



Sterling Resources Ltd. is a Calgary, Canada-based energy company engaged in the exploration and development of crude oil and natural gas in the United Kingdom (offshore and onshore), Romania (offshore) and the Netherlands.

Sterling common shares trade on the TSX Venture Exchange under the symbol SLG.

CONTENTS

Message to Shareholders	1
Management's Discussion and Analysis	3
Management's Report	23
Independent Auditor's Report	24
Consolidated Financial Statements	25
Notes to Consolidated Financial Statements	30
Corporate Information	58

ANNUAL GENERAL AND SPECIAL MEETING

May 28, 2015 at 10:00a.m.

The Royal Room
Metropolitan Conference Centre
333 - 4th Avenue SW
Calgary, Alberta
Canada

ABBREVIATIONS AND OTHER OIL AND GAS TERMS

Bcf	billion standard cubic feet
Boe	barrel(s) of oil equivalent
Mbbls	thousands of barrels
MMbbls	millions of barrels
Mscf	thousand of standard cubic feet of gas
MMscf/d	millions of standard cubic feet of gas per day
Quad	a UK offshore area normally comprised of 30 blocks

Other terms and definitions are provided in the Company's Form 51-101F1: Statement of Reserves Data and Other Oil and Gas Information

Cover image:

Slug Catcher at TGPP gas plant
(courtesy of Teesside Gas Processing Plant Limited)

MESSAGE TO SHAREHOLDERS

The operational and financial landscape during 2014 was an extremely difficult one for Sterling as we struggled to overcome a balance sheet weakened by many factors including operational issues at Breagh and low commodity prices. Over the course of the year it became apparent that a new direction for Sterling was required and thus efforts to rescale and refocus the Company were initiated.

Sterling has shifted its focus to UK development and production activities, reducing significantly the exposure to exploration activities in the UK and internationally. The Company is no longer planning to participate in future licensing rounds in the UK or elsewhere for the foreseeable future and will continue efforts to farm-down the remaining UK exploration licences to reduce future net exploration expenditures. After the year end, the Company announced that it had entered into an agreement to sell its entire Romanian business. In addition, a full exit from France is underway. As a consequence of this changing focus, significant staff reductions in the UK took place during the first quarter of 2015.

Consistent with this strategic refocussing, two major initiatives have been priorities for the Company over the past year: ensuring compliance with terms of the UK senior secured bond (the "Bond") and reducing exposure to Romania.

In relation to the Bond, difficulty in making due payments to Bondholders at the end of November 2014 had arisen because of Breagh-related issues. The Company's net cash flow from its main asset, the Breagh gas field, was adversely impacted by a combination of delayed production start-up, unexpected shutdowns of the Breagh field and onshore gas plant in late 2013 and early 2014, lower than expected aggregate production from the initial six wells, lower than expected UK gas prices notably last summer and higher than anticipated capital expenditures. As a consequence a meeting of Bondholders was convened in December 2014 in order to obtain approval for certain amendments to the Bond Agreement that would enhance the Company's liquidity while asset sales were pursued and possible debt refinancing options were considered. The consent of the Bondholders was received and as a result the transfer of funds into a restricted account for debt servicing (known as the Debt Service Retention Account or "DSRA") originally payable on November 30, 2014 was deferred until April 30, 2015. Of the US\$5.5 million in the DSRA in December 2014, US\$2.5 million was used to pay an amendment fee to Bondholders with the remaining balance transferred to an unrestricted Sterling UK bank account. In addition, the minimum liquidity covenant under the terms of the Bond Agreement was reduced from US\$10 million to US\$7.5 million on a temporary basis until January 30, 2015. No deferral of the scheduled semi-annual interest payment and amortization instalment due on April 30, 2015 was made as part of the amendments. The unrestricted funds freed up by the amendments were used for ongoing costs including Breagh-related costs, the purchase of gas price put options, and other corporate costs. As well as the amendment fee, Bondholders benefitted from an additional security package over the Company's Romanian assets.

Currently Sterling does not expect to have sufficient funds on April 30, 2015 to make the required US\$32.7 million payment to Bondholders, to make the first monthly transfer of US\$5.3 million to the DSRA, and to satisfy the minimum UK liquidity covenant of US\$10 million. Accordingly, Sterling is currently considering a range of financing options including seeking a further set of Bond amendments.

The other major initiative, reducing exposure to Romania, was launched during 2014 with a process to sell or farm down the Romanian Black Sea assets. In March 2015 we announced the sale of the entire Romanian business to Carlyle International Energy Partners ("CIEP") for US\$42.5 million (the "Romanian Sale"). Sterling has had a presence in the Romanian Black Sea since 1997 and as operator the Company discovered the Ana gas field in 2007 and built up further contingent and prospective resources through further drilling, seismic acquisition and interpretation, and gaining new licences. Although these assets have significant potential, material development capital will be required and thus full value can only be realized by a company with greater financial strength and a longer-term investment horizon. The sale includes licence blocks 13 Pelican, 15 Midia, 25 Luceafarul and 27 Muridava, structured as a corporate sale of the Company's wholly-owned subsidiary Midia Resources SRL, and is expected to complete around the end of the second quarter of 2015 subject to satisfaction of certain conditions typical for a transaction of this nature, including statutory Romanian approvals and the consent of certain participants in the Romanian concessions. Concurrent with the sale, Sterling entered into an agreement with Gemini Oil & Gas Fund II, L.P. ("Gemini") to terminate an investment agreement signed with Gemini in 2007 upon completion of the Romanian Sale. The consideration for the Gemini agreement termination is a cash payment of US\$10 million and the issue of 60.4 million new common shares of Sterling (having a market value of US\$7.5 million at the time of the agreement).

Subject to funding, Sterling would then seek to acquire additional UK producing assets on a value-accretive basis in order to diversify sources of production, boost medium term cash flow, and optimise the Company's tax attributes.

Performance at Breagh improved strongly during the year. Total field sales gas volumes of 29.5 billion cubic feet (Bcf) were achieved in 2014, equating to an average rate of 81 million standard cubic feet per day ("MMscf/d") (24.3 MMscf/d net to Sterling). Average production uptime over the year was 81 percent, with an improved performance of around 95 percent being achieved in the last 2 months of the year, which has continued into 2015. Total condensate production for the year was 109.1 thousand barrels ("Mbbbls") (32.7 Mbbbls net to Sterling), equivalent to average production for the year of 0.29 thousand barrels per day ("Mbbbls/d") (0.09 Mbbbls/d net to Sterling). New 3D seismic has been acquired across the Breagh field area for use in ongoing development of the field including the remaining Phase 1 drilling program and Phase 2 development planning.

In the Netherlands, acquisition of 500km² of 3D seismic over the F17a and F18 blocks (Sterling 35 percent, operator) was completed in June of 2014 with processing and interpretation expected to be completed by the middle of 2015. The seismic acquired is over the oil discoveries and prospects in the Jurassic and Early Cretaceous horizons, in order to improve reservoir understanding and assist in evaluating new exploration potential and existing development options. The 3D seismic survey acquired during 2012 for the E03 and F01 blocks (Sterling operator with 30 percent) is currently being evaluated.

Despite a very challenging macroeconomic environment we continue to have faith in the long term potential of the North Sea assets. Over time, we intend to close the value gap between the current share price and a fair valuation through a focus on UK production and tax efficiency, backed by rigorous capital allocation. We expect that this refocusing and simplification of our portfolio will make the Company a more attractive candidate for a merger or corporate sale, benefitting all stakeholders.

On Behalf of the Board of Directors,



Jacob S. Ulrich
Chief Executive Officer
April 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of Sterling Resources Ltd. ("Sterling" or the "Company") for the year ended December 31, 2014 is dated April 17, 2015, and should be read in conjunction with Sterling's audited consolidated financial statements and accompanying notes for the year ended December 31, 2014 and 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Financial figures throughout this MD&A are stated in United States dollars (\$) unless otherwise indicated.

CORPORATE OVERVIEW AND STRATEGY

Sterling is a publicly-traded, international energy company engaged in the acquisition of petroleum and natural gas rights, and the exploration for, and the development and production of, crude oil and natural gas. The Company operates primarily in the United Kingdom, Romania and the Netherlands, and is domiciled in Calgary, Alberta.

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

FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS

Certain statements in this MD&A are forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "would", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "intend", "target" or the negative of these terms or other comparable terminology. In addition, statements relating to reserves or resources are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in future.

These statements are only predictions. Actual events or results may differ materially. In addition, this MD&A may contain forward-looking statements attributed to third-party industry sources which are not endorsed or adopted by Sterling expressly or implicitly. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will prove inaccurate. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- Capital expenditure programs, including without limitation the timing of, the sources of capital and expenses related to, and the nature of, the development of the Breagh, Cladhan and Ana/Doina fields;
- Development activities in the greater Breagh area, including the performance testing of the gas terminal plant and equipment and the timing of completion of commissioning works, potential Phase 2 development of Breagh (including the timing and significance of new 3D seismic for understanding and defining the scope of the eastern area of the Breagh field, development drilling campaign timing, the development and implementation of a program to re-enter and hydraulically stimulate well A06 and another existing well), the timing and completion of front-end engineering and design work on onshore compression at TGPP (as defined herein) and final investment decision and expectations for the timing and impact on production once operational, the timing of submission of a Field Development Plan ("FDP") addendum for Phase 2, the remaining development costs and the Company's net obligation on Phase 1 and pre-sanction costs on Phase 2;
- Expectations regarding the transfer of a commitment to a further appraisal/development well on either the Belinda or Evelyn oil discoveries and the timing thereof;
- Expectations for the repayment of a portion of the Second Carry and the timing of pay-out of the Second Carry in relation to the Cladhan field;

- Expectations for the Lochran prospect to contain an extension of the Breagh field;
- Expectations for the abandonment of two wells on the Sheryl license and the timing thereof;
- Expectations for the timing of completion of mapping and prospectivity assessment for the Ana and Doina fields;
- Expectations for the drilling of commitment wells on the Muridava block and Luceafarul block in Romania;
- Expectations for the processing and interpretation of seismic data over the F17 and F18 blocks in the Netherlands;
- Expectations regarding the Company's cost structure;
- Expectations regarding the disposition of Midia pursuant to the Romanian Sale Agreement (as defined herein), the receipt of all necessary regulatory approvals and consents in connection therewith, the timing of completion thereof, the net proceeds to be received by the Company, the ability to issue the Gemini Shares (as defined herein) to Gemini (as defined herein) and the transfer of certain commitments and contingencies in respect of the Romanian assets to CIEP;
- Expectations for the Company's ability to make a required \$32.7 million payment to Bondholders (as defined herein) on April 30, 2015, the first monthly transfer of \$5.3 million to the DSRA (as defined herein) and to satisfy the minimum UK liquidity covenant of \$10 million under the Bond and the success of any options contemplated by the Company to improve the Company's short term liquidity position;
- Factors upon which the Company will decide whether to undertake a specific course of action;
- The quantity, timing and volumes of hydrocarbon production from the Company's development projects, including Breagh, Cladhan and Ana/Doina, including expected sales gas and condensate production for 2015 from Breagh and expected first oil from Cladhan (and the associated remaining development costs);
- The sale, partial sale, farming-in or farming-out of certain properties, including a 10-15 percent interest in the Breagh gas field, in offshore Romania and its Niadar, Darach and Ossian prospects;
- The realization of anticipated benefits of acquisitions and dispositions;
- The possible impact of changes in government policy with respect to onshore and offshore drilling and development requirements;
- The Company's ability to obtain certain government and regulatory approvals;
- The Company's cash requirements and funding for the next year;
- The Company's ability to refinance its existing Bond or complete incremental finances;
- The Company's drilling plans and plans for completion and installation of production platforms or other infrastructure, on any of its licences;
- The Company's expectations regarding production from both existing and future Breagh development wells, including benefits from hydraulic stimulation performed on the wells;
- Tax matters, including: the Company's tax horizon in each of the UK, Romania, the Netherlands and Canada; its expectations with respect to claiming RFES (as defined herein) and the implications on CT and SCT losses (each as defined herein); its intention to claim Small Field Allowance in relation to the Cladhan field and the impact thereof to Sterling;
- The Company's tax horizon;
- The Company's strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- The Company's expectations regarding government policies with respect to concerns about climate change and the protection of the environment;
- The Company's expectations regarding government actions and policies and impact on the operations of the Breagh Field as a consequence of the intended acquisition of RWE Dea UK ("RWE") by LetterOne Holdings S.A. ("LetterOne"); and
- The Company's plans and expectations that are described on page 21 under "2015 Plans".

