MESSAGE TO SHAREHOLDERS

Following the completion of Sterling's recapitalization on May 30, 2016, the board of directors of Sterling (the “Board”) continued its pursuit of potential M&A opportunities, though from a strengthened financial position. During this period, Sterling considered several alternatives from a variety of potential counterparties to maximize shareholder value, culminating with the Board recommending the sale of all or substantially all of its assets to Oranje-Nassau Energie B.V. ("ONE") pursuant to a share purchase agreement dated March 3, 2017 (the “Share Purchase Agreement”) among Sterling, ONE and SRUK Holdings Ltd. (“SHL”) (the “Transaction”).

Pursuant to the Transaction, ONE acquired from SHL the entire issued share capital of Sterling Resources (UK) Ltd. ("SRUK") for an amount equal to US$163 million, less: (a) amounts necessary to redeem the outstanding US$40 million principal amount of bonds issued by SRUK; (b) amounts necessary to cancel the super senior revolving credit facility entered into by SRUK, SHL and Sterling with a syndicate of lenders; and (c) certain completion adjustments based on actual change of control and interim period costs relative to targeted amounts. Following all such adjustments, and other associated expenses, the net proceeds from the sale of SRUK were approximately US$114 million. The completion date of the Transaction was May 16, 2017.

At the annual general and special meeting of the shareholders on May 8, 2017, the shareholders of Sterling (the “Shareholders”) passed two special resolutions: firstly, approving the sale of all or substantially all the assets of Sterling pursuant to the Transaction and secondly approving the subsequent voluntary wind-up and dissolution of Sterling.

As a result of the completion of the Transaction, Sterling no longer has active business operations or assets other than the cash proceeds from the Transaction. Sterling now plans to focus on the efficient winding-up of its affairs, including the distribution of the net proceeds from the Transaction to the Shareholders, after payment of all Transaction costs and satisfaction of all outstanding liabilities of Sterling.

Sterling currently plans to make the distributions to Shareholders in three instalments:

- The first distribution will be the amount that is determined by the board of directors to represent a "safe distribution" amount from the immediately available cash resources of Sterling after closing of the transactions contemplated by the Share Purchase Agreement (the "First Distribution") while retaining appropriate funds in place: (i) to satisfy all costs associated with the Share Purchase Agreement; (ii) to discharge all known liabilities of Sterling and its subsidiaries; (iii) to pay all estimated costs associated with the winding-up and dissolution of Sterling and its subsidiaries, including estimated costs of third party advisory services; (iv) to retain a sufficient contingency in reserve such that any realistic overages in the transactions contemplated by the Share Purchase Agreement, ongoing compliance costs or winding-up and dissolution costs of Sterling can be paid; and (v) to reserve a further reasonable contingency allowing for the payment of any unforeseen liabilities up to the time of final dissolution. It is currently anticipated that the First Distribution will be US$92.8 million and be declared and issued prior to June 30, 2017.

- The second distribution (the "Second Distribution") is expected to be issued following three months from the completion of the transactions contemplated by the Share Purchase Agreement. It is currently anticipated that the Second Distribution will be in the range of US$11.5 million and $13.1 million and be declared and issued prior to September 30, 2017.

- The third and final distribution (the "Terminal Distribution") will be issued immediately prior to the formal dissolution of Sterling and following receipt of a tax clearance certificate. It is currently anticipated that the Terminal Distribution will be in the range of US$5.0 million and $6.6 million. Based on best available information for similar transactions, it is anticipated that the formal winding-up and dissolution will occur during the 2018 fiscal year.

With the commencement of the winding-up process the Company no longer continues as a going concern and the Transaction has been treated as an adjusting event in the Company’s financial statements.

Over the coming months the Company's objective is to take all steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders.

On Behalf of the Board of Directors,

John Rapach
Chief Executive Officer and Chief Operating Officer
May 30, 2017

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, 2017 is dated May 30, 2017, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements (the "financial statements") for the three months ended March 31, 2017 as well as Sterling's audited consolidated financial statements for the year ended December 31, 2016 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, company incorporated and domiciled in Canada. The Company was engaged in the exploration for, and the development and production of, crude oil and natural gas in the United Kingdom ("UK") and the Netherlands until Completion of the Transaction, as discussed below.

On May 8, 2017, at the annual and special meeting of the shareholders of Sterling, the shareholders passed two special resolutions approving the following:

- The sale of all or substantially all, of the assets of the Company resulting from the sale by the Company's wholly-owned subsidiary SRUK Holdings Ltd. ("SHL") of the entire issued share capital of Sterling Resources (UK) Ltd. ("SRUK") (the "Transaction") pursuant to a share purchase agreement dated March 3, 2017 between the Company, SHL and Oranje-Nassau Energie B.V. ("ONE") (the "Share Purchase Agreement").

- Following the completion of the sale transaction contemplated by the Share Purchase Agreement, the voluntary wind-up and dissolution of the Company and the distribution to shareholders in conjunction therewith, in each case as determined by the board of directors in its sole discretion.

The special resolutions were approved by over 99 percent of shares represented at the Meeting.

On May 16, 2017, the Transaction was completed ("Completion"), including the redemption of all issued and outstanding bonds issued under the 9 percent SRUK Senior Secured Callable Bond Issue 2013/2019 and the cancellation of the super senior revolving credit facility agreement. Thereafter, the Company has begun to undertake the steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders.

The current plan of the Company is to make the distributions to shareholders in three instalments. The first distribution will be the amount that is determined by the board of directors to represent a "safe distribution" amount from the immediately available cash resources of the Company after closing of the transactions contemplated by the Share Purchase Agreement (the "First Distribution") while retaining appropriate funds in place:

i. to satisfy all costs associated with the Share Purchase Agreement;

ii. to discharge all known liabilities of the Company and its subsidiaries;

iii. to pay all estimated costs associated with the winding-up and dissolution of the Company and its subsidiaries, including estimated costs of third party advisory services;

iv. to retain a sufficient contingency in reserve such that any realistic overages in the transactions contemplated by the Share Purchase Agreement, ongoing compliance costs or winding-up and dissolution costs of the Company can be paid; and

v. to reserve a further reasonable contingency allowing for the payment of any unforeseen liabilities up to the time of final dissolution.

The quantum of the ultimate contingencies withheld from the First Distribution will be determined by the board of directors in consultation with the Company's legal and tax advisors. It is currently anticipated that the First Distribution will be US$92.8 million and be declared and issued prior to June 30, 2017.

The second distribution (the "Second Distribution") is expected to be issued following three months from the completion of the transactions contemplated by the Share Purchase Agreement. The Second Distribution will be the amount that is determined by the board of directors to represent a "safe distribution" amount from the remaining cash resources of the Company. The quantum of the ultimate contingencies withheld from the Second Distribution will be determined by the board of directors in consultation with the Company's legal and tax advisors. It is currently anticipated that the Second Distribution will be in the range of US$11.5 million and $13.1 million and be declared and issued prior to September 30, 2017.

The third and final distribution (the "Terminal Distribution") will be issued immediately prior to the formal dissolution of the Company and following receipt of a tax clearance certificate from the Canada Revenue Agency. The Terminal Distribution will be in the form of distribution of the remaining cash of the Company to the shareholders on dissolution in accordance with the articles of the Company. It is currently anticipated that the Terminal Distribution will be in the range of US$5.0 million and $6.6 million. The ultimate timeline for issuing the Terminal Distribution and the dissolution of the Company is uncertain because it is heavily dependent on the length of time it takes to receive the tax clearance certificate, a factor which is ultimately outside of the control of the Company or its advisors. However, based on best available information for similar transactions, it is anticipated that the formal winding-up and dissolution will occur during the 2018 fiscal year.

With the commencement of the winding-up process, the Company no longer continues as a going concern. The Transaction has been treated as an adjusting event. See note 2 of the Company's financial statements for the three months ended March 31, 2017.

FORWARD-LOOKING STATEMENTS AND 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. 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:

- expectations regarding the winding-up and dissolution of the Company, including the preconditions to, and the timing of, such winding-up and dissolution;
- expectations regarding the timing and quantum of each of the First Distribution, Second Distribution and Terminal Distribution; and
- the characterization of the Company as no longer a going concern.

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

- no unforeseen liabilities arise prior to the time of dissolution of the Company;
- all costs associated with the Share Purchase Agreement are within the range anticipated by the Company;
- ongoing compliance costs and winding-up related costs to the anticipated date of dissolution are within the range anticipated by the Company;
- ONE makes no claims in respect of SHL warranties under the Share Purchase Agreement; and
- the Canada Revenue Agency issues a tax clearance certificate in 2018.

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 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:

- risks and uncertainties associated with the ongoing compliance, listing, winding-up and dissolution process of the Company;
- risk of claims by ONE under the Share Purchase Agreement;
- risk of unforeseen liabilities;
- uncertainties around the actual costs associated with the Share Purchase Agreement; and
- the Canada Revenue Agency does not issue, or there is a material delay in the issue of, a tax clearance certificate.

These factors should not be considered exhaustive. Readers should also refer to the section "*Risk Factors Associated with the Transactions Contemplated by the Share Purchase Agreement and Subsequent Winding-up*" in the management information circular of the Company dated April 5, 2017 which was mailed to shareholders in connection with the Meeting and is available under the Company's profile on the SEDAR website at www.sedar.com, for a further discussion of the risks associated with the distributions to be made to shareholders.

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.

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, assets and liabilities held for sale, 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, exploration and evaluation assets, provisions for wind-up costs and capital expenditure accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, 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.

NON-GAAP FINANCIAL MEASURES

This MD&A contains references to certain financial measures used by the Company that do not have a standardized meaning prescribed by Generally Accepted Accounting Principles ("GAAP") and may not be comparable to similar measures presented by other entities. Readers are cautioned that these non-GAAP measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP. The non-GAAP measures and their manner of reconciliation to GAAP financial measures are discussed below. These non-GAAP measures provide additional information that management believes is meaningful in describing the Company's operational performance, liquidity and capacity to fund capital expenditures and other activities. The specific rationale for, and incremental information associated with, each non-GAAP measure is discussed below.

References to operating netback, funds flow from operations ("FFFO"), property, plant and equipment and exploration and evaluation asset expenditures and net working capital surplus (deficit) throughout this MD&A have the meanings as set out in this section.

Operating netback is defined as revenue less third party entitlement and operating expenses (each being a GAAP financial measure), and is used to analyze operating performance.

FFFO is defined as net income (loss) (a GAAP financial measure) less adjustments for non-cash items and is used to analyze operating performance (see "Consolidated Statement of Cash Flows" in the Company's financial statements for the three months ended March 31, 2017 and 2016).

Property, plant and equipment and exploration and evaluation asset expenditures is defined as expenditures on property, plant and equipment and exploration and evaluation assets including the effects of accruals (see notes 8 & 9 in the Company's financial statements for the three months ended March 31, 2017 and 2016) and is used to monitor the capital intensity of assets.

Net working capital surplus (deficit) is defined as current assets less current liabilities excluding the Cladhan funding arrangements and is used to monitor the short term financial health of the Company.

