MESSAGE TO SHAREHOLDERS

On November 9, 2017 Sterling Resources Ltd. ("Sterling") and PetroTal Ltd. ("PetroTal") entered into an arrangement agreement (the "Arrangement Agreement") whereby Sterling and PetroTal will complete a business combination pursuant to a plan of arrangement (the "Plan of Arrangement") under the Alberta *Business Corporations Act* (the "PetroTal Transaction"). The Plan of Arrangement will result in the amalgamation of Sterling and PetroTal under the name Sterling Resources Ltd. ("New Sterling").

Pursuant to the PetroTal Transaction, each common share of PetroTal ("PetroTal Share") will be exchanged for 5.35 common shares of Sterling ("Sterling Shares"), following which PetroTal will be amalgamated to form New Sterling. The PetroTal Transaction is expected to constitute a "Reverse Takeover" pursuant to the policies of the TSX Venture Exchange (the "TSXV") and is subject to the acceptance of the TSXV. Sterling is at arms' length to PetroTal.

In addition, PetroTal has entered into a share purchase agreement dated as of November 9, 2017 (the "SPA") with Sterling, Gran Tierra Energy Inc. ("GTE"), and its wholly owned subsidiary Gran Tierra Energy International Holdings Ltd. ("GTEIH"), to acquire Gran Tierra Energy International (Peru) Holdings B.V. ("GTE Peru"), an indirect wholly-owned subsidiary of GTE. Pursuant to the SPA and in the manner set forth in the Plan of Arrangement, New Sterling shall acquire all of the issued and outstanding common shares in the capital of GTE Peru (the "GTE Peru Shares") and, in consideration for the GTE Peru Shares, New Sterling shall issue 187,265,918 common shares of New Sterling ("New Sterling Shares") to GTEIH at a deemed price of approximately US$0.1869 per New Sterling Share, subject to adjustment in cash as set forth in the SPA (the "Acquisition"). As additional consideration for the transactions contemplated in the SPA, GTEIH shall receive a 20 per cent working interest in Block 107 of the Bretaña field located in Peru at closing of the Acquisition and, following the drilling of an initial exploration well, GTEIH may, for no additional consideration, elect to either retain its 20 per cent working interest (a "Positive Election") or transfer its 20 per cent working interest to New Sterling for no consideration. From and after the date of a Positive Election, GTEIH will pay its pro rata share of costs associated with its 20 per cent working interest. GTE is at arms' length to PetroTal and Sterling.

In conjunction with the closing of the PetroTal Transaction, PetroTal will enter into an agreement with a syndicate of investment dealers (the "Agents") co-led by Eight Capital and Pareto Securities AS and including PillarFour Securities Inc., for a brokered private placement offering of subscription receipts ("Subscription Receipts") on a best efforts agency basis at a price of US$1.00 per Subscription Receipt for aggregate gross proceeds of a minimum of US$25 million (the "Financing"). The Financing is expected to close on or about December 7, 2017. Each Subscription Receipt will be exchangeable into one PetroTal Share without any further action required on the part of the holder of the Subscription Receipt and without payment of any additional consideration, upon the closing of the PetroTal Transaction.

In determining that the Proposed Transaction is in the best interests of Sterling, the board of directors of Sterling considered and relied upon a number of factors, including, among other things, the following:

- the Proposed Transaction will combine the acquired assets with Sterling's working capital, all under the management of a new executive team and board of directors, creating a strong, well-funded junior Peruvian exploration and production company with a pro forma net cash position of approximately US$40 million (1);
- the nature of the acquired assets, including in particular the 100% working interest in the Bretaña assets, associated infrastructure and the ability to deliver first production by the fourth quarter of 2018 based on US$24 million in anticipated capital expenditures, and exploration upside potential with the Block 107 Osheki prospect;
- the terms and conditions of the SPA and the Arrangement Agreement, including the parties' respective representations, warranties and covenants, and the conditions to their respective obligations, are in the board of directors' opinion, after consultation with legal counsel, reasonable;

Notes:

1. *After giving effect the Plan of Arrangement, the Acquisition and the Financing, as well as certain adjustments, including transaction costs.*

- PillarFour Securities LLP, Sterling's financial advisor, provided a formal opinion to the board of directors of Sterling that, subject to the various factors, assumptions, qualifications and limitations upon which the opinion is based, the consideration to be paid by Sterling pursuant to the Proposed Transaction is fair, from a financial point of view, to Sterling;

- the board of directors of Sterling believes that it is likely that the conditions to complete the transactions contemplated by the SPA and the Arrangement Agreement will be satisfied; and

- to the knowledge of the board of directors of Sterling, there are no material regulatory issues which are expected to arise in connection with the transactions contemplated by the SPA and the Arrangement Agreement so as to prevent completion, and it is anticipated that all required regulatory clearances will be obtained.

Upon closing of the PetroTal Transaction: (i) New Sterling is expected to have approximately US$40 million in cash; and (ii) GTE is expected to own, control or direct approximately 38 per cent the Sterling Shares issued and outstanding but, pursuant to an agreement to be entered into with New Sterling at closing, will be restricted from exercising voting rights for greater than 30 per cent of the Sterling Shares outstanding from time to time.

While Sterling anticipates the satisfactory completion of the Proposed Transaction, in the event that PetroTal is unable to complete the Financing on satisfactory terms, PetroTal and Sterling will be unable to complete the Proposed Transaction. In that circumstance, Sterling will undertake steps to effect its liquidation and winding up and the distribution of its remaining assets to the Sterling Shareholders as soon as practicable and in the manner previously disclosed to the Sterling Shareholders.

On Behalf of the Board of Directors,

John Rapach
Chief Executive Officer and Chief Operating Officer
November 29, 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 and nine months ended September 30, 2017 is dated November 29, 2017, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements (the "financial statements") for the three and nine months ended September 30, 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 ONE Transaction, each as defined and discussed below.

On May 8, 2017, at the annual and special meeting of the shareholders of Sterling ("the "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. ("SHL") of the entire issued share capital of Sterling Resources (UK) Ltd. ("SRUK") (the "ONE Transaction") pursuant to a share purchase agreement dated March 3, 2017 between the Company, SHL and Oranje-Nassau Energie B.V. ("ONE") (the "SRUK Share Purchase Agreement").
- Following the completion of the sale transaction contemplated by the SRUK 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 per cent of shares represented at the Meeting.

On May 16, 2017, the ONE Transaction was completed ("Completion"), including the redemption of all issued and outstanding bonds issued under the 9 per cent SRUK Senior Secured Callable Bond Issue 2013/2019 and the cancellation of the super senior revolving credit facility agreement. Thereafter, the Company began 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.

On June 30, 2017, the Company made a distribution to its shareholders, pursuant to which the aggregate amount of US$92.8 million or US$0.63 per Common Share (as defined below) which was made as a return of capital, with the stated capital of the Common Shares being reduced accordingly.

PLAN OF ARRANGEMENT

On November 9, 2017 Sterling and PetroTal Ltd. ("PetroTal") entered into an arrangement agreement (the "Arrangement Agreement") whereby Sterling and PetroTal will complete a business combination pursuant to a plan of arrangement (the "Plan of Arrangement") under the Alberta *Business Corporations Act* (the "PetroTal Transaction"). The Plan of Arrangement will result in the amalgamation of Sterling and PetroTal under the name Sterling Resources Ltd. ("New Sterling").

Pursuant to the PetroTal Transaction, each common share of PetroTal ("PetroTal Share") will be exchanged for 5.35 common shares of Sterling ("Sterling Shares"), following which PetroTal will be amalgamated to form New Sterling. The PetroTal Transaction is expected to constitute a "Reverse Takeover" pursuant to the policies of the TSX Venture Exchange (the "TSXV") and is subject to the acceptance of the TSXV. Sterling is at arms' length to PetroTal.

In addition, PetroTal has entered into a share purchase agreement dated as of November 9, 2017 (the "SPA") with Sterling, Gran Tierra Energy Inc. ("GTE"), and its wholly owned subsidiary Gran Tierra Energy International Holdings Ltd. ("GTEIH"), to acquire Gran Tierra Energy International (Peru) Holdings B.V. ("GTE Peru"), an indirect wholly-owned subsidiary of GTE. Pursuant to the SPA and in the manner set forth in the Plan of Arrangement, New Sterling shall acquire all of the issued and outstanding common shares in the capital of GTE Peru (the "GTE Peru Shares") and, in consideration for the GTE Peru Shares, New Sterling shall issue 187,265,918 common shares of New Sterling ("New Sterling Shares") to GTEIH at a deemed price of approximately US$0.1869 per New Sterling Share, subject to adjustment in cash as set forth in the SPA (the "Acquisition"). As additional consideration for the transactions contemplated in the SPA, GTEIH shall receive a 20 per cent working interest in Block 107 of the Bretaña field located in Peru at closing of the Acquisition and, following the drilling of an initial exploration well, GTEIH may, for no additional consideration, elect to either retain its 20 per cent working interest (a "Positive Election") or transfer its 20 per cent working interest to New Sterling for no consideration. From and after the date of a Positive Election, GTEIH will pay its pro rata share of costs associated with its 20 per cent working interest. GTE is at arms' length to PetroTal and Sterling.