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

- Will be able to satisfy the undertakings and conditions under the Bond (as defined herein), except as otherwise set forth herein with respect to the required \$32.7 million payment to Bondholders on April 30, 2015, the first monthly transfer of \$5.3 million to the DSRA and to satisfy the minimum UK liquidity covenant of \$10 million under the Bond;
- Will produce hydrocarbons which are consistent with the production profiles prepared by the independent reserves auditor in the Company's NI51-101 F1 filing, dated March 26, 2015;
- Is able to obtain additional financing or farm-out, sell or partially sell licence interests on satisfactory terms, including a 10-15 percent interest in the UK Breagh gas field and a potential refinancing of the Bond (as defined herein);
- Operates in an environment of political stability;
- Will be able to obtain all necessary regulatory approvals for its operations on satisfactory terms;
- Will be able to obtain all necessary approvals, including statutory Romanian approvals and the consent of certain participants in the Romanian concessions, to complete the transactions contemplated by the Romanian Sale Agreement;
- Operates in an environment of increasing competition;
- Is able to continue to attract and retain qualified personnel either as staff or consultants;
- Is able to continue to obtain services and equipment in a timely manner;
- Will be able to progress plans for future investments in Breagh and achieve expected production from Breagh without any adverse impact arising from the purchase (if completed) of RWE by LetterOne or any other UK government actions in relation to these transactions; and
- Is able to obtain necessary approvals from partners and regulators for a particular course of action.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance, or achievements. These risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to:

- Reserves, resources and production estimates may prove incorrect;
- The finding, determination, evaluation, assessment and measurement of oil and gas deposits or reserves may vary materially from the estimates, plans and assumptions of the Company;
- Exploration and development activities are capital-intensive and involve a high degree of risk and accordingly future appraisal of potential oil and natural gas properties may involve unprofitable efforts;
- Oil and natural gas prices fluctuate;
- Without the addition of reserves through exploration, acquisition or development activities, the Company's reserves and production will decline over time as reserves are exploited;
- Production and processing operations may prove more difficult, more costly or less efficient than planned;
- All modes of transportation of hydrocarbons include inherent and significant risks;
- Interruptions in availability of exploration, production or supply infrastructure;
- Third party contractors and providers of capital equipment can be scarce;
- Reliance on other operators and stakeholders limits the Company's control over certain activities;
- Availability of joint venture partners and the terms of agreement between them and the Company will depend upon factors beyond the Company's control;
- Permits, approvals, authorizations, consents and licences may be difficult to obtain, sustain or renew;
- Regulatory requirements can be onerous and expensive;
- The Company cannot completely protect itself against title disputes;

- The Company is substantially dependent on its executive management;
- Environmental legislation can have an impact on the Company's operations;
- Additional funding and/or a refinancing of existing debt to remain solvent to carry out the Company's business operations may not be available or may be very expensive and restrictive;
- The Company's operations are subject to the risk of litigation;
- Issuance or arrangement of debt to finance acquisitions would increase the Company's debt levels and further changes in circumstances may lead these debt levels to be beyond the Company's ability to service and repay that debt;
- Significant competition exists in attracting and retaining skilled personnel;
- Intense competition in the international oil and gas industry could limit the Company's ability to obtain licences and key supplies, such as drilling rigs;
- Future acquisitions may involve many common acquisition risks and may not meet expectations;
- Managing the Company's expected growth and development costs could be challenging;
- Insurance and indemnities may not be sufficient to cover the full extent of all liabilities;
- Fluctuations in foreign exchange rates, interest rates and inflation may cause financial harm to the Company;
- Political or governmental changes in legislation or policy in the countries in which the Company operates may have a negative impact on those operations;
- Labour unrest could affect the Company's ability to explore for, produce and market its oil and gas production;
- Risks related to the countries in which the Company operates;
- Uncertainties of legal systems in jurisdictions in which the Company operates;
- Failure to meet contractual agreements may result in the loss of the Company's interests; and
- Failure to follow corporate and regulatory formalities may call into question the validity of the Company, its subsidiaries or its assets.

These factors should not be considered exhaustive. Readers should also carefully consider the matters discussed under "Risk Factors" beginning on page 21 of the Company's Annual Information Form for the year ended December 31, 2014, filed on the Company's SEDAR profile at www.sedar.com.

The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statement. Subject to applicable securities laws, the Company is under no duty to update any of the forward-looking statements after the date hereof or to compare such statements to actual results or changes in the Company's expectations. Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information should not be used for purposes other than for which it is disclosed herein.

SIGNIFICANT JUDGMENTS AND ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the Company's financial results. Significant judgments in the financial statements include over going concern, joint arrangements, funding arrangements, impairment indicators and determination of cash generating units. Significant estimates in the financial statements include amounts recorded for the provision for future decommissioning obligations, embedded derivatives, commitments, income taxes and deferred tax assets, share-based compensation expense, exploration and evaluation assets, capital expenditure accruals and timing of production start-up. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty, may be beyond management's control and the effect on future consolidated financial statements from changes in such estimates could be significant and affect the going concern of the Company.

OPERATING HIGHLIGHTS

Years ended December 31,	2014	2013	2012
US\$000s except per share information			
Average daily sales from production			
Natural gas (MMscf/day)	24.3	0.9	0.02
Liquids (barrels per day)	75	-	-
Average realized prices			
Natural gas (\$/Mscf)	8.19	10.27	10.38
Liquids (\$ per barrel)	83.94	-	-
Other revenues including from hedging	5,213	120	-
Revenue	80,296	3,513	66
Third party entitlement	(8,840)	(465)	-
Operating expense	(14,107)	(1,475)	-
Operating expense (\$) per barrel of oil equivalent	9.37	26.82	-
Operating netback (3)	57,349	1,573	66
Other expenses	(70,233)	(23,328)	(46,474)
Impairment of oil and gas properties	(80,617)	-	(2,658)
Net financing (cost) income	(25,713)	(9,423)	179
Gain on disposal	27,301	-	-
Income tax:			
Income tax expense	(4,325)	-	(772)
Deferred tax credit	207,248	-	-
Net income (loss)	111,010	(31,178)	(49,659)
Per weighted average common share – basic and diluted (\$)	0.33	(0.11)	(0.22)
Funds flow from (used in) operations (FFFO) (4)	43,308	(31,180)	(25,650)
FFFO per common share outstanding	0.11	(0.10)	(0.12)
Property, plant and equipment and exploration and evaluation asset additions (5)	91,752	81,458	115,364

As at December 31,	2014	2013	2012
US\$000s except share information, acreage and well data			
Net working capital (deficit) surplus (1)	(29,956)	2,202	(138,182)
Total assets	648,817	526,514	415,132
Total liabilities	307,715	271,725	194,231
Shareholders' equity	377,102	254,789	220,901
Net licence acreage (000s of acres) (2)	1,482	1,632	1,902
Number of producing wells (2)	8	6	1
Common shares outstanding (000s) – basic (2)	381,200	309,621	222,869
Common share options outstanding (000s) (2)	16,208	7,955	12,803

(1) - Non-GAAP measure. See p.19 for definition.

(2) - Non-financial data.

(3) - Operating netback is a non-GAAP measure defined as revenue less third party entitlement and operating expenses.

(4) - FFFO defined as net income (loss) less adjustments for non-cash items (See consolidated statement of cash flows in the Company's audited consolidated financial statements for the year ending December 31, 2014 and 2013).

(5) - Defined as expenditures on Property, plant and equipment and exploration and evaluation assets including the effects of accruals (See notes 7 & 8 in the Company's audited consolidated financial statements for the year ending December 31, 2014 and 2013).

Between December 31, 2014 and the release of this MD&A, there was no change to the number of common shares outstanding, but the number of stock options outstanding has decreased to 14,298,324 due to forfeitures.

For the year ended December 31, 2014, the Company recorded net income of \$111,010,000 (\$0.33 per common share) compared with a net loss of \$31,178,000 (\$0.11 per common share) for the year ended December 31, 2013. The change from net loss to net income is mostly due to the recognition of a deferred tax asset, income from production from the Breagh gas field, and a gain on disposal relating to the Carve-out Transaction, as hereinafter defined (see "Financing Activities"), less impairment losses.

Net income (loss) largely comprises the following elements:

REVENUE

For the year ended December 31, 2014, revenue was \$80,296,000. These revenues came from sales gas production of approximately 8.9 billion cubic feet at an average realized gas price of 50.8 pence per therm (\$8.19 per thousand cubic feet), 3,260 tonnes of condensate (27,225 barrels) at an average price of £425 (\$701) per tonne, and other revenues including from derivative financial instruments related to the price of gas of \$5,213,000. The Company's first material production came from the start-up of production from the UK Breagh field in October 2013 and resulted in gas sales of \$3,513,000 in the year ended December 31, 2013 (0.9 billion cubic feet at an average realized price of \$10.27 per thousand cubic feet). Gas is sold under a Gas Trading and Services Agreement ("GTSA") with Vitol SA ("Vitol") signed in 2011 whereby Sterling nominates volumes on a day ahead or month ahead basis and achieves a price very close to the UK reference spot price at the National Balancing Point. If Sterling nominates gas to Vitol it must deliver such a volume, and Vitol must take and pay for this volume. The GTSA provides for payment to Sterling for over-deliveries, and a charge for under-deliveries, on normal market terms. Sterling is paid by Vitol in the month following production and one hundred percent of these revenues are derived from one customer and one contract.

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

THIRD PARTY ENTITLEMENT

For the year ended December 31, 2014, a third party entitlement of \$8,840,000 (year ended December 31, 2013 – \$465,000) 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). The original Gemini funding agreement related to the funding of an appraisal well on the Breagh field, and was amended to provide funding for an additional appraisal well in 2008 and was amended again in 2009 when Sterling sold one third of its Breagh interest to RWE Dea UK ("RWE") and made a payment to Gemini to reduce the future entitlement payments by one third (the "2009 Reduction"). The stream of future entitlement payments was purchased by FlowStream Commodities Ltd ("FlowStream") with effect from July 1, 2014. Under the funding agreement, FlowStream is entitled to entitlement payments calculated with reference to a share of gas and condensate production revenue from Breagh. This share is equal to 12.23 percent of Sterling's 30 percent revenue until cumulative payments exceed twice the funding amount of \$7,333,000 (net of adjustment for the 2009 Reduction), then 6.10 percent up to three times the funding amount, and 2.77 percent thereafter until a defined percentage (currently 85 percent) of the field's ultimate reserves have been produced. This percentage is itself dependent on the ultimate reserves for the whole field, being 95 percent for reserves of up to 300 billion cubic feet (Bcf), 90 percent for reserves of 300 Bcf to less than 400 Bcf, 85 percent for reserves of 400 to less than 500 Bcf, and 80 percent for reserves of 500 Bcf or more. In the absence of production there is no obligation to repay the funding amount. The funding arrangement has been accounted for as a reduction in the carrying value of the Breagh asset on the Company's balance sheet. Entitlement payments under the funding agreement are not deductible for UK ring fence corporation tax or supplementary charge corporation tax.

OPERATING EXPENSES

For the year ended December 31, 2014 operating expenses were \$14,107,000 (year ended December 31, 2013 - \$1,475,000). Operating expenses relate to fixed and variable costs at the Breagh field and onshore gas processing plant costs, including allocations of certain Sterling costs. These costs are up from the previous year reflecting a full year's production from the Breagh field compared to limited production in the previous year.

DEPLETION, DEPRECIATION AND AMORTIZATION (DD&A)

For the year ended December 31, 2014 depletion of \$31,218,000 (year ended December 31, 2013 – \$902,000) on the Breagh asset and depreciation of \$167,000 (year ended December 31, 2013 – \$215,000) on corporate and other assets was charged to the income statement. Depletion was higher in 2014 compared 2013 commensurate with higher production.

DRY HOLE EXPENSE

For the year ended December 31, 2014 dry hole expense was \$7,798,000 (year ended December 31, 2013 - nil) following the plugging and abandoning of the Muridava-1 well in Romania in May 2014 after the well failed to encounter hydrocarbons.

