bbls/d gross (202 bbls/d net to Sterling's 2 percent interest). Final project close-out of the Cladhan development is anticipated around the mid- 2016, with minimal further cash expenditure.

EXPLORATION AND EVALUATION ACTIVITY

During the three month period ended March 31, 2016 and up to the date of this report, key exploration and evaluation activities were as follows:

UNITED KINGDOM

On the Crosgan licence (block 42/10a & 42/15a, Sterling 30 percent, non-operator) following the drilling and abandonment of an appraisal well 42/15a-3 completed in February 2015 approximately half the licence area was surrendered in February 2016. No amounts are currently capitalized for this licence.

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 continues a farm-down process for its interest during 2016 ahead of drilling a commitment well. The UK Oil & Gas Authority ("OGA") has agreed to extend the licence expiry date to December 2018, by which time the commitment well needs to be drilled.

Sterling retains a 100 percent interest in block 49/19b which contains the Niadar prospect, and OGA has extended the licence to December 2017 while the Company continues a farm-down process.

The licence covering blocks 42/13b, 42/17a and 42/18a containing the Lochran prospect was relinquished effective March 15, 2016. No amounts have been capitalized for this licence.

In comparison, during the three month period ended March 31, 2015 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. Other key exploration and appraisal activity and expenditures focused on preparation for the drilling of an exploration well on the Beverley oil prospect in block 22/26c in the UK North Sea.

NETHERLANDS

Seismic processing was completed during September 2015 but the inversion of the processed data was postponed until initial interpretation was completed to allow a more focused area to be defined. 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, 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.

FRANCE

In France, the abandonment of the Grenade-3 well and recovery of the well site was completed in the fourth quarter of 2015, for minimal cost. Following these works, letters requesting the withdrawals of the extension application for the St. Laurent licence (Sterling 33.42 percent, non-operator) containing the Grenade discovery and the initial application for the Donzacq licence (Sterling 33.42 percent, non-operator) have been submitted.

FINANCING ACTIVITIES

RECAPITALIZATION

On March 11, 2016 the Company announced that it had entered into a recapitalization agreement (the "Recapitalization Agreement") with its subsidiary, Sterling Resources (UK) Ltd. ("SRUK") and Nordic Trustee ASA (the "Bond Trustee") in relation to the senior secured bond (the "Bond") issued by SRUK pursuant to a bond agreement originally dated May 2, 2013, as subsequently amended (the "Bond Agreement"), pursuant to which the Company will undertake a number of recapitalization activities described in further detail below (collectively, the "Recapitalization"). This follows from the Company and SRUK being unable to implement a financing, asset/corporate sale or merger transaction by February 29, 2016 as required by the Third Bond Amendments (as defined below). As a result, SRUK and the Company have entered into the Recapitalization Agreement of which the principal elements are a rights offering, a bond exchange, an internal transfer of SRUK, further amendments to the terms of the remaining Bonds, provision of new funding via a super senior revolving credit facility and certain other actions all as described below.

(i) **Rights Offering.** The Company is currently conducting a rights offering (the "Rights Offering") by way of short form prospectus to the holders of its Common Shares on the record date of April 27, 2016 pursuant to which eligible shareholders have received rights ("Rights") entitling them to purchase an aggregate of 14,277,525,577 Common Shares at a subscription price per Common Share of Canadian Dollar ("C$") 0.015398 (the "Subscription Price"). The final short form prospectus in relation to the Rights Offering was filed on April 20, 2016 and included a copy of the fairness opinion of FirstEnergy Capital LLP referred to below. The Rights will expire on May 19 and the Rights Offering is expected to close on May 27, 2016 (the "Recap Closing Date"). There is no minimum amount of funds that must be raised under the Rights Offering. This means that Sterling could complete the Rights Offering after raising only a small portion of the maximum possible gross Rights Offering proceeds of C$219,845,339. The material terms of the Rights Offering are detailed in a news release issued by the Company on April 20, 2016.

    The gross proceeds of the Rights Offering, less the Foreign Exchange Adjustment as defined below, if any (the "Rights Offering Proceeds") (with the expenses associated with the Rights Offering being paid from the general funds of the Company) will be used solely to fund the release and cancellation of that portion of the liabilities of the Company and SRUK under or in connection with the Bonds, including the obligation to repay the principal amount thereof, together with any accrued and unpaid redemption premium, amendment fees and interest ("Bond Liabilities") equal to the Rights Offering Proceeds (the "Purchased Liabilities") and for no other purpose. In the case of an increase in the Rights Offering Proceeds in US dollar terms due to a weakening of the US dollar against the Canadian dollar between launch and the expiry date of the Rights Offering, the amount of such increase (the "Foreign Exchange Adjustment") will be retained by the Company. The Purchased Liabilities will be selected pro rata from each Bondholder based on the aggregate Bond Liabilities owed to each such Bondholder at the relevant time relative to the entire aggregate Bond Liabilities then outstanding. On the expected Recap Closing Date, the Bond Liabilities will amount to approximately $214.1 million.

The short form prospectus for the Rights Offering has been filed with the securities regulatory authorities of each of the provinces of Canada (excluding Quebec) and the Rights Offering only applies to shareholders resident in each such jurisdiction, provided that the Company may elect to distribute the Rights to certain investors in eligible foreign jurisdictions to the extent that the Company has determined it is possible to do so on an exempt basis under or without otherwise breaching the securities laws of any such jurisdiction and to other persons who demonstrate to the Company's satisfaction that the distribution and exercise of the Rights and the issuance of the Common Shares on exercise is not prohibited by any applicable laws and will not require the Company to file any documents, make any application or pay any amount in their jurisdiction of residence unless otherwise agreed.

(ii) **Bond Exchange.** Pursuant to a separate shares for debt application to the TSXV, the Bondholders (directly, or indirectly through an affiliate, or through the Bond Trustee) will subscribe for Common Shares (the "Exchange Shares") at the same price per Common Share as the Rights Offering Subscription Price and in such number as is equal to the aggregate Subscription Price of the unsubscribed Common Shares under the Rights Offering at the Recap Closing Date based on the applicable exchange rate on the date of the final prospectus (the "Exchange Amount") in consideration indirectly for the full and final satisfaction of Bond Liabilities equal to the Exchange Amount (the "Exchanged Bond Liabilities").

The only Bond Liabilities thereafter remaining will be the liabilities of SRUK under or in connection with a principal amount of the Bonds anticipated to equal $40 million (but which may increase to the extent that the Canadian dollar weakens against the US dollar between the date of the final prospectus and the business day immediately following the expiry date of the Rights Offering) (the "Remaining Bonds"), excluding any accrued and unpaid redemption premium, amendment and other fees and interest up to and including the Recap Closing Date (the "Remaining Bond Liabilities"). On the date of the final prospectus, the exchange rate was US$1 = C$1.2626.

Immediately after the completion of the Bond Exchange, on the assumption that none of the existing shareholders subscribe for new Common Shares as part of the Rights Offering, the current equity held by the existing holders of Common Shares will be diluted to 3 percent of the Common Shares. On the alternative assumption that some of the existing shareholders subscribe for new Common Shares, the equity held by the existing holders of Common Shares will be higher than 3 percent of the Common Shares.

(iii) **Transfer of SRUK.** On the Recap Closing Date, the Company will enter into a share purchase agreement and ancillary documentation to transfer the entire share capital of SRUK to a new wholly-owned subsidiary governed by the laws of England and Wales, SRUK Holdings Ltd. ("SHL"), in order to provide additional security to Bondholders and lenders under the New Loan Agreement (as defined below) and greater flexibility in a future refinancing of the SSRCF and the Bonds post-Recapitalization.

(iv) **Remaining Bonds.** Immediately following the foregoing transactions, SRUK and the Company shall enter into a further amended and restated Bond Agreement with the Bond Trustee (the "Fourth Bond Amendment Agreement") for the purpose of setting out the revised terms and conditions governing the Remaining Bonds that remain outstanding following the Rights Offering and Bond Exchange (the "Remaining Bonds"), as described below under "Bond". The amount of the Remaining Bonds will be $40 million, unless increased as a result of an exchange rate movement as described under "Bond Exchange" above.

(v) **Super senior revolving credit facility.** At the same time as the entry into the Fourth Bond Amendment Agreement, the Company and SRUK shall enter into a new loan agreement (the "New Loan Agreement") with two of the Bondholders or their affiliates (the "Senior Lenders") for a super senior revolving credit facility (the "SSRCF") of up to $40 million. The SSRCF comprises two tranches, A and B, each of $20 million and both on a revolving, multi-currency basis. Tranche A would be used first, up to $10 million for general corporate purposes and for capital expenditures in accordance with the relevant annual budget. Tranche B, if required, is for capital expenditures only in accordance with the relevant annual budget. The final maturity is date 24 months after the Closing Date, with an optional extension to April 30, 2019 subject to satisfying certain conditions. There is a 7 percent arrangement fee on each Tranche, for Tranche A paid in cash on the Closing Date and for Tranche B paid in cash upon the earlier of the date of first utilisation of Tranche B and the date falling 24 months after the Closing Date (provided that no fee shall be payable if the SSRCF is cancelled in full before that date).

The interest rate for each tranche is the aggregate of the margin and LIBOR (subject to a LIBOR floor of 1 percent). The margin for Tranche A is 13 percent per annum, and for Tranche B 13 percent per annum increasing 100 basis points each quarter from drawdown of Tranche B (subject to an overall cap of 15 percent per annum). Interest is calculated from the date of utilisation of each Tranche until the date the relevant Tranche is repaid, prepaid or cancelled, and paid semi-annually on 30 April and 30 October. Tranche A interest is paid in cash and Tranche B interest is paid in kind (i.e. added to the principal amount). There is a commitment fee on the unused part of each tranche equal to half of the applicable margin, paid on each interest payment date; for Tranche A paid in cash and for Tranche B, paid in kind but only if Tranche B is utliized. There is a cancellation premium on Tranche A and (if used) Tranche B, equal to the relevant commitment fee on the cancelled amount calculated from the date of cancellation to the applicable final maturity date.

Financial covenants are essentially the same as those applying for the Remaining Bonds (save for those financial covenants which only apply from the discharge date of the SSRCF) and in addition there are utilisation conditions which comprise, on a simplified basis of: (i) a minimum interest cover ratio (EBITDA to SSRCF cash charges) of 1.0x, (ii) a minimum 4-year Rolling Net Present Value cover ratio of 1.3x, (iii) a minimum group cash requirement of $5 million on a projected basis until the SSRCF discharge date and (iv)) in relation to a Tranche B utilization only, a minimum field life cover ratio of 1.75x.

The SSRCF will have senior ranking in relation to guarantees and security package as described under the Bond, as set out in the Intercreditor Agreement (as defined herein).

(vi) **Other actions.** A number of further agreements and actions are provided for in the Recapitalization Agreement. At the same time as the entry into the Fourth Bond Amendment (see "Bond" below) and the New Loan Agreement, the Company and SRUK shall also enter into an intercreditor agreement (the "Intercreditor Agreement") with the Senior Lenders and the Bondholders. Each of the Company and its affiliates (including SHL) shall also execute the guarantees and security documents contemplated in the Fourth Bond Amendment Agreement and the New Loan Agreement. The Exit Fee Letter entered into between the Company and the Bond Trustee pursuant to the Amendment and Restatement Agreement No. 3 (as described in the Company's news release of October 22, 2015) will be terminated on the Recap Closing Date. As soon as practicable following the Recap Closing Date, the Company will call and conduct a special meeting of shareholders to consider, among other things, a resolution approving the creation of one or more new "Control Persons" (as defined in TSX Venture Exchange ("TSXV") Policy 1.1 – Interpretation) pursuant to the Recapitalization and a resolution approving the consolidation of the Common Shares on a basis to be determined by the Board of Directors following the completion of the Bond Exchange (the "Recapitalization Resolutions").