In conjunction with the closing of the PetroTal Transaction, PetroTal will enter into an agreement with a syndicate of investment dealers (the "Agents") co-led by Eight Capital and Pareto Securities AS and including PillarFour Securities Inc., for a brokered private placement offering of subscription receipts ("Subscription Receipts") on a best efforts agency basis at a price of US$1.00 per Subscription Receipt for aggregate gross proceeds of a minimum of US$25 million (the "Financing"). The Financing is expected to close on or about December 7, 2017. Each Subscription Receipt will be exchangeable into one PetroTal Share without any further action required on the part of the holder of the Subscription Receipt and without payment of any additional consideration, upon the closing of the PetroTal Transaction.

Upon closing of the PetroTal Transaction: (i) New Sterling is expected to have approximately US$40 million in cash; and (ii) GTE is expected to own, control or direct approximately 38 per cent the Sterling Shares issued and outstanding but, pursuant to an agreement to be entered into with New Sterling at closing, will be restricted from exercising voting rights for greater than 30 per cent of the Sterling Shares outstanding from time to time.

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 timing and completion of the PetroTal Transaction, including the completion of the conditions precedent contained in the Arrangement Agreement and the SPA;
- expectations that New Sterling will obtain all required regulatory approvals;
- expectations regarding PetroTal's ability to complete a brokered private placement for aggregate gross proceeds of at least US$25 million and the use of proceeds thereof;
- the characterization of the Company as a going concern.
- the impact of the PetroTal Transaction on the operations, resources, drilling inventory and opportunities, financial condition, access to capital and overall strategy of PetroTal; and
- the performance characteristics of New Sterling's oil and natural gas properties.

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

- completion of the PetroTal Transaction, the Financing and the transactions contemplated by the Arrangement Agreement and SPA will occur.

- no unforeseen liabilities arise prior to the completion of the PetroTal Transaction, the Financing or the transactions contemplated by the Arrangement Agreement and SPA;
- all costs associated with the PetroTal Transaction, the Financing and the transactions contemplated by the Arrangement Agreement and SPA are within the range anticipated by the Company; and
- required regulatory approvals will be granted.

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:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- legal, political and economic instability in Peru;
- uncertainties associated with estimating oil and natural gas resources;
- changes to trade relations;
- completion for capital, acquisitions of reserves and resources, undeveloped lands and skilled personnel;
- geological, technical, drilling and processing problems;
- inadequate infrastructure in Peru;
- changes in income tax laws and incentive programs relating to the oil and natural gas industry;
- risks and uncertainties associated with the regulatory environment in which the Company operates and will operate;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- incorrect assessments of the value of acquisitions (including the Acquisition);
- uncertainties around the actual costs associated with the SPA; and
- failure to realize anticipated benefits of acquisitions (including the Acquisition).

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 to the section "*Risk Factors*" in the filing statement of the Company dated November 29, 2017 both of which are available under the Company's profile on SEDAR 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, joint arrangements, funding arrangements, impairment indicators and determination of cash generating units. Significant estimates in the financial statements include income taxes, provisions for wind-up costs and accruals. 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.

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 and nine month periods ended September 30, 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 and nine month periods ended September 30, 2017 and 2016) and was 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 (now disposed of) and was used to monitor the short term financial health of the Company.

OPERATING HIGHLIGHTS

	2017				2016	2016				2015
	9 months ending	**3 months ending**			3 months ending	9 months ending	3 months ending			3 months ending
$000s except where defined	**Sep 30**	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Sep 30	Jun 30	Mar 31	Dec 31
<u>Average daily sales from Breagh production</u>										
Natural gas (MMscf/day) (1)	**17.6**	**-**	17.7	17.5	19.7	21.9	20.9	21.0	24.0	28.1
Liquids (barrels/day) (1)	**49**	**-**	143.9	-	64.6	63.2	66.7	50.9	72	130.1
<u>Average Breagh realized prices</u>										
Natural gas ($/Mscf) (1)	**5.58**	**-**	4.94	5.91	5.49	4.31	4.14	4.45	4.33	5.50
Liquids ($ per barrel) (1)	**54.55**	**-**	54.55	-	55.37	41.52	43.24	44.90	37.51	45.26
Breagh revenues	**13,688**	**-**	4,506	9,218	10,274	26,660	8,204	8,701	9,714	14,746
Other revenues including from hedging	**-**	**-**	-	-	40	40	-	40	-	238
Cladhan 2% oil sales revenues	**213**	**-**	-	215	212	1,600	660	540	407	-
Cladhan 11.8% oil sales revenues (2)	**1,065**	**-**	196	874	347	8,260	2,840	3,068	2,377	-
Revenues	**14,966**	**-**	4,702	10,307	10,873	36,560	11,704	12,349	12,498	14,984
Third party entitlement	**(878)**	**-**	(312)	(568)	(569)	(1,559)	(509)	(449)	(596)	(801)
Operating expense	**(2,978)**	**-**	(1,512)	(1,466)	(2,719)	(9,253)	(3,269)	(3,001)	(2,989)	(3,917)
Operating expense ($) per barrel of oil equivalent	**6.82**	**-**	10.37	5.04	8.38	8.55	9.44	8.99	7.88	8.79
Operating netback (3)	**11,110**	**-**	2,878	8,273	7,584	25,748	7,926	8,899	8,913	10,266
Other expenses	**(251,355)**	**1,732**	(79,295)	(173,637)	(6,181)	(20,134)	(7,074)	4,120	(16,529)	(4,270)
Impairment of oil and gas properties	**(665)**	**-**	-	(671)	1,404	(17,724)	(2,739)	(13,722)	(1,593)	(28,127)
Net financing cost	**(6,795)**	**-**	(2,329)	(4,483)	(4,455)	(20,762)	(4,133)	(8,429)	(8,158)	(5,009)
Loss on disposal	**(4)**	**-**	(4)	-	-	(8)	(4)	(2)	-	(1,494)
Income tax:										
Income tax expense	**-**	**-**	-	-	-	-	-	-	-	-
Deferred tax (debit) credit	**-**	**-**	-	-	24,695	-	-	-	-	(122,020)
Net (loss) income	**(247,709)**	**1,732**	(78,750)	(170,518)	23,048	(32,880)	(6,024)	(9,134)	(17,367)	(150,654)
Continued operations	**(4,801)**	**1,732**	(601)	(5,760)	(194)	(2,623)	(1,143)	57	(1,496)	(2,029)
Discontinued operations (4)	**(242,908)**	**-**	(78,149)	(164,758)	23,242	(30,257)	(4,881)	(9,191)	(15,871)	(148,625)
Net (loss) income	**(247,709)**	**1,732**	(78,750)	(170,518)	23,048	(32,880)	(6,024)	(9,134)	(17,367)	(150,654)
Net (loss) income per weighted average common share – basic and diluted ($) (5)	**(1.68)**	**0.01**	(0.54)	(1.16)	0.16	(0.11)	(0.04)	0.00	(0.04)	(0.34)
FFFO (3)	**3,440**	**1,725**	1,113	832	4,201	8,335	605	7,602	184	4,612
FFFO per common share outstanding	**0.02**	**0.01**	0.01	0.01	0.03	0.06	0.00	0.00	0.00	0.01
Property, plant and equipment and exploration and evaluation asset expenditures (3)	**1,493**	**-**	487	1,006	804	7,258	1,065	1,691	4,502	11,183

As at	**2017**			2016				2015
$000s except share information, acreage and well data	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Net working capital surplus (deficit) (3)	**18,985**	17,181	109,271	14,198	9,882	9,925	(186,769)	(179,589)
Total assets	**19,255**	22,224	199,850	363,060	365,235	385,893	429,403	453,440
Total liabilities	**270**	5,043	90,579	86,691	99,817	103,825	278,243	278,667
Shareholders' equity	**18,985**	17,181	109,721	276,369	265,418	282,068	151,160	174,773
Net licence acreage (000s of acres) (1)	**-**	-	218	239	344	379	379	397
Number of producing wells (1)	**-**	-	10	10	10	10	10	10
Common shares outstanding (000s) – basic (1)	**147,186**	147,186	147,186	147,186	147,186	14,719,099	441,573	441,573
Common share options outstanding (000s) (1)	**33**	33	96	96	177	21,400	21,923	24,432

(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 the UK and Netherlands 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.

Between September 30, 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 nine month period ended September 30, 2017, the Company recorded a net loss of $4,801,000 ($0.03 per weighted average Common Share) from continued operations and a loss of $242,908,000 ($1.65 per weighted average Common Share) from discontinued operations compared with a net loss of $2,623,000 ($0.01 per weighted average Common Share) from continued operations and a loss of $30,257,000 ($0.10 per weighted average Common Share) from discontinued operations in the nine month period ended September 30, 2016. The net loss in 2017, compared to 2016, was much higher following the completion of the ONE Transaction which resulted in a write-down of $171,975,000 on the disposed operations.

Net (loss) income is largely comprised of the following elements:

REVENUE – DISCONTINUED OPERATIONS

All of the Company's net revenue relates to discontinued operations and revenue has been recognized up until the completion of the ONE Transaction on May 16, 2017.