IMPAIRMENT OF OIL AND GAS PROPERTIES

For the year ended December 31, 2014 impairment costs were \$80,617,000 (year ended December 31, 2013 - nil). In March 2015 the Company announced details for the Romanian Sale Agreement (as defined under "Financing Activities") in which the Company entered into an agreement to sell its entire Romanian business. Based on the market value established in this transaction the Company has impaired the amount carried in exploration and evaluation assets for this segment by \$45,275,000 as at December 31, 2014.

At December 31, 2014, the Cladhan UK offshore property was indicated to be impaired due to lower commodity prices and capital overruns. After comparison of the carrying value and its fair value the property was impaired by \$22,802,000.

Other impairment costs related to:

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

PRE-LICENCE AND OTHER EXPLORATION COSTS

For the year ended December 31, 2014, pre-licence and other exploration costs expensed were \$5,458,000, a decrease of \$2,943,000 over the same period in 2013 (year ended December 31, 2013 - \$8,401,000) as a result of continued low activity in the Company's various licences. Of the total, \$2,510,000 (2013 – \$3,606,000) related to the Company's interests in its various licences in the UK, \$1,081,000 (2013– \$2,030,000) related to Romania and \$1,867,000 (2013 – \$2,765,000) related to the Netherlands and other international ventures.

FOREIGN EXCHANGE

The Company's cash balances are generally maintained in the currencies in which they are expected to be utilized. For the year ended December 31, 2014, the Company recorded a foreign exchange loss of \$11,349,000 due to the strengthening of the US dollar in the third and fourth quarters of 2014, which followed two quarters of weakening of the US dollar (in which the Bond (hereinafter defined) issued by the UK subsidiary is denominated) against the UK pound (which is the functional currency for the UK subsidiary), with any partial offset being reduced by lower bank balances held in US dollars.

For the year ended December 31, 2013 the Company recorded a foreign exchange gain of \$9,773,000, which arose mainly on the repayment of the UK pound denominated senior secured credit facility to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility") from the US dollar denominated Bond as a result of the UK pound strengthening against the Canadian dollar, partly offset by a foreign exchange loss earlier in 2013 which arose on the US dollar denominated short-term loan as a result of the Canadian dollar weakening against the US dollar.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

Years ended December 31,	2014	2013
	\$000s	\$000s
Gross employee, and general and administration expense	18,965	18,424
Recovered from third parties	(956)	(1,239)
Capitalized to assets	(2,686)	(3,022)
Expensed as pre-licence and other exploration expenditures	(4,383)	(3,797)
Total recoveries and allocations	(8,025)	(8,058)
Net employee expense	7,104	7,332
Net general and administration expense	3,836	3,034

EMPLOYEE EXPENSE

For the year ended December 31, 2014, net employee expense was \$7,104,000, a decrease of \$228,000 from the same period in 2013. Of the total, \$1,423,000 relates to non-cash share-based compensation and \$5,681,000 relates to wages and salaries due to lower contractor numbers. The charge to non-cash share-based compensation was up from the 2013 figure of \$827,000 as certain options became fully amortized, while no new options were issued during 2013; new options were however issued on May 30, 2014 and have begun being expensed. Recoveries from partners and amounts capitalized to assets were both down compared to the corresponding twelve month period in 2013 due to lesser activity on operated assets. Amounts expensed to pre-licence and other exploration expenditures were \$586,000 higher in the twelve month period to December 31, 2014, though allocations in total are broadly similar to the twelve month period ending December 31, 2013.

GENERAL AND ADMINISTRATION EXPENSE

For the year ended December 31, 2014, net general and administration ("G&A") expense after recoveries was \$3,836,000, an increase of \$802,000 over the same period in 2013 due to increased legal and professional fees, increased corporate activity and lower recoveries partly offset by cost saving initiatives. The Company is pursuing further savings in G&A costs having reduced its workforce through redundancies in 2015 and in the UK has again relocated its small London office and its Aberdeen office for a further significant reduction in annual costs.

A significant component of the net employee and G&A expense is business development costs of approximately \$1,853,000, (twelve month period ending December 31, 2013 - \$932,000) mostly associated with advisory fees and internal time-writing associated with asset sale processes and potential corporate transactions.

FINANCING COSTS

Financing costs for the year ended December 31, 2014 were \$26,242,000 consisting primarily of borrowing costs of \$24,188,000 on the Bond. Interest expense of \$917,000 relating to the Cladhan funding arrangements has been capitalized as borrowing costs. The balance of the financing costs (\$1,137,000) include accretion of the discount on decommissioning obligations and have increased in the period due to greater decommissioning obligations on the Breagh and Cladhan developments as more wells have been drilled and due to revisions to estimates.

During the year ended December 31, 2013, \$9,590,000 was charged to financing costs, which in addition to borrowing costs capitalized on the bond from the date of entering into production also included \$1,930,000 which related to transaction costs on the bridging loan facility (see "Financing Activities") which were expensed following its repayment.

INCOME TAXES

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

Sterling has material UK tax losses available for offset against income subject to corporate tax as a result of allowances generated principally by past exploration, appraisal and development costs and the application of ring fence expenditure supplement ("RFES") claims. CT losses at December 31, 2014 are estimated at £433 million (\$673 million) and SCT losses at £397 million (\$616 million) (lower than for CT, as financing costs are not allowable deductions for SCT).

Notwithstanding that Sterling was loss making in the UK in the year ended December 31, 2013, in the first quarter of 2014 the Company recognized for the first time a net deferred tax asset to the amount of \$144,520,000, which resulted in a credit to the income statement of this sum. This principally relates to Sterling UK tax losses as noted above. The Company was able to generate revenue consistently from the Breagh field, and showed an operating profit at the field level in the first quarter. With sustained production history, management considered that, based on its profit forecast and reserves available, there was sufficient evidence to recognize the deferred tax asset from the first quarter of 2014.

As at December 31, 2014 the deferred tax asset has been increased to \$194,013,000, mainly due to tax losses in the subsequent nine month period ended December 31, 2014 and further allowances for ring fence expenditure supplement partly offset by foreign exchange movements.

Sterling UK expects to claim RFES, which provides an uplift of 10 percent per annum (compounded) on eligible, cumulative ring-fence tax losses, for 2014 and 2015, and also intends to claim Small Field Allowance in relation to the Cladhan oil field which represents an aggregate allowance of approximately £9 million (\$14 million) net to Sterling against the SCT rate of currently 20 percent. In addition, the UK government introduced a further allowance in early 2015, effective from April 1, 2015, which provides for an uplift of 62.5 percent on eligible ring fence capital expenditures available against profits chargeable to SCT. Together with forecast UK ring fence expenditures over the next few years, the Company is not expecting to pay UK tax until late in the 2020s under RPS' end-2014 pricing assumptions.

As at December 31, 2014, other principal tax losses and allowances available include tax pools of approximately \$35 million and non-capital losses of approximately \$47 million available to shield future income taxable in Canada; approximately \$14 million of corporate tax losses expected to shield any future local taxable income of the Company's Romanian subsidiary; and approximately \$20 million of tax deductible expenses and losses available to shield future taxable income in the Netherlands. The Canadian non-capital tax losses expire over the next twenty years, the Romanian corporate tax losses expire over the next seven years and the Netherlands losses expire over the next nine years from year of claim (for Dutch corporate income tax purposes only, there is no expiry for Dutch State Profit Share). There is no fixed time limit for the expiry of UK ring fence tax losses for CT and SCT. There is no deferred tax asset recognized on the non-UK losses.

UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

In 2011, as a requirement of the Company's former Credit Facility, the Company purchased monthly cash-settled put options to hedge 40 percent of its forecast natural gas production volumes from proved reserves ("P90") for the first phase of Breagh development, for a 24-month period starting on October 1, 2012. The strike price for the options was 55 pence per 100,000 British thermal units ("therm") and the total volume hedged was 10.1 billion cubic feet ("Bcf"). Half of the put options were purchased for an upfront cash premium of £2,195,000 (\$3,589,000), and the other half were purchased on a deferred premium basis for a total cost of £2,713,000 (\$4,220,000). On May 3, 2013 the Company paid the entire outstanding deferred hedging premiums at the same time as repayment of the entire Credit Facility, extinguishing any derivative financial liability. The derivative financial contracts expired during the third quarter of 2014.

The derivatives were revalued to their fair value at each period end. Any gain or loss arising was recorded through the income statement in the period in which it arose. For the year ended December 31, 2014, the Company recognized an unrealized gain of \$7,000 compared to the year ended December 31, 2013 when an unrealized loss of \$1,054,000 was recognized.

As at December 31, 2014 the prepayment option on the Bond (arising from the ability to call the bond at any time; see "financing activities") was revalued at \$3,300,000 (December 31, 2013 - \$6,610,000), which resulted in a loss of \$3,310,000 in the year ended December 31, 2014. The decrease in the value of the prepayment option results principally from a general increase in the credit spreads in the debt markets.

The combined movements in derivative financial instruments resulted in an unrealized loss of \$3,303,000 being recorded through the income statement in the year ended December 31, 2014 (year ended December 31, 2013 – loss of \$305,000).

GAIN ON DISPOSAL

On January 29, 2014 the Company completed the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a sub-divided portion of block 15 Midia in the Romanian Black Sea as announced in October 2012, which resulted in a gain on disposal after fees of \$27,301,000, partly offset by \$4,325,000 of taxes payable on the transaction.

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

The following table summarizes the Company's income statements for the eight most recently completed quarters ended December 31, 2014.

Quarters Ended	2014				2013			
	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
\$000s except per share information								
Revenues	25,889	21,526	12,154	20,483	3,513	-	-	-
Net (loss) income								
Canada	(1,658)	(424)	(1,426)	(541)	(955)	(872)	(1,990)	(3,926)
United Kingdom	(9,000)	(253)	16,662	146,239	(5,326)	6,392	(15,095)	(3,589)
Romania	(44,760)	(1,072)	(8,343)	22,756	199	(458)	(1,934)	(914)
Other International	(60)	(543)	(640)	(828)	(1,274)	(728)	(500)	(404)
Net (loss) income	(55,478)	(2,292)	6,253	167,626	(7,356)	4,334	(19,519)	(8,831)
Net (loss) income per share								
Basic	(0.19)	(0.01)	0.02	0.54	(0.03)	0.01	(0.06)	(0.04)
Diluted	(0.19)	(0.01)	0.02	0.54	(0.03)	0.01	(0.06)	(0.04)

Note: The net income or loss for each quarter is calculated using the average rates for that quarter, whilst the cumulative period used elsewhere in the MD&A and financial statements is calculated using the average rates for that cumulative period. Therefore due to exchange rate fluctuations the aggregate of the quarters may differ from the cumulative period total. In addition, the net income or loss per common share for each quarter is required to be calculated independently of the calculation for the year. Consequently, due to the issuance of shares in a given year, the aggregate of the four quarters may differ from the year's total.

Under the Company's accounting policy for exploration and appraisal activity, its results from quarter to quarter are affected significantly by the level and success of its drilling program.

Key factors relating to the comparison of the net income or loss for the last eight quarters are as follows:

- In the first quarter of 2014, the Company recognized a deferred tax asset resulting in a credit of \$144,520,000 to the income statement and further credits were recognized in the income statement of \$19,374,000, \$8,458,000 and \$37,676,000 in the second, third and fourth quarters respectively;
- In the second quarter of 2014, dry hole expense of \$7,798,000 was incurred following the plugging and abandoning of the Muridava-1 well in Romania after the well failed to encounter hydrocarbons;
- In the fourth quarter of 2014, impairment of oil and gas properties resulted in an expense of \$45,275,000 on its Romanian exploration assets and \$35,342,000 on a number of UK development and exploration and evaluation assets;
- In October 2013, the Company's UK Breagh field came on production. The Company's first material production has seen revenues of \$3,513,000 recognized in the fourth quarter of 2013 and \$20,483,000, \$12,154,000, \$21,526,000 and \$25,889,000 in the first, second, third and fourth quarters of 2014 respectively, along with associated costs of operating expenditures, third party entitlement and depletion;
- In the first quarter of 2014, the Company completed the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a sub-divided portion of block 15 Midia in the Romanian Black Sea as announced in October 2012, which resulted in a gain on disposal after fees of \$27,301,000, and \$4,325,000 of taxes payable on the transaction;

- Since the third quarter of 2011, the Company recognized unrealized gains and losses relating to its derivative financial instrument agreements. In the first three quarters of 2013, \$852,000, \$95,000 and \$61,000 respectively were recognized as unrealized losses, and in the fourth quarter a gain of \$703,000 was recognized on financial instruments. In the first four quarters of 2014 a loss of \$990,000, followed by a gain of \$1,229,000, followed by a further loss of \$4,164,000 and a gain of \$563,000 was recognized on financial instruments;
- In the four quarters of 2013, the Company incurred increased corporate costs such as bank fees, professional consultants' fees and severance payments related to refinancing and a strategic review (see "Financing Activities"). This has resulted in amounts of \$1,628,000, \$9,422,000, \$1,849,000 and \$90,000 being expensed to the income statement in the respective quarters of 2013;
- In the first quarter of 2013, the Company entered into a bridging loan agreement with a member of the Vitol Group; amortization of debt issue costs and interest payments in connection with this loan in that period resulted in a charge of \$1,957,000 charged to financing costs; and
- Foreign exchange gains and losses varied significantly from quarter to quarter based on prevailing foreign exchange rates as well as amounts of monetary assets and liabilities held by various Company entities in currencies other than their functional currency.