OPERATING HIGHLIGHTS

$000s except where defined	2017 Mar.31	2016 3 months ending Dec.31	Sep. 30	Jun. 30	Mar. 31	2015 3 months ending Dec.31	Sep.30	Jun.30
Average daily sales from Breagh production								
Natural gas (MMscf/day) (1)	**17.5**	19.7	20.9	21.0	24.0	28.1	32.1	25.8
Liquids (bbl/day) (1)	**-**	64.6	66.7	50.9	72	130.1	79.1	82.7
Average Breagh realized prices								
Natural gas ($/Mscf) (1)	**5.91**	5.49	4.14	4.45	4.33	5.50	6.34	6.85
Liquids ($ per barrel) (1)	**-**	55.37	43.24	44.90	37.51	45.26	46.77	57.46
Breagh revenues	**9,218**	10,274	8,204	8,701	9,714	14,746	19,065	16,508
Other revenues including from hedging	**-**	40	-	40	-	238	270	215
Cladhan 2% oil sales revenues	**215**	212	660	540	407	-	-	-
Cladhan 11.8% oil sales revenues (2)	**874**	347	2,840	3,068	2,377	-	-	-
Revenues	**10,307**	10,873	11,704	12,349	12,498	14,984	19,335	16,723
Third party entitlement	**(568)**	(569)	(509)	(449)	(596)	(801)	(1,483)	(1,925)
Operating expense	**(1,466)**	(2,719)	(3,269)	(3,001)	(2,989)	(3,917)	(4,322)	(4,297)
Operating expense ($) per barrel of oil equivalent	**5.04**	8.38	9.44	8.99	7.88	8.79	8.53	10.64
Operating netback (3)	**8,273**	7,584	7,926	8,899	8,913	10,266	13,530	10,501
Other expenses	**(173,637)**	(6,181)	(7,074)	4,120	(16,529)	(4,270)	(22,430)	(2,695)
Impairment of oil and gas properties	**(671)**	1,404	(2,739)	(13,722)	(1,593)	(28,127)	(9,776)	-
Net financing cost	**(4,483)**	(4,455)	(4,133)	(8,429)	(8,158)	(5,009)	(7,648)	(6,465)
Loss on disposal	**-**	-	(4)	(2)	-	(1,494)	(924)	-
Income tax:								
Income tax expense	**-**	-	-	-	-	-	-	-
Deferred tax (debit) credit	**-**	24,695	-	-	-	(122,020)	16,493	3,408
Net (loss) income	**(170,518)**	23,048	(6,024)	(9,134)	(17,367)	(150,654)	(10,755)	4,749
Continued operations	**(5,760)**	(194)	(1,143)	58	(1,496)	(2,029)	(2,427)	(758)
Discontinued operations (4)	**(164,758)**	23,242	(4,881)	(9,192)	(15,871)	(148,625)	(8,328)	5,507
Net (loss) income	**(170,518)**	23,048	(6,024)	(9,134)	(17,367)	(150,654)	(10,755)	4,749
Per weighted average common share – basic and diluted ($) (5)	**(1.16)**	0.16	(0.04)	(0.03)	(0.04)	(0.34)	(0.03)	0.01
FFFO (3)	**832**	4,201	605	7,602	184	4,612	3,135	10,566
FFFO per common share outstanding	**0.01**	0.03	0.00	0.00	0.00	0.01	0.01	0.00
Property, plant and equipment and exploration and evaluation asset expenditures (3)	**1,006**	804	1,065	1,691	4,502	11,183	9,433	13,025

As at $000s except share information, acreage and well data	2017 Mar.31	2016 Dec.31	Sep.30	Jun.30	Mar.31	2015 Dec.31	Sept.30	Jun.30
Net working capital surplus (deficit) (3)	**109,271**	14,198	9,882	9,925	(186,769)	(179,589)	(35,142)	(63,246)
Total assets	**199,850**	363,060	365,235	385,893	429,403	453,440	630,491	660,017
Total liabilities	**90,579**	86,691	99,817	103,825	278,243	278,667	306,055	321,253
Shareholders' equity	**109,721**	276,369	265,418	282,068	151,160	174,773	324,436	338,764
Net licence acreage (000s of acres) (1)	**218**	239	344	379	379	397	504	1,285
Number of producing wells (1)	**10**	10	10	10	10	10	8	8
Common shares outstanding (000s) – basic (1)	**147,186**	147,186	147,186	14,719,099	441,573	441,573	441,573	381,200
Common share options outstanding (000s) (1)	**96**	96	177	21,400	21,923	24,432	24,568	12,025

(1) Non-financial data.
(2) Cladhan 11.8% oil sales revenues relate to revenues which go to pay down the Cladhan funding arrangements – see "Financing Activities – Cladhan Funding Arrangements").
(3) Non-GAAP measure. See "Non-GAAP Financial Measures".
(4) The Company's interests in Romania were sold effective August 26, 2015. The Company's interests in the UK and Other international were sold effective May 16, 2017.
(5) In the calculation of the weighted average shares outstanding for the periods the effects of the Recapitalization, and the Consolidation (see "Financing Activities") have been treated as occurring on the same day.

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.
With the commencement of the winding-up process, the Company no longer continues as a going concern. The Transaction has been treated as an adjusting event. See note 2 of the financial statements for the three months ended March 31, 2017.

Between March 31, 2017 and the date of this MD&A, there was no change to the number of common shares in the capital of the Company ("Common Shares") or stock options during the period.

For the three month period ended March 31, 2017, the Company recorded a net loss of $5,760,000 ($0.04 per weighted average Common Share) for continued operations and a loss of $164,758,000 ($1.12 per weighted average Common Share) for discontinued operations compared with a net loss of $1,496,000 ($0.00 per weighted average Common Share) for continued operations and a loss of $15,871,000 ($0.04 per weighted average Common Share) for discontinued operations in the three month period ended March 31, 2016. The net loss in 2017, compared to 2016, was much higher following the completion of the Transaction, which is treated as an adjusting event resulting in a write-down of $166,583,000 as the disposed operations are transferred to assets held for sale.

Net (loss) income largely comprises the following elements:

REVENUE – DISCONTINUED OPERATIONS

BREAGH
For the three month period ended March 31, 2017, Breagh revenue was $9,218,000 (three month period ended March 31, 2016 - $9,714,000). These revenues came from sales of gas production of approximately 1.6 billion cubic feet ("Bcf") at an average realized gas price of 45.4 pence per therm ($5.91 per thousand cubic feet) with no sales of condensate in the period. For the three month period ended March 31, 2016, revenues came from sales of gas production of approximately 2.2 Bcf at an average realized gas price of 30.6 pence per therm ($4.33 per thousand cubic feet), 890 tonnes of condensate (6,542 barrels) at an average price of $276 per tonne.

On September 8, 2016, the Company announced that it had entered into a Gas Trading and Sales Agreement ("GTSA") with British Gas Trading Limited ("BGT"), a subsidiary of Centrica plc. The agreement provided for Sterling's share of Breagh nominated gas volumes to be sold on a day ahead basis to the UK reference price at the National Balancing Point. Under the contract Sterling delivered the Company's share of Breagh gas to BGT on a day ahead basis, and BGT must take and pay for this volume. The gas sales agreement incorporated arrangements for payment to Sterling for over-deliveries, and recovery of incremental costs incurred by BGT for under-deliveries, on normal market terms. The agreement is valid for a minimum two year period with gas made available to BGT commencing October 1, 2016. The agreement replaced the GTSA with Vitol S.A. ("Vitol") which expired on October 1, 2016. Sterling is paid by BGT in the month following production.

The Breagh field produces a small amount of condensate (the condensate-gas ratio is approximately 3.4 barrels per million standard cubic feet) ("MMscf") which has been 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 for the period ended March 31, 2017 have been derived from one customer and one contract.

CLADHAN
First sales from the Cladhan oil development occurred in the first quarter of 2016. During the three month period ended March 31, 2017, sales relating to the Company's 2 percent equity interest totalled $215,000 which came from the sale of 4,100 barrels of oil equivalent ("boe") at an average realized price of $52 per boe. For the three month period ended March 31, 2016, sales relating to the Company's 2 percent equity interest totalled $407,000 which came from the sale of 11,700 boe at an average realized price of $35 per barrel.

During the three month period ended March 31, 2017, the Company also recognized $874,000 (three month period ended March 31, 2016 - $2,377,000) of Cladhan revenues relating to sales of oil on the 11.8 percent of the Cladhan development which have been 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.

THIRD PARTY ENTITLEMENT – DISCONTINUED OPERATIONS

For the three month period ended March 31, 2017, a third party entitlement of $568,000 (three month period ended March 31, 2016 – $596,000), was charged to the income statement respectively and is commensurate with lower production revenues. The rate of the entitlement payments reduced in 2015 from 12.23 percent to 6.10 percent. 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, 2017 amount to $18,934,000.

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 ("CT") or supplementary charge corporate tax ("SCT'). 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 – DISCONTINUED OPERATIONS

For the three month period ended March 31, 2017, operating expenses were $1,466,000 (three month period ended March 31, 2016 - $2,989,000). 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 and Cladhan fields and increased inventory levels as there were no condensate sales on Breagh in the first quarter of 2017.

DEPLETION, DEPRECIATION AND AMORTIZATION – DISCONTINUED OPERATIONS

For the three month period ended March 31, 2017, depletion of $4,787,000 (three month period ended March 31, 2016 – $10,492,000) on oil and gas properties and depreciation of $11,000 (three month period ended March 31, 2016 – $18,000) on corporate and other assets was charged to the income statement. Depletion was lower in 2017 compared to 2016 commensurate with lower production and carrying values on the Breagh and Cladhan assets, in particular for the latter following impairments in 2016.

IMPAIRMENT OF OIL AND GAS PROPERTIES – DISCONTINUED OPERATIONS

Due to cost and time overruns on the Cladhan UK offshore property, poorer than expected production and the drop in worldwide commodity prices, under RPS Energy Canada Ltd. ("RPS") pricing assumptions pay-out of the entire amount of the Second Carry (see "Financing Activities – Cladhan Funding Arrangements") was not deemed to be likely to occur as at March 31, 2017 and the liability has been re-measured to reflect the amount considered to be likely to be repaid from future revenues of the 11.8 percent of the development being funded by TAQA. Under these same criteria, it is unlikely that the 11.8 percent asset will return to the Company and the remaining asset represents the amount of the revenues expected to be earned that will go to reduce the Second Carry. At March 31, 2017, after comparison of the carrying value and its recoverable value, being the higher of its value-in-use and fair value less costs to dispose, the property has been impaired by $671,000. 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 seven years, derived using proved plus probable reserves as at March 31, 2017. The cash flows (based on level III fair value hierarchy – see "Significant Accounting Policies – Fair Value Measurements – Level III" in the Company's Financial Statements) used commodity prices based on RPS' reserves report and a pre-tax discount rate of 17 percent. Under the same criteria Cladhan was impaired by $1,593,000 for the three month period ended March 31, 2016.

PRE-LICENCE AND OTHER EXPLORATION COSTS – DISCONTINUED OPERATIONS

For the three month period ended March 31, 2017, pre-licence and other exploration costs expensed were $380,000, a decrease of $588,000 over the same period in 2016 (three month period ended March 31, 2016 - $968,000) as a result of continued lower activity in the UK. Of the total, $231,000 (2016 – $847,000) related to the Company's interests in its various licences in the UK and $149,000 (2016 – $121,000) which related to the Netherlands and other international ventures.

FINANCING COSTS – DISCONTINUED OPERATIONS

Financing costs for the three month period ended March 31, 2017, were $4,604,000 (three month period ended March 31, 2016 - $8,312,000) consisting primarily of $3,026,000 of Cladhan funding arrangement interest which was expensed (three month period ended March 31, 2016 - $2,620,000). In addition, borrowing costs of $997,000 on the Bond and amortization of finance transaction costs of $467,000 were expensed in the three month period ended March 31, 2017.