BREAGH

For the nine month period ended September 30, 2017, Breagh revenue was $13,688,000 (nine month period ended September 30, 2016 - $26,660,000). These revenues came from sales of gas production of approximately 2.4 Bcf at an average realized gas price of 42.5 pence per therm ($5.58 per thousand cubic feet), and 900 tonnes of condensate (6,618 barrels) sales of condensate at an average price of $401 per tonne. For the nine month period ended September 30, 2016, revenues came from sales of gas production of approximately 6.2 Bcf at an average realized gas price of 30.8 pence per therm ($4.31 per thousand cubic feet), 2,354 tonnes of condensate (17,307 barrels) at an average price of $305 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"). 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 ("NBP"). Under the contract Sterling delivered the Company's share of Breagh gas to BGT on a day ahead basis, and BGT had to 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 was 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. which expired on October 1, 2016. Sterling was paid by BGT in the month following production.

The Breagh field produced 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 per cent of these revenues for the period ended September 30, 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 nine month period ended September 30, 2017, sales related to the Company's 2 per cent equity interest totalled $213,000 (nine month period ended September 30, 2016 - $1,600,000) which came from the sale of 4,100 barrels of oil equivalent ("boe") at an average realized price of $52 per boe. For the nine month period ended September 30, 2016 revenues came from the sale of 38,300 boe at an average realised price of $42 per boe.

During the nine month period ended September 30, 2017, the Company also recognized $1,065,000 of Cladhan revenues relating to sales of oil on the 11.8 per cent of the Cladhan development which have been funded by TAQA Bratani ("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 (nine month period ended September 30, 2016 - $8,260,000).

THIRD PARTY ENTITLEMENT – DISCONTINUED OPERATIONS

For the nine month period ended September 30, 2017, a third party entitlement of $878,000 (nine month period ended September 30, 2016 – $1,559,000), was charged to the income statement. The 2017 amount was lower as these operations have been discontinued as of May 16, 2017 following the completion of the ONE Transaction. 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 May 16, 2017 when the third party entitlement passed to the new owners of SRUK, amounted to $19,246,000.

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 was entitled to payments calculated with reference to a share of gas and condensate production revenue from Breagh. This share was equal to 12.23 per cent of Sterling's 30 per cent revenue until cumulative payments exceed twice the funding amount of $7,333,000 (net of adjustment for the 2009 Reduction), then 6.10 per cent up to three times the funding amount, and 2.77 per cent thereafter until a defined percentage (currently 85 per cent) of the field's ultimate reserves have been produced. This percentage was itself dependent on the ultimate reserves for the whole field, being 95 per cent for reserves of up to 300 Bcf, 90 per cent for reserves of 300 Bcf to less than 400 Bcf, 85 per cent for reserves of 400 to less than 500 Bcf, and 80 per cent for reserves of 500 Bcf or more. In the absence of production, there was no obligation to repay the funding amount. The funding arrangement was 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 were 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 per cent, to 6.10 per cent as a result of cumulative entitlement payments exceeding twice the funding amount.

OPERATING EXPENSES – DISCONTINUED OPERATIONS

For the nine month period ended September 30, 2017, operating expenses were $2,978,000 (nine month period ended September 30, 2016 - $9,253,000). 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. On May 16, 2017, these operations were disposed of.

DEPLETION, DEPRECIATION AND AMORTIZATION – DISCONTINUED OPERATIONS

For the nine month period ended September 30, 2017, depletion of $4,754,000 (nine month period ended September 30, 2016 – $25,922,000) on oil and gas properties and depreciation of $11,000 (nine month period ended September 30, 2016 – $70,000) on corporate and other assets was charged to the income statement. In accordance with IFRS 5 as the assets had been classified as held for sale no depletion has been charged since March 31, 2017. Since May 16, 2017 these operations have been disposed of.

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 was not deemed likely to occur in the period up to disposal as part of the ONE Transaction on May 16, 2017 and the liability was re-measured to reflect the amount considered likely to be repaid from future revenues of the 11.8 per cent of the development being funded by TAQA. During the period up to disposal as part of the ONE Transaction on May 16, 2017, under these same criteria, it was considered unlikely that the 11.8 per cent asset would return to the Company. The remaining asset represented the amount of the revenues expected to be earned that would go to reduce the Second Carry. 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 was impaired by $665,000. 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. 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 per cent. Under the same criteria Cladhan was impaired by $15,718,000 for the nine month period ended September 30, 2016. In addition, the Company's wholly owned 2 per cent of the field has been impaired by $2,006,000 as at September 30, 2016 based on the same criteria above but using a pre-tax discount rate of 10 per cent (the rate the Company uses for net present value investment decisions).

PRE-LICENCE AND OTHER EXPLORATION COSTS – DISCONTINUED OPERATIONS

For the nine month period ended September 30, 2017, pre-licence and other exploration costs expensed were $409,000, a decrease of $542,000 over the same period in 2016 (nine month period ended September 30, 2016 - $951,000) as a result of continued lower activity in the UK and since May 16, 2017 the disposal of all pre-license and exploration activity. Of the total, $255,000 (2016 – $810,000) of the total cost related to the Company's interests in its various licences in the UK and $154,000 (2016 – $141,000) of the total cost related to the Netherlands and other international ventures.

FINANCING COSTS – DISCONTINUED OPERATIONS

All of the Company's financing costs relate to discontinued operations and financing costs have been recognized up until the completion of the ONE Transaction on May 16, 2017.

Financing costs for the nine month period ended September 30, 2017, were $6,984,000 (nine month period ended September 30, 2016 - $21,204,000) consisting primarily of $4,592,000 of Cladhan funding arrangement interest which was expensed (nine month period ended September 30, 2016 - $8,218,000). In addition, borrowing costs of $1,657,000 on the Bond (as defined below) (nine month period ended September 30, 2016 - $12,200,000) and amortization of finance transaction costs of $582,000 were expensed in the nine month period ended September 30, 2017 (nine month period ended September 30, 2016 - $426,000).

The balance of the financing costs comprises accretion of the discount on decommissioning obligations and have decreased in the period due to the completion of the ONE Transaction on May 16, 2017.

UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS – DISCONTINUED OPERATIONS

All of the Company's derivative financial instruments related to discontinued operations and were disposed of as part of the ONE Transaction.

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 (as defined below) changes in the terms of the Bond, the repayment option was de-recognized and a new fair value of the repayment option was determined to be $819,000. This was subsequently revalued on May 16, 2017, prior to disposal, 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 was recorded through the income statement in the period in which it arose. Prior to disposal the derivatives were valued at $478,000, resulting in a loss of $55,000 being recorded to discontinued operations. For the nine month period ended September 30, 2016, the Company recorded a net loss of $1,048,000.

FOREIGN EXCHANGE

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

For the nine month period ended September 30, 2017, the Company recorded a foreign exchange gain of $677,000, in a relatively stable period for foreign exchange rates, compared to a loss of $4,553,000 in the nine month period ended September 30, 2016. Of the current year gain a loss of $176,000 related to continued operations and a gain of $853,000 related to discontinued operations. 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 were 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. Exposure to fluctuations in these debt balances ceased with the disposal of UK operations on May 16, 2017.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

	Three Months ended September 30,		Nine Months ended September 30,	
	2017	2016	**2017**	2016
	$000s	$000s	$000s	$000s
Gross employee, and general and administration expense	**875**	1,920	**7,354**	5,571
Recovered from third parties	**-**	(119)	**(316)**	(450)
Capitalized to assets	**-**	(56)	**(99)**	(218)
Expensed as pre-licence and other exploration expenditures	**-**	(132)	**(298)**	(780)
Total recoveries and allocations	**-**	(307)	**(713)**	(1,448)
Net employee expense from continued operations	**280**	194	**587**	973
Net general and administration expense from continued operations	**595**	455	**4,038**	761
Net employee expense from discontinued operations	**-**	508	**798**	1,547
Net general and administration expense from discontinued operations	**-**	456	**1,218**	842

EMPLOYEE EXPENSE

For the nine month period ended September 30, 2017, net employee expense after allocations and recoveries was $1,385,000, $587,000 from continued operations and $798,000 from discontinued operations, down from $2,520,000 incurred in 2016 as a result of staff reductions in 2016. Of the total, there was a credit of $187,000 (down from a charge of $266,000 in 2016) relating to non-cash share-based compensation as staff that transferred with SRUK forfeited their Company share options and $1,572,000 relating to wages and salaries (nine month period ended September 30, 2016 - $2,254,000). Recoveries and allocations are overall lower compared to 2016 due to lesser activity, particularly on exploration assets and with the completion of the ONE Transaction on May 16, 2017 there are no more recoveries and allocations.

GENERAL AND ADMINISTRATION EXPENSE

For the nine month period ended September 30, 2017, net general and administration expense after allocations and recoveries was $5,256,000, $4,038,000 from continued operations and $1,218,000 from discontinued operations, an increase of $3,653,000 despite 2016 cost saving initiatives. These cost saving initiatives have been offset by other corporate costs in connection with the ONE Transaction, including strategic financial advisor fees on the ONE Transaction of $2,079,000. Legal and professional advisor costs incurred in 2016 related to the Recapitalization had been capitalized and were amortized over the benefit of the financing.