DEVELOPMENT ACTIVITY

BREAGH DEVELOPMENT

During 2014, average sales gas volumes were 29.5 billion cubic feet ("Bcf") (gross) equating to an average daily rate of 81 million standard cubic feet per day ("MMscfd") (24.3 MMscfd net to Sterling). Average production uptime over the year was 81 percent with an improved trend of 95 percent being achieved by the end of the year which has continued into 2015. Total condensate production for the year was 109 thousand barrels (32.6 Mbbls net to Sterling), equivalent to average production for the year of 0.29 thousand barrels per day ("Mbbls/d") (0.09 Mbbls/d net to Sterling).

Key achievements during the year have been:

- Completion of the first part of the Phase 1 development drilling program, culminating in the hydraulic stimulations of the A07 and A08 wells which started production in August and November of 2014 respectively;
- Operational resolution of start-up issues on the Breagh processing facilities linked to fouling of the slug catcher instrumentation, improving operation reliability in the second half of 2014 and into 2015; and
- Acquisition of new 3D seismic across the Breagh field area for use in ongoing development of the field including the remaining Phase 1 drilling program and Phase 2 development planning.

Completion of Phase 1 operations

During 2014, the ENSCO 70 jack-up drilling rig returned to the Breagh Alpha platform to complete the Phase 1 well operations with the hydraulic stimulation of the A07 well, and drilling and stimulation of the A08 well. The hydraulic stimulation operations on both wells were conducted from the Ensco 70 drilling supported by the Schlumberger-operated well stimulation vessel Big Orange XVIII for operations on both wells.

These hydraulic stimulation operations were highly successful. An estimated production rate enhancement post stimulation factor of 3 – 6 has been estimated for A07 and A08 with initial production rates of 32 MMscfd and 44 MMscfd achieved respectively, but at substantially higher flowing-wellhead-pressures in comparison with the other wells in the field. These very encouraging rates give confidence of enhanced reservoir recovery as hydraulic fracture stimulation is applied in future wells yet to be drilled and also likely re-entry and stimulation of some of the existing wells on the Breagh A platform, e.g. A01 and A06. These two wells have contributed 24 percent of the total production from the field and currently produce approximately 39 percent of the daily production from the field as of the date of this report.

Operational resolution of start-up issues

Plant uptime has been improved substantially during 2014, resulting in excellent plant performance of approximately 95 per cent monthly average by the end of the year. To achieve the current performance, a number of unforeseen issues required remedy. A total of 36 days of unplanned production shut down was experienced during two periods in April/May and October 2014. The first shutdown period was for 21 days and addressed solids fouling of the level control instrumentation within the slug catchers at the Teesside Gas Processing Plant ("TGPP"). This problem was resolved by removing the fouling and changing the type of level instrumentation. The second facilities shutdown was for 15 days in October to inspect various stainless steel vessels due to high chloride concentration within the hydrate suppression chemical used at the platform and within the pipeline. No issues were found during the inspection but the various vessels were internally resin-coated as a precaution. In addition, a program of hydrate suppression chemical reclamation has also successfully reduced system chloride levels.

In terms of facilities commissioning and performance testing of the gas terminal plant and equipment was well advanced by the end of the year, and completion of remaining commissioning works expected to be completed mid-2015.

Acquisition of new 3D seismic

As part of the ongoing development plans for the field, modern 3D seismic was acquired early in 2014. A significant improvement in imaging quality is expected from the new data. This data is currently being processed and is expected to be ready prior to commencing a new phase of drilling and remedial operations expected to commence during fourth quarter 2015. The interpretation of this new 3D seismic will also be important for understanding and defining the scope of the development of the eastern area of the Breagh field for Phase 2.

Acquisition of RWE Dea by LetterOne

LetterOne Holdings S.A, a private investment vehicle, completed the acquisition of RWE Dea AG from its parent company, RWE AG, on March 2, 2015. RWE Dea AG was the upstream arm of RWE AG and the operator of the Breagh field. However, the UK Secretary of State had not given his consent to the transaction and the Department of Energy and Climate Change ("DECC"), the UK regulator, announced shortly before completion that the Secretary of State was minded to require LetterOne to sell on RWE Dea's UK business to a suitable third party. The stated reason was that the Secretary of State was concerned about the impact of possible future sanctions on LetterOne (which has Russian shareholders). Sterling believes that the continued lack of clarity on the future ownership of the Breagh field is not conducive to the efficient management of the field, and may defer ongoing development work and reduce future production levels from the field.

Forward view

Average expected sales gas production for 2015 for Breagh (100% field) is now expected to be 103 MMscf/d (30.8 MMscf/d net to Sterling) as compared to full year 2014 production of 81 MMscf/d (24.3 MMscf/d net to Sterling) in 2014, an anticipated increase of 32.5 percent. This 2015 rate is a decrease from the rate of 107 MMscf/d (100% field) set out in Sterling's end-2014 NI 51-101F1 as a result of application by Sterling management of the latest expected well timings, which have slipped since the date of the RPS report. In addition condensate is expected to be produced at a ratio of 3.3 barrels per MMscf. A further campaign of development drilling is expected from the Breagh Alpha platform starting in the fourth quarter 2015 with two to four new wells (A09-A12), of which the first two wells (A09 and A10) are currently budgeted and approved. In addition to the new wells, the operator RWE and Sterling are developing a program to re-enter (possibly with a sidetrack) and hydraulically stimulate production well A06 and possibly to sidetrack and hydraulically stimulate another existing production well. Final confirmation of the 2015/2016 drilling and hydraulic stimulation campaign will follow the preliminary evaluation of the 2014 3D survey.

Front-end engineering and design work on onshore compression at TGPP started in early 2015 and is expected to be completed within 3-4 months leading into a final investment decision for the onshore compression project, which is expected by third quarter 2015. The onshore compression project would then be expected to be operational from mid-2017 and should boost production rates by 40-50 percent initially.

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

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

CLADHAN DEVELOPMENT

The development plan of Cladhan field is for a subsea tie-back to the TAQA Bratani ("TAQA") operated Tern platform, 17km to the northeast of Cladhan. The tie-back comprises a subsea 10" oil line, a 4" gas lift line, a 10" water injection line and controls/chemicals umbilical plus facility modifications to Tern to manage Cladhan's fluids. The development plan remains unchanged from submission of the FDP which includes the drilling of two high angle production wells and one high angle water injection well.

The first of the two development wells, P1, was drilled to penetrate the Cladhan reservoir close to the updip from the exploration well 210/29a-4Z. The well encountered a total reservoir section of circa 2,300 feet (along hole) with three good quality channel sequences with a combined net pay of 815 feet (along hole). The well was then suspended and the second production well, P2, was drilled to a southerly location encountering thinner than expected sands. The well was suspended to allow further analysis while drilling the injector well W1. The rig re-entered the previously suspended 210/29a-6 well and sidetracked to the W1 development position to the east of the field. The well penetrated a gross reservoir thickness of 3,900 feet (along hole) through which a number of moderate quality channel sands were encountered with a total net pay of 518 feet (along hole). The suspended P2 well was then sidetracked, encountering a gross reservoir section of 1,930 feet (along hole) and approximately 220 feet (along hole) of net pay, and was completed in Q1 2015.

Development activities for both topsides and subsea worksopes are well progressed. However, during 2014 both cost and schedule overruns have been realized associated with technical, weather and supply chain issues. Technical issues are now resolved with a revised schedule and forward budget. The impact of these combined effects leaves limited contingency in the project schedule going forward, which is a key issue for the remaining subsea installation activity. The remaining subsea activities are scheduled for the summer construction window to mitigate further schedule delays due to weather downtime. First oil from the development is now expected at the end of the third quarter of 2015. Sterling is only exposed to funding a minor amount of the development cost as a result of carry arrangements with TAQA (see "Financing Activities"); this amount is expected to be approximately \$2 million, incurred in 2015.

EXPLORATION AND EVALUATION ACTIVITY

During the twelve month period ended December 31, 2014 and up to the date of this report, key exploration and evaluation activities were as described below:

UK

Operatorship of the licence containing the UK blocks 22/26c and 21/30f (Sterling 20 percent), was transferred to Shell UK Ltd ("Shell") as part of a farm-out process in 2014. Block 22/26c, containing the Beverley oil prospect, was subsequently relinquished in January 2015 resulting in an impairment of \$274,000. There is a firm well commitment on the licence to drill the Beverley prospect, and discussions are being held with partners and the Department of Energy and Climate Change ("DECC") to transfer this commitment to a possible further appraisal/development well on either the Belinda or Evelyn oil discoveries in 2015 or 2016. Sterling will be largely carried on the cost of such a well.

On the Crosgan gas discovery (UK block 42/10a & 42/15a, Sterling 30 percent, non-operator) an appraisal well 42/15a-3 completed drilling in February 2015. The Crosgan well spudded in November 2014 using the Ensco 70 rig, following on from the drilling activity on the Breagh field. The well reached a total depth of 8,401 feet measured depth and encountered gas bearing sands in the Carboniferous Yoredale Formation. The gas sands were however thinner and deeper than prognosis and the well was been plugged and abandoned. The asset was impaired by \$8,970,000 down to zero.

Following the reprocessing of the 3D seismic over UK blocks 49/18b and 49/19b (Sterling 100 percent) during 2013, a significant Rotliegendes gas prospect named Niadar has been identified, which is situated near to existing infrastructure in the 49/19b block. Sterling plans to farm-down its interest in the prospect during 2015-16 with plans to drill a firm well commitment in 2016.

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

Work continued on the evaluation of the seismic dataset over the UK Lochran prospect (blocks 42/17 and 42/18, Sterling 30 percent, non-operator) acquired during 2012. A full assessment of the Carboniferous potential has been completed and limited prospectivity has been identified. In December 2014 DECC granted a waiver for the contingent well that was offered as part of the licence award and 386 square kilometres (73 per cent) were surrendered over the southern area whilst retaining Block 42/13b which may contain extensions of the Breagh field to the south of the current field development area. No impairment was incurred on this relinquishment as no amounts had been capitalized on the licence. The licence terms have been amended to reflect a new drill-drop work program, with a one year licence extension until January 2016. The expectation is that a well commitment will not be made and RWE/Sterling will surrender the agreed remaining area of the licence prior to this date.

In comparison, during the twelve month period ended December 31, 2013, key operational activity and expenditures focused on preparation for the drilling of an exploration well on the Beverley oil prospect in block 22/26c and an appraisal well on Crosgan in blocks 42/10a & 42/15a in the UK North Sea. Work also continued on the acquisition and re-processing of a number of existing seismic data sets including over the Lochran prospect (blocks 42/17 and 42/18) and Nia and Niadar prospects (blocks 42/18b and 42/19b respectively) in the UK North Sea.

ROMANIA

In Romania, an 800 square kilometre 3D seismic acquisition was completed over key parts of the Company's Midia and Pelican blocks (Sterling 65 percent, operator) in February 2014. This was several months earlier than originally planned, by using two seismic vessels rather than one. The program comprised approximately 500 square kilometres of acquisition over the Ana-Doina trend and 100 square kilometres over each of the Bianca prospect, the Ioana prospect and the Eugenia discovery. Final processing of the data was completed in the third quarter of 2014 for the Ana and Doina fields and early in 2015 for the remainder, with mapping and prospectivity assessment expected to be completed by May 2015. Final processing of the 2013 3D seismic acquisition on the Luceafarul block (Sterling 50 percent, operator) was completed in July 2014.