Completion of the Recapitalization Agreement is subject to certain conditions precedent normal for an agreement of this type, including certain consents from the TSXV and the UK Oil & Gas Authority, but approval of the Company's shareholders is not required. In addition, completion of the Recapitalization Agreement, Fourth Bond Amendment Agreement and the New Loan Agreement are inter-conditional.

Sterling appointed FirstEnergy Capital LLP in January 2016 as a financial adviser to assist in assessing the recapitalization being negotiated and, ultimately, to render an opinion to the directors of the Corporation as to its fairness, from a financial point of view, to the shareholders. FirstEnergy rendered its opinion that as of March 9, 2016, based upon and subject to the various considerations set forth therein, the Recapitalization, if implemented, is fair from a financial point of view to the shareholders.

BOND

In April 2013, SRUK completed the issuance of the Bond, which is listed on the Nordic Alternative Bond Market in Oslo (under the ticker STRE01 PRO) but not actively traded. The Bond Agreement has been amended and restated as a result of three sets of amendments approved by holders of the Bond "Bondholders", first in December 2014 (the "First Bond Amendments"), secondly in May 2015 (the "Second Bond Amendments"), and thirdly in November 2015 (the "Third Bond Amendments"). These three sets of amendments led to the entry into the Amended and Restated Bond Agreements No. 1, 2 and 3 respectively. A further set of amendments (the "Fourth Bond Amendments") has been approved by Bondholders in a meeting held on March 18, 2016 and will be contained in the Fourth Bond Amendment Agreement, which will be entered into on and become effective as from the Closing Date.

The Bond is governed by Norwegian Law and the trustee for the Bond is Nordic Trustee ASA (formerly Norsk Tillitsmann ASA; the "Bond Trustee"). Note SRUK has changed its legal form twice (for tax and security related considerations), from a limited company at the time of the original Bond issue to a public limited company and recently back to a limited company.

The Bond was originally set to mature on April 30, 2019 but pursuant to the Fourth Bond Amendments this will be extended to April 30, 2020. At the time of issuance, the Bond carried an interest coupon of 9 percent payable in cash semi-annually on April 30 and October 30 of each year and pursuant to the Second Bond Amendments the coupon was increased to 14 percent per annum (paid in cash) as from October 30, 2015. Pursuant to the Fourth Bond Amendments, the coupon will drop back to 9 percent per annum calculated from the Recap Closing Date and will be paid in kind until the date the SSRCF is repaid, prepaid or cancelled (the "SSRCF Discharge Date") and thereafter paid in cash. To the date of this report, all interest payments have been paid in full when due.

At the time of issue, the Bond was callable (prepayable) at the option of SRUK 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 four, 102 percent in year five, 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. Pursuant to the Fourth Bond Amendments, the call price will be decreased to par value from the Recap Closing Date 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 would be repaid at 100 percent of par value. Pursuant to the Second Bond Amendments, the amortization price has been set at 107.5 percent of par value for all instalments from April 30, 2015 onwards. In order to avoid a potential payment default, the amortization instalment due on April 30, 2015 (the "April 2015 Instalment") was deferred until the closing of the Romanian Sale (as defined herein) on August 26, 2015, in accordance with the Second Bond Amendments. For the same reason, the amortization instalment due on October 30, 2015 (the "October 2015 Instalment") was deferred pursuant to the Third Bond Amendments until the earlier of (i) completion of a financing, corporate sale, or asset sale transaction leading to a full redemption of the outstanding Bonds (including the 7.5 percent call premium, and accrued interest and other related costs), or (ii) February 29, 2016. As a result of the two instalments paid on October 30, 2014 and on August 26, 2015, the outstanding Bond principal is currently $180 million. Pursuant to the Fourth Bond Amendments, from the Recap Closing Date the amount of the Remaining Bonds will be $40 million (unless increased as a result of an exchange rate movement as described under "Bond Exchange" above) with no associated accrued and unpaid redemption premium, amendment fees or interest. Repayment will occur via a cash sweep (subject to various tests) after the SSRCF Discharge Date with any final balance under the SSRCF repayable as a single sum on maturity.

Pursuant to the Bond, 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") (such transfers being the "Monthly Transfers"). The DSRA is charged and blocked in favour of the Bond Trustee. Pursuant to the First and Second Bond Amendments, no Monthly Transfers were made from November 2014 until October 2015 inclusive and pursuant to the Third Bond Amendments, the requirement for Monthly Transfers was deleted. Pursuant to the Fourth Bond Amendments, the Monthly Transfers will be reinstated such that the first Monthly Transfer will be made in the month following the SSRCF Discharge Date.

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 SRUK, as well as a parent company guarantee. Pursuant to the First Bond Amendments, this security package was extended to the Company's Romanian business; subsequent to completion of the Romanian Sale, the only remaining security interest of Bondholders relating to Romania is a pledge of certain of the Company's receivables relating to the Midia Carve-Out Transaction with ExxonMobil and other parties in 2012 (the "Carve Out Transaction"). Pursuant to the Third Bond Amendments, additional security was provided by an assignment of receivables owed to SRUK from its subsidiary in the Netherlands. Pursuant to the Fourth Bond Amendments, this security will be extended to cover the shares and assets of SHL and SHL will provide a guarantee. In addition, all the new security documents and SHL guarantee will be granted in favour of a newly-appointed security agent and the existing security documents and Parent guarantee will be novated in favour of the security agent.

Net proceeds from the Romanian Sale received in August 2015 of approximately $27.4 million (being gross proceeds less a cash payment to Gemini, transaction-related taxes and reimbursement to Sterling of allowable transaction fees already paid; see "Romanian Sale") were applied pursuant to the cash waterfall provisions set out in the Second Bond Amendments. $24.8 million of this amount was used to pay Bondholders the outstanding April 2015 Instalment (together with 7.5 percent amortization premium and accrued interest) and the remaining $2.6 million was transferred to the DSRA and was used towards funding the interest payment made on October 30, 2015. Further transfers to the DSRA resulting from the application of the cash waterfall have been made upon the post completion settlement of the Romanian Sale and following the receipt of a refund of Romanian VAT.

Prior to the Fourth Bond Amendments there were two financial covenants under the Bond Agreement: first, SRUK was required to maintain at all times a minimum level of liquidity (unrestricted cash and cash equivalents) of $10 million and secondly, 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 and Second Bond Amendments, the minimum UK liquidity was reduced on a temporary basis to between $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. Pursuant to the Third Bond Amendments, the minimum UK liquidity was kept at $5 million from October

30, 2015 to November 29, 2015, and increased to $7.5 million from November 30, 2015 to February 28, 2016. The minimum UK liquidity was kept at $7.5 million pursuant to an amendment letter dated February 29, 2016 and was reduced to $5 million from March 18, 2016 pursuant to an amendment approved at a Bondholder meeting on that date. Pursuant to the Fourth Bond Amendments, from the Recap Closing Date further changes to the financial covenants will become effective, as follows:

(i) the minimum liquidity requirement will be calculated at a Group level and will remain at $5 million until maturity, to be satisfied at all times;
(ii) the minimum equity ratio requirement will be deleted;
(iii) a minimum field life cover ratio (corporate net present value divided by total SSRCF debt) of 1.5x, dropping to 1.0x after the date the SSRCF Discharge Date, to be tested at the end of each quarter and upon certain other events;
(iv) cumulative production for the previous 12 months (or a shorter period during 2016) of not less than 90% of the budgeted amount, to be tested at the end of each month;
(v) projected liquidity of $5 million (on a Group basis) until the Bond maturity date (excluding in any such projection the repayment of the Bond on maturity), to be tested at the end of each quarter after the SSRCF Discharge Date; and
(vi) a minimum debt service cover ratio of 1.0x, calculated over the previous 12 months (or a shorter period during 2016), to be tested at the end of each quarter from the end of the second quarter after the SSRCF Discharge Date.

FTI Consulting, a financial adviser, was appointed by the Bond Trustee in April 2015 at Sterling's cost to review the Company's assets, cash flows and sale/financing initiatives in support of the Second Bond Amendments. In addition, pursuant to the Second Bond Amendments, Sterling appointed Jefferies International in July 2015 as its strategic 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. Sterling has also appointed MHW Associates Limited to assist in the assessment and implementation of certain refinancing options. All three of these advisory appointments are ongoing.

Pursuant to the First Bond Amendments, an amendment fee of $2.5 million was paid to bondholders in December 2014. Pursuant to the Second Bond Amendments, an amendment fee of $3 million was paid to Bondholders in May 2015 and two further amendment fees, each of $750,000, were paid to Bondholders in July and August 2015 as a result of completion of the Romanian Sale being delayed beyond July 15, 2015. Pursuant to the Third Bond Amendments, an initial amendment fee of $1 million was paid to Bondholders in November 2015 and additional amendment fees of $6 million were due within five business days of February 29, 2016 as a result of the Bond not having been redeemed by that date. Pursuant to the Recapitalization Agreement, such additional amendment fees will be included in the Bond Liabilities being cancelled as a result of subscriptions received in the Rights Offering and/or exchanged into new Common Shares as a result of the Bond Exchange. Between February 29, 2016 and the Recap Closing Date, the requirement to pay the additional amendment fees has been postponed pursuant to further amendments agreed with Bondholders.

The Third Bond Amendments also included the introduction of a potential "Exit Fee" which may have been payable after bond redemption, being effectively 20 percent of the incremental final (post bond redemption) equity value above a 100 percent increase on the initial equity value (measured prior to approval of the Third Bond Amendments), payable in cash and/or common shares in Sterling Resources Ltd. and subject to certain adjustments and conditions. The requirement for this Exit Fee will be cancelled from the Recap Closing Date, pursuant to the Recapitalization Agreement. In addition, the Third Bond Amendments required the appointment of an Independent Director to the board of directors of the Company (subsequently amended to the appointment of a board observer) and Sterling Resources (UK) plc, as nominated by the Bond Trustee.

As at March 31, 2016 and to the date of this report, the Company was in compliance with the terms of the Bond (as amended and with waivers provided by Bondholders).

ROMANIAN SALE AND CARVE-OUT TRANSACTION

On August 26, 2015 the Company completed the sale of its remaining Romanian business (the "Romanian Sale") to Carlyle International Energy Partners ("Carlyle"). The sale included licence blocks 13 Pelican, 15 Midia and 25 Luceafarul, structured as a corporate sale of the Company's wholly-owned subsidiary Midia Resources SRL and was first announced on March 26, 2015.

The headline consideration for the transaction was $42.5 million. In addition, Carlyle also reimbursed Sterling approximately $1.4 million in costs incurred by Midia Resources SRL between signing and completion ("Interim Period Costs"), of which half was paid on completion and the other half (subject to adjustments) was paid as a post completion settlement in December 2015. Sterling received an initial cash payment of approximately $40.5 million from Carlyle, which is $42.5 million less an amount withheld on account of Romanian VAT of approximately $2.7 million plus approximately $0.7 million as half of the Interim Period Costs. Subsequent to completion, Sterling filed a quarterly return, subject to future tax audit, for Romanian corporate tax in October 2015 showing an overall net capital loss and hence no corporate tax liability arising from the transaction (after taking into account the availability of tax deductible past costs and losses). The VAT amount with minor adjustments was refunded to Sterling in March 2016, together with a refund of $0.8 million relating to past costs unrelated to the Romanian Sale. No Canadian corporate tax is expected to be payable as a result of available tax deductions.