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

UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS – DISCONTINUED OPERATIONS

The original fair value of the repayment option on the Bond was determined to be $5,861,000. On May 30, 2016, following the Recapitalization (see "financing activities") changes in the terms of the Bond led to this option being de-recognized and a new fair value of the repayment option was determined to be $819,000. This was subsequently revalued at March 31, 2017, to be $1,081,000 (the same as at December 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.

In the second quarter of 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 for a total consideration of $4,155,000. The derivatives are revalued to their fair value at each period end. Any gain or loss is recorded through the income statement in the period in which it arose. At March 31, 2017, the derivatives were valued at $579,000, a gain of $16,000 in the three month period ended March 31, 2017. For the three month period ended March 31, 2016, the Company held no such options.

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, 2017, the Company recorded a foreign exchange gain of $857,000, in a relatively stable period for foreign exchange rates, compared to a loss of $6,361,000 in three month period ended March 31, 2016. The foreign exchange loss in the prior year 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, the functional currency for the UK subsidiary, with the partial offset being reduced by lower bank balances held in US dollars.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

Three month period ended March 31,	**2017**	2016
	$000s	$000s
Gross employee, and general and administration expense	**4,013**	1,767
Recovered from third parties	**(166)**	(146)
Capitalized to assets	**(90)**	(84)
Expensed as pre-licence and other exploration expenditures	**(181)**	(318)
Total recoveries and allocations	**(437)**	(548)
Net employee expense from continued operations	**274**	310
Net general and administration expense from continued operations	**2,805**	289
Net employee expense from discontinued operations	**227**	508
Net general and administration expense from discontinued operations	**270**	112

EMPLOYEE EXPENSE

For the three month period ended March 31, 2017, net employee expense after allocations and recoveries was $501,000, down from $818,000 incurred in 2016 as a result of staff reductions in 2016. Of the total, $42,000 (down from $90,000 in 2016) relates to non-cash share-based compensation and $459,000 relates to wages and salaries (three month period ended March 31, 2016 - $728,000). Recoveries and allocations are overall lower compared to in 2016 due to lesser activity, particularly on exploration assets. Of these amounts $274,000 related to continuing operations and $227,000 from discontinued operations.

GENERAL AND ADMINISTRATION EXPENSE

For the three month period ended March 31, 2017, net general and administration ("G&A") expense after allocations and recoveries was $3,075,000, an increase of $2,674,000 despite 2016 cost saving initiatives. These cost saving initiatives have been offset by other corporate costs in connection with the Transaction, including strategic financial advisor fees on the Transaction of $2,079,000. Of these amounts $2,805,000 related to continuing operations and $270,000 from discontinued operations. Legal and professional advisor costs incurred in 2016 related to the Recapitalization have been capitalized and are amortized over the benefit of the financing.

In 2016, following completion of the Recapitalization (see "Financing Activities"), the Company implemented further significant cost reduction initiatives consistent with a focus on maximizing cash flow from the UK Breagh gas field. The Company closed both the Calgary and London offices. Until the time of the completion of the Transaction all of the operational, commercial and financial functions of the Company were then conducted from the Aberdeen office. The Company completed the largest part of a staff reduction program by the end of the third quarter of 2016 resulting in further significant cost savings going forward.

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"). Of this amount $836,000 related to continuing operations and $3,786,000 from discontinued operations. There were no costs charged to refinancing and strategic review in 2017.

INCOME TAXES

All the Company's previously held deferred tax asset of $80,527,000 (December 31, 2016 - $79,558,000) relates to discontinued operations and has been transferred to assets held for sale.

The Company retains the following tax losses and other deductible temporary differences at March 31, 2017:

- Non-capital losses of approximately $33 million (December 31, 2016 – $33 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 $2 million (December 31, 2016 – $2 million) which may be applied against future income for Canadian tax purposes.

SUMMARY OF NET LOSS FROM DISCONTINUED OPERATIONS

A summary of income and expense allocated to the net loss from discontinued operations are as follows:

Three months ended March 31,	**2017**	2016
	US$000s except per share	
Revenue	**10,307**	12,498
Third-party entitlement	**(568)**	(596)
	9,739	11,902
Expenses		
Operating expense	**(1,466)**	(2,989)
Pre–licence and other exploration expenditures	**(380)**	(968)
Impairment of oil and gas properties	**(671)**	(1,593)
Depletion, depreciation and amortization	**(4,798)**	(10,509)
Gain on derivative financial instruments	**16**	-
Re-measurement of Cladhan non-financial liability	**3,508**	7,151
Employee expense	**(227)**	(508)
General and administration expense	**(270)**	(112)
Refinancing and strategic review	**-**	(3,786)
Foreign exchange gain (loss)	**857**	(6,301)
Total expenses	**(3,431)**	(19,615)
Financing income	**121**	154
Financing costs	**(4,604)**	(8,312)
Net financing cost	**(4,483)**	(8,158)
Net income (loss) for the period relating to discontinued operations	**1,825**	(15,871)
Write down of discontinued operations	**(166,583)**	-
Net loss for the period relating to discontinued operations	**(164,758)**	(15,871)

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, 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;
- 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; 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

All of the Company's development and exploration assets relate to discontinued operations.

BREAGH DEVELOPMENT

Breagh sales from production averaged 58.3 million standard cubic feet per day ("MMscf/d") gross (17.5 MMscf/d net) for the three month period ended March 31, 2017. Production was affected by a nine day shutdown in January due to a loss of platform power and weather issues, and a three day shutdown in February due to sphering issues. Gross condensate production for the three month period ended March 31, 2017 averaged 211 barrels per day ("bbls/d"), 63 net bbls/d to Sterling, though there were no sales in the period.

Preparations for the infill drilling campaign continued during the quarter with Partnership approval of a firm two-well and one re-entry program plus options for up to a further five wells. Negotiations for a drilling rig were progressed and a contract signed in April. Commencement of the campaign was scheduled for June 2017.

A decision on sanction of the onshore compression project was deferred to the end of 2017 to allow incorporation of revised production profiles and investment capital expenditure modelling to achieve optimized value. For the same reasons phase 2 sanction was deferred to mid-2018.

CLADHAN DEVELOPMENT

Cladhan production for the first three months of 2017 averaged 2,470 bbl/d gross (49 bbl/d net to Sterling). Water injection and gas lift systems were commissioned in the early part of the year. Water cut was in the range of 70 – 75 percent. The field was operating in steady state production mode with no additional investment being considered at the time of Completion.

EXPLORATION AND EVALUATION ACTIVITY

During the three month period ended March 31, 2017, and up to the date of Completion, 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 surrender of approximately half the licence in February 2016, a further 20 percent was surrendered in February 2017. No amounts were capitalized for this licence as at March 31, 2017.

On blocks 42/3a, 42/4, 42/5 & 36/30 (Sterling 100 percent) the Company continued a farm-down process for its interest ahead of drilling a commitment well. These blocks 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 ("OGA") agreed to extend the licence expiry date to December 2018, by which time the commitment well needs to be drilled. As part of this agreement approximately 40 percent of the licence area was surrendered in December 2016.

Sterling retained 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 continued a farm-down process. As part of this agreement approximately 50 percent of the licence area was surrendered in December 2016.

In comparison, during the three month period ended March 31, 2016, work continued on the farm-down process for UK blocks 42/3a, 42/4, 42/5 & 36/30 and 49/19b. The licence covering blocks 42/13b, 42/17a and 42/18a containing the Lochran prospect were relinquished effective March 15, 2016. No amounts were capitalized for this licence.

NETHERLANDS

Work progressed on building a new geological model on the Korvet prospect. Licence extensions have been granted to January 2021. A partial relinquishment over acreage in the F18 block of approximately 60 percent occurred in the first quarter of 2017.

FRANCE

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) were submitted. Formal approval of the works on the abandonment and site restoration of the Grenade-3 well, conducted in the fourth quarter of 2015, are expected in 2017.

FINANCING ACTIVITIES

AGREEMENT TO SELL UK OPERATING SUBSIDIARY TO ORANJE-NASSAU ENERGIE B.V.

On May 8, 2017 at the annual and special meeting of the shareholders of Sterling the shareholders passed two special resolutions approving the following:

- The sale of all or substantially all, of the assets of the Company resulting from the sale by the Company's wholly-owned subsidiary SHL of the entire issued share capital of SRUK pursuant to a Share Purchase Agreement dated March 3, 2017 between the Company, SHL and ONE.
- Following the completion of the sale transaction contemplated by the Share Purchase Agreement, the voluntary wind-up and dissolution of the Company and the distribution to shareholders in conjunction therewith, in each case as determined by the board of directors in its sole discretion.

The special resolutions were approved by over 99 percent of shares represented at the Meeting.

On May 16, 2017, the Transaction was completed, including the redemption of all issued and outstanding bonds issued under the 9 percent SRUK Senior Secured Callable Bond Issue 2013/2019 and the cancellation of the super senior revolving credit facility agreement. Thereafter, the Company has begun to undertake the steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders.

The current plan of the Company is to make the distributions to shareholders in three instalments. The First Distribution will be the amount that is determined by the board of directors to represent a "safe distribution" amount from the immediately available cash resources of the Company after closing of the transactions contemplated by the Share Purchase Agreement while retaining appropriate funds in place:

i. to satisfy all costs associated with the Share Purchase Agreement;

ii. to discharge all known liabilities of the Company and its subsidiaries;

iii. to pay all estimated costs associated with the winding-up and dissolution of the Company and its subsidiaries, including estimated costs of third party advisory services;

iv. to retain a sufficient contingency in reserve such that any realistic overages in the transactions contemplated by the Share Purchase Agreement, ongoing compliance costs or winding-up and dissolution costs of the Company can be paid; and

v. to reserve a further reasonable contingency allowing for the payment of any unforeseen liabilities up to the time of final dissolution.

The quantum of the ultimate contingencies withheld from the First Distribution will be determined by the board of directors in consultation with the Company's legal and tax advisors. It is currently anticipated that the First Distribution will be US$92.8 million and be declared and issued prior to June 30, 2017.

The Second Distribution is expected to be issued following three months from the completion of the transactions contemplated by the Share Purchase Agreement. The Second Distribution will be the amount that is determined by the board of directors to represent a "safe distribution" amount from the remaining cash resources of the Company. The quantum of the ultimate contingencies withheld from the Second Distribution will be determined by the board of directors in consultation with the Company's legal and tax advisors. It is currently anticipated that the Second Distribution will be in the range of US$11.5 million and US$13.1 million and be declared and issued prior to September 30, 2017.

The third and final distribution, the Terminal Distribution, will be issued immediately prior to the formal dissolution of the Company and following receipt of a tax clearance certificate from the Canada Revenue Agency. The Terminal Distribution will be in the form of distribution of the remaining cash of the Company to the shareholders on dissolution in accordance with the articles of the Company. It is currently anticipated that the Terminal Distribution will be in the range of US$5.0 million and US$6.6 million. The ultimate timeline for issuing the Terminal Distribution and the dissolution of the Company is uncertain because it is heavily dependent on the length of time it takes to receive the tax clearance certificate, a factor which is ultimately outside of the control of the Company or its advisors. However, based on best available information for similar transactions, it is anticipated that the formal winding-up and dissolution will occur during the 2018 fiscal year.

The Common Shares of Sterling are expected to cease trading on or about the time of the Terminal Distribution to Sterling shareholders and be delisted from the TSXV and listed on the NEX, a separate board of the TSXV, following the time of the First Distribution.