Also in Romania, the first exploration well on the Muridava block (Sterling 40 percent, non-operator) was drilled in 2014. Although open-hole logs were not obtained through the primary zones of interest due to severe deterioration of the open hole, drilling samples, cuttings and mud logs through the penetrated sections did not indicate any hydrocarbon accumulations. Furthermore, the well was unable to reach a secondary target in the Lower Cretaceous. The well was plugged and abandoned. A 100 kilometre square volume of 3D seismic was reprocessed during 2014 to help assess Lower Pontian prospects in the southwest of the block. Two remaining commitment wells remain on the licence to be drilled in 2016.

For the Midia and Pelican blocks, a licence extension to May 2017 has been granted and commitments for this extension have already been satisfied with completion of the 3D seismic acquisition referred to above. Two further extension options (at the Company's option) to the exploration period are available, to May 2018 and May 2020, and for each of these extension periods the commitments comprise two wells (which can be drilled on either block).

For the Luceafarul block offshore Romania, a licence extension to April 2016 has been granted. A commitment exploration well is now planned to be drilled in early 2016, following processing and interpretation of 3D seismic acquired earlier this year.

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

In Romania, during the twelve month period ended December 31, 2013 the focus was on the preparation of the non-operated drilling of an exploration well in the Muridava block, on interpretation of the 2D-seismic that was shot over the Midia and Pelican blocks in the second half of 2012, reviews of the results of the drilling campaign on the Midia and Pelican blocks in late 2012 and preparation for the Luceafarul and Midia and Pelican blocks 3D-seismic shoot.

NETHERLANDS

In the Netherlands, acquisition of 500 square kilometres of 3D seismic over the F17 and F18 blocks (Sterling 35 percent, operator) was completed in June 2014. Processing is expected to be completed by the middle of 2015 and interpretation is expected to be completed by the end of 2015. The seismic was acquired over the oil discoveries and prospects in the Jurassic and Early Cretaceous horizons, to improve resolution of reservoir distribution and reduce structural uncertainty, to assist in evaluating new exploration potential in the area and aiding in the evaluation of development options such as a tieback to a potential Wintershall oil hub. Licence extensions have been granted to January 2016.

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

FRANCE

In France the St Laurent licence (Sterling 33.42 percent, non-operator) was not extended by the regulatory authority in the first quarter of 2015 and as a consequence the partners then relinquished the adjacent Donzacq licence (Sterling 33.42 percent, non-operator). For the Paris Basin, Sterling is seeking to withdraw applications for three licences covering 9 blocks. As a result, Sterling no longer has any business activity in France but the Company retains an obligation to decommission the Grenade-1 well in the St Laurent licence at minimal cost. The Company had no carrying values for these licences.

FINANCING ACTIVITIES

2015

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

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

Net of the Gemini cash payment, the Company will receive cash proceeds of \$32.5 million, less any required Romanian tax liabilities, from the Romanian sale. Pursuant to the bond agreement relating to Sterling UK's senior secured bond (the "Bond") and the Romanian Sale Agreement, the net cash proceeds will be applied according to a defined procedure which (in summary form) will in order (i) fund advisory costs and any transaction-related taxes, (ii) pre-fund the next amortization and interest payment due to bondholders to the extent not already pre-funded, (iii) in relation to half of any excess from (i) and (ii), fund the redemption of Bonds, and finally (iv) in relation to the other half of any excess from (i) and (ii), provide unrestricted cash to the Company. The next such amortization and interest payment is due on April 30, 2015, but as previously reported the Company does not expect to have sufficient funds to make the payment in full on that date. As completion of the Romanian sale is likely to be after this date, the Company is considering a range of financing options including seeking a further set of Bond amendments.

2014

In December 2014 the Company and the holders ("Bondholders") of bond issued by its subsidiary Sterling UK approved amendments (the "December Bond Amendments") to the Bond agreement dated May 2, 2013. This original Bond agreement was then superseded by the Amended and Restated Bond Agreement (the bond agreement, as amended and restated, being the "Bond Agreement"). See below under "2013" for a complete description of the Bond.

The principal benefit to the Company of the December Bond Amendments is a suspension of the requirement to make monthly transfers of funds into a restricted debt service retention account ("DSRA") from November 30, 2014 until, but excluding, April 30, 2015. The DSRA is charged and blocked in favour of the Bond trustee. At the end of each month, a sum equal to one sixth of the sum of the next semi-annual interest payment and debt amortization payment was to have been transferred into the DSRA. The aggregate amount due under the Bond on April 30, 2015 of approximately \$32.7 million (being a semi-annual

amortization instalment plus 5 percent amortization premium plus semi-annual interest) is to be paid into the DSRA and on to Bondholders on April 30, 2015, together with the first monthly transfer to the DSRA of approximately \$5.3 million towards the next amortization instalment and interest payment due on October 30, 2015. In addition, the December Bond Amendments provided for a reduction in the UK minimum liquidity (unrestricted cash and cash equivalents) covenant from \$10 million to \$7.5 million on a temporary basis until and including January 30, 2015.

An amendment fee was paid to Bondholders of \$2.5 million (the "Amendment Fee") in December 2014, with the balance of the DSRA transferred back to an unrestricted bank account of Sterling UK. In addition, Bondholders were provided with additional security relating to the Company's Romanian business comprising a first-ranking security package over the Company's offshore and onshore licences in Romania, a pledge of the shares of Sterling's Romanian subsidiary, Midia Resources SRL, a pledge of certain of the Company's receivables, and a guarantee of certain obligations by Midia Resources SRL. No deferral of the scheduled semi-annual interest payment and amortization instalment on April 30, 2015, or of any other interest payments or amortization instalments to Bondholders was made, nor were any new Bonds issued, as a result of the December Bond Amendments.

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

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

2013

In April, 2013 the Company's UK subsidiary Sterling Resources (UK) Limited, re-registered as Sterling Resources (UK) plc, and completed the issuance of a \$225 million senior secured Bond.

The Bond matures on April 30, 2019 and carries an interest coupon of 9 percent payable semi-annually on April 30 and October 30 of each year. The Bond is callable (prepayable) at the option of the Issuer at any time with a call price of 105 percent of par value for the first three years and a roll-up of outstanding interest for the first two years. The call price reduces to 103.5 percent of par value in year 4, 102 percent in year 5, and finally 101 percent and 100.5 percent for the first and second halves of the final year. Commencing on October 30, 2014, the Bond will amortize 10 percent of the issue amount every six months. The amortizations will be performed at a price of 105 percent of par value except for the final instalment which will be repaid at 100 percent of par value. There is a wide-ranging security package in favour of the Bond Trustee including a charge over the Issuer's interests in the Breagh and Cladhan fields and over the shares of the Issuer, as well as a parent company guarantee. As noted above, this security package was subsequently extended to cover the Company's Romanian business. The Bond is governed by Norwegian Law and the trustee for the Bond is Nordic Trustee ASA (formerly Norsk Tillitsmann ASA).

As well as the minimum UK unrestricted cash requirement referred to above, there is a second financial covenant under the Bond agreement whereby, at the consolidated group level, the Company must maintain at all times a minimum equity ratio of 40 percent (defined as total Equity divided by total Assets calculated in accordance with IFRS). As at December 31, 2014 and to the date of this report, the Company was in compliance with both these covenants, however, the Company may breach the minimum UK cash covenant at the end of late in April 2015 without additional financing (discussions in relation to which are ongoing).

In April 2013, the Company signed agreements with TAQA which ensured that the Company was in a position, regardless of the closing of the then contemplated Bond, to submit evidence of funding ability for its share of the development costs of Cladhan to DECC by April 17, 2013 to enable FDP approval. In conjunction with an earlier non-repayable carry arising from a transaction with TAQA in 2012 (the "First Carry"), these agreements also provided for a full carry of the then anticipated development capital costs until first oil, anticipated in 2015. As part of the 2013 transaction, the Company made a permanent transfer of a 12.6 percent interest in the Cladhan field to TAQA in exchange for a repayable carry by TAQA of development expenditures on an 11.8 percent interest in Cladhan (the "Second Carry"), which will be transferred to TAQA for the duration of the carry. Transfer of the 12.6 percent interest was completed in August 2013 and the Second Carry is now available.

Pursuant to these TAQA funding arrangements the Company retains a 2.0 percent interest in Cladhan throughout, for which the original budgeted development cost is funded out of a portion of the fixed First Carry. As at December 31, 2014, the cost overruns on the project mean that the Company is forecasting to have to fund an additional \$1.9 million in development costs

in relation to the 2.0 percent interest. The rest of the First Carry, which amounted to \$53.6 million in total at December 31, 2013, was available to fund development costs on the 11.8 percent interest and was fully utilized in the third quarter of 2014, at which point the Second Carry has started to fund the ongoing development costs for the 11.8 percent interest only. A 17 percent per annum uplift is applicable to such carried costs on the Second Carry. As at December 31, 2014 the balance of the Second Carry was \$25,985,000, of which \$9,300,000 is recorded as a current liability on the balance sheet as it is expected to be repaid out of revenues in the current year and \$16,685,000 as a non-current liability due to be repaid in 2016-18. After pay-out of the Second Carry, which is expected to occur in the first quarter of 2018 under RPS price assumptions, the 11.8 percent interest will be returned to Sterling whose equity interest would then be 13.8 percent. In a downside case of higher capital expenditures, low oil prices or low production, the timing for pay-out would be delayed but Sterling would have no further liability to TAQA. The overall economics of this transaction are improved considerably by the fact that Sterling does not lose any of the significant historical capital allowances (approximately \$20 million as at January 1, 2013) associated with the 12.6 percent interest. As part of this agreement, Sterling also transferred its 12.5 percent interest in South Cladhan to TAQA for nominal consideration in August 2013. Sterling retains the contingent upside payments linked to future reserves pursuant to the First Carry.

On March 11, 2013 the Company announced the closing of the offering of 23,000,000 common shares in the capital of the Company by way of a short form prospectus and 61,333,334 common shares pursuant to a private placement, in each case on a bought deal basis at a price of C\$0.75 per common share, which represented gross proceeds of \$61.5 million (\$57.4 million net after transaction costs).

On January 8, 2013, the Company announced that it had closed on a secured \$12 million bridging loan agreement with a subsidiary of Vitol Holding B.V. ("Vitol"), an existing shareholder (the "Loan"). The Loan bore interest at a rate of LIBOR plus 1.0 percent, payable in arrears, subject to a maximum of 2.0 percent per annum during its term. As consideration for the Loan, Vitol received 2,418,500 common shares of Sterling at \$0.73 per common share which was the market value on the date of issue. The loan was repaid on March 22, 2013, ahead of its contractual maturity date of March 31, 2013.

FINANCING, LIQUIDITY AND SOLVENCY

Net Working Capital As at	December 31, 2014	December 31, 2013
	\$000s	\$000s
Cash and cash equivalents	17,710	34,680
Restricted cash	-	7,850
Trade and other receivables	14,534	11,189
Inventory	483	-
Prepaid expenses	3,829	558
Derivative financial asset	-	7
Trade and other payables	(15,404)	(24,244)
Accrued interest payable	(3,091)	(3,449)
Current portion of decommissioning obligations	(767)	(764)
Current portion of long-term debt	(47,250)	(23,625)
	(29,956)	2,202

Net working capital, defined as current assets less current liabilities excluding the Cladhan funding arrangements, was a deficit of \$29,956,000 as at December 31, 2014, compared to a net working capital surplus of \$2,202,000 at year-end 2013 mainly due to two bond amortization payments to be made within the next twelve months partly offset by the receipt of the Carve-Out Transaction proceeds (see "Financing Activities") and the continued oil and gas expenditures. The Cladhan funding arrangements (see "Financing Activities") will be repaid from oil revenues from the property itself and have therefore been excluded from the net working capital calculation. At December 31, 2013 only one amortization payment was due within the following twelve months, whilst at December 31, 2014 two amortization payments are due.

Cash and cash equivalents at December 31, 2014 include term deposits of \$9,283,000 (December 31, 2013 – \$20,405,000).