Concurrent with the Romanian Sale, Sterling has terminated the investment agreement signed with Gemini in 2007 for a cash consideration of $10 million (the "Gemini Cash Payment") and the issuance to Gemini of 60,372,876 common shares of Sterling ("Common Shares") with a market value of $7.5 million.

Net of the Gemini Cash Payment, transaction-related taxes and reimbursement to Sterling of allowable transaction fees already paid, an initial amount of approximately $27.4 million out of the Romanian Sale proceeds was applied pursuant to the cash waterfall provisions of the Bond Agreement (see "Financing Activities – Bond").

Because the sale closed more than two months after July 15, 2015, Sterling made two payments to Bondholders each of $0.75 million, in accordance with the Bond Agreement.

The Company's interest in block 27 Muridava was sold to Petroceltic Resources PLC in June 2015. This sale was contemplated in the Romanian Sale agreement and the consideration for the Romanian Sale was unaffected. Consideration for the Muridava sale was non-material and the buyer accepted all of the outstanding obligations relating to the licence.

Sterling's entitlement to further contingent payments from the completed sale of its 65 percent interest in a portion of the Midia Block in the Romanian Black Sea (the "Carve-out Portion") to ExxonMobil Exploration and Production Romania and OMV Petrom S.A., which was announced on January 29, 2014, is unaffected by the Romanian Sale Agreement. These contingent payments relate to future exploration and development success occurring in the Carve-out Portion, and comprise $29.25 million upon a commercial discovery being made and an additional $19.5 million upon first production.

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 the UK 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 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 was 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 became available.

Pursuant to these TAQA funding arrangements the Company retains a minimum 2 percent interest in Cladhan throughout, for which the original budgeted development cost is funded out of a portion of the fixed First Carry. 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 the balance of the Second Carry.

Due to cost and time overruns on the project and the drop in worldwide commodity prices, under the RPS pricing assumptions used in the Company's 2015 reserves report (NI 51-101F1), pay-out of the Second Carry is not now likely to occur and the liability has been re-measured to reflect the amount most likely to be repaid from future revenues of the 11.8 percent. The Second Carry balance has been re-measured down to $37,661,000, with $23,652,000 recorded as a current liability on the balance sheet as it is expected to reduce the carry over the next twelve months and $14,009,000 was recorded as a non-current liability expected to be the balance of the carry that will be repaid. The recoverable amounts were based on the value in use 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 eight years, derived using proved plus probable reserves as at March 31, 2016. The cash flows (based on level III fair value hierarchy) used commodity prices in Sterling's independent reserves report, produced by RPS, as at December 31, 2015 price forecast taking into account actual production in the first quarter of 2016 and a pre-tax discount rate of 17 percent. If the Second Carry does not pay-out Sterling has no further liability to TAQA regarding the 11.8 percent interest. The resulting reduction in the amount of liability that was due to be paid under the carry arrangements has seen a credit of $7,151,000 recorded in the income statement (year ending December 31, 2015 - $22,655,000). The impairment of the 11.8 percent asset has also been impaired down to the same level as the non-financial liability and recorded under impairment of oil and gas properties.

In the event of a large increase in commodity prices and pay-out does occur then provided the remaining net present value of the field is positive, the 11.8 percent interest will be returned to Sterling whose equity interest would then be 13.8 percent. 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, 2016**	December 31, 2015
	$000s	$000s
Cash and cash equivalents	**11,976**	10,889
Restricted cash	**1,889**	1,306
Trade and other receivables	**4,000**	8,369
Inventory	**514**	325
Prepaid expenses	**273**	227
Trade and other payables	**(5,543)**	(7,113)
Accrued interest payable	**(9,568)**	(3,277)
Current portion of decommissioning obligations	**(705)**	(722)
Current portion of long-term debt	**(189,605)**	(189,593)
	(186,769)	(179,589)

Net working capital, defined as current assets less current liabilities excluding the Cladhan funding arrangements, was a deficit of $186,769,000 as at March 31, 2016, and has increased due to accrued interest payable rising by $6,291,000. The main reason for the deficit is the Bond being fully repayable in the absence of the completion of the Recapitalization (see "Financing Activities"). Both trade and other receivables and payables are at lower offsetting levels compared to December 31, 2015. The Cladhan funding arrangements (see "Financing Activities") will be repaid from oil revenues from the 11.8 percent interest in the property currently held by TAQA and have therefore been excluded from the net working capital calculation.

Cash and cash equivalents at March 31, 2016 include term deposits of $7,062,000 (December 31, 2015 – $9,729,000).

As at March 31, 2016, the Company had approximately $4,000,000 of receivables due, including $2,516,000 of revenue receivable from Breagh gas sales which was paid in April 2016 (December 31, 2015 - $4,524,000).

Trade and other payables of $5,543,000 as at March 31, 2016 mainly comprised accrued expenditures related to the Breagh development project.

COMMITMENTS AND CONTINGENCIES

Commitments as at March 31, 2016 for the years 2016 through 2020 and thereafter, comprise the following:

	2016	2017	2018	2019	2020	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and gas drilling	**2,497**	20,118	19,543	-	-	-	**42,158**
Licence fees	**790**	1,052	1,495	1,939	2,383	-	**7,659**
Other operating	**253**	387	327	139	-	-	**1,106**
Office and other leases	**808**	593	550	540	540	-	**3,031**
	4,348	22,150	21,915	2,618	2,923	-	**53,954**

The above facilities, oil and natural gas drilling commitments in 2016 relate to additional work on Breagh Phase 1 development costs and amounts for long lead items for drilling in 2017. One exploration/appraisal well is shown at 100 percent in each of 2017 and 2018 as commitments though it is likely these would progress under a farm in agreement with these costs shared.

Costs under facilities, oil and gas drilling, office and other leases and other operating categories have reduced following the Romanian Sale (see “Financing Activities”) as these have all been transferred to Carlyle to the extent they relate to the Romanian business.

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 approximately $2,568,000 of the office and other leases commitment will be covered by this sub-lease.

LIQUIDITY AND SOLVENCY

The Company’s consolidated net working capital deficit as at March 31, 2016, was $186,769,000 compared to a net working capital deficit of $179,589,000 as at December 31, 2015. The Company’s liquidity position has been materially improved since December 31, 2015 by entering into the the Recapitalization Agreement (see “Financing Activities – Recapitalization”) and previously by entering into the First, Second and Third Bond Amendments (see “Financing Activities – Bond”), and certain other short term waivers and amendments to the Bond Agreement. As a result of the First Bond Amendments, the requirement to make a monthly transfer to the DSRA at the end of November 2014 was cancelled. Pursuant to the Second Bond Amendments, the requirement to pay the April 2015 Instalment to Bondholders was deferred until completion of the Romanian Sale in August 2015. The requirement to pay the October 2015 Instalment was postponed pursuant to the Third Bond Amendments. Finally, subject to completion, the Recapitalization will make fundamental material improvements to the liquidity and solvency of the group by reducing the Bond Liabilities to approximately $40 million, by providing up to $40 million of new funding available through the provision of the SSRCF, by making Bond interest payable in kind prior to cancellation of the SSRCF and by not requiring any prepayments of the Bond prior to cancellation of the SSRCF. The Company expects to be able to refinance the SSRCF and the Bond prior to the SSRCF maturity date, possibly through a bank market reserves-based loan.

Over the four years 2016 to 2019 inclusive, the Company has commitments amounting to approximately $54 million (see “Commitments and Contingencies”), of which $41 million arises from UK exploration well drilling costs, with much smaller committed costs thereafter. The Company expects to be able to farm-down these exploration licences or seek further licence extensions so that it would not incur such costs in this time period. In addition, expected (but not committed) capital expenditures on the UK Breagh field over this same four year period on the assumption of drilling wells A09 and A10 and installing onshore compression should amount to approximately $51 million (see “Development Activity - Breagh Development – Forward View”), again with much smaller committed costs thereafter. The Company has modelled its expected future net cash flows (excluding the $41 million of UK exploration well drilling costs) on the basis that the Company expects to be able to farm-down these exploration licences or seek further licence extensions so that it would not incur such costs over the four years 2016 to 2019 inclusive) and on a pre-financing basis projects a minimum group cash balance of approximately $5 million during the four year period (reached at the end of the fourth quarter of 2018). Beyond this period, the Company expects cash balances to grow for several years. In this regard, in the Company’s view the key risks are interruptions to production from Breagh and lower than expected UK gas prices. The Company intends to mitigate the risk of the former by insuring for loss of production income and to mitigate the risk of the latter through gas price hedging. Taken together with these intended mitigation measures, the Company expects the availability of up to $40 million of additional funding from the SSRCF to provide sufficient headroom to meet all reasonable downside scenarios of operating and financial performance.

Upon completion of the Recapitalization (see “Financing Activities – Recapitalization”), the financial position of the Company should be significantly strengthened with a reduction in the outstanding Bonds and the provision of additional financing if required. While there are certain conditions precedent that are required to be satisfied prior to the completion of the Recapitalization, the nature of these conditions are such that the Directors currently do not envisage any issue arising that will prevent the completion of the Recapitalization, which is expected to occur around May 27, 2016. Subject to the completion of the Recapitalization, the Company will have sufficient funding to continue as a going concern.

While the Directors expect the conditions precedent to the Recapitalization to be met, certain of the conditions are beyond the Company’s control and in the event that the Recapitalization were not to complete, it would cast a significant doubt as to the Company’s ability to continue as a going concern and the Company would be unable to realize its assets and discharge its liabilities in the normal course of business.

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, 2016 to be approximately $53,298,000, which will be incurred between 2016 and 2036. Two wells on the Sheryl licence are planned to be abandoned in the next twelve months and this portion of the decommissioning obligation, $705,000, has been disclosed as a current liability (December 31, 2015 - $722,000). During the year ended December 31, 2015 the Company sold its Romanian business including all decommissioning obligations resulting in an obligation disposal of $2,354,000 and completed the non-operational abandonment of the Grenade well in France resulting in a further obligation disposal of $55,000. Decommissioning obligations arising in the year ended December 31, 2015 relate to facilities related to the Cladhan development. Decommissioning estimates for the Cladhan development are currently calculated at an equity percentage of 2 percent, but may rise to 13.8 percent in the event of repayment of the Cladhan funding arrangements (See "Financing Activities"). Revisions to estimates in the year ended December 31, 2015 relate to a decrease in the operator estimate for abandonment of the Breagh development and to adjustments in the risk free interest rate (used for discounting). Risk free interest rates based on UK long-term government bond rates varying from 1.37 percent to 2.39 percent (December 31, 2015 – 1.37 to 2.39 percent) and an inflation rate of 2 percent (December 31, 2015 – 2 percent) were used to calculate the longer term decommissioning obligations at March 31, 2016.

	Three months ended March 31, 2016	Twelve months ended December 31, 2015
	$000s	$000s
Balance, beginning of the period	**36,841**	55,564
Arising during the period	**-**	332
Obligation disposal	**-**	(2,409)
Revisions to estimates	**-**	(15,652)
Foreign exchange differences	**(1,159)**	(1,826)
Accretion of discount	**184**	832
Balance, end of the period	**35,866**	36,841

2016 PLANS

In the UK:

- Move forward with preparation for the remainder of the Breagh Phase 1 project, specifically confirming well locations for the remaining wells and ensuring the onshore compression project is optimized for a low gas price environment;
- Continue to evaluate the potential for Breagh Phase 2 recognizing this will only occur if an economically viable development plan can be prepared;
- Continue with efforts to farm-out the UK licences containing the Niadar and Ossian/Darach prospects;
- To exit all other exploration and appraisal activities where the ongoing costs are not justified by the potential and timing of future exploration success;
- Post completion of the Recapitalization, consider acquisitions of North Sea assets which might optimize Sterling's UK tax attributes; and
- Post completion of the Recapitalization, consider further material reductions in G&A costs.