REFINANCING AND STRATEGIC REVIEW

For the nine month period ended September 30, 2016, the Company incurred $8,355,000 of non-recurring costs related to a refinancing and strategic review, mostly various advisor fee costs in relation to the Recapitalization (see "*Financing Activities*"). 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) related to discontinued operations and was disposed of as part of the ONE Transaction.

The Company retains the following tax losses and other deductible temporary differences at September 30, 2017:

- Non-capital losses of approximately $46 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.

No deferred tax asset has been recognized in relation to these losses due to uncertainty regarding future taxable profits against which such losses can be offset.

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 September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
(US$000s)				
Revenue	-	11,704	**14,966**	36,560
Third-party entitlement	-	(509)	**(878)**	(1,559)
	-	11,195	**14,088**	35,001
Expenses				
Operating expense	-	(3,269)	**(2,978)**	(9,253)
Pre–licence and other exploration expenditures	-	109	**(409)**	(951)
Impairment of oil and gas properties	-	(2,739)	**(665)**	(17,724)
Depletion, depreciation and amortization	-	(6,856)	**(4,765)**	(25,972)
Loss on derivative financial instruments	-	(152)	**(55)**	(1,048)
Loss on extinguishment of bond liability	-	-	**-**	(4,686)
Re-measurement of Cladhan non-financial liability	-	5,169	**3,481**	29,574
Employee expense	-	(508)	**(798)**	(1,547)
General and administration expense	-	(456)	**(1,218)**	(842)
Refinancing and strategic review	-	(2,754)	**-**	(7,616)
Foreign exchange gain (loss)	-	(484)	**853**	(4,423)
Total expenses	-	(11,940)	**(6,554)**	(44,488)
Financing income	-	134	**189**	442
Financing costs	-	(4,267)	**(6,984)**	(21,204)
Net financing cost	-	(4,133)	**(6,795)**	(20,762)
Loss on disposal	-	(4)	**(4)**	(8)
Net income (loss) for the period relating to discontinued operations	-	(4,882)	**735**	(30,257)
Write down of discontinued operations	-	-	**(171,975)**	-
Net loss for the period relating to discontinued operations	-	(4,882)	**(171,240)**	(30,257)
Items reclassified to profit and loss	-	-	**(71,668)**	-
Total net loss for the period relating to discontinued operations	-	(4,882)	**(242,908)**	(30,257)

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 were 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:

- During the period that the Company recognized a deferred tax asset, the income statement was subject to significant tax debits and credits as losses have increased, rates have changed and recoverability of those losses has altered depending 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 AND EXPLORATION AND EVALUATION ACTIVITY

Following completion of the ONE Transaction all of the Company's development and exploration assets transferred to ONE and the Company currently does not conduct any activity in these areas. In the period up until the completion of the ONE Transaction minimal activity occurred on all assets.

FINANCING ACTIVITIES

PLAN OF ARRANGEMENT

On November 9, 2017 Sterling and PetroTal Ltd. ("PetroTal") entered into an arrangement agreement (the "Arrangement Agreement") whereby Sterling and PetroTal will complete a business combination pursuant to a plan of arrangement (the "Plan of Arrangement") under the Alberta *Business Corporations Act* (the "PetroTal Transaction"). The Plan of Arrangement will result in the amalgamation of Sterling and PetroTal under the name Sterling Resources Ltd. ("New Sterling").

Pursuant to the PetroTal Transaction, each common share of PetroTal ("PetroTal Share") will be exchanged for 5.35 common shares of Sterling ("Sterling Shares"), following which PetroTal will be amalgamated to form New Sterling. The PetroTal Transaction is expected to constitute a "Reverse Takeover" pursuant to the policies of the TSX Venture Exchange (the "TSXV") and is subject to the acceptance of the TSXV. Sterling is at arms' length to PetroTal.

In addition, PetroTal has entered into a share purchase agreement dated as of November 9, 2017 (the "SPA") with Sterling, Gran Tierra Energy Inc. ("GTE"), and its wholly owned subsidiary Gran Tierra Energy International Holdings Ltd. ("GTEIH"), to acquire Gran Tierra Energy International (Peru) Holdings B.V. ("GTE Peru"), an indirect wholly-owned subsidiary of GTE. Pursuant to the SPA and in the manner set forth in the Plan of Arrangement, New Sterling shall acquire all of the issued and outstanding common shares in the capital of GTE Peru (the "GTE Peru Shares") and, in consideration for the GTE Peru Shares, New Sterling shall issue 187,265,918 common shares of New Sterling ("New Sterling Shares") to GTEIH at a deemed price of approximately US$0.1869 per New Sterling Share, subject to adjustment in cash as set forth in the SPA (the "Acquisition"). As additional consideration for the transactions contemplated in the SPA, GTEIH shall receive a 20 per cent working interest in Block 107 of the Bretaña field located in Peru at closing of the Acquisition and, following the drilling of an initial exploration well, GTEIH may, for no additional consideration, elect to either retain its 20 per cent working interest (a "Positive Election") or transfer its 20 per cent working interest to New Sterling for no consideration. From and after the date of a Positive Election, GTEIH will pay its pro rata share of costs associated with its 20 per cent working interest. GTE is at arms' length to PetroTal and Sterling.

In conjunction with the closing of the PetroTal Transaction, PetroTal will enter into an agreement with a syndicate of investment dealers (the "Agents") co-led by Eight Capital and Pareto Securities AS and including PillarFour Securities Inc., for a brokered private placement offering of subscription receipts ("Subscription Receipts") on a best efforts agency basis at a price of US$1.00 per Subscription Receipt for aggregate gross proceeds of a minimum of US$25 million (the "Financing"). The Financing is expected to close on or about December 7, 2017. Each Subscription Receipt will be exchangeable into one PetroTal Share without any further action required on the part of the holder of the Subscription Receipt and without payment of any additional consideration, upon the closing of the PetroTal Transaction.

Upon closing of the PetroTal Transaction: (i) New Sterling is expected to have approximately US$40 million in cash; and (ii) GTE is expected to own, control or direct approximately 38 per cent the Sterling Shares issued and outstanding but, pursuant to an agreement to be entered into with New Sterling at closing, will be restricted from exercising voting rights for greater than 30 per cent of the Sterling Shares outstanding from time to time.

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

On May 8, 2017, at the Meeting, 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. of the entire issued share capital of Sterling Resources (UK) Ltd. (the "ONE Transaction") pursuant to a share purchase agreement dated March 3, 2017 between the Company, SHL and Oranje-Nassau Energie B.V. (the "SRUK Share Purchase Agreement").

- Following the completion of the sale transaction contemplated by the SRUK 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 per cent of shares represented at the Meeting.

On May 16, 2017, the ONE Transaction was completed, including the redemption of all issued and outstanding bonds issued under the 9 per cent SRUK Senior Secured Callable Bond Issue 2013/2019 and the cancellation of the super senior revolving credit facility agreement. Thereafter, the Company began 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.

On June 30, 2017, the Company made a distribution to its shareholders, pursuant to which the aggregate amount of US$92.8 million or US$0.63 per Common Share which was made as a return of capital, with the stated capital of the Common Shares being reduced accordingly.

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 3.6 per cent of the total equity of the Company after completion of the Recapitalization. Bondholders acquired Common Shares aggregating to approximately 96.4 per cent 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 SHL, a new wholly-owned subsidiary governed by the laws of England and Wales, in order to provide additional security to Bondholders and lenders under the SSRCF and greater flexibility in any future refinancing of the SSRCF (as defined below) 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.

On May 16, 2017, the transactions contemplated by the SRUK 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 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 per cent 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 per cent). The margin for Tranche A was 13 per cent per annum, and for Tranche B 13 per cent per annum increasing 100 basis points each quarter from drawdown of Tranche B (subject to an overall cap of 15 per cent 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.

On May 16, 2017, the transactions contemplated by the SRUK 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

All of the Company's Cladhan funding arrangements related to discontinued operations and have been disposed of as part of the ONE Transaction.

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 per cent interest in the Cladhan field to TAQA in exchange for a repayable carry by TAQA of development expenditures on an 11.8 per cent interest in Cladhan (the "Second Carry"), which was transferred to TAQA for the duration of the carry. Transfer of the 12.6 per cent interest was completed in August 2013 and the Second Carry became available.

Pursuant to these TAQA funding arrangements, the Company retained a minimum 2 per cent 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 per cent 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 per cent interest only. A 17 per cent per annum uplift was applicable to the balance of the Second Carry.

A re-assessment of the amount of liability, based on the value-in-use method up until the completion of the ONE Transaction, that was due to be paid under the carry arrangements saw a credit of $3,481,000 recorded in the income statement during the nine month period ended September 30, 2017 (nine months ending September 30, 2016 - $29,574,000). The corresponding 11.8 per cent asset was also 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	**September 30, 2017**	December 31, 2016
	$000s	$000s
Cash and cash equivalents	**19,255**	10,369
Restricted cash	**-**	128
Trade and other receivables	**-**	4,301
Inventory	**-**	534
Prepaid expenses	**-**	2,294
Derivative financial asset	**-**	137
Trade and other payables	**(270)**	(3,565)
	18,985	14,198

Net working capital, defined as current assets less current liabilities excluding the Cladhan funding arrangements (now disposed of), was $18,985,000 as at September 30, 2017, and has improved following the completion of the ONE Transaction. The net proceeds of the ONE Transaction, being $113.8 million were received on May 16, 2017 and $92.8 million has been distributed to shareholders as at September 30, 2017.