There was no restricted cash as at December 31, 2014 following the December Bond Amendment agreements (see "Financing Activities"). Restricted cash of \$7,850,000 as at December 31, 2013 comprised \$2,785,000 to be used for expenditures on Breagh pursuant to the Bond agreement and \$5,063,000 in the DSRA as well as minor amounts held as restricted in Romania.

As at December 31, 2014, the Company had approximately \$14,534,000 of receivables due, including \$9,876,000 of revenue receivable from Breagh gas sales which was paid in January, 2015 (December 31, 2013 - \$1,232,000).

Trade and other payables of \$15,404,000 as at December 31, 2014 mainly comprised accrued expenditures related to the Breagh development project. Accrued interest payable of \$3,091,000 relates to the Bond (December 31, 2013 - \$3,449,000).

COMMITMENTS AND CONTINGENCIES

Commitments as at December 31, 2014 for the years 2015 through 2019 and thereafter, comprise the following:

	2015	2016	2017	2018	2019	Thereafter	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Facilities, oil and gas drilling	21,079	80,756	-	-	-	-	101,835
Seismic	-	-	-	-	-	-	-
Licence fees	1,515	1,147	1,217	1,758	2,300	-	7,937
Other operating	870	641	464	399	196	-	2,570
Office and other leases	1,306	826	592	584	584	1,169	5,061
	24,770	83,370	2,273	2,741	3,080	1,169	117,403

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

Included in the table above are \$38,500,000 of costs under facilities, oil and gas drilling, \$294,000 of costs under office and other leases and \$866,000 of costs under other operating category relating to the Company's Romanian operations which on completion of the Romanian Sale Agreement (see "Financing Activities") will be transferred to CIEP.

Included in the table above under the office and other leases subtotal is a commitment for office space that was assigned to a third party in December 2013. Under the terms of the sublease, Sterling continues to be liable to the landlord for any default under the lease caused by the assignee. It is expected that after the granting of an inducement of a rent-free period which ended in May 2014, approximately \$4,091,000 of the office and other leases commitment will be covered by this sub-lease.

LIQUIDITY AND SOLVENCY

The Company's net working capital deficit as at December 31, 2014, was \$29,956,000 compared to a net working capital surplus of \$2,202,000 as at December 31, 2013. The Company does not expect to have sufficient funds to make a required \$32.7 million payment to Bondholders and to make the first monthly transfer of \$5.3 million to the DSRA on April 30, 2015. The estimated shortfall is approximately \$27 million (allowing for compliance with the minimum UK liquidity requirement of \$10 million). Accordingly, the Company is currently considering a range of financing options including seeking a further set of Bond amendments.

Cash proceeds of \$32.5 million, less any required tax liabilities, from the sale of the Company's Romanian business to CIEP (see "Financing Activities") are expected to be received upon completion of the transaction around the end of June 2015, and hence will not be available to assist in making the payment to bondholders on April 30, 2015 or to fund the monthly DSRA transfer on this date.

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

Without the approval of any new amendments to the Bond Agreement or other short term financings, there is a material risk that bondholders may require immediate repayment of the Bond which would cast significant doubt as to the Company's ability

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

DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at December 31, 2014 to be approximately \$80,323,000, which will be incurred between 2015 and 2036. Additions to the decommissioning obligations in the year ended December 31, 2014 relate to two oil producing wells and a water injector well on the Cladhan licence and the Breagh A07 and A08 wells. Two wells on the Sheryl licence are planned to be abandoned in 2015 and this portion of the decommissioning obligation, \$767,000, has been disclosed as a current liability (December 31, 2013 - \$764,000). Revisions to estimates resulted from a revised operator abandonment assessment on the Breagh development and a reduction in the risk free interest rates (used for discounting) based on UK and US long-term government bond rates varying from 1.39 percent to 2.41 percent (December 31, 2013 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2013 – 2 percent) were used to calculate the longer term decommissioning obligations at December 31, 2014.

	2014	2013
	\$000s	\$000s
Balance, beginning of the year	17,646	10,865
Arising during the year	9,268	3,124
Obligation disposal	-	(142)
Revisions to estimates	30,370	3,037
Foreign exchange differences	(2,857)	138
Accretion of discount	1,137	624
Balance, end of the year	55,564	17,646

2014 PLANS

The Company outlined its plans for 2014 in its MD&A for the year ended December 31, 2013. Several of the plans were largely or fully completed by year-end 2014 or shortly thereafter:

- In the UK, drill an appraisal well on the Crosgan gas discovery in the second half of 2014. This well was completed in February 2015 and plugged and abandoned;
- In Romania, the drilling of an exploration well on the Muridava block offshore Romania was completed in the second quarter of 2014 and was plugged and abandoned, with no hydrocarbons discovered; and
- In the Netherlands, 3D seismic data was acquired over parts of the F17 and F18 blocks during the second quarter of 2014.

In addition, the following plans have been partially completed:

- Continue to optimize the Phase 1 development of Breagh by conducting hydraulic stimulation of well A07 (this was successfully completed in the second quarter of 2014), drilling and completing well A08 (this well was hydraulically stimulated and completed in early November 2014), and together with the operator RWE, assess benefit of additional wells and/or additional hydraulic stimulation (wells A09 and A10 are now budgeted and plans for A11, A12 and further sidetracks are being evaluated).
- Move forward with a process to reduce equity interests in all of Sterling's Black Sea licences. The Company announced a sale of its entire Romanian business in March 2015, with completion expected around the end of the second quarter of 2015.

Plans which were not completed in 2014 and which have now been moved forward to 2015 are individually identified in the following section.

2015 PLANS

In the UK:

- Move forward with Breagh Phase 2 planning ensuring that this is optimized and in particular reflects results of Phase 1 early production and hydraulic stimulation (this is a continuation of a 2014 plan);
- Proceed with the Cladhan development, aiming to have first production by September 2015 (this is a continuation of a 2014 plan, although the timing of first oil has been delayed slightly);
- Move forward with farm-outs of the UK licences containing the Niadar and Ossian/Darach prospects (this is a continuation of a 2014 plan);
- Drill an appraisal well, for which nearly all of the costs will be carried under a farm-out arrangement, on either the Evelyn or Belinda oil discoveries in late 2015 (this is a continuation of a 2014 plan); and
- Continue discussions with a number of potential purchasers for a sale of a 10-15 percent interest in the UK Breagh gas field.

In Romania:

- To progress the steps required in order to achieve completion of the Romanian Sale Agreement (see "Financing Activities"); and
- Conduct Ana and Doina early stage engineering work at a low level of activity (this is a continuation of a 2014 plan, until such time as the Company's Romanian assets are disposed of pursuant to the Romanian Sale Agreement).

Corporately:

- Progress a short term financing to address the Company's inability to meet its scheduled bondholder payments on April 30, 2015;
- Progress a longer term financial solution by a potential refinancing of the Bond and/or incremental financings;
- Consider corporate transactions that are not only value accretive for shareholders but also aim to reduce the large valuation discount at which the Company's shares trade (this is a continuation of a 2014 plan);
- Further reduce G&A costs through rent and staff reductions;
- Continue to consider a graduation to the main board of the Toronto Stock Exchange and a listing on the London Stock Exchange/Alternative Investment Market ("AIM") at the appropriate time (this is a continuation of a 2014 plan); and
- Where appropriate, these plans remain contingent on partner approval, governmental approval and (if appropriate) farm-out partners or purchasers of licence interests or subsidiary companies.

RELATED PARTY AND OFF-BALANCE SHEET TRANSACTIONS

The Company had no off-balance sheet or related party transactions in the year ended December 31, 2014 or 2013. The Company has a Gas Trading and Services Agreement with Vitol (which is a shareholder in the Company and an insider in accordance with Canadian securities rules) signed in 2011 in relation to gas produced from the Breagh field and as at December 31, 2014 the Company had a receivable of \$9,876,000 (December 31, 2013 – \$1,232,000) from Vitol for gas sold in December 2014, which was paid in January 2015. For a description of the key terms of the GTSA, see "Revenue". In addition, in January 2015 the Company purchased gas price put options for the second and third quarters of 2015 from Vitol for a volume equivalent to 12 percent of production.

ADDITIONAL INFORMATION

Additional information about Sterling Resources Ltd. and its business activities, including Sterling's Annual Information Form, is available via SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards outlined in the notes to the consolidated financial statements. Other financial information appearing throughout the report is presented on a basis consistent with the consolidated financial statements.

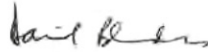
Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the presentation of consolidated financial statements.

Deloitte LLP, an independent firm of chartered accountants, was engaged, as approved by the shareholders, to examine the consolidated financial statements in accordance with auditing standards generally accepted in Canada and to provide an independent professional opinion.

The Audit Committee and the Board of Directors reviewed the consolidated financial statements with management and with Deloitte LLP. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.



Jacob S. Ulrich
Chief Executive Officer



David Blewden
Chief Financial Officer

April 17, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sterling Resources Ltd.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sterling Resources Ltd., which comprise the consolidated balance sheet as at December 31, 2014, and the consolidated income statement, consolidated statement of comprehensive income (loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in notes 1 to 21.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sterling Resources Ltd. as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter - Going Concern

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which indicates that Sterling Resources Ltd. will not have available funding to meet the interest payment, bond amortisation payment and liquidity requirement under the UK senior secured bond at April 30, 2015. These conditions, along with other matters set forth in Note 2 indicate the existence of a material uncertainty in relation to the Company's ability to continue as a going concern. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements and these financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Other Matter

The consolidated balance sheet as at December 31, 2013 and the consolidated income statement, consolidated statement of comprehensive income (loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended were audited by another auditor who issued an unmodified opinion on April 15, 2014 but had an emphasis of matter in regard to the existence of a material uncertainty that may cast significant doubt about Sterling Resources Ltd.'s ability to continue as a going concern.



Chartered Accountants and Statutory Auditor
Aberdeen, United Kingdom
April 17, 2015

CONSOLIDATED BALANCE SHEET

As at	December 31, 2014	December 31, 2013
	US\$000s	US\$000s
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	17,710	34,680
Restricted cash (note 5)	-	7,850
Trade and other receivables (note 6)	14,534	11,189
Inventory	483	-
Prepaid expenses	3,829	558
Derivative financial asset (note 9)	-	7
	36,556	54,284
Non-current assets		
Exploration and evaluation assets (note 7)	51,844	82,830
Property, plant and equipment (note 8)	399,104	382,790
Repayment option on long-term debt (note 9)	3,300	6,610
Deferred tax asset (note 20)	194,013	-
	648,261	472,230
	684,817	526,514
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	15,404	24,244
Decommissioning obligations (note 10)	767	764
Accrued interest payable (note 11)	3,091	3,449
Current portion of long-term debt (note 11)	47,250	23,625
Cladhan funding arrangements (note 12)	9,300	-
	75,812	52,082
Non-current liabilities		
Decommissioning obligations (note 10)	54,797	16,882
Long-term debt (note 11)	160,420	202,743
Cladhan funding arrangements (note 12)	16,685	-
Long-term incentive plan liability (note 16)	1	18
	231,903	219,643
Commitments and contingencies (note 13)		
Equity		
Share capital (note 14)	419,940	387,902
Contributed surplus	18,877	17,454
Accumulated other comprehensive loss	(28,115)	(5,957)
Deficit	(33,600)	(144,610)
	377,102	254,789
	684,817	526,514

The accompanying notes are an integral part of the consolidated financial statements as at and for the years ended December 31, 2014 and 2013 ("the Financial Statements").