In the Netherlands:

- Achieve value for the Dutch contingent resources in blocks F17a/F18 via an asset sale or a joint regional development;

Corporately:

- Complete the Recapitalization;
- Together with Senior Lenders, prepare and execute an appropriate hedging strategy – this has been agreed and the relevant hedges were put in place in April and May 2016; and

- Post completion of the Recapitalization, consider corporate transactions that are value accretive for shareholders and which would improve the credit-worthiness of the Group.

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 transactions in the three month period ended March 31, 2016 or 2015. In the three month period ended March 31, 2016 £200,000 ($272,000) was charged by a company called Corporate Development partnership for the restructuring professional services of Andy Leeser, who is also a director of the Company's UK subsidiary and sits as an observer on the board of the Company. The Company has a 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, 2016 the Company had a receivable of $2,516,000 (December 31, 2015 – $4,524,000) from Vitol for gas sold in March 2016, which was paid in April 2016. 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 (as well as from a third party) 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, 2016	December 31, 2015
(Unaudited)	US$000s	US$000s
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	**11,976**	10,889
Restricted cash	**1,889**	1,306
Trade and other receivables (note 4)	**4,000**	8,369
Inventory	**514**	325
Prepaid expenses	**273**	227
	18,652	21,116
Non-current assets		
Exploration and evaluation assets (note 6)	**24,117**	24,668
Property, plant and equipment (note 7)	**322,102**	341,029
Repayment option on long-term debt (notes 8 & 10)	**554**	554
Deferred tax asset (note 19)	**63,978**	66,073
	410,751	432,324
	429,403	453,440
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**5,543**	7,113
Decommissioning obligations (note 9)	**705**	722
Accrued interest payable (note 10)	**9,568**	3,277
Current portion of long-term debt (note 10)	**189,605**	189,593
Cladhan funding arrangements (note 11)	**23,652**	21,358
	229,073	222,063
Non-current liabilities		
Decommissioning obligations (note 9)	**35,161**	36,119
Cladhan funding arrangements (note 11)	**14,009**	20,485
	49,170	56,604
Commitments and contingencies (note 12)		
Equity		
Share capital (note 13)	**427,440**	427,440
Contributed surplus	**19,642**	19,552
Accumulated other comprehensive loss	**(38,046)**	(31,710)
Deficit	**(257,876)**	(240,509)
	151,160	174,773
	429,403	453,440

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, 2016 (“the Financial Statements”)

CONDENSED CONSOLIDATED INCOME STATEMENT

Three months ended March 31,	**2016**	2015
(Unaudited)	US$000s except per share	
Revenue (note 16)	**12,498**	25,816
Third-party entitlement (note 16)	**(596)**	(3,019)
	11,902	22,797
Expenses		
Operating expense	**(2,989)**	(5,187)
Pre–licence and other exploration expenditures	**(968)**	(6,446)
Impairment of oil and gas properties (note 7)	**(1,593)**	-
Depletion, depreciation and amortization (note 7)	**(10,510)**	(11,345)
Loss on derivative financial instruments (notes 8 & 10)	**-**	(84)
Re-measurement of Cladhan non-financial liability (note 11)	**7,151**	-
Employee expense (note 15)	**(818)**	(1,786)
General and administration expense	**(401)**	(1,021)
Refinancing and strategic review	**(4,622)**	(5,161)
Foreign exchange loss	**(6,361)**	(10,456)
Total expenses	**(21,111)**	(41,486)
Financing income	**154**	176
Financing costs (note 17)	**(8,312)**	(5,919)
Net financing cost	**(8,158)**	(5,743)
Loss on disposal	**-**	(4)
Loss before income taxes	**(17,367)**	(24,436)
Deferred tax (expense) (note 19)	**-**	(20,103)
Net loss for the year	**(17,367)**	(44,539)
Net loss per common share (note 18)		
Basic	**(0.04)**	(0.12)
Diluted	**(0.04)**	(0.12)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Three months ended March 31,	**2016**	2015
	US$000s	US$000s
Net loss	**(17,367)**	(44,539)
Items that may be subsequently reclassified to profit and loss:		
Foreign currency translation adjustment	**(6,336)**	(16,973)
Comprehensive loss	**(23,703)**	(61,512)

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)	Share Capital US$000s	Contributed Surplus US$000s	Accumulated Other Comprehensive Loss US$000s	Surplus / (deficit) US$000s	Total US$000s
Balance at January 1, 2015	419,940	18,877	(28,115)	(33,600)	377,102
Share-based compensation (note 15)	-	193	-	-	193
Foreign currency translation	-	-	(16,973)	-	(16,973)
Income for the year	-	-	-	(44,539)	(44,539)
Balance at March 31, 2015	419,940	19,070	(45,088)	(78,139)	315,783
Balance at January 1, 2016	**427,440**	**19,552**	**(31,710)**	**(240,509)**	**174,773**
Share-based compensation (note 15)	**-**	**90**	**-**	**-**	**90**
Foreign currency translation	**-**	**-**	**(6,336)**	**-**	**(6,336)**
Loss for the year	**-**	**-**	**-**	**(17,367)**	**(17,367)**
Balance at March 31, 2016	**427,440**	**19,642**	**(38,046)**	**(257,876)**	**151,160**

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31,	**2016**	2015
(Unaudited)	US$000s	US$000s
Cash flows from operating activities		
Loss for the period	**(17,367)**	(44,539)
Adjustments for:		
Unrealized foreign exchange loss	**6,728**	11,276
Loss on disposal	**-**	4
Depletion, depreciation and amortization (note 7)	**10,510**	11,345
Impairment of oil and gas properties (notes 7)	**1,593**	-
Unrealized loss on derivative financial instruments (notes 8 & 10)	**-**	84
Amortization of bond amendment costs	**-**	2,756
Re-measurement of Cladhan non-financial liability (note 11)	**(7,151)**	-
Share-based compensation (note 15)	**90**	193
Accretion of decommissioning discount (note 17)	**184**	268
Financing income	**(154)**	(176)
Financing costs (note 17)	**8,128**	5,651
Cladhan non-cash revenues (note 16)	**(2,377)**	2,756
Deferred tax expense (note 19)	**-**	20,103
	184	6,965
Change in non-cash working capital	**3,272**	(5,381)
Cash flows from operating activities	**3,456**	1,584
Cash flows used in investing activities		
Exploration and evaluation asset additions	**(257)**	3,512
Property, plant and equipment additions	**(1,594)**	(3,807)
Cash flows used in investing activities	**(1,851)**	(295)
Cash flows used in financing activities		
Increase in restricted cash	**(583)**	-
Financing income	**154**	176
Premium paid on derivative financial instruments (note 8)	**-**	(1,441)
Cash flows used in financing activities	**(429)**	(1,265)
Effect of translation on foreign currency cash and cash equivalents	**(89)**	(135)
Increase (decrease) in cash and cash equivalents during the period	**1,087**	(111)
Cash and cash equivalents, beginning of the period	**10,889**	17,710
Cash and cash equivalents, end of the period	**11,976**	17,599

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, 2016.

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 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) Ltd ("Sterling UK"), Sterling Resources Netherlands B.V., and up to the point of disposal 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 19, 2016, 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, 2015.

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

GOING CONCERN

Upon completion of the Recapitalization (see note 10), the financial position of the Company should be significantly strengthened with a reduction in the outstanding Bonds and the provision of additional financing if required. While there are certain conditions precedent to the completion of the Recapitalization (collectively the "Recapitalization"), these are considered to be largely procedural in nature and the Directors do not envisage any issue arising that will prevent the completion of the Recapitalization, which is expected to occur around May 27, 2016. On the completion of the Recapitalization, the Company will have sufficient funding to continue as a going concern for the foreseeable future and accordingly the financial statements continue to be prepared under the going concern basis.

While the Directors expect the conditions precedent to the Recapitalization to be met, certain of the conditions are beyond the Company's control. In the event that the Recapitalization were not to complete, it would cast a significant doubt as to the Company's ability to continue as a Going Concern and the Company would be unable to realize its assets and discharge its liabilities in the normal course of business.

BASIS OF CONSOLIDATION

The Financial Statements comprise the financial statements of the Company and its subsidiaries as at March 31, 2016. 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, 2016**	December 31, 2015
	$000s	$000s
Cash	**4,915**	1,160
Cash equivalents	**7,061**	9,729
	11,976	10,889
Balances held in:		
Canadian dollars	**30**	110
US dollars	**5,809**	9,003
UK pounds	**1,900**	1,742
Other	**4,237**	34
Cash and cash equivalents	**11,976**	10,889

As at March 31, 2016, cash and cash equivalents (including short term deposits) carried annual interest rates between 0.00 percent and 0.79 percent (December 31, 2015 – 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 – other financial liabilities; and
- Long-term debt – other financial liabilities.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of derivative financial instruments is discussed in note 8. The fair value of the long-term debt is discussed in note 10.

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 up until disposal Romanian operations are the UK pound, Canadian dollar ("C$") 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, 2016.

	$000s
Canadian dollar vs. UK pound	9
Canadian dollar vs. US dollar	6
UK pound vs. Euro	5
UK pound vs. US dollar	1,808

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, 2016, a 1 percentage point change in average interest rates over a three month period would increase or decrease net income or loss by approximately $35,000.

The interest rate charged under the Bond is currently fixed at 14 percent per annum. As these rates are fixed 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.

Upon completion of the Recapitalization (see note 10), the financial position of the Company should be significantly strengthened with a reduction in the outstanding Bonds and the provision of additional financing if required. While there are certain conditions precedent that require to be satisfied prior to the completion of the Recapitalization, the nature of these conditions are such that the Directors currently do not envisage any issue arising that will prevent the completion of the Recapitalization, which is expected to occur around May 27, 2016. Subject to the completion of the Recapitalization, the Company will have sufficient funding to continue as a going concern and the Directors have therefore prepared the accounts on this basis. See note 2 for further details in respect of the Going Concern basis adopted herein. The Company expects to be able to refinance the SSRCF and the Bond prior to the SSRCF maturity date, possibly through a bank market reserves-based loan.

Over the four years 2016 to 2019 inclusive, the Company has commitments amounting to approximately $54 million (see note 12), of which $41 million arises from UK exploration well drilling costs, with much smaller committed costs thereafter. The Company expects to be able to farm-down these exploration licences or seek further licence extensions so that it would not incur such costs in this time period. In addition, expected (but not committed) capital expenditures on the UK Breagh field over this same four year period on the assumption of drilling wells A09 and A10 and installing onshore compression should amount to approximately $51 million, again with much smaller committed costs thereafter. The Company has modelled its expected future net cash flows (excluding the $41 million of UK exploration well drilling costs) on the basis that the Company expects to be able to farm-down these exploration licences or seek further licence extensions so that it would not incur such costs over the four years 2016 to 2019 inclusive) and on a pre-financing basis projects a minimum group cash balance of approximately $5 million during the four year period (reached at the end of the fourth quarter of 2018). Beyond this period, the Company expects cash balances to grow for several years. In this regard, in the Company's view the key risks are interruptions to production from Breagh and lower than expected UK gas prices. The Company intends to mitigate the risk of the former by insuring for loss of production income and to mitigate the risk of the latter through gas price hedging. Taken together with these intended mitigation measures, the Company expects the availability of up to $40 million of additional funding from the SSRCF to provide sufficient headroom to meet all reasonable downside scenarios of operating and financial performance.