COMMITMENTS AND CONTINGENCIES

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

PROVISION FOR WIND-UP COSTS

At March 31, 2017, a provision was recognized for the costs expected to be incurred as part of the anticipated process to wind-up the Company. On November 9, 2017 Sterling entered into an Arrangement agreement whereby Sterling and PetroTal will complete a business combination pursuant to a Plan of Arrangement which will result in the combination of Sterling and PetroTal. In addition PetroTal has entered into a SPA to purchase the shares of GTE Peru containing oil and gas assets (see note 1). It is now the directors' intention for Sterling to continue as a going concern and as such the provision of $2,833,000 has been reversed.

LIQUIDITY AND SOLVENCY

On May 16, 2017, the transactions contemplated by the SRUK Share Purchase Agreement completed and thereafter the Company 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 had begun the Company no longer continued as a going concern.

On November 9, 2017 Sterling entered into an Arrangement Agreement whereby Sterling and PetroTal will complete a business combination pursuant to a Plan of Arrangement which will result in the combination of Sterling and PetroTal, In addition PetroTal has entered into a SPA to purchase the shares of GTE Peru containing oil and gas assets. It is now the director's intention for Sterling to continue as a going concern. Whilst the directors believe that Sterling has sufficient cash available for the Company to continue as a going concern in the future, and through the business combination (described under the "*Corporate Overview and Strategy*" section), there is no guarantee that the PetroTal Transaction will complete, in which case the Company will revert to the wind-up process.

DECOMMISSIONING OBLIGATIONS

The following table sets out a continuity of decommissioning obligations:

As at	**Nine months ended September 30, 2017**	Twelve months ended December 31, 2016
	$000s	$000s
Balance, beginning of the year	**26,967**	36,841
Revisions to estimates	**-**	(3,482)
Foreign exchange differences	**2,649**	(6,205)
Accretion of decommissioning discount	**153**	473
Obligation disposal	**(29,769)**	(660)
Balance, end of the year	**-**	26,967

All of the Company's previous decommissioning obligations related to discontinued operations and have been disposed of as part of the ONE Transaction.

The Company's previous decommissioning obligations resulted from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision up until disposal reflected the discounted present value of the estimated cost, using existing technology at current prices. 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 per cent to 1.86 per cent (December 31, 2016 – 1.04 to 1.86 per cent) and an inflation rate of 2 per cent (December 31, 2016 – 2 per cent) were used to calculate the longer term decommissioning obligations. 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.

2017 PLANS

The Company outlined its plans for 2017 in its MD&A for the year ended December 31, 2016, approved prior to the ONE Transaction. As the ONE Transaction was completed on May 16, 2017 the Company then no longer continued as a going concern, and the previous plans for 2017 no longer remained accurate, being then 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. Following the Company entering into an Arrangement Agreement (see "*Corporate Overview and Strategy*") the plan to wind-up the Company is no longer accurate and the Company's main objective has become completing the steps of the Arrangement Agreement.

RELATED PARTY AND OFF-BALANCE SHEET TRANSACTIONS

The Company had no off-balance sheet transactions in the three and nine month periods ended September 30, 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	**September 30, 2017**	December 31, 2016
(Unaudited)	US$000s	US$000s
ASSETS		
Current assets		
Cash and cash equivalents (note 6)	**19,255**	10,369
Restricted cash	**-**	128
Trade and other receivables (note 7)	**-**	4,301
Inventory	**-**	534
Derivative financial asset (note 10)	**-**	137
Prepaid expenses	**-**	2,294
	19,255	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
	19,255	363,060
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**270**	3,565
Cladhan funding arrangements (note 13)	**-**	5,763
	270	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)	**502,941**	595,741
Contributed surplus	**19,418**	19,605
Accumulated other comprehensive loss	**(5,545)**	(88,857)
Deficit	**(497,829)**	(250,120)
	18,985	276,369
	19,255	363,060

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2017 (“the Financial Statements”).

CONSOLIDATED INCOME STATEMENT

	Three Months Ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
(Unaudited)	US$000s except per share		US$000s except per share	
Expenses				
Movement in the provision for wind-up costs (note 5)	**2,833**	-	**-**	-
Depletion, depreciation and amortization (note 9)	**-**	(19)	**-**	(20)
Employee expense	**(280)**	(194)	**(587)**	(973)
General and administration expense	**(595)**	(455)	**(4,038)**	(761)
Refinancing and strategic review	**-**	(474)	**-**	(739)
Foreign exchange gain (loss)	**(225)**	-	**(176)**	(130)
Total income (expenses)	**1,732**	(1,142)	**(4,801)**	(2,623)
Net income (loss) from continued operations	**1,732**	(1,142)	**(4,801)**	(2,623)
Net loss from discontinued operations (note 4)	**-**	(4,882)	**(242,908)**	(30,257)
Net income (loss) for the period	**1,732**	(6,024)	**(247,709)**	(32,880)
Net loss per common share (note 20)				
Basic and diluted – continued operations ($)	**0.01**	(0.01)	**(0.03)**	(0.01)
Basic and diluted – discontinued operations ($)	**-**	(0.03)	**(1.65)**	(0.10)
Basic and diluted – total ($)	**0.01**	(0.04)	**(1.68)**	(0.11)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
(Unaudited)	**US$000s**	US$000s	**US$000s**	US$000s
Net income (loss)	**1,732**	(6,024)	**(247,709)**	(32,880)
Items reclassified to profit and loss	**-**	-	**71,668**	-
Items that may be subsequently reclassified to profit and loss:				
Foreign currency translation adjustment	**285**	(10,527)	**11,644**	(45,042)
Comprehensive income (loss)	**2,018**	(16,551)	**(164,397)**	(77,922)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)	Share Capital US$000s	Contributed Surplus US$000s	Accumulated Other Comprehensive Loss US$000s	Surplus / (deficit) US$000s	Total US$000s
Balance at January 1, 2016	427,440	19,552	(31,710)	(240,509)	174,773
Public equity issuances (note 15)	174,078	-	-	-	174,078
Share issue costs (note 15)	(5,777)	-	-	-	(5,777)
Share-based compensation (note 17)	-	266	-	-	266
Foreign currency translation	-	-	(45,042)	-	(45,042)
Loss for the period from continued operations	-	-	-	(2,623)	(2,623)
Loss for the period from discontinued operations (note 4)	-	-	-	(30,257)	(30,257)
Balance at September 30, 2016	595,741	19,818	(76,752)	(273,389)	265,418
Balance at January 1, 2017	**595,741**	**19,605**	**(88,857)**	**(250,120)**	**276,369**
Return of capital (note 15)	**(92,800)**	**-**	**-**	**-**	**(92,800)**
Share-based compensation (note 17)	**-**	**(187)**	**-**	**-**	**(187)**
Foreign currency translation	**-**	**-**	**11,644**	**-**	**11,644**
Items reclassified to profit and loss	**-**	**-**	**71,668**	**-**	**71,668**
Loss for the period from continued operations	**-**	**-**	**-**	**(4,801)**	**(4,801)**
Loss for the period from discontinued operations (note 4)	**-**	**-**	**-**	**(242,908)**	**(242,908)**
Balance at September 30, 2017	**502,941**	**19,418**	**(5,545)**	**(497,829)**	**18,985**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
(Unaudited)	US$000s	US$000s	US$000s	US$000s
Cash flows from operating activities				
Gain (loss) for the period from continuing operations	**1,732**	(1,142)	**(4,801)**	(2,623)
Adjustments for continued operations:				
Share-based compensation (note 17)	**(7)**	(1)	**(187)**	266
Loss for the period from discontinuing operations (note 4)	**-**	(4,882)	**(242,908)**	(30,257)
Adjustments for discontinued operations:				
Loss on disposal	**-**	4	**4**	8
Unrealized foreign exchange loss (gain)	**-**	736	**(46)**	8,563
Depletion, depreciation and amortization (note 9)	**-**	6,875	**4,765**	25,992
Impairment of oil and gas properties (note 9)	**-**	2,739	**665**	17,724
Unrealized loss on derivative financial instruments (notes 10 and 12)	**-**	152	**55**	1,048
Loss on extinguishment of bond liability (note 10)	**-**	-	**-**	4,686
Re-measurement of Cladhan non-financial liability (note 13)	**-**	(5,169)	**(3,481)**	(29,574)
Accretion of decommissioning discount (note 19)	**-**	116	**153**	360
Amortization of bond amendment costs (note 19)	**-**	426	**582**	426
Financing income	**-**	(134)	**(189)**	(442)
Interest expense (note 19)	**-**	3,725	**6,249**	20,418
Cladhan revenues foregone (note 18)	**-**	(2,840)	**(1,064)**	(8,260)
Write down of discontinued operations (note 3)	**-**	-	**171,975**	-
Items reclassified to the income statement	**-**	-	**71,668**	-
	1,725	605	**3,440**	8,335
Change in non-cash working capital	**(3,376)**	(696)	**5,351**	349
Cash flows from operating activities	**(1,651)**	(91)	**8,791**	8,684
Cash flows from investing activities				
Proceeds from sale of assets - continuing operations	**-**	-	**113,800**	-
Exploration and evaluation asset additions – discontinued operations	**-**	(88)	**(251)**	(445)
Property, plant and equipment additions – discontinued operations	**-**	(381)	**(2,131)**	(3,024)
Cash flows provided by (used in) investing activities	**-**	(469)	**111,418**	(3,469)
Cash flows used in financing activities – discontinued operations				
Decrease (increase) in restricted cash	**-**	(135)	**128**	1,171
Financing income	**-**	134	**189**	442
Premium paid on derivative financial instruments (note 8)	**-**	-	**-**	(4,155)
Repayment of bond and associated costs from Rights Offering (note 10)	**-**	-	**-**	(990)
Proceeds from Rights Offering (note 10)	**-**	-	**-**	990
Share issue costs (note 13)	**-**	-	**-**	(5,777)
Cash flows used in financing activities –continuing operations				
Return of capital (note 13)	**-**	-	**(92,800)**	-
Cash transferred on disposal (note 3)	**-**	-	**(19,059)**	-
Cash flows used in financing activities	**-**	(1)	**(111,542)**	(8,319)
Effect of translation on foreign currency cash and cash equivalents	**72**	42	**219**	(127)
Increase(decrease) in cash and cash equivalents during the period	**(1,579)**	(519)	**8,886**	(3,231)
Cash and cash equivalents, beginning of the period	**20,834**	8,177	**10,369**	10,889
Cash and cash equivalents, end of the period	**19,255**	**7,658**	**19,255**	7,658