CONSOLIDATED INCOME STATEMENT

Years ended December 31,	2014	2013
	\$000s except per share	\$000s except per share
Revenue	80,296	3,513
Third-party entitlement	(8,840)	(465)
	71,456	3,048
Expenses		
Operating expense	(14,107)	(1,475)
Dry hole expense (note 7)	(7,798)	-
Impairment of oil and gas properties (note 7 & 8)	(80,617)	-
Pre-licence and other exploration expenditures	(5,458)	(8,401)
Depletion, depreciation and amortization (note 8)	(31,385)	(1,117)
Loss on derivative financial instruments (note 9, note 11)	(3,303)	(305)
Employee expense (note 16)	(7,104)	(7,332)
General and administration expense	(3,836)	(3,034)
Refinancing and strategic review	-	(12,912)
Foreign exchange (loss) gain	(11,349)	9,773
Total expenses	(164,957)	(24,803)
Financing income	529	167
Financing costs (note 17)	(26,242)	(9,590)
Net financing cost	(25,713)	(31,178)
Gain on disposal (note 7, 18)	27,301	-
(Loss) before income taxes	(91,913)	(31,178)
Income tax		
Current income tax expense (note 18)	(4,325)	-
Deferred tax credit (note 20)	207,248	-
	202,923	-
Net income (loss) for the year	111,010	(31,178)
Net income (loss) per common share (note 19)		
Basic	0.33	(0.11)
Diluted	0.33	(0.11)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31,	2014	2013
	US\$000s	US\$000s
Net income (loss)	111,010	(31,178)
Items that may be subsequently reclassified to profit and loss:		
Foreign currency translation adjustment	(22,158)	5,148
Comprehensive income (loss)	88,852	(26,030)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Surplus / (Deficit)	Total
	US\$000s	US\$000s	US\$000s	US\$000s	US\$000s
Balance at January 1, 2013	328,811	16,627	(11,105)	(113,432)	220,901
Equity issuances (note 14)	61,494	-	-	-	61,494
Share issuance costs (note 14)	(4,137)	-	-	-	(4,137)
Share issued in connection with short-term loan (note 14)	1,734	-	-	-	1,734
Share-based compensation (note 16)	-	827	-	-	827
Foreign currency translation	-	-	5,148	-	5,148
Loss for the year	-	-	-	(31,178)	(31,178)
Balance at December 31, 2013	387,902	17,454	(5,957)	(144,610)	254,789
Balance at January 1, 2014	387,902	17,454	(5,957)	(144,610)	254,789
Equity issuances (note 14)	32,142	-	-	-	32,142
Share issuance costs (note 14)	(104)	-	-	-	(104)
Share-based compensation (note 16)	-	1,423	-	-	1,423
Foreign currency translation	-	-	(22,158)	-	(22,158)
Income for the year	-	-	-	111,010	111,010
Balance at December 31, 2014	419,940	18,877	(28,115)	(33,600)	377,102

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2014	2013
	US\$000s	US\$000s
Cash flows from operating activities		
Income (loss) for the year	111,010	(31,178)
Adjustments for:		
Unrealized foreign exchange loss (gain)	12,283	(11,674)
Gain on disposal (note 7)	(27,301)	-
Impairment of oil and gas properties (note 7)	80,617	-
Dry hole expense (note 7)	7,798	-
Depletion, depreciation and amortization (note 8)	31,385	1,117
Unrealized loss on derivative financial instruments (note 9, note 11)	3,303	305
Share-based compensation (note 16)	1,423	827
Accretion of decommissioning discount (note 17)	1,137	624
Transaction costs on short-term loan (note 17)	-	1,734
Financing income	(529)	(167)
Financing costs (note 17)	25,105	7,232
Income tax	4,325	-
Deferred tax credit (note 20)	(207,248)	-
	43,308	(31,180)
Change in non-cash working capital	(10,592)	1,808
Cash flows from (used in) operating activities	32,716	(29,372)
Cash flows from investing activities		
Decrease in restricted cash (note 5)	2,787	19,238
Proceeds from sale of assets (note 18)	24,926	4,214
Exploration and evaluation asset additions	(37,241)	(22,045)
Property, plant and equipment additions	(33,403)	(69,046)
Cash flows (used in) provided by investing activities	(42,931)	(67,639)
Cash flows from financing activities		
Decrease (increase) in restricted cash (note 5)	5,063	(5,063)
Financing income	529	167
Proceeds from loan funds	-	225,000
Bond interest payment (note 11)	(20,250)	(10,125)
Repayment of long-term loan (note 11)	(23,625)	(136,278)
Transaction costs on debt	-	(7,427)
Premium paid on derivative financial instruments (note 9)	-	(3,688)
Net proceeds from equity issuance (note 14)	32,038	57,357
Proceeds from short-term loan (note 17)	-	12,000
Repayment of short-term loan (note 20)	-	(12,000)
Cash flows (used in) provided by financial activities	(6,245)	119,943
Effect of translation on foreign currency cash and cash equivalents	(510)	2,262
(Decrease) increase in cash and cash equivalents during the year	(16,970)	25,194
Cash and cash equivalents, beginning of the year	34,680	9,486
Cash and cash equivalents, end of the year	17,710	34,680

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2014 and 2013.

I) CORPORATE INFORMATION

Sterling Resources Ltd. (the "Company") is a publicly traded energy company incorporated and domiciled in Canada. The Company is engaged in the exploration, appraisal and development of crude oil and natural gas in the United Kingdom, Romania, the Netherlands and France. The Company's registered office is located at Suite 1450, 736 Sixth Avenue S.W., Calgary, Alberta, Canada.

The Company's consolidated financial statements comprise the financial statements of the Company and the wholly-owned group of companies: Sterling Resources (UK) plc ("Sterling UK"), Sterling Resources Netherlands B.V., and Midia Resources SRL.

These audited consolidated financial statements ("the Financial Statements") were approved for issuance by the Company's Board of Directors on April 17, 2015, on the recommendation of the Audit Committee.

2) BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The Financial Statements for the years ended December 31, 2014 and 2013 were prepared in accordance with International Financial Reporting Standards (IFRS) on a going-concern basis, under the historical cost convention unless otherwise indicated.

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

Certain amounts in the statements of cash flows in the prior year's financial statements have been reclassified to conform to the current year's financial statement presentation.

GOING CONCERN

Using the Company's latest cash flow projections which reflect the current forward curve for UK spot gas prices, management expects that Sterling will have a shortfall of approximately \$27 million to meet its requirements under the Bond Agreement (see note 11) on April 30, 2015. The Company is seeking to address such a potential cash shortfall by considering a range of financing options including seeking a further set of Bond amendments. Cash proceeds of \$32.5 million, less any required tax liabilities, from the sale of Sterling's Romanian business to Carlyle International Energy Partners ("CIEP") (see note 21) are expected to be received upon completion of the transaction around the end of June 2015, and hence will not be available to assist in meeting the Company's payment obligations under the Bond Agreement on April 30, 2015. The Company is also pursuing a sale of a part of Breagh, which could provide additional funds but these will also not be available prior to April 30, 2015. There can be no assurance that the steps management is taking will be successful. Without the approval of any new amendments to the Bond Agreement or other short term financings, there is a material risk that bondholders may require immediate repayment of the Bond which would cast significant doubt as to the Company's ability to continue as a going concern and the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

ACCOUNTING STANDARDS ADOPTED IN THE YEAR

The Company adopted the following standards on January 1, 2014. Their application has not had any significant impact on the amounts reported or the disclosures, except for the additional disclosures in respect of IAS 36.

IFRIC 21: Levies - Provides guidance on when to recognize a liability for a levy imposed by a government. The Company reviewed payments considered to be levies and concluded that the application of the standard did not have a significant impact on the Company's consolidated financial statements.

IAS 32 Amendment: Offsetting Financial Assets and Financial Liabilities – The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off”, and “simultaneous realization and settlement”. As the Company does not have any financial asset and financial liabilities that qualify for offset, the adoption of the amendments has had no impact on the disclosures or on the amounts recognized in the financial statements.

IAS 36 Impairment of assets – This has been amended to reduce the circumstances in which the recoverable amount of cash generating units is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact the Company’s disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

BASIS OF CONSOLIDATION

The Financial Statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company’s, using consistent accounting policies.

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

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

USE OF ACCOUNTING ASSUMPTIONS, ESTIMATES AND JUDGMENTS

The preparation of the Company’s consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the same period if the revision affects only that period or in the period of the revision and future periods if the revision affects current and future periods.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements comprise the following:

Going Concern

As disclosed further in the Going Concern section above, the Company’s principal liquidity risk relates to the possibility that, without mitigating actions, the Company will be in breach of certain covenants under the Bonds if it is unable to meet its payment obligations under the Bond Agreement on April 30, 2015. However, at the date of approving the financial statements, the Directors are confident that a combination of one or more of the mitigating actions currently being pursued will ensure that the Company will have sufficient liquidity and capital resources available to settle and meet its obligations as they fall due or within remedy periods. On this basis and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate that they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work program and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity’s joint arrangements.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement. Specifically, the Company considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:
 - The legal form of the separate vehicle
 - The terms of the contractual arrangement
 - Other facts and circumstances, considered on a case by case basis

This assessment often requires significant judgment. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, could materially impact the accounting.

Funding arrangements

The accounting for funding arrangements requires management to make certain estimates and assumptions on whether a liability exists at the time of the funding. Specifically, the Company considers the terms of the contract and applies the concepts of obligating events, probabilities and providing for future events. An assessment of any contract will consider factors such as:

- the stage of any asset in its development life cycle;
- the allocation of any proven or probable recoverable reserves to that asset;
- an assessment as to whether the arrangement results in the transfer of the risks, rewards and obligations associated with funding on that asset;
- requirements of when any future payments would first arise, for example on reaching commercial production and the likelihood of achieving this;
- the period over which the payment or repayment of monies received under the arrangement; and
- whether legal title to the asset passes but also the economic substance of transactions, other events and conditions, and not merely the legal form.

This assessment requires the exercise of judgment.

Gemini entitlement agreements

As disclosed previously, the Company entered into two agreements in 2007 and 2008 with Gemini Oil & Gas Fund II, L.P (“Gemini”) which, subject to the successful development of the Breagh asset would provide Gemini with an entitlement to a share of future revenues from any production that may be generated from the field. Under the terms of the agreements, Gemini paid the Company a total amount of \$11 million, comprising an initial amount of \$3 million received in 2007 and a further amount of \$8 million received in 2008, which was used to fund two appraisal wells on the Breagh field.

Due to a combination of factors, primarily (i) that the Breagh asset was at an early exploration and evaluation stage and had no proven or probable recoverable reserves; (ii) that the Company would only be required to make any future payments to Gemini in the event that the Breagh asset were to reach commercial production, which at the date the agreements were signed was highly uncertain; and (iii) that as a result of the transaction, Gemini had effectively assumed an element of the Company’s exploration, development and production risks associated with the Breagh field; it was deemed that, notwithstanding that (i) legal title to the Breagh exploration and evaluation asset had not passed to Gemini; and (ii) that the third party entitlement is payable until a high proportion (currently 85 percent) of the ultimate reserves has been produced, which might indicate the existence of a financial liability, on balance the Company had in substance disposed of (farmed-out) a portion of its interest in the Breagh asset.

Accordingly, at the dates the Company initially received the consideration from Gemini it derecognised an amount, equal to the consideration received, from the exploration and evaluation costs that had previously been capitalised.

The Company did not therefore recognise any financial liabilities in respect of the above amounts during the pre-production period, as under the terms of the agreement, an obligation would only arise on the Company if and at such time that it sold any production in the future. Specifically, in the event of the Breagh project reaching commercial production, Gemini would be entitled to payments calculated with reference to a portion of gas and condensate production revenue from Breagh. This

portion is equal to 12.23 percent of Sterling's 30 percent revenue until cumulative payments exceed twice the considerations amount of \$7,333,000 (net of adjustment for the 2009 Reduction see below), then 6.10 percent up to three times the funding amount, and 2.77 percent thereafter until a high proportion (currently 85 percent) of the field's expected ultimate reserves have been produced. This proportion is itself dependent on the ultimate reserves for the whole field, being 95 percent for reserves of up to 300 billion cubic feet ("Bcf"), 90 percent for reserves of 300 Bcf to less than 400 Bcf, 85 percent for reserves of 400 to less than 500 Bcf, and 80 percent for reserves of 500 Bcf or more.

In addition, as previously disclosed, the Company entered into a further funding agreement with Gemini in 2007 relating to an exploration well to be drilled in the Midia block offshore Romania. The agreement provided Gemini with an entitlement to a payment equivalent to a share of the Company's gross revenue from any future production from a specified area of the Midia block (the "Doina Trend"), which now includes the Ana and Doina discoveries. Based on Sterling's current equity interest of 65 percent, this share is 9.23 percent until cumulative payments exceed twice the funding amount of \$7.0 million, then 4.62 percent until a defined percentage of the field's ultimate reserves have been produced. This percentage is itself dependent on the ultimate reserves for a 100 percent interest in the Doina Trend, being 95 percent for reserves of up to 70 billion cubic feet (Bcf), 90 percent for reserves of 70 Bcf to less than 125 Bcf, 85 percent for reserves of 125 to less than 175 Bcf, and 80 percent for reserves of 175 Bcf or more. The terms, in particular with respect to the stage of the Midia block (which was also at the exploration and evaluation stage) and the fact that in substance a portion of the exploration risks and rewards were transferred to Gemini at the time the Gemini agreement completed, led management to conclude that the consideration received from Gemini was in return for a partial disposal of the Company's interest in the Midia block. Accordingly, the accounting treatment adopted was consistent with that applied to the Breagh agreement as outlined above.