RECAPITALIZATION

On May 30, 2016 (the "Recap Closing Date"), the Group (as defined herein) completed a recapitalization (the "Recapitalization") pursuant to a recapitalization agreement (the "Recapitalization Agreement") involving the Company, 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 dated May 2, 2013, as subsequently amended (the "Bond Agreement"). The Recapitalization was required as a result of the Company and SRUK being unable to implement a financing, an asset or corporate sale or a merger transaction by February 29, 2016 as required by the Third Bond Amendments (as defined below). The principal elements of the Recapitalization were 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, as described below.

i. **Rights Offering.** The Company conducted 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 received 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 Rights Offering closed on May 30, 2016 and raised proceeds of C$1,303,647 for the issuance of 84,663,364 Common Shares.

   The gross proceeds of the Rights Offering, after such funds were converted to US dollars and less a foreign exchange adjustment, of $989,860 (the "Rights Offering Proceeds"), were used solely to fund the release and cancellation of a portion of the liabilities of the Company and SRUK under or in connection with the Bonds, comprising principal, redemption premium, accrued (but unpaid) amendment fees and interest (the aggregate of all such liabilities being the "Bond Liabilities" and the amount so released and cancelled with the Rights Offering Proceeds being the "Purchased Liabilities"). The expenses associated with the Rights Offering were paid from the general funds of the Company.

ii. **Bond Exchange.** The Bondholders (as defined herein) (directly, or indirectly through an affiliate, or through the Bond Trustee) subscribed for the unsubscribed 14,192,862,213 Common Shares under the Rights Offering (the "Exchange Shares") at the same price per Common Share as the Rights Offering Subscription Price. The value of the Exchange Shares, converted to US dollars on the date of the final prospectus, amounted to $173,088,621 (the "Exchange Amount"). The consideration for the Exchange Shares was, indirectly, the full and final satisfaction of Bond Liabilities equal to the Exchange Amount (the "Exchanged Bond Liabilities").

   Immediately prior to the Recap Closing Date, the Bond Liabilities amounted to $214,340,000. After the release/cancellation of Purchased Liabilities and the Exchanged Liabilities, the remaining Bond Liabilities immediately after the Recap Closing Date were $40,261,519, all in the form of Bond principal (the "Remaining Bonds").

   As a result of the Bond Exchange and the issuance of Common Shares pursuant to the Rights Offering, the aggregate equity held by the holders of Common Shares prior to the Recapitalization was diluted to approximately 3.58 percent of the total equity of the Company after completion of the Recapitalization. Bondholders acquired Common Shares aggregating to approximately 96.4 percent of the Common Shares after completion of the Recapitalization.

iii. **Transfer of SRUK.** On the Recap Closing Date, the Company transferred the entire share capital of SRUK to a new wholly-owned subsidiary governed by the laws of England and Wales, SHL, in order to provide additional security to Bondholders and lenders under the SSRCF and greater flexibility in any future refinancing of the SSRCF and the Bonds post-Recapitalization.

iv. **Remaining Bonds.** On the Recap Closing Date, SRUK and the Company entered 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, as described below under "Bond". The amount of the Remaining Bonds was approximately $40.3 million as at May 30, 2016, as described under "Bond Exchange" above.

v. **Super senior revolving credit facility.** On the Recap Closing Date, the Company and SRUK entered into an agreement for a new loan with two of the Bondholders or their affiliates (the "Senior Lenders") see "Super Senior Revolving Credit Facility".

vi. **Other actions.** A number of further agreements and actions were provided for in the Recapitalization Agreement. On the Recap Closing Date, the Company and SRUK also entered into an intercreditor agreement (the “Intercreditor Agreement”) with the Senior Lenders and the Bondholders. Each of the Company and its affiliates (including SHL) also executed the guarantees and security documents contemplated in the Fourth Bond Amendment Agreement and the SSRCF. An Exit Fee (as defined herein) 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) was terminated on the Recap Closing Date. Pursuant to the Recapitalization Agreement, shortly after the Recap Closing Date, the Company conducted its annual and special meeting of shareholders held on July 5, 2016, at which the shareholders approved: (a) a resolution approving the creation of a new “Control Person” (as defined in TSXV Policy 1.1 – Interpretation) created as a result of the Bond Exchange; and (b) a special resolution approving the 100:1 Consolidation of the Common Shares.

BOND

In April 2013, SRUK (the “Issuer”) completed the issuance of the Bond, which was listed on the Nordic Alternative Bond Market in Oslo (under the ticker STRE01 PRO) prior to Completion. The Bond Agreement had been amended and restated as a result of four sets of amendments approved by holders of the Bond over its lifetime.

At March 31, 2017, the Company was in compliance with the terms of the Bond (as amended and with waivers provided by Bondholders).

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed, including the repayment in full of the Bond and all associated interest and liabilities of $43,935,000.

SUPER SENIOR REVOLVING CREDIT FACILITY

On the Recap Closing Date, the Company and SRUK entered into an agreement for a new loan with two of the Bondholders or their affiliates (the “Senior Lenders”) in the form of a super senior revolving credit facility (the “SSRCF”) of up to $40 million. The SSRCF comprised two tranches, A and B, each of $20 million and both on a revolving, multi-currency basis. Tranche A was to 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, was for capital expenditures only in accordance with the relevant annual budget. The final maturity date was 24 months after the Recap Closing Date, with an optional extension to April 30, 2019, subject to satisfying certain conditions. There was a 7 percent arrangement fee on each Tranche, for Tranche A paid in cash on the Recap Closing Date and for Tranche B to be paid in cash upon the earlier of the date of first utilization of Tranche B and the date falling 24 months after the Recap 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 was the aggregate of the margin and LIBOR (subject to a LIBOR floor of 1 percent). The margin for Tranche A was 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 was to be calculated from the date of utilization of each Tranche until the date the relevant Tranche was to be repaid, prepaid or cancelled, and paid semi-annually on April 30 and October 30. Tranche A interest was to be paid in cash and Tranche B interest was to be paid in kind (i.e. added to the principal amount). There was 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 utilized. There was 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 were 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). Utilization conditions comprise, on a simplified basis: (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 had senior ranking in relation to guarantees and security package as described under the Bond, as specified in the Intercreditor Agreement.

As of March 31, 2017, the balance of the SSRCF was zero and from the Recap Closing Date through to the date of this report the SSRCF was not utilized.

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed, including the cancellation of the SSRCF and the payment in full of the commitment fees and all associated costs of $1,647,000.

CLADHAN FUNDING ARRANGEMENTS

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed and the obligations under the Cladhan funding arrangements became discontinued operations.

In April 2013, the Company signed agreements with TAQA which ensured that the Company was in a position, regardless of the closing of the 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 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 retained a minimum 2 percent interest in Cladhan throughout, for which the original budgeted development cost was 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 was 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, the Company’s reserve auditors, pricing assumptions used in the Company’s 2016 reserves report effective December 31, 2016 dated March 29, 2017 (“NI 51-101F1”), pay-out in full of the Second Carry was not deemed likely to occur as at March 31, 2017 and the liability was re-measured to reflect the amount considered to be likely to be repaid from future revenues of the 11.8 percent. The Second Carry balance has been re-measured down to $13,043,000, with $5,335,000 recorded as a current liability on the balance sheet as it is expected to reduce the carry over the next twelve months and $7,708,000 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 seven years, derived using proved plus probable reserves as at March 31, 2017. The cash flows (based on level III fair value hierarchy) used commodity prices in the NI 51-101F1, produced by RPS, effective December 31, 2016 price forecast taking into account actual production in the first quarter of 2017 and a pre-tax discount rate of 17 percent. If the Second Carry did not pay-out Sterling would have had 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 $3,508,000 recorded in the income statement (three months ending March 31, 2016 - $7,151,000). As at March 31, 2017, the corresponding 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.

FINANCING, LIQUIDITY AND SOLVENCY

Net Working Capital

As at	**Non-Going Concern March 31, 2017**	Going Concern December 31, 2016
	$000s	$000s
Cash and cash equivalents	**379**	10,369
Restricted cash	**-**	128
Trade and other receivables	**7**	4,301
Inventory	**-**	534
Prepaid expenses	**-**	2,294
Derivative financial asset	**-**	137
Assets held for sale	**199,464**	-
Trade and other payables	**(2,264)**	(3,565)
Provision for wind-up costs	**(2,666)**	-
Liabilities associated with assets held for sale	**(85,649)**	-
	109,271	14,198

Net working capital, defined as current assets less current liabilities excluding the Cladhan funding arrangements, was a surplus of $109,271,000 as at March 31, 2017, and has improved following the completion of the Transaction. The net proceeds of the Transaction of $113.8 million (the netting of the assets held for sale less the liabilities associated with the assets held for sale) were received on May 16, 2017.

COMMITMENTS AND CONTINGENCIES

Commitments as at March 31, 2017 for the years 2017 through 2021 and thereafter, comprised the following:

	2017	2018	2019	2020	2021	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and natural gas drilling	**15,255**	13,112	-	-	-	-	**28,367**
Licence fees	**611**	942	919	941	803	-	**4,216**
Other operating	**337**	284	121	-	-	-	**742**
Office and other leases	**1,589**	1,014	470	470	-	-	**3,543**
	17,792	15,352	1,510	1,411	803	-	**36,868**

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed and all the above commitments passed to the new owners of SRUK.

Of the above facilities, oil and natural gas drilling commitments, $4,391,000 relate to additional work on Breagh Phase 1 development and the balance of $23,976,000 are costs associated with one exploration/appraisal well, shown at 100 percent in each of 2017 and 2018.

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, SRUK continues to be liable to the landlord for any default under the lease caused by the assignee. It is expected that approximately $1,762,000 of the office and other leases commitment will be covered by this sub-lease.

PROVISION FOR WIND-UP COSTS

The Company will continue to incur operating costs through the winding-up of the Company that would not otherwise be incurred. Actual costs may differ from management's estimates, which might reduce net assets available on wind-up to be distributed to shareholders.

	March 31, 2017
	$000s
Employee costs and directors' fees	**373**
Professional fees and other	**2,112**
Insurance	**181**
Provision for wind-up costs	**2,666**

LIQUIDITY AND SOLVENCY

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed and thereafter the Company has begun to undertake the steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders (see "Financing Activities"). As the winding-up process has begun the Company no longer continues as a going concern.

DECOMMISSIONING OBLIGATIONS

All of the Company's decommissioning obligations related to discontinued operations and have been transferred to assets held for sale.

The Company's decommissioning obligations previously resulted from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision as at March 31, 2017 reflects the discounted present value of the estimated cost, using existing technology at current prices. The Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations as at March 31, 2017 to be approximately $35,071,000, which would be incurred between 2024 and 2036. Two wells on the Sheryl licence were abandoned during 2016 and $660,000 of the decommissioning obligation, previously recognized as a current liability has been derecognized. Risk free interest rates based on UK long-term government bond rates varying from 1.04 percent to 1.86 percent (December 31, 2016 – 1.04 to 1.86 percent) and an inflation rate of 2 percent (December 31, 2016 – 2 percent) were used to calculate the longer term decommissioning obligations at March 31, 2017. Revisions to estimates in the year ended December 31, 2016 of $3,482,000 relate to a decrease in the operator estimate for abandonment of the Breagh development partly offset by a reduction in the risk free interest rates used for discounting.