The following table as of March 31, 2016, and December 31, 2015 shows the maturities of undiscounted financial liabilities inclusive of any interest where the Bond, in the absence of the completion of the Recapitalization (see note 10) is shown as current to be repaid in full in 2016:

	March 31, 2016	December 31, 2015
	$000s	$000s
Coupon payment	**14,700**	8,540
Principal repayment	**180,000**	180,000
Bonus principal repayment	**13,500**	13,500
Trade and other payables	**5,543**	7,113
	213,743	209,153

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. 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 and have now expired. The put options were purchased from BNP Paribas and Vitol SA for a total consideration of approximately $1.4 million.

Subsequent to the quarter end date, the Company purchased monthly cash-settled UK gas price put options from BNP Paribas and Citigroup to cover a proportion of the Company's expected production for a total consideration of approximately $2.1 million, as follows:

Period	Strike price, UK pence/therm	Hedge amount, million therms	Equivalent volume hedged, MMscf*	Forecast Production MMscf*	Approx. production proportion hedged
Jun-16	30.0	4.0	402	538	75%
Q3 2016	30.0	15.0	1,506	1,972	76%
Q4 2016	34.0	8.1	813	1,743	47%
Q1 2017	34.0	8.1	813	1,568	52%
Q2 2017	31.0	7.2	723	1,327	54%
Q3 2017	31.0	8.1	813	1,657	49%
Q4 2017	34.0	10.1	1,012	2,048	49%
Total		60.6	6,082	10,853	56%

*MMscf = million standard cubic feet

The Company intends to review its hedging program regularly in consultation with the Senior Lenders (see note 10).

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 (i) for gas sold in one month and paid in the following month, (ii) with governments for recoverable amounts of value added taxes ("VAT") and (iii) with 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, 2016 the amount receivable from Vitol was $2,516,000, 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, 2016 (December 31, 2015 - 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, 2016 the cash, cash equivalents and restricted cash were held with five different institutions from four 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 variety of financial covenants (see note 10). 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 and efforts to redeem the Bond (see note 10), no changes were made in the Company's capital management objectives, policies or processes during the period ended March 31, 2016.

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 (see note 10). 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) ROMANIAN SALE

On August 26, 2015 the Company completed the sale of its remaining Romanian business (the "Romanian Sale") to Carlyle International Energy Partners ("Carlyle"). The sale included licence blocks 13 Pelican, 15 Midia and 25 Luceafarul, structured as a corporate sale of the Company's wholly-owned subsidiary Midia Resources SRL and was first announced on March 26, 2015.

The headline consideration for the transaction was $42.5 million. In addition, Carlyle also reimbursed Sterling approximately $1.4 million in costs incurred by Midia Resources SRL between signing and completion ("Interim Period Costs"), of which half was paid on completion and the other half (subject to adjustments) was paid as a post completion settlement in December 2015. Sterling received an initial cash payment of approximately $40.5 million from Carlyle, which is $42.5 million less an amount withheld on account of Romanian VAT of approximately $2.7 million plus approximately $0.7 million as half of the Interim Period Costs. Subsequent to completion, Sterling filed a quarterly return, subject to future tax audit, for Romanian corporate tax in October 2015 showing an overall net capital loss and hence no corporate tax liability arising from the transaction (after taking into account the availability of tax deductible past costs and losses). The VAT amount with minor adjustments was refunded to Sterling in March 2016, together with a refund of $0.8 million relating to past costs unrelated to the Romanian Sale. No Canadian corporate tax is expected to be payable as a result of available tax deductions.

Concurrent with the Romanian Sale, Sterling terminated the investment agreement signed with Gemini in 2007 for a cash consideration of $10 million (the "Gemini Cash Payment") and the issuance to Gemini of 60,372,876 common shares of Sterling ("Common Shares") with a market value of $7.5 million. Net of the Gemini Cash Payment, transaction-related taxes and reimbursement to Sterling of allowable transaction fees already paid, an initial amount of approximately $27.4 million out of the Romanian Sale proceeds was applied pursuant to the cash waterfall provisions of the Bond Agreement (see note 10). $24.8 million of this amount was used to pay Bondholders the outstanding amortization instalment which had been due on April 30, 2015, together with 7.5 percent amortization premium and accrued interest, and the remaining $2.6 million was transferred to the restricted Debt Service Retention Account ("DSRA") and was used subsequently towards funding the next interest payment due to Bondholders on October 30, 2015. Because the sale closed more than two months after July 15, 2015, Sterling made two payments to Bondholders each of $0.75 million, in accordance with the Bond Agreement.

6) EXPLORATION AND EVALUATION ASSETS ("E&E")

Minimal amounts have been capitalized to E&E assets during the three month period ending March 31, 2016.

No E&E assets have been impaired in the three month period ending March 31, 2016, however impairment costs in the year ending December 31, 2015 related to:

- Following the completion of the economic valuation of UK block 21/30f containing the Belinda discovery in the third quarter of 2015, Sterling has elected to withdraw from the licence resulting in an impairment of previously capitalised costs of $1,279,000.
- On August 26, 2015 the Company completed the sale of its remaining Romanian business (see note 5) resulting in a disposal of E&E assets of $25 million.

Movements in the balances of E&E assets are summarized below:

As at	**March 31, 2016**	December 31, 2015
	$000s	$000s
Balance, beginning of the period	**24,668**	51,844
E&E expenditures	**222**	413
Non-cash decommissioning costs (note 9)	**-**	11
Disposal of assets	**-**	(25,000)
Impairment	**-**	(1,279)
Foreign exchange	**(773)**	(1,321)
Balance, end of the period	**24,117**	24,668

7) PROPERTY, PLANT AND EQUIPMENT ("PP&E")

Development oil and gas properties are assessed for indicators of impairment at each reporting date.

Due to cost and time overruns on the Cladhan UK offshore property and the drop in worldwide commodity prices, under RPS pricing assumptions pay-out of the Second Carry (see note 11) is not now likely to occur and the liability has been re-measured to reflect the amount most likely to be repaid from future revenues of the 11.8 percent. At March 31, 2016 after comparison of the carrying value and its fair value the property was impaired by $1,593,000. The recoverable amounts were based on the value in use 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 eight years, derived using proved plus probable reserves as at March 31, 2016. The cash flows (based on level III fair value hierarchy) used commodity prices based on RPS Energy's reserves report and a pre-tax discount rate of 17 percent. This followed impairments on the Cladhan asset in the year ending December 31, 2015 of $38,099,000.

Depletion on the Breagh and Cladhan assets commenced with first production on October 12, 2013 and December 15, 2015 respectively.

As at		**March 31, 2016**			December 31, 2015	
	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	**469,696**	**1,227**	**470,923**	457,628	1,565	459,193
Additions						
– PP&E expenditures	**4,280**	**-**	**4,280**	47,346	2	47,348
– Non-cash decommissioning costs (note 9)	**-**	**-**	**-**	(15,331)	-	(15,331)
Disposals	**-**	**-**	**-**	-	(256)	(256)
Foreign exchange differences	**(10,900)**	**(25)**	**(10,925)**	(19,947)	(84)	(20,031)
Balance, end of the period	**463,076**	**1,202**	**464,278**	469,696	1,227	470,923
Accumulated depreciation and depletion						
Balance, beginning of the period	**(128,940)**	**(954)**	**(129,894)**	(58,991)	(1,098)	(60,089)
Depreciation and depletion	**(10,492)**	**(18)**	**(10,510)**	(36,460)	(116)	(36,576)
Impairment	**(1,593)**	**-**	**(1,593)**	(38,099)	-	(38,099)
Disposals	**-**	**-**	**-**	-	189	189
Foreign exchange differences	**(196)**	**17**	**(179)**	4,610	71	4,681
Balance, end of the period	**(141,221)**	**(955)**	**(142,176)**	(128,940)	(954)	(129,894)
Net book value						
Balance, beginning of the period	**340,756**	**273**	**341,029**	398,637	467	399,104
Balance, end of the period	**321,855**	**247**	**322,102**	340,756	273	341,029

8) DERIVATIVE FINANCIAL INSTRUMENTS

As at March 31, 2016 there was no change to the valuation of the prepayment option on the Bond (March 31, 2016 and December 31, 2015 - $554,000). In the three month period ended March 31, 2015 a gain on the revaluation of the prepayment option on the bond of $1,068,000 was recognized.

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 (at National Balancing Point in the UK) for a volume equivalent to 4.0 Bcf of gas, or approximately 75 percent of expected production for that period, which have now expired. The put options were purchased from BNP Paribas and Vitol SA for a total consideration of approximately $1.4 million. The derivatives were revalued to their fair value at each period end. Any gain or loss arising was 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. In the three month period ended March 31, 2016 the Company held no such options.

No gain or loss in derivative financial instruments was recorded through the income statement in the three month period ended March 31, 2016 but the combined movements in derivative financial instruments in the three month period ended March 31, 2015 resulted in a loss of $84,000.

9) DECOMMISSIONING OBLIGATIONS

The following table sets out a continuity of decommissioning obligations:

As at	**March 31, 2016**	December 31, 2015
	$000s	$000s
Balance, beginning of the year	**36,841**	55,564
Arising during the year	**-**	332
Obligation disposal	**-**	(2,409)
Revisions to estimates	**-**	(15,652)
Foreign exchange differences	**(1,159)**	(1,826)
Accretion of decommissioning discount (note 17)	**184**	832
Balance, end of the year	**35,866**	36,841
Total current liabilities	**705**	722
Total non-current liabilities	**35,161**	36,119

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, 2016 to be approximately $53,298,000, which will be incurred between 2016 and 2036. Two wells on the Sheryl licence are planned to be abandoned in the next twelve months and this portion of the decommissioning obligation, $705,000, has been disclosed as a current liability (December 31, 2015 - $722,000). During the year ended December 31, 2015 the Company sold its Romanian business including all decommissioning obligations resulting in an obligation disposal of $2,354,000 and completed the non-operational abandonment of the Grenade well in France resulting in a further obligation disposal of $55,000. Decommissioning obligations arising in the year ended December 31, 2015 relate to facilities related to the Cladhan development. Decommissioning estimates for the Cladhan development are currently calculated at an equity percentage of 2 percent, but may rise to 13.8 percent in the event of repayment of the Cladhan funding arrangements (see note 11). Revisions to estimates in the year ended December 31, 2015 relate to a decrease in the operator estimate for abandonment of the Breagh development and to adjustments in the risk free interest rate (used for discounting). Risk free interest rates based on UK long-term government bond rates varying from 1.37 percent to 2.39 percent (December 31, 2015 – 1.37 to 2.39 percent) and an inflation rate of 2 percent (December 31, 2015 – 2 percent) were used to calculate the longer term decommissioning obligations at March 31, 2016.

10) LONG-TERM DEBT

RECAPITALIZATION

On March 11, 2016 the Company announced that it had entered into a recapitalization agreement (the "Recapitalization Agreement") with its subsidiary, Sterling Resources (UK) Ltd. ("SRUK") and Nordic Trustee ASA (the "Bond Trustee") in relation to the senior secured bond (the "Bond") issued by SRUK pursuant to a bond agreement originally dated May 2, 2013, as subsequently amended (the "Bond Agreement"), pursuant to which the Company will undertake a number of recapitalization activities described in further detail below (collectively, the "Recapitalization"). This follows from the Company and SRUK being unable to implement a financing or asset/corporate sale or merger transaction by February 29, 2016 as required by the Third Bond Amendments (as defined below). As a result, SRUK and the Company have entered into the Recapitalization Agreement of which the principal elements are a rights offering, a bond exchange, an internal transfer of SRUK, further amendments to the terms of the remaining Bonds, provision of new funding via a super senior revolving credit facility and certain other actions all as described below.