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
As at and for the three and nine month periods ended September 30, 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 November 29, 2017, on the recommendation of the Audit Committee.

The Company's 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 on May 16, 2017, Sterling Resources (UK) Ltd ("SRUK"), and Sterling Resources Netherlands B.V. ("SRNBV").

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 "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 SHL of the entire issued share capital of SRUK (the "ONE Transaction") pursuant to a share purchase agreement dated March 3, 2017 between the Company, SHL and Oranje-Nassau Energie B.V. ("ONE") (the "SRUK Share Purchase Agreement").

- Following the completion of the sale transaction contemplated by the SRUK 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 per cent of shares represented at the Meeting.

On May 16, 2017, the ONE Transaction was completed, including the redemption of all issued and outstanding bonds issued under the 9 per cent SRUK Senior Secured Callable Bond Issue 2013/2019 and the cancellation of the super senior revolving credit facility agreement. Thereafter, the Company began 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.

On June 30, 2017, the Company made a distribution to its shareholders, pursuant to which the aggregate amount of US$92.8 million or US$0.63 per Common Share which was made as a return of capital, with the stated capital of the Common Shares being reduced accordingly.

PLAN OF ARRANGEMENT
On November 9, 2017 Sterling and PetroTal Ltd. ("PetroTal") entered into an arrangement agreement (the "Arrangement Agreement") whereby Sterling and PetroTal will complete a business combination pursuant to a plan of arrangement (the "Plan of Arrangement") under the Alberta *Business Corporations Act* (the "PetroTal Transaction"). The Plan of Arrangement will result in the amalgamation of Sterling and PetroTal under the name Sterling Resources Ltd. ("New Sterling").

Pursuant to the PetroTal Transaction, each common share of PetroTal ("PetroTal Share") will be exchanged for 5.35 common shares of Sterling ("Sterling Shares"), following which PetroTal will be amalgamated to form New Sterling. The PetroTal Transaction is expected to constitute a "Reverse Takeover" pursuant to the policies of the TSX Venture Exchange (the "TSXV") and is subject to the acceptance of the TSXV. Sterling is at arms' length to PetroTal.

In addition, PetroTal has entered into a share purchase agreement dated as of November 9, 2017 (the "SPA") with Sterling, Gran Tierra Energy Inc. ("GTE"), and its wholly owned subsidiary Gran Tierra Energy International Holdings Ltd. ("GTEIH"), to acquire Gran Tierra Energy International (Peru) Holdings B.V. ("GTE Peru"), an indirect wholly-owned subsidiary of GTE. Pursuant to the

SPA and in the manner set forth in the Plan of Arrangement, New Sterling shall acquire all of the issued and outstanding common shares in the capital of GTE Peru (the "GTE Peru Shares") and, in consideration for the GTE Peru Shares, New Sterling shall issue 187,265,918 common shares of New Sterling ("New Sterling Shares") to GTEIH at a deemed price of approximately US$0.1869 per New Sterling Share, subject to adjustment in cash as set forth in the SPA (the "Acquisition"). As additional consideration for the transactions contemplated in the SPA, GTEIH shall receive a 20 per cent working interest in Block 107 of the Bretaña field located in Peru at closing of the Acquisition and, following the drilling of an initial exploration well, GTEIH may, for no additional consideration, elect to either retain its 20 per cent working interest (a "Positive Election") or transfer its 20 per cent working interest to New Sterling for no consideration. From and after the date of a Positive Election, GTEIH will pay its pro rata share of costs associated with its 20 per cent working interest. GTE is at arms' length to PetroTal and Sterling.

In conjunction with the closing of the PetroTal Transaction, PetroTal will enter into an agreement with a syndicate of investment dealers (the "Agents") co-led by Eight Capital and Pareto Securities AS and including PillarFour Securities Inc., for a brokered private placement offering of subscription receipts ("Subscription Receipts") on a best efforts agency basis at a price of US$1.00 per Subscription Receipt for aggregate gross proceeds of a minimum of US$25 million (the "Financing"). The Financing is expected to close on or about December 7, 2017. Each Subscription Receipt will be exchangeable into one PetroTal Share without any further action required on the part of the holder of the Subscription Receipt and without payment of any additional consideration, upon the closing of the PetroTal Transaction.

Upon closing of the PetroTal Transaction: (i) New Sterling is expected to have approximately US$40 million in cash; and (ii) GTE is expected to own, control or direct approximately 38 per cent the Sterling Shares issued and outstanding but, pursuant to an agreement to be entered into with New Sterling at closing, will be restricted from exercising voting rights for greater than 30 per cent of the Sterling Shares outstanding from time to time.

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 for its Financial Statements for the three month period ended March 31, 2017 following the directors' announcement of their intentions to wind-up the Company and has now reverted to the going concern basis in preparing these Financial Statements following the announcement of the PetroTal Transaction and that the directors wish for the Company to continue. 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 – EMPHASIS OF MATTER

As explained in note 1, the Company disposed of its only trading entity SRUK on May 16, 2017 and, on June 30, 2017, the Company made a distribution to its shareholders, pursuant to which the aggregate amount of US$92.8 million or US$0.63 per Common Share which was made as a return of capital, with the stated capital of the Common Shares being reduced accordingly. At June 30, 2017, in accordance with IAS 10, the Company was required to depart from the going concern basis when preparing its financial statements for the reporting period in which it ceased to trade. Following the disposal of SRUK it has reported the results of SRUK within discontinued operations for all periods presented. No other changes have been made to the comparatives presented. As a result of preparing the Financial Statements on a basis other than that of going concern, the Company had recognized a provision for the costs expected to be incurred as part of the process to wind-up.

On November 9, 2017 Sterling entered into an Arrangement Agreement whereby Sterling and PetroTal will complete a business combination pursuant to a Plan of Arrangement which will result in the combination of Sterling and PetroTal, In addition PetroTal has entered into a SPA to purchase the shares of GTE Peru containing oil and gas assets (see note 1). It is now the directors' intention for Sterling to continue as a going concern. As such the provision for the remaining costs associated with the wind-up has been reversed. Whilst the directors believe that Sterling has sufficient cash available for the Company to continue as a going concern in the future, and through the business combination described in note 1, there is no guarantee that the PetroTal Transaction will complete, in which case the Company will again be required to depart from the going concern basis when preparing its financial statements.

BASIS OF CONSOLIDATION

The Financial Statements comprise the condensed interim financial statements of the Company and its subsidiaries as at September 30, 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 were 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.

Intercompany 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) DISPOSAL OF SRUK AND SRNBV

Balances held just before the time of disposal of SRUK and SRNBV were as follows, resulting in a write down on discontinued operations of $171,975,000.