	Three months ended March 31, 2017	Twelve months ended December 31, 2016
	$000s	$000s
Balance, beginning of the year	**26,967**	36,841
Arising during the period	**-**	-
Obligation disposal	**-**	(660)
Revisions to estimates	**-**	(3,482)
Foreign exchange differences	**328**	(6,205)
Accretion of discount	**114**	473
Transferred to liabilities associated with assets held for sale	**(27,409)**	-
Balance, end of the period	**-**	26,967

2017 PLANS

The Company outlined its plans for 2017 in its MD&A for the year ended December 31, 2016, approved prior to the Transaction. As the Transaction was completed on May 16, 2017 and the Company no longer continues as a going concern, such plans for 2017 no longer remain accurate, being replaced by the objective of taking all steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders.

RELATED PARTY AND OFF-BALANCE SHEET TRANSACTIONS

The Company had no off-balance sheet transactions in the three month period ended March 31, 2017 or 2016.

ADDITIONAL INFORMATION

Additional information about Sterling Resources Ltd. and its business activities, including Sterling's NI 51-101F1, is available via SEDAR at www.sedar.com.

CONSOLIDATED BALANCE SHEET

As at	**Non-Going Concern March 31, 2017**	Going Concern December 31, 2016
(Unaudited)	US$000s	US$000s
ASSETS		
Current assets		
Cash and cash equivalents (note 6)	**379**	10,369
Restricted cash	**-**	128
Trade and other receivables (note 7)	**7**	4,301
Inventory	**-**	534
Derivative financial asset (note 10)	**-**	137
Prepaid expenses	**-**	2,294
Assets held for sale (note 3)	**199,464**	-
	199,850	17,763
Non-current assets		
Exploration and evaluation assets (note 8)	**-**	21,088
Property, plant and equipment (note 9)	**-**	243,151
Derivative financial asset (note 10)	**-**	419
Repayment option on long-term debt (notes 10 & 12)	**-**	1,081
Deferred tax asset (note 21)	**-**	79,558
	-	345,297
	199,850	363,060
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**2,264**	3,565
Cladhan funding arrangements (note 13)	**-**	5,763
Provision for wind-up costs (note 5)	**2,666**	-
Liabilities associated with assets held for sale (note 3)	**85,649**	-
	90,579	9,328
Non-current liabilities		
Decommissioning obligations (note 11)	**-**	26,967
Long-term debt (note 12)	**-**	41,919
Cladhan funding arrangements (note 13)	**-**	8,477
	-	77,363
Commitments and contingencies (note 14)		
Equity		
Share capital (note 15)	**595,741**	595,741
Contributed surplus	**19,647**	19,605
Accumulated other comprehensive loss	**(85,479)**	(88,857)
Deficit	**(420,638)**	(250,120)
	109,271	276,369
	199,850	363,060

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, 2017 ("the Financial Statements").

CONSOLIDATED INCOME STATEMENT

Three months ended March 31,	**2017**	2016
(Unaudited)	US$000s except per share	
Expenses		
Provision for wind-up costs (note 5)	**(2,681)**	-
Depletion, depreciation and amortization (note 9)	**-**	(1)
Employee expense	**(274)**	(310)
General and administration expense	**(2,805)**	(289)
Refinancing and strategic review	**-**	(836)
Foreign exchange gain (loss)	**-**	(60)
Total expenses	**(5,760)**	(1,496)
Net loss from continued operations	**(5,760)**	(1,496)
Net loss from discontinued operations (note 4)	**(164,758)**	(15,871)
Net loss for the period	**(170,518)**	(17,367)
Net loss per common share (note 20)		
Basic and diluted – continued operations	**(0.04)**	(0.00)
Basic and diluted – discontinued operations	**(1.12)**	(0.04)
Basic and diluted – total	**(1.16)**	(0.04)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Three months ended March 31,	**2017**	2016
(Unaudited)	US$000s	US$000s
Net loss	**(170,518)**	(17,367)
Items that may be subsequently reclassified to profit and loss:		
Foreign currency translation adjustment	**3,378**	(6,336)
Comprehensive loss	**(167,140)**	(23,703)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Surplus / (deficit)	Total
(Unaudited)	US$000s	US$000s	US$000s	US$000s	US$000s
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 period from continued operations	-	-	-	(1,496)	(1,496)
Loss for the period from discontinued operations (note 4)	-	-	-	(15,871)	(15,871)
Balance at March 31, 2016	427,440	19,642	(38,046)	(257,876)	151,160
Balance at January 1, 2017	**595,741**	**19,605**	**(88,857)**	**(250,120)**	**276,369**
Share-based compensation (note 16)	**-**	**42**	**-**	**-**	**42**
Foreign currency translation	**-**	**-**	**3,378**	**-**	**3,378**
Loss for the period from continued operations	**-**	**-**	**-**	**(5,760)**	**(5,760)**
Loss for the period from discontinued operations (note 4)	**-**	**-**	**-**	**(164,758)**	**(164,758)**
Balance at March 31, 2017	**595,741**	**19,647**	**(85,479)**	**(420,638)**	**109,271**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31,	**2017**	2016
(Unaudited)	US$000s	US$000s
Cash flows from operating activities		
Loss for the period from continuing operations	**(5,760)**	(1,496)
Adjustments for continued operations:		
Share-based compensation (note 17)	**42**	90
Loss for the period from discontinuing operations (note 4)	**(164,758)**	(15,871)
Adjustments for discontinued operations:		
Unrealized foreign exchange (gain) loss	**(830)**	6,728
Depletion, depreciation and amortization (note 9)	**4,798**	10,510
Impairment of oil and gas properties (note 9)	**671**	1,593
Unrealized (gain) loss on derivative financial instruments (notes 10 and 12)	**(16)**	-
Re-measurement of Cladhan non-financial liability (note 13)	**(3,508)**	(7,151)
Accretion of decommissioning discount (note 19)	**114**	184
Amortization of bond amendment costs (note 19)	**467**	-
Financing income	**(121)**	(154)
Interest expense (note 19)	**4,024**	8,128
Cladhan revenues foregone (note 18)	**(874)**	(2,377)
Write down on assets held for sale (note 3)	**166,583**	-
	832	184
Change in non-cash working capital	**5,243**	3,272
Cash flows from operating activities	**6,075**	3,456
Cash flows from investing activities – discontinued operations		
Exploration and evaluation asset additions	**(141)**	(257)
Property, plant and equipment additions	**(1,991)**	(1,594)
Cash flows (used in) provided by investing activities	**(2,132)**	(1,851)
Cash flows used in financing activities – discontinued operations		
Decrease (increase) in restricted cash	**34**	(583)
Financing income	**121**	154
Cash flows from (used in) financing activities	**155**	(429)
Effect of translation on foreign currency cash and cash equivalents	**145**	(89)
Increase(decrease) in cash and cash equivalents during the period	**4,243**	1,087
Cash and cash equivalents, beginning of the period	**10,369**	10,889
Cash and cash equivalents, end of the period	**14,612**	11,976
Less cash and cash equivalents of discontinued operations (note 3)	**(14,233)**	-
Cash and cash equivalents of continued operations, end of period	**379**	-

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, 2017.

1) CORPORATE INFORMATION

Sterling Resources Ltd. (the “Company”) is a publicly traded company incorporated and domiciled in Canada. The Company was engaged in the exploration, appraisal and development of crude oil and natural gas in the United Kingdom and the Netherlands. See below. The Company’s registered office is located at 4300 Bankers Hall West, 888 – 3rd Street SW, Calgary, Alberta, Canada.

These unaudited condensed interim consolidated financial statements (the “Financial Statements”) were approved for issuance by the Company’s Board of Directors on May 30, 2017, on the recommendation of the Audit Committee.

The Company’s consolidated financial statements comprise the financial statements of the Company and the wholly-owned group of companies: SRUK Holdings Ltd (“SHL”), and up until their point of disposal Sterling Resources (UK) Ltd (“SRUK”), and Sterling Resources Netherlands B.V.

AGREEMENT TO SELL UK OPERATING SUBSIDIARY TO ORANJE-NASSAU ENERGIE B.V.
On May 8, 2017 at the annual and special meeting of the shareholders of Sterling the shareholders passed two special resolutions approving the following:

- The sale of all or substantially all, of the assets of the Company resulting from the sale by the Company’s wholly-owned subsidiary SHL of the entire issued share capital of SRUK (the “Transaction”) pursuant to a share purchase agreement dated March 3, 2017 between the Company, SHL and Oranje-Nassau Energie B.V. (“ONE”) (the “Share Purchase Agreement”).

- Following the completion of the sale transaction contemplated by the Share Purchase Agreement, the voluntary wind-up and dissolution of the Company and the distribution to shareholders in conjunction therewith, in each case as determined by the board of directors in its sole discretion.

The special resolutions were approved by over 99 percent of shares represented at the Meeting.

On May 16, 2017, the Transaction completed (“Completion”), including the redemption of all issued and outstanding bonds issued under the 9 percent SRUK Senior Secured Callable Bond Issue 2013/2019 and the cancellation of the super senior revolving credit facility agreement. Thereafter, the Company has begun to undertake the steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders.

The current plan of the Company is to make the distributions to shareholders in three instalments. The first distribution will be the amount that is determined by the board of directors to represent a “safe distribution” amount from the immediately available cash resources of the Company after closing of the transactions contemplated by the Share Purchase Agreement (the “First Distribution”) while retaining appropriate funds in place:

i. to satisfy all costs associated with the Share Purchase Agreement;

ii. to discharge all known liabilities of the Company and its subsidiaries;

iii. to pay all estimated costs associated with the winding-up and dissolution of the Company and its subsidiaries, including estimated costs of third party advisory services;

iv. to retain a sufficient contingency in reserve such that any realistic overages in the transactions contemplated by the Share Purchase Agreement, ongoing compliance costs or winding-up and dissolution costs of the Company can be paid; and

v. to reserve a further reasonable contingency allowing for the payment of any unforeseen liabilities up to the time of final dissolution.

The quantum of the ultimate contingencies withheld from the First Distribution will be determined by the board of directors in consultation with the Company’s legal and tax advisors. It is currently anticipated that the First Distribution will be US$92.8 million and be declared and issued prior to June 30, 2017.

The second distribution (the "Second Distribution") is expected to be issued following three months from the completion of the transactions contemplated by the Share Purchase Agreement. The Second Distribution will be the amount that is determined by the board of directors to represent a "safe distribution" amount from the remaining cash resources of the Company. The quantum of the ultimate contingencies withheld from the Second Distribution will be determined by the board of directors in consultation with the Company's legal and tax advisors. It is currently anticipated that the Second Distribution will be in the range of US$11.5 million and US$13.1 million and be declared and issued prior to September 30, 2017.

The third and final distribution (the "Terminal Distribution") will be issued immediately prior to the formal dissolution of the Company and following receipt of a tax clearance certificate from the Canada Revenue Agency. The Terminal Distribution will be in the form of distribution of the remaining cash of the Company to the shareholders on dissolution in accordance with the articles of the Company. It is currently anticipated that the Terminal Distribution will be in the range of US$5.0 million and US$6.6 million. The ultimate timeline for issuing the Terminal Distribution and the dissolution of the Company is uncertain because it is heavily dependent on the length of time it takes to receive the tax clearance certificate, a factor which is ultimately outside of the control of the Company or its advisors. However, based on best available information for similar transactions, it is anticipated that the formal winding-up and dissolution will occur during the 2018 fiscal year.

2) BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The Company changed the basis of preparing its Financial statements from going concern to non-going concern basis following completion of the transaction. See "Going Concern" below.

The financial Statements were prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting on a 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, 2016.

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

Certain prior comparative period items have been adjusted to conform to current year presentation.

GOING CONCERN

After the reporting period, as explained in note 1, the Company became committed to disposing of its only trading entity SRUK and, as a consequence, ceasing to trade. In accordance with IAS 10, because the commitment to cease trading occurred before the date on which the financial statements were authorized for issue, the Company is required to depart from the going concern basis when preparing its financial statements for the reporting period. As this change to the basis of preparation was triggered by the Company becoming committed to disposing of SRUK, it has presented SRUK as held for sale at the end of the reporting period and has reported the results of SRUK within discontinued operations for all periods presented. No other changes have been made to the comparatives presented.

BASIS OF CONSOLIDATION

The Financial Statements comprise the financial statements of the Company and its subsidiaries as at March 31, 2017. 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 were 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) ASSETS AND LIABILITIES HELD FOR SALE

With the commencement of the winding-up process the Company no longer continues as a going concern. The Transaction has been treated as an adjusting event, resulting in the following movements to assets and liabilities held for sale:

As at	**Non-Going Concern March 31, 2017**
	US$000s
ASSETS HELD FOR SALE	
Current assets	
Cash and cash equivalents (note 6)	**14,233**
Restricted cash	**94**
Trade and other receivables (note 7)	**3,599**
Inventory	**951**
Derivative financial asset (note 10)	**157**
Prepaid expenses	**1,955**
Non-current assets	
Exploration and evaluation assets (note 8)	**21,487**
Property, plant and equipment (note 9)	**241,541**
Derivative financial asset (note 10)	**422**
Repayment option on long-term debt (notes 10 & 12)	**1,081**
Deferred tax asset (note 21)	**80,527**
Assets transferred to assets held for sale	**366,047**
Write down of discontinued operations	**(166,583)**
Assets held for sale	**199,464**
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	
Current liabilities	
Trade and other payables	**2,293**
Cladhan funding arrangements (note 13)	**5,335**
Non-current liabilities	
Decommissioning obligations (note 11)	**27,409**
Long-term debt (note 12)	**42,904**
Cladhan funding arrangements (note 13)	**7,708**
Liabilities associated with assets held for sale	**85,649**
Net assets held for sale	**113,815**

4) DISCONTINUED OPERATIONS

Income and expense allocated to the net income (loss) from discontinued operations are as follows:

Three months ended March 31,	**2017**	2016
(Unaudited)	US$000s except per share	
Revenue (note 18)	**10,307**	12,498
Third-party entitlement (note 18)	**(568)**	(596)
	9,739	11,902
Expenses		
Operating expense	**(1,466)**	(2,989)
Pre–licence and other exploration expenditures	**(380)**	(968)
Impairment of oil and gas properties (note 9)	**(671)**	(1,593)
Depletion, depreciation and amortization (note 9)	**(4,798)**	(10,509)
Gain on derivative financial instruments (notes 10 & 12)	**16**	-
Re-measurement of Cladhan non-financial liability (note 13)	**3,508**	7,151
Employee expense	**(227)**	(508)
General and administration expense	**(270)**	(112)
Refinancing and strategic review	**-**	(3,786)
Foreign exchange gain (loss)	**857**	(6,301)
Total expenses	**(3,431)**	(19,615)
Financing income	**121**	154
Financing costs (note 19)	**(4,604)**	(8,312)
Net financing cost	**(4,483)**	(8,158)
Net income (loss) for the period relating to discontinued operations	**1,825**	(15,871)
Write down of discontinued operations	**(166,583)**	-
Net loss for the period relating to discontinued operations	**(164,758)**	(15,871)

5) PROVISION FOR WIND-UP COSTS

The Company will continue to incur operating costs through the winding-up of the Company that would not otherwise be incurred. Actual costs may differ from management's estimates, which might reduce net assets available on wind-up to be distributed to shareholders.

	March 31, 2017
	$000s
Employee costs and directors' fees	**373**
Professional fees and other	**2,112**
Insurance	**181**
Provision for wind-up costs	**2,666**

6) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at	**March 31, 2017**	December 31, 2016
	$000s	$000s
Cash	**5,857**	6,661
Cash equivalents	**8,755**	3,708
	14,612	10,369
Balances held in:		
Canadian dollars	**350**	222
US dollars	**2,665**	3,227
UK pounds	**11,092**	6,472
Other	**505**	448
Cash and cash equivalents before allocation to assets held for sale	**14,612**	10,369
Less amounts transferred to assets held for sale	**(14,233)**	-
Cash and cash equivalents	**379**	10,369

As at March 31, 2017, cash and cash equivalents (including short term deposits) carried annual interest rates between 0.00 percent and 0.73 percent (December 31, 2016 – between 0.00 percent and 0.73 percent).

7) 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 10. The fair value of the long-term debt is discussed in note 12.

The Company is exposed to various financial risks arising from normal-course business exposure and 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 Canadian, and up until disposal, United Kingdom ("UK") and Netherlands operations are the Canadian dollar ("C$") and UK pound, 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, 2017 including assets held for sale.

	$000s
Canadian dollar vs. UK pound	-
Canadian dollar vs. US dollar	3
UK pound vs. Euro	5
UK pound vs. US dollar	404

The effect of changes in the UK pound versus US dollar exchange rate had increased as the Bond was denominated in US dollars, while the UK entity retained 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, 2017 of continued operations, a 1 percentage point change in average interest rates over a three month period would increase or decrease net income or loss by approximately $1,000.

The interest rate charged under the Bond was fixed at 9 percent per annum. As these rates are fixed, the Company was 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.

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed and thereafter the Company has begun to undertake the steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders. As the winding-up process has begun the Company no longer continues as a going concern.

COMMODITY PRICE RISK

The Company was exposed to the risk of commodity price fluctuations on its future natural gas production on now discontinued operations. 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 the second quarter of 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 for a total consideration of approximately $4.2 million. Unexpired options as at March 31, 2017 are as follows:

Period	Strike price, UK pence/therm	Hedge amount, million therms	Approximate production proportion hedged
Q2 2017	31.0	9.9	51%
Q3 2017	31.0	12.3	67%
Q4 2017	34.0	15.3	67%
Q1 2018	34.0	12.6	49%
Q2 2018	31.0	11.7	46%
Q3 2018	31.0	10.8	44%
Q4 2018	34.0	16.2	72%
Total		88.8	56%

The approximate production proportion hedged was based on the Company's proved plus probable production profile assuming a drilling rig start on wells A09 and A10 and the hydraulic stimulation of an existing well commencing in second quarter of 2017 and onshore compression coming online in 2019. All of the Company's options (and its commodity price risk) relate to discontinued operations and have been transferred to assets held for sale (see note 3).

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. SRUK's trade and other receivables were primarily (i) for gas sold in one month and paid in the following month and (ii) with joint venture partners in the oil and natural gas industry. Since October 1, 2016, SRUK sold its gas to only one customer British Gas Trading Limited ("BGT"). At March 31, 2017, the amount receivable from BGT was $2,917,000, which was paid within the following month. SRUK had no other material concentrations of receivables with third parties.

The net proceeds of the Transaction of $113.8 million were received on May 16, 2017 and at the same time the Bond and the SSRCF were fully paid down and cancelled.

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, 2017 (or at December 31, 2016).

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, 2017 the cash, cash equivalents and restricted cash were held with four 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 was to ensure sufficient funds were available for operational purposes while retaining flexibility to cope with adverse movements in production rates, commodity prices and interest rates. In addition, at all times the Company was required to comply with the terms of its Bond which included a number of financial covenants (see note 12). However, following the completion of the Transaction (see note 2) the Company's capital management focus has moved to make distributions of the net proceeds in the most efficient, timely and cost effective manner. As such, the Company considers working capital 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 and the Provision for wind-up costs (see note 5).

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

All of the Company's E&E assets relate to discontinued operations and have been transferred to assets held for sale (see note 3).

Minimal amounts have been capitalized to E&E assets during the three month period ending March 31, 2017.

No E&E assets were impaired in the three month period ending March 31, 2017 or in the twelve month period ending December 31, 2016.

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

As at	**March 31, 2017**	December 31, 2016
	$000s	$000s
Balance, beginning of the period	**21,088**	24,668
E&E expenditures	**141**	556
Non-cash decommissioning costs (note 11)	**-**	34
Disposal of assets	**-**	-
Impairment	**-**	-
Foreign exchange	**258**	(4,170)
Transferred to assets held for sale	**(21,487)**	-
Balance, end of the period	**-**	21,088

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

All of the Company's PP&E assets relate to discontinued operations and have been transferred to assets held for sale (see note 3).

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, poorer than expected production and the drop in worldwide commodity prices, under RPS Energy Canada Ltd. ("RPS") pricing assumptions pay-out of the entire amount of the Second Carry (see note 13) was not deemed likely to occur as at March 31, 2017 and the liability has been re-measured to reflect the amount considered to be likely to be repaid from future revenues of the 11.8 percent of the development being funded by TAQA. At March 31, 2017, under these same criteria, it was considered unlikely that the 11.8 percent asset would return to the Company and the remaining asset represents the amount of the revenues expected to be earned that would go to reduce the

Second Carry. At March 31, 2017, after comparison of the carrying value and its recoverable value, being the higher of its value-in-use and fair value less costs to dispose, the property has been impaired by $671,000. 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 seven years, derived using proved plus probable reserves as at March 31, 2017. The cash flows (based on level III fair value hierarchy) used commodity prices based on RPS' reserves report and a pre-tax discount rate of 17 percent. Under the same criteria Cladhan was impaired by $1,593,000 for the three month period ended March 31, 2016.

On September 29, 2016, the Company disposed of its previously fully written down Kirkleatham UK onshore asset and the asset and accumulated depletion have been removed from the calculations below.

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

As at		**March 31, 2017**			December 31, 2016	
	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	**411,823**	**808**	**412,631**	469,696	1,227	470,923
Additions						
– PP&E expenditures	**865**	**-**	**865**	7,555	-	7,555
– Non-cash decommissioning costs (note 11)	**-**	**-**	**-**	(3,516)	-	(3,516)
Disposals	**-**	**(1)**	**(1)**	(6,748)	(327)	(7,075)
Foreign exchange differences	**1,305**	**10**	**1,315**	(55,164)	(92)	(55,256)
Transferred to assets held for sale	**(413,993)**	**(817)**	**(414,810)**	-	-	-
Balance, end of the period	**-**	**-**	**-**	411,823	808	412,631
Accumulated depreciation and depletion						
Balance, beginning of the period	**(168,819)**	**(661)**	**(169,480)**	(128,940)	(954)	(129,894)
Depreciation and depletion	**(4,787)**	**(11)**	**(4,798)**	(31,020)	(86)	(31,106)
Impairment	**(671)**	**-**	**(671)**	(16,276)	-	(16,276)
Disposals	**-**	**1**	**1**	6,748	327	7,075
Foreign exchange differences	**1,687**	**(8)**	**1,679**	669	52	721
Transferred to assets held for sale	**172,590**	**679**	**173,269**	-	-	-
Balance, end of the period	**-**	**-**	**-**	(168,819)	(661)	(169,480)
Net book value						
Balance, beginning of the period	**243,004**	**147**	**243,151**	340,756	273	341,029
Balance, end of the period	**-**	**-**	**-**	243,004	147	243,151

10) DERIVATIVE FINANCIAL INSTRUMENTS

All of the Company's derivative financial instruments relate to discontinued operations and have been transferred to assets held for sale (see note 3).