(i) **Rights Offering.** The Company is currently conducting a rights offering (the "Rights Offering") by way of short form prospectus to the holders of its common shares ("Common Shares") on the record date of April 27, 2016 pursuant to which eligible shareholders have received rights ("Rights") entitling them to purchase an aggregate of 14,277,525,577 Common Shares at a subscription price per Common Share of Canadian Dollar ("C$") 0.015398 (the "Subscription Price"). The final short form prospectus in relation to the Rights Offering was filed on April 20, 2016 and included a copy of the fairness opinion of FirstEnergy Capital LLP referred to below. The Rights will expire on May 19 and the Rights Offering is expected to close on May 27, 2016 (the "Recap Closing Date"). There is no minimum amount of funds that must be raised under the Rights Offering. This means that Sterling could complete the Rights Offering after raising only a small portion of the maximum possible gross Rights Offering proceeds of C$219,845,339. The material terms of the Rights Offering are detailed in a news release issued by the Company on April 20, 2016.

The gross proceeds of the Rights Offering, less the Foreign Exchange Adjustment as defined below, if any (the "Rights Offering Proceeds") (with the expenses associated with the Rights Offering being paid from the general funds of the Company) will be used solely to fund the release and cancellation of that portion of the liabilities of the Company and SRUK under or in connection with the Bonds, including the obligation to repay the principal amount thereof, together with any accrued and unpaid redemption premium, amendment fees and interest ("Bond Liabilities") equal to the Rights Offering Proceeds (the "Purchased Liabilities") and for no other purpose. In the case of an increase in the Rights Offering Proceeds in US dollar terms due to a weakening of the US dollar against the Canadian dollar between launch and the expiry date of the Rights Offering, the amount of such increase (the "Foreign Exchange Adjustment") will be retained by the Company. The Purchased Liabilities will be selected pro rata from each Bondholder based on the aggregate Bond Liabilities owed to each such Bondholder at the relevant time relative to the entire aggregate Bond Liabilities then outstanding. On the expected Recap Closing Date, the Bond Liabilities will amount to approximately $214.1 million.

The short form prospectus for the Rights Offering has been filed with the securities regulatory authorities of each of the provinces of Canada (excluding Quebec) and the Rights Offering only applies to shareholders resident in each such jurisdiction, provided that the Company may elect to distribute the Rights to certain investors in eligible foreign jurisdictions to the extent that the Company has determined it is possible to do so on an exempt basis under or without otherwise breaching the securities laws of any such jurisdiction and to other persons who demonstrate to the Company's satisfaction that the distribution and exercise of the Rights and the issuance of the Common Shares on exercise is not prohibited by any applicable laws and will not require the Company to file any documents, make any application or pay any amount in their jurisdiction of residence unless otherwise agreed.

(ii) **Bond Exchange.** Pursuant to a separate shares for debt application to the TSXV, the Bondholders (directly, or indirectly through an affiliate, or through the Bond Trustee) will subscribe for Common Shares (the "Exchange Shares") at the same price per Common Share as the Rights Offering Subscription Price and in such number as is equal to the aggregate Subscription Price of the unsubscribed Common Shares under the Rights Offering at the Recap Closing Date based on the applicable exchange rate on the date of the final prospectus (the "Exchange Amount") in consideration indirectly for the full and final satisfaction of Bond Liabilities equal to the Exchange Amount (the "Exchanged Bond Liabilities").

The only Bond Liabilities thereafter remaining will be the liabilities of SRUK under or in connection with a principal amount of the Bonds anticipated to equal $40 million (but which may increase to the extent that the Canadian dollar weakens against the US dollar between the date of the final prospectus and the business day immediately following the expiry date of the Rights Offering) (the "Remaining Bonds"), excluding any accrued and unpaid redemption premium, amendment and other fees and interest up to and including the Recap Closing Date (the "Remaining Bond Liabilities"). On the date of the final prospectus, the exchange rate was US$1 = C$1.2626.

Immediately after the completion of the Bond Exchange, on the assumption that none of the existing shareholders subscribe for new Common Shares as part of the Rights Offering, the current equity held by the existing holders of Common Shares will be diluted to 3 percent of the Common Shares. On the alternative assumption that some of the existing shareholders subscribe for new Common Shares, the equity held by the existing holders of Common Shares will be higher than 3 percent of the Common Shares.

(iii) **Transfer of SRUK.** On the Recap Closing Date, the Company will enter into a share purchase agreement and ancillary documentation to transfer the entire share capital of SRUK to a new wholly-owned subsidiary governed by the laws of England and Wales, SRUK Holdings Ltd. ("SHL"), in order to provide additional security to Bondholders and lenders under the New Loan Agreement (as defined below) and greater flexibility in a future refinancing of the SSRCF and the Bonds post-Recapitalization.

(iv) **Remaining Bonds.** Immediately following the foregoing transactions, SRUK and the Company shall enter into a further amended and restated Bond Agreement with the Bond Trustee (the "Fourth Bond Amendment Agreement") for the purpose of setting out the revised terms and conditions governing the Remaining Bonds that remain outstanding following the Rights Offering and Bond Exchange (the "Remaining Bonds"), as described below under "Bond". The amount of the Remaining Bonds will be $40 million, unless increased as a result of an exchange rate movement as described under "Bond Exchange" above.

(v) **Super senior revolving credit facility.** At the same time as the entry into the Fourth Bond Amendment Agreement, the Company and SRUK shall enter into a new loan agreement (the "New Loan Agreement") with two of the Bondholders or their affiliates (the "Senior Lenders") for a super senior revolving credit facility (the "SSRCF") of up to $40 million. The SSRCF comprises two tranches, A and B, each of $20 million and both on a revolving, multi-currency basis. Tranche A would be used first, up to $10 million for general corporate purposes and for capital expenditures in accordance with the relevant annual budget. Tranche B, if required, is for capital expenditures only in accordance with the relevant annual budget. The final maturity is date 24 months after the Closing Date, with an optional extension to April 30, 2019 subject to satisfying certain conditions. There is a 7 percent arrangement fee on each Tranche, for Tranche A paid in cash on the Closing Date and for Tranche B paid in cash upon the earlier of the date of first utilisation of Tranche B and the date falling 24 months after the Closing Date (provided that no fee shall be payable if the SSRCF is cancelled in full before that date).

The interest rate for each tranche is the aggregate of the margin and LIBOR (subject to a LIBOR floor of 1 percent). The margin for Tranche A is 13 percent per annum, and for Tranche B 13 percent per annum increasing 100 basis points each quarter from drawdown of Tranche B (subject to an overall cap of 15 percent per annum). Interest is calculated from the date of utilization of each Tranche until the date the relevant Tranche is repaid, prepaid or cancelled, and paid semi-annually on 30 April and 30 October. Tranche A interest is paid in cash and Tranche B interest is paid in kind (i.e. added to the principal amount). There is a commitment fee on the unused part of each tranche equal to half of the applicable margin, paid on each interest payment date; for Tranche A paid in cash and for Tranche B, paid in kind but only if Trance B is utlized. There is a cancellation premium on Tranche A and (if used) Tranche B, equal to the relevant commitment fee on the cancelled amount calculated from the date of cancellation to the applicable final maturity date.

Financial covenants are essentially the same as those applying for the Remaining Bonds (save for those financial covenants which only apply from the discharge date of the SSRCF) (see below and note 10) and in addition there are utilisation conditions which comprise, on a simplified basis of: (i) a minimum interest cover ratio (EBITDA to SSRCF cash charges) of 1.0x, (ii) a minimum 4-year Rolling Net Present Value cover ratio of 1.3x, (iii) a minimum group cash requirement of US$5 million on a projected basis until the SSRCF discharged date, (iv) in relation to a Tranche B utilization only, a minimum field life cover ratio of 1.75x.

The SSRCF will have senior ranking in relation to guarantees and security package as described under the Bond, as set out in the Intercreditor Agreement (as defined herein).

(vi) **Other actions.** A number of further agreements and actions are provided for in the Recapitalization Agreement. At the same time as the entry into the Fourth Bond Amendment Agreement (see note 10) and the New Loan Agreement, the Company and SRUK shall also enter into an intercreditor agreement (the "Intercreditor Agreement") with the Senior Lenders and the Bondholders. Each of the Company and its affiliates (including SHL) shall also execute the guarantees and security documents contemplated in the Fourth Bond Amendment Agreement and the New Loan Agreement. The Exit Fee

Letter entered into between the Company and the Bond Trustee pursuant to the Amendment and Restatement Agreement No. 3 (as described in the Company's news release of October 22, 2015) will be terminated on the Recap Closing Date. As soon as practicable following the Recap Closing Date, the Company will call and conduct a special meeting of shareholders to consider, among other things, a resolution approving the creation of one or more new "Control Persons" (as defined in TSX Venture Exchange ("TSXV") Policy 1.1 – Interpretation) pursuant to the Recapitalization and a resolution approving the consolidation of the Common Shares on a basis to be determined by the Board of Directors following the completion of the Bond Exchange (the "Recapitalization Resolutions").

Completion of the Recapitalization Agreement is subject to certain conditions precedent normal for an agreement of this type, including certain consents from the TSXV and the UK Oil & Gas Authority, but approval of the Company's shareholders is not required. In addition, completion of the Recapitalization Agreement, Fourth Bond Amendment Agreement and the New Loan Agreement are inter-conditional.

Sterling appointed FirstEnergy Capital LLP in January 2016 as a financial adviser to assist in assessing the recapitalization being negotiated and, ultimately, to render an opinion to the directors of the Corporation as to its fairness, from a financial point of view, to the shareholders. FirstEnergy rendered its opinion that as of March 9, 2016, based upon and subject to the various considerations set forth therein, the Recapitalization, if implemented, is fair from a financial point of view to the shareholders.

See note 2 for further details in respect of the Going Concern basis adopted herein.

BOND

In April 2013, SRUK completed the issuance of the Bond, which is listed on the Nordic Alternative Bond Market in Oslo (under the ticker STRE01 PRO) but not actively traded. The Bond Agreement has been amended and restated as a result of three sets of amendments approved by holders of the Bond "Bondholders", first in December 2014 (the "First Bond Amendments"), secondly in May 2015 (the "Second Bond Amendments"), and thirdly in November 2015 (the "Third Bond Amendments"). These three sets of amendments led to the entry into the Amended and Restated Bond Agreements No. 1, 2 and 3 respectively. A further set of amendments (the "Fourth Bond Amendments") has been approved by Bondholders in a meeting held on March 18, 2016 and will be contained in Fourth Bond Amendment Agreement, which will be entered into on, and become effective as from, the Closing Date.

The Bond is governed by Norwegian Law and the trustee for the Bond is Nordic Trustee ASA (formerly Norsk Tillitsmann ASA; the "Bond Trustee"). Note SRUK has changed its legal form twice (for tax and security related considerations), from a limited company at the time of the original Bond issue to a public limited company and recently back to a limited company.

The Bond was originally set to mature on April 30, 2019 but pursuant to the Fourth Bond Amendments this will be extended to April 30, 2020. At the time of issuance, the Bond carried an interest coupon of 9 percent payable in cash semi-annually on April 30 and October 30 of each year and pursuant to the Second Bond Amendments the coupon was increased to 14 percent per annum (paid in cash) as from October 30, 2015. Pursuant to the Fourth Bond Amendments, the coupon will drop back to 9 percent per annum calculated from the closing date of the Recapitalization ("Recap Closing Date") and will be paid in kind until the date the SSRCF is repaid, prepaid or cancelled (the "SSRCF Discharge Date") and thereafter paid in cash. To the date of this report, all interest payments have been paid in full when due.