Balances immediately prior to the completion of the ONE Transaction	US$000s
Current assets	
Cash and cash equivalents	**19,059**
Restricted cash	**97**
Trade and other receivables	**1,381**
Inventory	**372**
Derivative financial asset (note 10)	**140**
Prepaid expenses	**1,841**
Non-current assets	
Exploration and evaluation assets (note 8)	**22,304**
Property, plant and equipment (note 9)	**248,959**
Derivative financial asset (note 10)	**375**
Repayment option on long-term debt (note 10)	**1,081**
Deferred tax asset (note 21)	**80,527**
	376,136
Write down of discontinued operations (note 4)	**(171,975)**
	204,161
Current liabilities	
Trade and other payables	**1,419**
Cladhan funding arrangements	**5,335**
Non-current liabilities	
Decommissioning obligations (note 11)	**29,769**
Long-term debt	**43,419**
Cladhan funding arrangements	**9,026**
	88,968
Net assets disposed of	**115,193**

4) DISCONTINUED OPERATIONS

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
(Unaudited) (US$000s)				
Revenue (note 18)	-	11,704	**14,966**	36,560
Third-party entitlement (note 18)	-	(509)	**(878)**	(1,559)
	-	11,195	**14,088**	35,001
Expenses				
Operating expense	-	(3,269)	**(2,978)**	(9,253)
Pre–licence and other exploration expenditures	-	109	**(409)**	(951)
Impairment of oil and gas properties (note 9)	-	(2,739)	**(665)**	(17,724)
Depletion, depreciation and amortization (note 9)	-	(6,856)	**(4,765)**	(25,972)
Loss on derivative financial instruments (notes 10 & 12)	-	(152)	**(55)**	(1,048)
Loss on extinguishment of bond liability (note 10)	-	-	**-**	(4,686)
Re-measurement of Cladhan non-financial liability (note 13)	-	5,169	**3,481**	29,574
Employee expense	-	(508)	**(798)**	(1,547)
General and administration expense	-	(456)	**(1,218)**	(842)
Refinancing and strategic review	-	(2,754)	**-**	(7,616)
Foreign exchange loss	-	(484)	**853**	(4,423)
Total expenses	-	(11,940)	**(6,554)**	(44,488)
Financing income	-	134	**189**	442
Financing costs (note 19)	-	(4,267)	**(6,984)**	(21,204)
Net financing costs	-	(4,133)	**(6,795)**	(20,762)
Loss on disposal	-	(4)	**(4)**	(8)
Net (loss) income for the period relating to discontinued operations	-	(4,882)	**735**	(30,257)
Write down of discontinued operations (note 3)		-	**(171,975)**	-
Net loss for the period relating to discontinued operations	-	(4,882)	**(171,240)**	(30,257)
Items reclassified to profit and loss	-	-	**(71,668)**	-
Total net loss for the period relating to discontinued operations	-	(4,882)	**(242,908)**	(30,257)

5) PROVISION FOR WIND-UP COSTS

At March 31, 2017, a provision was recognized for the costs expected to be incurred as part of the anticipated process to wind-up the Company. On November 9, 2017 Sterling entered into an Arrangement agreement whereby Sterling and PetroTal will complete a business combination pursuant to a Plan of Arrangement which will result in the combination of Sterling and PetroTal. In addition PetroTal has entered into a SPA to purchase the shares of GTE Peru containing oil and gas assets (see note 1). It is now the directors' intention for Sterling to continue as a going concern and as such the provision of $2,833,000 has been reversed.

6) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at	**September 30, 2017**	December 31, 2016
	$000s	$000s
Cash	**19,255**	6,661
Cash equivalents	**-**	3,708
	19,255	10,369
Balances held in: Canadian dollars	**424**	222
US dollars	**18,831**	3,227
UK pounds	**-**	6,472
Other	**-**	448
Cash and cash equivalents	**19,255**	10,369

As at September 30, 2017, cash and cash equivalents (including short term deposits) were not interest bearing (December 31, 2016 – between 0.00 per cent and 0.73 per cent).

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 previously held is discussed in note 10.

The Company is exposed to various financial risks arising from normal-course business exposure and its previous use of financial instruments. These risks include market risks relating to foreign exchange rate fluctuations, interest rate risk and previously commodity price risk and 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/were 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 per cent fluctuation in translation rates would have the following impact on net income or loss, based on foreign currency balances held at September 30, 2017.

	$000s
Canadian dollar vs. UK pound	4
Canadian dollar vs. US dollar	17
UK pound vs. US dollar	171

The effect of changes in the UK pound versus US dollar exchange rate has decreased as the Company's previously held 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 September 30, 2017 of continued operations, a 1 percentage point change in average interest rates over a nine month period would increase or decrease net income or loss by approximately $144,000.

The interest rate charged under the Bond (as defined below) was fixed at 9 per cent per annum. As the Bond has now been fully redeemed as part of the ONE Transaction (see note 1), the Company was not exposed to interest rate risk as it had no 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 SRUK Share Purchase Agreement completed and thereafter the Company 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 had begun the Company no longer continued as a going concern.

On November 9, 2017 Sterling entered into an Arrangement Agreement whereby Sterling and PetroTal will complete a business combination pursuant to a Plan of Arrangement which will result in the combination of Sterling and PetroTal. In addition PetroTal has entered into a SPA to purchase the shares of GTE Peru containing oil and gas assets (see note 1). It is now the directors' intention for Sterling to continue as a going concern. Whilst the directors believe that Sterling has sufficient cash available for the Company to continue as a going concern in the future, and through the business combination described in note 1, there is no guarantee that the PetroTal Transaction will complete, in which case the Company will revert to the wind-up process.

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 the Breagh field, the Company sold gas produced at a price linked to the UK spot market, which is a liquid market. The Company's policy was 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. All of the Company's options and its commodity price risk relate to discontinued operations and have been transferred as part of the ONE Transaction (see note 1).

CREDIT RISK

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Company.

The initial net proceeds of the ONE Transaction, being $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. The Company had no receivables at September 30, 2017. There were no material amounts past due but not impaired 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 September 30, 2017, the cash, cash equivalents and restricted cash were held with two different institutions from two 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 ONE Transaction (see note 1) 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.

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

All of the Company's E&E assets related to discontinued operations and were disposed of as part of the ONE Transaction (see note 1).

Minimal amounts have been capitalized to E&E assets during the nine month period ending September 30, 2017 or in the twelve month period ending December 31, 2016.

No E&E assets were impaired in the nine month period ending September 30, 2017 or in the twelve month period ending December 31, 2016.

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

As at	**September 30, 2017**	December 31, 2016
	$000s	$000s
Balance, beginning of the period	**21,088**	24,668
E&E expenditures	**266**	556
Non-cash decommissioning costs (note 11)	**-**	34
Foreign exchange	**950**	(4,170)
Disposal of assets (note 3)	**(22,304)**	-
Balance, end of the period	**-**	21,088

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

All of the Company's PP&E assets related to discontinued operations and were disposed of as part of the ONE Transaction (see note 1).

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 in the period up to disposal as part of the ONE Transaction on May 16, 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 per cent of the development being funded by TAQA. During the period up to disposal as part of the ONE Transaction on May 16, 2017, under these same criteria, it was considered unlikely that the 11.8 per cent asset would return to the Company and the remaining asset represented the amount of the revenues expected to be earned that would go to reduce the Second Carry. Prior to completion of the ONE Transaction and 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 $665,000. 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. 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 per cent. Under the same criteria Cladhan was impaired by $15,396,000 for the nine month period ended December 31, 2016. In addition, the Company's wholly owned 2 per cent of the field was impaired by $880,000 as at December 31, 2016 based on the same criteria above but using a pre-tax discount rate of 10 per cent (the rate the Company uses for net present value investment decisions).

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 table below.

Depletion on the Breagh and Cladhan assets commenced with first production on October 12, 2013 and December 15, 2015, respectively. In accordance with IFRS 5 as the assets had been classified as held for sale no depletion was charged subsequent to March 31, 2017.

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

As at	September 30, 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	**1,227**	**-**	**1,227**	7,555	-	7,555
– Non-cash decommissioning costs (note 11)	**-**	**-**	**-**	(3,516)	-	(3,516)
Foreign exchange differences	**16,564**	**77**	**16,641**	(55,164)	(92)	(55,256)
Disposals	**(429,614)**	**(885)**	**(430,499)**	(6,748)	(327)	(7,075)
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	**(4,754)**	**(11)**	**(4,765)**	(31,020)	(86)	(31,106)
Impairment	**(665)**	**-**	**(665)**	(16,276)	-	(16,276)
Foreign exchange differences	**(6,460)**	**(170)**	**(6,630)**	669	52	721
Disposals	**180,698**	**842**	**181,540**	6,748	327	7,075
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 related to discontinued operations and were disposed of as part of the ONE Transaction (see note 1).

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 (as defined below) (see note 12) changes in the terms of the Bond, the repayment option was de-recognized and a new fair value of the repayment option was determined to be $819,000. This was subsequently revalued at May 16, 2017, prior to disposal 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. Prior to disposal the derivatives were valued at $515,000, a loss of $55,000 has been recorded to discontinued operations. For the nine month period ended September 30, 2016, the Company recorded a net loss of $892,000.

11) DECOMMISSIONING OBLIGATIONS

The following table sets out a continuity of decommissioning obligations:

As at	**Nine months ended September 30, 2017**	Twelve months ended December 31, 2016
	$000s	$000s
Balance, beginning of the year	**26,967**	36,841
Revisions to estimates	**-**	(3,482)
Foreign exchange differences	**2,649**	(6,205)
Accretion of decommissioning discount (note 19)	**153**	473
Obligation disposal (note 3)	**(29,769)**	(660)
Balance, end of the year	**-**	26,967

All of the Company's decommissioning obligations related to discontinued operations and were disposed of as part of the ONE Transaction (see note 1).

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 up until disposal reflected the discounted present value of the estimated cost, using existing technology at current prices. Two wells on the Sheryl licence were abandoned in 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 per cent to 1.86 per cent (December 31, 2016 – 1.04 to 1.86 per cent) and an inflation rate of 2 per cent (December 31, 2016 – 2 per cent) were used to calculate the longer term decommissioning obligations. 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 related to discontinued operations and have been disposed of as part of the ONE Transaction (see note 1).