The original fair value of the repayment option on the Bond was determined to be $5,861,000. On May 30, 2016, following the Recapitalization (see note 12) changes in the terms of the Bond led to this option being de-recognized and a new fair value of the repayment option was determined to be $819,000. This was subsequently revalued at March 31, 2017, to be $1,081,000 (the same as at December 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.

In the second quarter of 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 for a total consideration of $4,155,000. The derivatives are revalued to their fair value at each period end. Any gain or loss is recorded through the income statement in the period in which it arose. At March 31, 2017, the derivatives were valued at $579,000, a gain of $16,000 in the three month period ended March 31, 2017. For the three month period ended March 31, 2016, the Company held no such options.

11) DECOMMISSIONING OBLIGATIONS

The following table sets out a continuity of decommissioning obligations:

As at	**Three months ended March 31, 2017**	Twelve months ended December 31, 2016
	$000s	$000s
Balance, beginning of the year	**26,967**	36,841
Obligation disposal	**-**	(660)
Revisions to estimates	**-**	(3,482)
Foreign exchange differences	**328**	(6,205)
Accretion of decommissioning discount (note 19)	**114**	473
Transferred to liabilities associated with assets held for sale	**(27,409)**	-
Balance, end of the year	**-**	26,967

All of the Company's decommissioning obligations related to discontinued operations and have been transferred to assets held for sale (see note 3).

The Company's decommissioning obligations previously resulted from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision as at March 31, 2017 reflects 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, 2017 to be approximately $35,071,000, which would be incurred between 2024 and 2036. Two wells on the Sheryl licence were abandoned during 2016 and $660,000 of the decommissioning obligation, previously recognized as a current liability has been derecognized. Risk free interest rates based on UK long-term government bond rates varying from 1.04 percent to 1.86 percent (December 31, 2016 – 1.04 to 1.86 percent) and an inflation rate of 2 percent (December 31, 2016 – 2 percent) were used to calculate the longer term decommissioning obligations at March 31, 2017. Revisions to estimates in the year ended December 31, 2016 of $3,482,000 relate to a decrease in the operator estimate for abandonment of the Breagh development partly offset by a reduction in the risk free interest rates used for discounting.

12) LONG-TERM DEBT

All of the Company's long-term debt relate to discontinued operations and have been transferred to assets held for sale (see note 3).

RECAPITALIZATION

On May 30, 2016 (the "Recap Closing Date"), the Group (as defined herein) completed a recapitalization (the "Recapitalization") pursuant to a recapitalization agreement (the "Recapitalization Agreement") involving the Company, 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 dated May 2, 2013, as subsequently amended (the "Bond Agreement"). The Recapitalization was required as a result of the Company and SRUK being unable to implement a financing, an asset or corporate sale or a merger transaction by February 29, 2016 as required by the Third Bond Amendments (as defined below). The principal elements of the Recapitalization were 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, as described below.

i. **Rights Offering.** The Company conducted 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 received 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 Rights Offering closed on May 30, 2016 and raised proceeds of C$1,303,647 for the issuance of 84,663,364 Common Shares.

The gross proceeds of the Rights Offering, after such funds were converted to US dollars and less a foreign exchange adjustment, of $989,861 (the "Rights Offering Proceeds"), were used solely to fund the release and cancellation of a portion of the liabilities of the Company and SRUK under or in connection with the Bonds, comprising principal, redemption premium, accrued (but unpaid) amendment fees and interest (the aggregate of all such liabilities being the "Bond Liabilities" and the amount so released and cancelled with the Rights Offering Proceeds being the "Purchased Liabilities"). The expenses associated with the Rights Offering were paid from the general funds of the Company.

ii. **Bond Exchange.** The Bondholders (as defined herein) (directly, or indirectly through an affiliate, or through the Bond Trustee) subscribed for the unsubscribed 14,192,862,213 Common Shares under the Rights Offering (the "Exchange Shares") at the same price per Common Share as the Rights Offering Subscription Price. The value of the Exchange Shares, converted to US dollars on the date of the final prospectus, amounted to $173,088,621 (the "Exchange Amount"). The consideration for the Exchange Shares was, indirectly, the full and final satisfaction of Bond Liabilities equal to the Exchange Amount (the "Exchanged Bond Liabilities").

Immediately prior to the Recap Closing Date, the Bond Liabilities amounted to $214,340,000. After the release/cancellation of Purchased Liabilities and the Exchanged Liabilities, the remaining Bond Liabilities immediately after the Recap Closing Date were $40,261,519, all in the form of Bond principal (the "Remaining Bonds").

As a result of the Bond Exchange and the issuance of Common Shares pursuant to the Rights Offering, the aggregate equity held by the holders of Common Shares prior to the Recapitalization was diluted to approximately 3.6 percent of the total equity of the Company after completion of the Recapitalization. Bondholders acquired Common Shares aggregating to approximately 96.4 percent of the Common Shares after completion of the Recapitalization.

iii. **Transfer of SRUK.** On the Recap Closing Date, the Company transferred the entire share capital of SRUK to a new wholly-owned subsidiary governed by the laws of England and Wales, SHL, in order to provide additional security to Bondholders and lenders under the SSRCF and greater flexibility in any future refinancing of the SSRCF and the Bonds post-Recapitalization.

iv. **Remaining Bonds.** On the Recap Closing Date, SRUK and the Company entered 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, as described below under "Bond". The amount of the Remaining Bonds was approximately $40.3 million as at May 30, 2016, as described under "Bond Exchange" above.

v. **Super senior revolving credit facility.** On the Recap Closing Date, the Company and SRUK entered into an agreement for a new loan with two of the Bondholders or their affiliates (the "Senior Lenders") see ("Super Senior Revolving Credit Facility").

vi. **Other actions.** A number of further agreements and actions were provided for in the Recapitalization Agreement. On the Recap Closing Date, the Company and SRUK also entered into an intercreditor agreement (the "Intercreditor Agreement") with the Senior Lenders and the Bondholders. Each of the Company and its affiliates (including SHL) also executed the guarantees and security documents contemplated in the Fourth Bond Amendment Agreement and the SSRCF. An Exit Fee (as defined herein) 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) was terminated on the Recap Closing Date. Pursuant to the Recapitalization Agreement, shortly after the Recap Closing Date, the Company conducted its annual and special meeting of shareholders held on July 5, 2016, at which the shareholders approved: (a) a resolution approving the creation of a new "Control Person" (as defined in TSX Venture Exchange ("TSXV") Policy 1.1 – Interpretation) created as a result of the Bond Exchange; and (b) a special resolution approving the 100:1 Consolidation of the Common Shares.

SUPER SENIOR REVOLVING CREDIT FACILITY

On the Recap Closing Date, the Company and SRUK entered into an agreement for a new loan with two of the Bondholders or their affiliates (the "Senior Lenders") in the form of a super senior revolving credit facility (the "SSRCF") of up to $40 million. The SSRCF comprised two tranches, A and B, each of $20 million and both on a revolving, multi-currency basis. Tranche A was to 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, was for capital expenditures only in accordance with the relevant annual budget. The final maturity date was 24 months after the Recap Closing Date, with an optional extension to April 30, 2019, subject to satisfying certain conditions. There was a 7 percent arrangement fee on each Tranche, for Tranche A paid in cash on the Recap Closing Date and for Tranche B to be paid in cash upon the earlier of the date of first utilization of Tranche B and the date falling 24 months after the Recap 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 was the aggregate of the margin and LIBOR (subject to a LIBOR floor of 1 percent). The margin for Tranche A was 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 was to be 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 April 30 and October 30. Tranche A interest was to be paid in cash and Tranche B interest was to be paid in kind (i.e. added to the principal amount). There was 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 utilized. There was 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 were 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). Utilization conditions comprise, on a simplified basis: (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 was to have senior ranking in relation to guarantees and security package as described under the Bond, as specified in the Intercreditor Agreement.

As of March 31, 2017, the balance of the SSRCF was zero and from the Recap Closing Date through to the date of this report the SSRCF was not utilized.

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed, including the cancellation of the SSRCF and the payment in full of the commitment fees and all associated costs of $1,647,000.

BOND

In April 2013, SRUK (the "Issuer") completed the issuance of the Bond, which was listed on the Nordic Alternative Bond Market in Oslo (under the ticker STRE01 PRO) prior to Completion. The Bond Agreement had been amended and restated as a result of four sets of amendments approved by holders of the Bond over its lifetime.

At March 31, 2017, the Company was in compliance with the terms of the Bond (as amended and with waivers provided by Bondholders).

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed, including the repayment in full of the Bond and all associated interest and liabilities.

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 $35 million as at March 31, 2017, reduced following the Recapitalization.

The original fair value of the prepayment option on the Settlement Date was determined to be $5,861,000. On May 30, 2016, following the Recapitalization changes in the terms of the bond led to this option being de-recognized and a new fair value of the prepayment option was determined to be $819,000. This was subsequently revalued at March 31, 2017 to be $1,081,000. 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 following table sets out a continuity of long-term debt:

As at	**March 31, 2017**	December 31, 2016
	$000s	$000s
Balance, beginning of the period	**41,919**	189,593
Amortization of loan funds	**-**	(139,948)
Borrowing costs	**990**	2,936
De-recognition of embedded derivative	**-**	(5,861)
Recognition of embedded derivative	**-**	819
Accretion of discount	**(5)**	(5,620)
Transferred to liabilities associated with assets held for	**(42,904)**	-
Balance, end of the period	**-**	41,919

13) CLADHAN FUNDING ARRANGEMENTS

All of the Company's long-term debt relate to discontinued operations and have been transferred to assets held for sale (see note 3).

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 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 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 retained a minimum 2 percent interest in Cladhan throughout, for which the original budgeted development cost was 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 was 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, the Company's reserve auditors, pricing assumptions used in the Company's 2016 reserves report effective December 31, 2016 dated March 29, 2017 ("NI 51-101F1"), pay-out in full of the Second Carry was not deemed likely to occur as at March 31, 2017 and the liability was re-measured to reflect the amount considered to be likely to be repaid from future revenues of the 11.8 percent. The Second Carry balance has been re-measured down to $13,043,000, with $5,335,000 recorded as a current liability on the balance sheet as it is expected to reduce the carry over the next twelve months and $7,708,000 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 seven years, derived using proved plus probable reserves as at March 31, 2017. The cash flows (based on level III fair value hierarchy) used commodity prices in the NI 51-101F1, produced by RPS, effective December 31, 2016 price forecast taking into account actual production in the first quarter of 2017 and a pre-tax discount rate of 17 percent. If the Second Carry did not pay-out Sterling would have had 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 $3,508,000 recorded in the income statement (three months ending March 31, 2016 - $7,151,000). At March 31, 2017, the corresponding 11.8 percent asset (see note 9) has also been impaired down to the same level as the non-financial liability and recorded under impairment of oil and gas properties.

14) COMMITMENTS AND CONTINGENCIES

Commitments as at March 31, 2017 for the years 2017 through 2021 and thereafter, comprised the following:

	2017	2018	2019	2020	2021	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Facilities, oil and natural gas drilling	**15,255**	13,112	-	-	-	-	**28,367**
Licence fees	**611**	942	919	941	803	-	**4,216**
Other operating	**337**	284	121	-	-	-	**742**
Office and other leases	**1,589**	1,014	470	470	-	-	**3,543**
	17,792	15,352	1,510	1,411	803	-	**36,868**

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed and all the above commitments passed to the new owners of SRUK.