At the time of issue, the Bond was callable (prepayable) at the option of SRUK 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 four, 102 percent in year five, 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. Pursuant to the Fourth Bond Amendments, the call price will be decreased to par value from the Recap Closing Date 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 would be repaid at 100 percent of par value. Pursuant to the Second Bond Amendments, the amortization price has been set at 107.5 percent of par value for all instalments from April 30, 2015 onwards. In order to avoid a potential default, the amortization instalment due on April 30, 2015 (the "April 2015 Instalment") was deferred until the closing of the Romanian Sale (as defined herein) on August 26, 2015, in accordance with the Second Bond Amendments. For the same reason, the amortization instalment due on October 30, 2015 (the "October 2015 Instalment") was deferred pursuant to the Third Bond Amendments until the earlier of (i) completion of a financing, corporate sale, or asset sale transaction leading to a full redemption of the outstanding Bonds (including the 7.5 percent call premium, and accrued interest and other related costs), or (ii) February 29, 2016. As a result of the two instalments paid on October 30, 2014 and on August 26, 2015, the outstanding Bond principal is currently $180 million. Pursuant to the Fourth Bond Amendments, from the Recap Closing Date the amount of the Remaining Bonds will be $40 million (unless increased as a result of an exchange rate movement as described under "Bond Exchange" above) with no associated accrued and unpaid redemption premium, amendment fees or interest. Repayment will occur via a cash sweep (subject to various tests) after the SSRCF Discharge Date with any final balance under the SSRCF repayable as a single sum on maturity.

Pursuant to the Bond, 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") (such transfers being the "Monthly Transfers"). The DSRA is charged and blocked in favour of the Bond Trustee. Pursuant to the First and Second Bond Amendments, no Monthly Transfers were made from November 2014 until October 2015 inclusive and pursuant to the Third Bond Amendments, the requirement for Monthly Transfers was deleted. Pursuant to the Fourth Bond Amendments, the Monthly Transfers will be reinstated such that the first Monthly Transfer will be made in the month following the SSRCF Discharge Date.

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 SRUK, as well as a parent company guarantee. Pursuant to the First Bond Amendments, this security package was extended to the Company's Romanian business; subsequent to completion of the Romanian Sale, the only remaining security interest of Bondholders relating to Romania is a pledge of certain of the Company's receivables relating to the Midia Carve-Out Transaction with ExxonMobil and other parties in 2012. Pursuant to the Third Bond Amendments, additional security was provided by an assignment of receivables owed to SRUK from its subsidiary in the Netherlands. Pursuant to the Fourth Bond Amendments, this security will be extended to cover the shares and assets of SRUK Holdings Ltd ("SHL"), a new wholly-owned subsidiary governed by the laws of England and Wales and SHL will provide a guarantee; in addition, all the new security documents and SHL guarantee will be granted in favour of a newly-appointed security agent and the existing security documents and Parent guarantee will be novated in favour of the security agent.

Net proceeds from the Romanian Sale received in August 2015 of approximately $27.4 million (being gross proceeds less a cash payment to Gemini, transaction-related taxes and reimbursement to Sterling of allowable transaction fees already paid; see note 5) were applied pursuant to the cash waterfall provisions set out in the Second Bond Amendments. $24.8 million of this amount was used to pay Bondholders the outstanding April 2015 Instalment (together with 7.5 percent amortization premium and accrued interest) and the remaining $2.6 million was transferred to the DSRA and was used towards funding the interest payment made on October 30, 2015. Further transfers to the DSRA resulting from the application of the cash waterfall have been made upon the post completion settlement of the Romanian Sale and will be made following the receipt of a refund of Romanian VAT.

Prior to the Fourth Bond Amendments there were two financial covenants under the Bond Agreement: first, SRUK was required to maintain at all times a minimum level of liquidity (unrestricted cash and cash equivalents) of $10 million and secondly, 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 and Second Bond Amendments, the minimum UK liquidity was reduced on a temporary basis to between $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. Pursuant to the Third Bond Amendments, the minimum UK liquidity was kept at $5 million from October 30, 2015 to November 29, 2015, and increased to $7.5 million from November 30, 2015 to February 28, 2016. The minimum UK liquidity was kept at $7.5 million pursuant to an amendment letter dated February 29, 2016 and was reduced to $5 million from March 18, 2016 pursuant to an amendment approved at a Bondholder meeting on that date. Pursuant to the Fourth Bond Amendments, from the Recap Closing Date further changes to the financial covenants will become effective, as follows:

i. the minimum liquidity requirement will be calculated at a Group level and will remain at $5 million until maturity, to be satisfied at all times;
ii. the minimum equity ratio requirement will be deleted;
iii. a minimum field life cover ratio (corporate net present value divided by total SSRCF debt) of 1.5x, dropping to 1.0x after the date the SSRCF Discharge Date, to be tested at the end of each quarter and upon certain other events;
iv. cumulative production for the previous 12 months (or a shorter period during 2016) of not less than 90% of the budgeted amount, to be tested at the end of each month;

v. projected liquidity of $5 million (on a Group basis) until the Bond maturity date (excluding in any such projection the repayment of the Bond on maturity), to be tested at the end of each quarter after the SSRCF Discharge Date; and
vi. a minimum debt service cover ratio of 1.0x, calculated over the previous 12 months (or a shorter period during 2016), to be tested at the end of each quarter from the end of the second quarter after the SSRCF Discharge Date.

Pursuant to the First Bond Amendments, an amendment fee of $2.5 million was paid to bondholders in December 2014. Pursuant to the Second Bond Amendments, an amendment fee of $3 million was paid to Bondholders in May 2015 and two further amendment fees, each of $750,000, were paid to Bondholders in July and August 2015 as a result of completion of the Romanian Sale being delayed beyond July 15, 2015. Pursuant to the Third Bond Amendments, an initial amendment fee of $1 million was paid to Bondholders in November 2015 and additional amendment fees of $6 million were due within five business days of February 29, 2016 as a result of the Bond not having been redeemed by that date. Pursuant to the Recapitalization Agreement, such additional amendment fees will be included in the Bond Liabilities being cancelled as a result of subscriptions received in the Rights Offering and/or exchanged into new Common Shares as a result of the Bond Exchange. Between February 29, 2016 and the Recap Closing Date, the requirement to pay the additional amendment fees has been postponed pursuant to further amendments agreed with Bondholders.

The Third Bond Amendments also included the introduction of a potential “Exit Fee” which may have been payable after bond redemption, being effectively 20 percent of the incremental final (post bond redemption) equity value above a 100 percent increase on the initial equity value (measured prior to approval of the Third Bond Amendments), payable in cash and/or common shares in the Company and subject to certain adjustments and conditions. The requirement for this Exit Fee will be cancelled from the Recap Closing Date, pursuant to the Recapitalization Agreement. In addition, the Third Bond Amendments required the appointment of an Independent Director to the board of directors of the Company (subsequently amended to the appointment of a board observer) and SRUK, as nominated by the Bond Trustee.

As at March 31, 2016 and to the date of this report, the Company was in compliance with the terms of the Bond (as amended and with waivers provided by Bondholders).

As the Bond is not actively traded on the Nordic Alternative Bond Market in Oslo 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 $186 million as at March 31, 2016.

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, 2016 at $554,000.

Under the effective interest rate method $9,568,000 was recorded as an accrued interest liability at March 31, 2016 (December 31, 2015 - $3,277,000). As the bond has to be refinanced as at March 31, 2016 the entire liability is shown as current.

The following table sets out a continuity of long-term debt:

As at	**March 31, 2016**	December 31, 2015
	$000s	$000s
Balance, beginning of the period	**189,593**	207,670
Amortization of loan funds	**-**	(24,188)
Borrowing costs	**458**	7,625
Accretion of discount	**(446)**	(1,514)
Balance, end of the period	**189,605**	189,593

11) CLADHAN FUNDING ARRANGEMENTS

In April 2013, the Company signed agreements with TAQA Bratani ("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 the UK 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 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 was 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 became available.

Pursuant to these TAQA funding arrangements the Company retains a minimum 2 percent interest in Cladhan throughout, for which the original budgeted development cost is funded out of a portion of the fixed First Carry. 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 the balance of the Second Carry.

Due to cost and time overruns on the project and the drop in worldwide commodity prices, under the RPS pricing assumptions used in the Company's 2015 reserves report (NI 51-101F1), pay-out of the Second Carry is not now likely to occur and the liability has been re-measured to reflect the amount most likely to be repaid from future revenues of the 11.8 percent. The Second Carry balance has been re-measured down to $37,661,000, with $23,652,000 recorded as a current liability on the balance sheet as it is expected to reduce the carry over the next twelve months and $14,009,000 was recorded as a non-current liability expected to be the balance of the carry that will be repaid. The recoverable amounts were based on the value in use 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 eight years, derived using proved plus probable reserves as at March 31, 2016. The cash flows (based on level III fair value hierarchy) used commodity prices in Sterling's independent reserves report, produced by RPS Energy ("RPS"), as at December 31, 2015 price forecast taking into account actual production in the first quarter of 2016 and a pre-tax discount rate of 17 percent. If the Second Carry does not pay-out Sterling has no further liability to TAQA regarding the 11.8 percent interest. The resulting reduction in the amount of liability that was due to be paid under the carry arrangements has seen a credit of $7,151,000 recorded in the income statement (year ending December 31, 2015 - $22,655,000). The impairment of the 11.8 percent asset (see note 7) has also been impaired down to the same level as the non-financial liability and recorded under impairment of oil and gas properties.

In the event of a large increase in commodity prices and pay-out does occur then provided the remaining net present value of the field is positive, the 11.8 percent interest will be returned to Sterling whose equity interest would then be 13.8 percent. Sterling retains the contingent upside payments linked to future reserves pursuant to the First Carry.

12) COMMITMENTS AND CONTINGENCIES

Commitments as at March 31, 2016 for the years 2016 through 2020 and thereafter, comprise the following:

	2016	2017	2018	2019	2020	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and gas drilling	**2,497**	20,118	19,543	-	-	-	**42,158**
Licence fees	**790**	1,052	1,495	1,939	2,383	-	**7,659**
Other operating	**253**	387	327	139	-	-	**1,106**
Office and other leases	**808**	593	550	540	540	-	**3,031**
	4,348	22,150	21,915	2,618	2,923	-	**53,954**

The above facilities, oil and natural gas drilling commitments in 2016 relate to additional work on Breagh Phase 1 development costs and amounts for long lead items for drilling in 2017. One exploration/appraisal well is shown at 100 percent in each of 2017 and 2018 as commitments though it is likely these would progress under a farm in agreement with these costs shared.

Costs under facilities, oil and gas drilling, office and other leases and other operating categories have reduced following the Romanian Sale (see note 5) as these have all been transferred to Carlyle to the extent they relate to the Romanian business.

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 approximately $2,568,000 of the office and other leases commitment will be covered by this sub-lease.

13) 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:

As at	**March 31, 2016**		December 31, 2015	
	Shares	**Amount**	Shares	Amount
	000s	$000s	000s	$000s
Balance, beginning of the period	**441,573**	**427,440**	381,200	419,940
Issued for cash:				
– equity issuances	**-**	**-**	60,373	7,500
Balance, end of the period	**441,573**	**427,440**	441,573	427,440

Concurrent with the Romanian Sale (see note 5), Sterling has terminated the investment agreement signed with Gemini in 2007 for a cash consideration of $10 million and the issuance to Gemini of 60,372,876 common shares of Sterling which had a market value of $7.5 million based on the 10 day volume-weighted average price of the Common Shares on the TSX-V for the period ending March 24, 2015, being C$0.157 per share at an average exchange rate of US$1 = C$1.2664). Sterling's issued share capital is now 441,573,000 Common Shares, an increase of approximately 15.8 percent. The Common Shares were issued pursuant to applicable prospectus exemptions and had a hold period which expired on December 27, 2015 pursuant to applicable securities laws.