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 per cent of the total equity of the Company after completion of the Recapitalization. Bondholders acquired Common Shares aggregating to approximately 96.4 per cent 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 SHL a new wholly-owned subsidiary governed by the laws of England and Wales in order to provide additional security to Bondholders and lenders under the SSRCF (as defined below) 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 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 per cent 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 had been 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 per cent). The margin for Tranche A was 13 per cent per annum, and for Tranche B was 13 per cent per annum increasing 100 basis points each quarter from drawdown of Tranche B (subject to an overall cap of 15 per cent 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.

On May 16, 2017, the transactions contemplated by the SRUK 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.

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

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

As at	**September 30, 2017**	December 31, 2016
	$000s	$000s
Balance, beginning of the period	**41,919**	189,593
Borrowing costs	**1,505**	2,936
De-recognition of embedded derivative	**(819)**	(5,861)
Recognition of embedded derivative	**-**	819
Accretion of discount	**1,330**	(5,620)
Settlement of loan funds	**(43,935)**	(139,948)
Balance, end of the period	**-**	41,919

13) CLADHAN FUNDING ARRANGEMENTS

All of the Company's long-term debt relates to discontinued operations and were disposed of as part of the ONE Transaction (see note 1).

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 per cent interest in the Cladhan field to TAQA in exchange for a repayable carry by TAQA of development expenditures on an 11.8 per cent interest in Cladhan (the "Second Carry"), which was transferred to TAQA for the duration of the carry. Transfer of the 12.6 per cent interest was completed in August 2013 and the Second Carry became available.

Pursuant to these TAQA funding arrangements, the Company retained a minimum 2 per cent 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 per cent 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 per cent interest only. A 17 per cent per annum uplift was applicable to the balance of the Second Carry.

A re-assessment of the amount of liability, based on the value-in-use method, that was due to be paid under the carry arrangements saw a credit of $3,481,000 recorded in the income statement up until completion of the ONE Transaction during the nine month period ended September 30, 2017 (nine months ending September 30, 2016 - $29,574,000). The corresponding

11.8 per cent asset (see note 9) was also impaired down to the same level as the non-financial liability and recorded under impairment of oil and gas properties.

14) COMMITMENTS AND CONTINGENCIES

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

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	**September 30, 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 distribution of capital	**-**	**(92,800)**	-	-
Less effects of share consolidation	**-**	**-**	(14,571,913)	-
Balance, end of the period	**147,186**	**502,941**	147,186	595,741

On June 30, 2017, the Company made a distribution to its shareholders, pursuant to which the aggregate amount of US$92.8 million or US$0.63 per Common Share which was made as a return of capital, with the stated capital of the Common Shares being reduced accordingly.

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 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 SRUK 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 SHL.

Information on this segmented reporting is reflected in note 20 – net income 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 September 30, 2017, there were 33,000 (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:

	Nine months ended September 30, 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	**(63)**	**28.55**	(119)	28.11
Expired during the period	**-**	**-**	(1)	138.00
Outstanding, end of the period	**33**	**28.40**	96	28.49
Exercisable, end of the period	**27**	**33.25**	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 nine month period ended September 30, 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 nine month period ended September 30, 2017, a credit of $187,000 due to forfeitures (September 30, 2016 – expense of $266,000) of share-based compensation was expensed and was included in the employee expense figure.

The following stock options were outstanding as at September 30, 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	18	1,058	7.00	12	1,058	7.00
50.00	99.99	15	606	55.00	15	606	55.00
7.00	99.99	33	856	28.40	27	811	33.25

B) LONG TERM INCENTIVE PLANS

All of the Company's phantom option plans related to discontinued operations and were disposed of as part of the ONE Transaction (see note 1).

18) NET REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
	$000s	$000s	**$000s**	$000s
Breagh gas and condensate revenue	**-**	8,204	**13,688**	26,660
Other revenues including from hedging	**-**	-	**-**	40
Cladhan 2% oil sales revenues	**-**	660	**213**	1,600
Cladhan 11.8% oil sales revenues	**-**	2,840	**1,065**	8,260
	-	11,704	**14,966**	36,560
Third party entitlement	**-**	(509)	**(878)**	(1,559)
Total net revenue	**-**	11,195	**14,088**	35,001

All of the Company's net revenue relates to discontinued operations and revenue was recognised up until the completion of the ONE Transaction on May 16, 2017.

BREAGH

For the nine month period ended September 30, 2017, Breagh revenue was $13,688,000 (nine month period ended September 30, 2016 - $26,660,000). These revenues came from sales of gas production of approximately 2.4 Bcf at an average realized gas price of 42.5 pence per therm ($5.58 per thousand cubic feet), and 900 tonnes of condensate (6,618 barrels) sales of condensate at an average price of $401 per tonne. For the nine month period ended September 30, 2016, revenues came from sales of gas production of approximately 4.1 Bcf at an average realized gas price of 30.6 pence per therm ($4.39 per thousand cubic feet), 1,519 tonnes of condensate (11,171 barrels) at an average price of $298 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 was 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. which expired on October 1, 2016. Prior to the Completion of the ONE Transaction Sterling was paid by BGT in the month following production.

The Breagh field produced 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 per cent of these revenues for the period ended June 30, 2017 were derived from one customer and one contract.

THIRD PARTY ENTITLEMENT

For the nine month period ended September 30, 2017, a third party entitlement of $878,000 (nine month period ended September 30, 2016 – $1,559,000), was charged to the income statement. The 2017 amount was lower as these operations were discontinued as of May 16, 2017 upon completion of the ONE Transaction. This amount was recorded pursuant to a funding agreement originally signed with Gemini Oil & Gas Fund II, L.P. 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 May 16, 2017 when the third party entitlement passed to the new owners of SRUK amounted to $19,246,000.

CLADHAN

First sales from the Cladhan oil development occurred in the first quarter of 2016. During the nine month period ended September 30, 2017, sales related to the Company’s 2 per cent equity interest totalled $213,000 (nine month period ended September 30, 2016 -$1,600,000) which came from the sale of 4,100 barrels of oil equivalent (“boe”) at an average realized price of $52 per boe. For the nine month period ended September 30, 2016 revenues came from the sale of 23,800 boe at an average realised price of $40 per boe.

During the nine month period ended September 30, 2017, the Company also recognized $1,065,000 of Cladhan revenues relating to sales of oil on the 11.8 per cent 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 (nine month period ended September 30, 2016 - $8,260,000).

19) FINANCING COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
	$000s	$000s	**$000s**	$000s
Interest expense	**-**	901	**1,657**	12,200
Non-cash Cladhan funding arrangements	**-**	2,824	**4,592**	8,218
Amortization of finance transaction costs	**-**	426	**582**	426
	-	4,151	**6,831**	20,844
Accretion of decommissioning discount (note 11)	**-**	116	**153**	360
Total financing costs	**-**	4,267	**6,984**	21,204

All of the Company’s financing costs related to discontinued operations and financing costs were recognized up until the completion of the ONE Transaction on May 16, 2017.

Financing costs for the nine month period ended September 30, 2017, were $6,984,000 (nine month period ended September 30, 2016 - $21,204,000) consisting primarily of $4,592,000 of Cladhan funding arrangement interest which was expensed (nine month period ended September 30, 2016 - $8,218,000). In addition, borrowing costs of $1,657,000 on the Bond (nine month period ended September 30, 2016 - $12,200,000) and amortization of finance transaction costs of $582,000 were expensed in the nine month period ended September 30, 2017.

The balance of the financing costs comprises accretion of the discount on decommissioning obligations and have decreased in the period due to the completion of the ONE Transaction on May 16, 2017.

20) NET INCOME (LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Weighted average shares outstanding (000s)	**147,186**	147,186	**147,186**	309,421
Net income (loss) from continued operations	**1,732**	(1,142)	**(4,801)**	(2,623)
Net loss from discontinued operations	**-**	(4,882)	**(242,908)**	(30,257)
Net income (loss) for the period	**1,732**	(6,024)	**(247,709)**	(32,880)
Net income (loss) per weighted average common share				
Basic and diluted – continued operations	**0.01**	(0.01)	**(0.03)**	(0.01)
Basic and diluted – discontinued operations	**-**	(0.03)	**(1.65)**	(0.10)
Basic and diluted – total	**0.01**	(0.04)	**(1.68)**	(0.11)

Note: For the three and nine month periods ended September 30, 2017 and 2016, the potential dilutive effect of the Company's outstanding options was not included in diluted shares as they were antidilutive. In the calculation of the weighted average shares outstanding for the prior year periods the effects of the Recapitalization (see note 10) and the Consolidation (see note 13) have been treated as occurring on the same day.

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) related to discontinued operations and was disposed of as part of the ONE Transaction (see note 1).

The Company retains the following tax losses and other deductible temporary differences at September 30, 2017:

- Non-capital losses of approximately $46 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.

No deferred tax asset has been recognized in relation to these losses due to uncertainty regarding future taxable profits against which such losses can be offset.

22) SUBSEQUENT EVENTS NOTE

On November 9, 2017 Sterling and PetroTal Ltd. entered into an arrangement agreement whereby Sterling and PetroTal will complete a business combination pursuant to a plan of arrangement under the Alberta Business Corporations Act. The Plan of Arrangement will result in the amalgamation of Sterling and PetroTal under the name Sterling Resources Ltd. See note 1 for further details.

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