Of the above facilities, oil and natural gas drilling commitments, $4,391,000 relate to additional work on Breagh Phase 1 development and the balance of $23,976,000 are costs associated with one exploration/appraisal well, shown at 100 percent in each of 2017 and 2018.

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, SRUK continues to be liable to the landlord for any default under the lease caused by the assignee. It is expected that approximately $1,762,000 of the office and other leases commitment will be covered by this sub-lease.

15) 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, 2017**		December 31, 2016
	Shares	**Amount**	Shares	Amount
	000s	$000s	000s	$000s
Balance, beginning of the period	**147,186**	**595,741**	441,573	427,440
Equity issuances	**-**	**-**	14,277,526	174,078
Less share issue costs	**-**	**-**	-	(5,777)
Less effects of share consolidation	**-**	**-**	(14,571,913)	-
Balance, end of the period	**147,186**	**595,741**	147,186	595,741

On May 30, 2016, the Company completed a Rights Offering and completed a Recapitalization (See note 12).

At a meeting of shareholders on July 5, 2016, a resolution to consolidate the Company's Common Shares on the basis of 1 post-consolidation Common Share for every 100 existing Common Shares (the "Consolidation") was considered (as was required under the Recapitalization Agreement) and approved. The Common Shares traded post Consolidation on July 7, 2016. No fractional Common Shares were issued as a result of the Consolidation, with any such fractions rounded down to the nearest whole number. The principal benefit of the Consolidation was to bring the share price of the Company, which had been trading in a range of approximately C$0.005 to C$0.03 in the first half of 2016, into a more appropriate trading range with a resultant share price at a level more similar to that of quoted peer group companies.

As the Company has an unlimited number of Common Shares authorized for issuance, the Consolidation has not had any effect on the number of Common Shares that remain available for future issuances. The Common Shares reserved for issuance pursuant to any issued and outstanding convertible securities of the Company have also been reduced proportionately and, in the case of the Company's Long-Term Incentive Plan ("LTIP"), Phantom Share Option Plan ("POP") and Company's stock option plan (the Stock option Plan”), any strike price, exercise price or market reference price threshold was also increased proportionately, as applicable.

16) SEGMENTED INFORMATION

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed and SRUK and SRNBV became discontinued operations. From this point information reported to the Company’s management for the assessment of segment performance altered to continued and discontinued operations based on income statement information only. Continued operations related to SRL’s activity in Canada, where it is domiciled and its remaining subsidiary SRUK Holdings.

Information on this segmented reporting is reflected in note 20 – net loss per share.

17) INCENTIVE PLANS

A) STOCK OPTION PLAN

Pursuant to the Company’s Stock Option Plan, the Company may grant equity-settled options to its directors, officers, employees and consultants. On March 31, 2017, there were 96,000 (December 31, 2016 – 96,000) 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.

Following the Consolidation (see note 15) the Company’s LTIP, POP and Stock Option Plan, any strike price, exercise price or market reference price threshold was increased proportionately, by a factor of 100, as applicable, and the number of options under the Stock Option Plan was also reduced by a factor of 100.

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

	Three months ended March 31, 2017		Year ended December 31, 2016	
	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
Granted during the period	**-**	**-**	-	-
Cancelled/forfeited during the period	**-**	**-**	(2,442)	0.39
Expired during the period	**-**	**-**	(590)	2.07
Outstanding, prior to consolidation	**-**	**-**	21,400	0.29
Balance, post consolidation	**96**	**28.49**	214	29.06
Cancelled/forfeited during the period	**-**	**-**	(119)	28.11
Expired during the period	**-**	**-**	(1)	138.00
Outstanding, end of the period	**96**	**28.49**	96	28.49
Exercisable, end of the period	**46**	**36.69**	46	36.69

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 in the three month period ended March 31, 2017 or during the year ended December 31, 2016), using the following weighted-average assumptions:

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.

For the three month period ended March 31, 2017 $42,000 (March 31, 2016 - $90,000) of share-based compensation was expensed and was included in the employee expense figure.

The following stock options were outstanding as at March 31, 2017:

		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$
7.00	49.99	53	1,241	7.00	18	1,241	7.00
50.00	99.99	43	788	55.00	28	788	55.00
7.00	99.99	96	1,038	28.49	46	961	36.69

B) LONG TERM INCENTIVE PLANS

All of the Company's phantom option plans relate to discontinued operations and have been transferred to assets held for sale (see note 3).

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, 2017, 164,000 of these phantom options had been forfeited and a further 83,000 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, 2017, 162,000 of these phantom options had been forfeited and a further 43,000 had expired.

The intrinsic value of outstanding phantom options at March 31, 2017 and at March 31, 2016 was nil.

18) NET REVENUE

Three months ended March 31,	**2017**	2016
	$000s	$000s
Breagh gas and condensate revenue	**9,218**	9,714
Cladhan 2% oil sales revenues	**215**	407
Cladhan 11.8% oil sales revenues	**874**	2,377
	10,307	12,498
Third party entitlement	**(568)**	(596)
Total net revenue	**9,739**	11,902

All of the Company's net revenue relate to discontinued operations.

BREAGH

For the three month period ended March 31, 2017, Breagh revenue was $9,218,000 (three month period ended March 31, 2016 - $9,714,000). These revenues came from sales of gas production of approximately 1.6 Bcf at an average realized gas price of 45.4 pence per therm ($5.91 per thousand cubic feet), with no sales of condensate in the period. For the three month period ended March 31, 2016, revenues came from sales of gas production of approximately 2.2 Bcf at an average realized gas price of 30.6 pence per therm ($4.33 per thousand cubic feet), 890 tonnes of condensate (6,542 barrels) at an average price of $276 per tonne.

On September 8, 2016, the Company announced that it had entered into a Gas Trading and Sales Agreement ("GTSA") with BGT. The agreement provided for Sterling's share of Breagh nominated gas volumes to be sold on a day ahead basis to the UK reference price at the NBP. Under the contract Sterling delivered the Company's share of Breagh gas to BGT on a day ahead basis, and BGT must take and pay for this volume. The gas sales agreement incorporated arrangements for payment to Sterling for over-deliveries, and recovery of incremental costs incurred by BGT for under-deliveries, on normal market terms. The agreement is valid for a minimum two year period with gas made available to BGT commencing October 1, 2016. The agreement replaced the GTSA with Vitol which expired on October 1, 2016. Sterling is paid by BGT in the month following production.

The Breagh field produces a small amount of condensate (with a condensate-gas ratio of approximately 3 barrels per million standard cubic feet) ("MMscf") which has been 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 for the period ended March 31, 2017 have been derived from one customer and one contract.

THIRD PARTY ENTITLEMENT

For the three month period ended March 31, 2017, a third party entitlement of $568,000 (year ended March 31, 2016 – $596,000), was charged to the income statement. The 2017 amount was lower, and commensurate with lower production revenues. This amount was recorded pursuant to a funding agreement originally signed with 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, 2017 amount to $18,934,000.

CLADHAN

First sales from the Cladhan oil development occurred in the first quarter of 2016. During the three month period ended March 31, 2017, sales relating to the Company's 2 percent equity interest totalled $215,000 (three month period ended March 31, 2016 $407,000) which came from the sale of 4,100 barrels of oil equivalent ("boe") at an average realized price of $52 per boe. For the three month period ended March 31, 2016 revenues came from the sale of 11,700 boe at an average realised price of $35 per boe.

During the three month period ended March 31, 2017, the Company also recognized $874,000 of Cladhan revenues relating to sales of oil on the 11.8 percent of the Cladhan development which have been funded by TAQA 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 (three month period ended March 31, 2016 - $2,377,000).

19) FINANCING COSTS

Three months ended March 31,	**2017**	2016
	$000s	$000s
Interest expense	**997**	5,508
Non-cash Cladhan funding arrangements	**3,026**	2,620
Amortization of finance transaction costs	**467**	-
	4,490	8,128
Accretion of decommissioning discount (note 11)	**114**	184
Total financing costs	**4,604**	8,312

All of the Company's financing costs relate to discontinued operations.

Financing costs for the three month period ended March 31, 2017, were $4,604,000 (three month period ended March 31, 2016 - $8,312,000) consisting primarily of $3,026,000 of Cladhan funding arrangement interest which was expensed (three month period ended March 31, 2016 - $2,620,000). In addition, borrowing costs of $997,000 on the Bond and amortization of finance transaction costs of $467,000 were expensed in the three month period ended March 31, 2017.

The balance of the financing costs comprises 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.

20) 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,	**2017**	2016
Weighted average shares outstanding (000s)	**147,186**	441,573
Net loss from continued operations	**(5,760)**	(1,496)
Net loss from discontinued operations	**(164,758)**	(15,871)
Net loss for the period	**(170,518)**	(17,367)
Net loss per weighted average common share		
Basic and diluted – continued operations	**(0.04)**	(0.00)
Basic and diluted – discontinued operations	**(1.12)**	(0.04)
Basic and diluted – total	**(1.16)**	(0.04)

Note: For the three month periods ended March 31, 2017 and 2016, the potential dilutive effect of the Company's outstanding options was not included in diluted shares as they were antidilutive.

21) DEFERRED TAX AND CURRENT TAX

All the Company's previously held deferred tax asset of $80,527,000 (December 31, 2016 - $79,558,000) relates to discontinued operations and has been transferred to assets held for sale (see note 3).

The Company retains the following tax losses and other deductible temporary differences at March 31, 2017:

- Non-capital losses of approximately $33 million (December 31, 2016 – $33 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 $2 million (December 31, 2016 – $2 million) which may be applied against future income for Canadian tax purposes.

22) SUBSEQUENT EVENTS

On May 8, 2017 at a special meeting the shareholders passed two special resolutions approving the following:

- The sale of all or substantially all, of the assets of the Company resulting from the sale by the Company's wholly-owned subsidiary SRUK Holdings Ltd. of the entire issued share capital of Sterling Resources (UK) Ltd. pursuant to the share purchase agreement dated March 3, 2017 between the Company, SHL and Oranje-Nassau Energie B.V..
- Following the completion of the sale transaction contemplated by the Share Purchase Agreement, the voluntary wind-up and dissolution of the Company as determined by the board of directors in its sole discretion.

The special resolutions were approved by over 99 percent of shares represented at the Meeting.

On May 16, 2017, the transactions contemplated by the Share Purchase Agreement completed and thereafter the Company has begun to undertake the steps necessary to wind-up and dissolve the Company as economically and quickly as practical, and to deliver the net distributable proceeds into the hands of the shareholders (see note 2).

CORPORATE INFORMATION

DIRECTORS

ELEANOR J. BARKER (2)
Toronto, Canada

MARK McCOMISKEY (1)
Greenwich, USA

JACOB S. ULRICH
Chair
London, England

GAVIN WILSON (2)
Zurich, Switzerland

(1) Chair of Audit Committee
(2) Audit Committee

OFFICERS

JOHN M. RAPACH
Chief Executive Officer and Chief Operating Officer

CHRISTINE SHINNIE
Chief Financial Officer

TRACY LESSARD
Corporate Secretary

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AUDITOR

DELOITTE LLP

BANKER

THE ROYAL BANK OF CANADA

LEGAL COUNSEL

STIKEMAN ELLIOTT LLP

RESERVES EVALUATORS

RPS ENERGY

REGISTRAR AND TRANSFER AGENT

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

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