14) SEGMENTED INFORMATION

The Company has four geographical reporting segments. Canada is the location of the head office. The United Kingdom and other international locations are involved in exploration and development operations. Other international comprises operations in France and the Netherlands. The Romanian segment has now been sold (see note 5) and historical amounts are included for information purposes only. Revenues recorded below were from two external customers. 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.

Segmented Results	Canada $000s	United Kingdom $000s	Romania (Discontinued) $000s	Other International $000s	Consolidated $000s
Three months ended March 31, 2016					
Revenues	**-**	**12,498**	**-**	**-**	**12,498**
Impairment of oil and gas properties	**-**	**(1,593)**	**-**	**-**	**(1,593)**
Net loss	**(1,496)**	**(15,728)**	**-**	**(143)**	**(17,367)**
Three months ended March 31, 2015					
Revenues	-	25,816	-	-	25,816
Net loss	(869)	(41,540)	(1,686)	(444)	(44,539)

Segmented Assets	Canada $000s	United Kingdom $000s	Romania (Discontinued) $000s	Other International $000s	Consolidated $000s
Three months ended March 31, 2016					
Exploration and evaluation assets	**-**	**14,555**	**-**	**9,562**	**24,117**
Exploration and evaluation expenditures	**-**	**103**	**-**	**119**	**222**
Development properties	**-**	**315,966**	**-**	**-**	**315,966**
Development property expenditures	**-**	**4,280**	**-**	**-**	**4,280**
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

15) 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, 2016 there were 21,923,000 (December 31, 2015 – 24,432,000) 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, 2016		Year ended December 31, 2015	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Continuity of Common Share Options	000s	C$	000s	C$
Balance, beginning of the period	**24,432**	**0.34**	16,208	0.82
Granted during the period	**-**	**-**	12,935	0.07
Cancelled/forfeited during the period	**(2,442)**	**0.39**	(3,089)	0.83
Expired during the period	**(67)**	**4.25**	(1,622)	2.04
Outstanding, end of the period	**21,923**	**0.33**	24,432	0.34
Exercisable, end of the period	**3,809**	**0.74**	4,403	0.81

A Black-Scholes option pricing model was used to calculate the fair value of the options granted during the year ended December 31, 2015 (there was no award during the three month period ended March 31, 2016), using the following weighted-average assumptions:

	Year ended December 31, 2015
Weighted average share price	C$0.07
Weighted average exercise price	C$0.07
Risk-free interest rate	0.47%
Weighted average forfeiture rate	8.33%
Expected hold period to exercise	3.5 years
Volatility in the price of the Company's shares	80%
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, 2015 was Canadian $0.04 per share. For the three month period ended March 31, 2016 $90,000 (March 31, 2015 - $193,000) of share-based compensation was expensed and was included in the employee expense figure of $818,000 (2015 – $1,786,000).

The following stock options were outstanding as at March 31, 2016:

		Options Outstanding			Options Exercisable		
Exercise Price		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$
0.07	0.49	11,740	1,606	0.07	-	-	-
0.50	0.99	9,560	1,153	0.55	3,186	1,153	0.55
1.00	1.49	100	118	1.38	100	118	1.34
1.50	1.99	523	48	1.79	523	48	1.79
0.07	1.99	21,923	1,365	0.33	3,809	974	0.74

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 vested on May 31, 2015 and expire on May 31, 2016. At March 31, 2016, 2,005,000 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, 2016, 1,023,730 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, 2016 (three month period to March 31, 2015 – nil) relating to the PSU plans. The intrinsic value of outstanding PSUs at March 31, 2016 was nil (March 31, 2015 – nil).

Phantom Option Plan
Under the phantom option plan, a total of 270,000 phantom options were granted to employees who did not receive awards under 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 have vested in three equal tranches on the first, second and third anniversaries of the award and will expire two years after vesting. At March 31, 2016, 150,000 of these phantom options had been forfeited and a further 40,001 have expired.

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, 2016, 126,000 of these phantom options had been forfeited. The intrinsic value of outstanding phantom options at March 31, 2016 was nil (March 31, 2015 – nil).

16) NET REVENUE

Three months ended March 31,	2016	2015
	$000s	$000s
Breagh gas and condensate revenue	**9,714**	25,816
Third party entitlement	**(596)**	(3,019)
	9,118	22,797
Cladhan oil revenues	**2,784**	-
Total net revenue	**11,902**	22,797

BREAGH

For the three month period ended March 31, 2016, Breagh revenue was $9,714,000 (three month period ended March 31, 2015 - $25,816,000). These revenues came from sales of gas production of approximately 2.2 billion cubic feet ("Bcf") at an average realized gas price of 30.6 pence per therm ($4.33 per thousand cubic feet) and 890 tonnes of condensate (6,542 barrels) at an average price of $276 per tonne. For the three month period ended March 31, 2015, 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 $444 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 3.6 barrels per million standard cubic feet) ("MMscf") 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, 2016, a third party entitlement of $596,000 (three month period ended March 31, 2015 – $3,019,000), was lower due to a reduction to the rate of the entitlement payments from 12.23 percent to 6.10 percent during 2015 and commensurate with lower production revenues. This amount 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 costs from the fourth quarter of 2013 (during which period first production occurred) to March 31, 2016 amount to $16,814,000.

CLADHAN

First sales from the Cladhan oil development occurred in the first quarter of 2016. Sales relating to the Company's 2 percent equity interest totalled $407,000 which came from the sale of 11,700 barrels of oil equivalent ("boe") at an average realized price of $35 per barrel.

The Company also recognized $2,377,000 of Clahdan revenues relating to sales of oil on the 11.8 percent of the Cladhan development which is being funded by TAQA (see note 11) for which no cash was received as the amount was withheld by TAQA to reduce the amounts it had previously paid on the Company's behalf under the carry arrangement.

While production on the Cladhan development commenced in mid-December 2015, no oil was sold and no revenues were recorded in the year ended December 31, 2015.

17) FINANCING COSTS

Three months ended March 31,	**2016**	2015
	$000s	$000s
Interest expense	**5,508**	5,651
Non-cash Cladhan funding arrangements	**2,620**	1,416
Capitalization of borrowing costs	**-**	(1,416)
	8,128	5,651
Accretion of decommissioning discount (note 9)	**184**	268
Total financing costs	**8,312**	5,919

Financing costs for the three month period ended March 31, 2016 were $8,312,000 consisting primarily of borrowing costs of $5,508,000 on the Bond. In the three months ended March 31, 2015 interest expense of $1,416,000 relating to the Cladhan funding arrangements was capitalized as borrowing costs until the asset entered into production in mid-December 2015 whereupon capitalization ceased and the interest expense began to be expensed. In the three months ended March 31, 2016, $2,620,000 of Cladhan funding arrangement interest was expensed.

The balance of the financing costs include accretion of the discount on decommissioning obligations and have decreased in the period due to lower cost estimates on the decommissioning obligations on the Breagh development.

18) NET LOSS PER SHARE

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

Three months ended March 31,	**2016**	2015
Weighted average shares outstanding (000s)	**441,573**	381,200
Net loss ($000s)	**(17,367)**	(44,539)
Weighted average net loss per share ($)		
Basic	**(0.04)**	(0.12)
Diluted	**(0.04)**	(0.12)

For the periods ended March 31, 2016 and 2015, the potential dilutive effect of the Company's outstanding options was not included in diluted shares as they were antidilutive.

19) DEFERRED TAX AND CURRENT TAX

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 this deferred tax asset.

As at December 31, 2015 the deferred tax asset decreased to $66,073,000, mainly due to deferred tax benefits deemed not probable to be recovered in the current low commodity price environment of approximately $92 million and lower estimated future SCT net relief of approximately $34 million as a result of the 12 percent reduction in the statutory SCT rate. Subsequent to year end in the UK 2016 budget the SCT rate will be further reduced, to 10 percent with effect from January 1, 2016 though this has not been substantively enacted as at the balance sheet date.

Sterling presently forecasts that in the current low commodity price environment existing carried-forward UK tax losses as at March 31, 2016 will not sufficiently be utilized in the UK subsidiary company Sterling Resources (UK) Ltd. in future years, both against the reversal of existing taxable temporary differences and in addition against future taxable profits from expected production from the Breagh and Cladhan fields. Under UK tax law, there is no statutory fixed time-limit determining an expiry of carried-forward UK tax losses. Accordingly, a UK deferred tax asset of $63,978,000 as at March 31, 2016 (December 31, 2015 – $66,073,000) has been recognized in the Balance Sheet, the difference relating to changes in foreign exchange rates.

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 forecast position:

- Information on reserves and cashflows for Breagh and Cladhan are drawn from the reports produced by Sterling's independent reserves evaluator RPS Energy:

  i) RPS Energy Report "Reserves Evaluation for the Breagh Gas Field Quad 42 UK North Sea as at December 31, 2015 – Executive Summary Report" and

  ii) RPS Energy Report "Reserves and Resources Evaluation for the Cladhan Oil Field Quad 210 Licence Blocks UK North Sea as at December 31, 2015 – Executive Summary Report".

- The following principal economic assumptions have been used by RPS Energy:

  i) Gas prices: $7.89/Mcf for 2016, $8.83/Mcf for 2017, $9.16/Mcf for 2018, $9.34 for 2019 escalated 2 percent thereafter.

  ii) Oil prices: $44.00/bbl for 2016, $50.00/bbl for 2017, $58.00/bbl for 2018, $65.00 for 2019, escalated 2 percent thereafter. Cladhan crude is assumed to realize a premium to Brent of $1.13/bbl for 2016, $0.88/bbl in 2017, $0.88/bbl in 2018, $0.92/bbl in 2019, $0.97/bbl in 2020, $1.02/bbl in 2021 and $1.07 /bbl in 2022.

  iii) Exchange rate throughout field life GBP/USD 1.50.

- RPS Energy has evaluated the economic life of field up to 2038 for Breagh and up to 2021 for Cladhan for the 2P (Proved plus Probable) reserves case.

- As at March 31, 2016 the Company had non-expiring non-capital losses of approximately $703 million (December 31, 2015 – $728 million) and non-expiring supplementary charge losses of approximately $589 million (December 31, 2015 - $621 million) which may be applied against future oil and gas ring-fence income for UK tax purposes.

- Management's best estimates on short-term oil and gas prices, costs arising from debt-financing, general and administrative expenses and near term exploration and appraisal expenses have been incorporated.

Analysis of UK deferred tax asset recognized at	**Three months ended March 31, 2016**	Year ended December 31, 2015
	$000s	$000s
Net book value of assets (in excess) of tax pools	**(136,929)**	(151,027)
Loss carry-forwards	**328,866**	342,587
Investment allowances	**862**	890
Decommissioning obligations	**17,933**	18,420
Less deferred tax benefits deemed not probable to be recovered	**(146,754)**	(144,797)
Deferred tax asset recognized at end of period	**63,978**	66,073

No deferred tax assets have been recognised on the following tax losses held by the Company at March 31, 2016 and other deductible temporary differences:

- Non-capital losses of approximately $32 million (December 31, 2015 – $29 million) which may be applied against future income for Canadian tax purposes. These non-capital losses expire after twenty years, primarily between 2031 and 2035.
- Non-expiring tax pools of approximately $4 million (December 31, 2015 – $3 million) which may be applied against future income for Canadian tax purposes.

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

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

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ANNUAL GENERAL AND SPECIAL MEETING

July 5, 2016 at 10:00 AM Mountain Daylight Time
The Royal Room
Metropolitan Conference Centre
333 Fourth Avenue S.W. Calgary, Alberta, Canada