Exploration and Evaluation Assets (note 7)

The accounting for exploration and evaluation ("E&E") assets requires management to make certain estimates and assumptions, including whether exploratory wells have discovered economically recoverable quantities of reserves. Designations are sometimes revised as new information becomes available. If an exploratory well encounters hydrocarbons, but further appraisal activity is required in order to conclude whether the hydrocarbons are economically recoverable, the well costs remain capitalized as long as sufficient progress is being made in assessing the economic and operating viability of the well. Criteria used in making this determination include evaluation of the reservoir characteristics and hydrocarbon properties, expected additional development activities, commercial evaluation and regulatory matters. The concept of "sufficient progress" is an area of judgment, and it is possible to have exploratory costs remain capitalized for several years while additional drilling is performed or the Company seeks government, regulatory or partner approval of development plans.

Determination of Cash Generating Units (note 7, 8)

The Company's E&E assets and development oil and gas properties are grouped into Cash Generating Units ("CGUs"). CGUs are defined as the lowest level of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations. Factors considered in the classification include the integration between assets and the way in which management monitors the operations, as well as the planned development for the field or licence. The recoverability of the Company's E&E assets and development oil and gas properties is assessed at the CGU level and therefore the determination of a CGU could have a significant impact on impairment losses or impairment reversals.

Impairment Indicators (note 7, 8)

The Company monitors internal and external indicators of impairment relating to E&E assets and property, plant and equipment. For E&E assets the following are examples of the types of indicators used:

- The entity's right to explore in an area has expired or will expire in the near future without renewal;
- No further exploration or evaluation is planned or budgeted;
- The decision to discontinue exploration and evaluation in an area because of the absence of commercial reserves; or
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.

For development oil and gas properties, the following are examples of the indicators used:

- A significant and unexpected decline in the asset's market value or likely future revenue;
- A significant change in the asset's reserves assessment;
- Significant changes in the technological, market, economic or legal environments for the asset; or

- Evidence is available to indicate obsolescence or physical damage of an asset, or that it is underperforming expectations.

The assessment of impairment indicators requires the exercise of judgment. If an impairment indicator exists, then the recoverable amounts of the cash-generating units and/or individual assets are determined based on the higher of value-in-use and fair values less costs of disposal calculations. These require the use of estimates and assumptions, such as future oil and natural gas prices, discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Decommissioning Obligation (note 10)

Decommissioning obligations will be incurred by the Company at the end of the operating life of wells. The ultimate asset decommissioning costs and timing are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements and their interpretation, the emergence of new restoration techniques, the prevailing rig rates or experience at other production sites. As a result, there could be significant adjustments to the provisions established which could materially affect future financial results.

Embedded Derivatives (note 9, 11)

The Company's \$225 million senior secured bond contains an embedded derivative related to the call option held by the issuer. The fair value assigned to the embedded derivative uses level II assumptions with the main inputs to the valuation being the credit spread of the Company and the United States dollar discount curve. The most significant assumption is the probability of the loan being repaid prior to reaching the maturity date. This is estimated based on the implied credit spread within the bond and the possibility of changes in forecasted interest rates, which has an impact on the probability that the debt will be repaid prior to maturity. Refer to note 11 for further information on the embedded derivative.

Commitments (note 13)

Commitment disclosure includes estimates of the total cost of long-term projects in which there are many contingent factors and which could be revised either upwards or downwards based on the actual results of operations.

Recognition of Deferred Tax Assets (note 20)

Accounting for income and profit taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments related to the application of tax law, estimate the timing of temporary difference reversals, and estimate the realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgments and changes related to them can potentially impact current and deferred tax provisions, deferred income tax assets and liabilities and net post-tax profit or loss.

Accordingly, in common with other international oil and gas companies conducting their business through government licences to operate, the provision for income tax, profits tax and other tax liabilities is subject to a degree of measurement uncertainty. The recognition of deferred tax assets requires a determination of the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure and other capital management transactions) and judgment about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reported date could be impacted.

SIGNIFICANT ACCOUNTING POLICIES

a. Oil and Natural Gas Exploration, Evaluation and Development Expenditures

Pre-Licence and Other Exploration Expenditures

All pre-exploration expenditures and other exploration costs, including geological and geophysical costs and annual lease rentals, are charged to exploration expense when incurred.

E&E Expenditures

During the geological and geophysical exploration phase, expenditures are charged against income as incurred. Once the legal right to explore has been acquired, expenditures directly associated with an exploration well are capitalized as E&E intangible assets and are reviewed at each reporting date to confirm that there is no indication of impairment and that drilling is still underway or is planned. If no future exploration or development activity is planned in the licence area, the exploration licence and leasehold property acquisition costs are written off.

Petroleum and Natural Gas Properties and Equipment

Once a project is commercially feasible and technically viable, which in practice is when the asset has been approved for development by the appropriate regulatory authorities, the carrying values of the associated exploration licence and leasehold property acquisition costs and the related costs of exploration wells are transferred to development oil and gas properties after an impairment test. Further expenditures incurred after the commerciality of the field has been established, including the costs of drilling unsuccessful wells, are capitalized within petroleum and natural gas properties and equipment. Repairs and maintenance costs are charged as an expense when incurred.

Depletion

Depletion of capitalized development and production assets is calculated on a field or a concession basis as appropriate. The calculation is based on proved and probable reserves using the unit-of-production method and takes into account expenditures incurred to date, together with future development expenditure. Depletion begins on commencement of commercial production following the completion of any testing phase. E&E assets are not subject to depletion.

Decommissioning

Expected decommissioning costs of a property are provided for on the basis of the net present value of the liability, discounted at a pre-tax, risk-free interest rate. The costs are recorded as a liability with a corresponding increase in the carrying amount of the related asset and charged to the income statement along with the depreciation of the related asset. The liability is determined through a review of engineering studies, industry guidelines and management's estimate on a site-by-site basis, and is subsequently adjusted for changes in expected costs, asset life, inflation or the risk-free rate. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in discount rates. The increase in the obligation due to the passage of time is recognized as a financing cost whereas changes due to revisions in the estimated future cash flows and discount rate are capitalized. Actual costs incurred upon settlement of the obligation are charged against the provision to the extent the provision was established.

b. Impairment of Non-Financial Assets

E&E expenditures which are held as an intangible asset are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Development oil and gas properties are reviewed at each reporting date for indicators of impairment at the level of cash generating units (CGUs). If there are impairment indicators then the assets or CGUs are tested for impairment. The Company based its impairment calculation on detailed budget and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

Impairment tests are calculated by comparing the net capitalized cost with the fair value less the costs of disposal of the assets. This is determined by the present value of the future cash flows expected to be derived from the licence discounted at an appropriate annual discount rate. Any impairment loss is the difference between the carrying value of the asset and its recoverable amount.

Any impairment is recognized in the income statement. Impairment tests are also carried out on any assets held for sale when a decision is made to sell such assets and before transferring assets to development and production assets following a declaration of commercial reserves.

c. Corporate and Other Assets

Corporate and other assets are carried at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a declining-balance basis at an annual rate of 30 percent. The assets' residual values, useful lives and amortization methods are reviewed, and adjusted if appropriate, at each financial year-end. An item of plant and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the year the asset is derecognized.

d. Cash and Cash Equivalents

Cash and cash equivalents include term deposits, guaranteed investment certificates and operating bank accounts with maturities from inception or cashable options, if applicable, of 90 days or less.

e. Restricted Cash

Restricted cash includes cash set aside for a specific use or future event and is not available for general operating purposes.

f. Inventory

Inventory consists of crude oil, gas and condensate in transit or in storage tanks at the reporting date, and is measured at the lower of cost and net realisable value. Costs include direct and indirect expenditures incurred in bringing the crude oil, gas and condensate to its existing condition and location.

g. Financial Assets

Financial assets are classified among the following categories, with subsequent measurement of the instruments based upon their classification.

Financial assets at fair value through profit or loss: With the exception of derivative financial instruments as described below, a financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. It is measured at fair value with changes to that fair value recognized in financing income or financing costs in the income statement. Cash and cash equivalents and restricted cash are designated as "held-for-trading". The Company has not designated any financial assets upon initial recognition at fair value through profit and loss.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest rate (EIR) method with any EIR amortization included in financing income in the income statement.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flow of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

h. Derivative Financial Instruments

Derivative financial instruments are used to reduce commodity price risk associated with the Company's future production of natural gas. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company currently uses put options to partially offset or mitigate the wide price swings commonly encountered in natural gas markets and in so doing protects a minimum future level of cash flow in the event of low commodity prices. The Company considers these financial risk management contracts to be effective on an economic basis but has decided not to designate these contracts as hedges for accounting purposes and, accordingly, an unrealized gain or loss is recorded based on the change in fair value ("mark-to-market") of the contracts at each reporting period end. These instruments are recorded as derivative financial instruments in the consolidated balance sheet.

The Company also has an embedded derivative within the bond resulting from the issuer prepayment option (note 11). This prepayment option is shown as a non-current asset in the consolidated balance sheet. The prepayment option is recorded at its fair value at each reporting date and resulting unrealized gains or losses are recorded through the consolidated income statement.

i. Fair Value Measurements

Financial instruments recorded at fair value in the consolidated balance sheets (or for which fair value is disclosed in the notes to the consolidated financial statements) are categorized based on the fair value hierarchy of inputs. The three levels in the hierarchy are described as follows:

Level I

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information. Sterling does not use any level I inputs for fair value measurements.

Level II

Pricing inputs are other than quoted prices in active markets included in Level I. Prices in Level II are either directly or indirectly observable as of the reporting date. Level II valuations are based on inputs, including quoted forward prices for commodities, time value, credit risk and volatility factors, which can be substantially observed or corroborated in the marketplace. Financial instruments in this category include non-exchange traded derivatives such as over-the-counter commodity options as well as the Company's senior secured bond, which is listed on a public exchange but is not actively traded. The Company obtains information from sources including market exchanges and investment dealer quotes; Level II inputs are used for all of the Company's derivative financial instruments (including the valuation of the Company's prepayment option on long-term debt) and fixed rate debt fair value measurements.

Level III

Valuations are made using inputs for the asset or liability that are not based on observable market data. Sterling does not use any Level III inputs for fair value measurements.

j. Financial Liabilities

Financial liabilities are classified among the following categories, with subsequent measurement of the instruments based upon their classification.

Financial liabilities at fair value through profit or loss:

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held-for-trading are recognized in the income statement.

Other financial liabilities:

After initial recognition, interest-bearing loans and borrowing are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the EIR method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs integral to the EIR. The EIR amortization is included in financing cost in the income statement.

Long-term debt transaction costs, which may include but are not limited to bank fees, legal costs and time-writing are capitalized at inception and are amortized over the life of the loan using the EIR method. When the assets to which borrowing costs relate are deemed major development projects, but are not yet ready for their intended use, the borrowing costs are capitalized to the asset and then depleted as the asset enters production.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When a financial liability is replaced by another from the same lender on substantially different terms, or the terms of a liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

k. Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

l. Revenue

The Company recognizes revenue from petroleum and natural gas production and gains from derivative financial instruments linked to the price of gas at the amount of the consideration received or receivable when the significant risks and rewards of ownership are transferred to the buyer and it can be reliably measured and only at such time as a project becomes commercially viable and development approval is received. Prior to this stage, any production is considered test production and related revenue is capitalized net of applicable costs.

Third party entitlements are presented net against revenue. The amount recognized as third party entitlement is calculated based on agreements providing for payments based on a fixed percentage of revenue.

m. Earnings per Share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by dividing the net profit or loss attributable to common shareholders by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued on conversion of all dilutive potential common shares into common shares. Those potential common shares comprise share options granted.

n. Financing Income and Expense

Financing income comprises interest earned on funds on deposit.

Financing expense comprises accretion of the discount on decommissioning obligations, interest expense on borrowing and amortization of debt issuance costs.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

o. Foreign Currency Translation

Transactions and Balances

Transactions in foreign currencies are initially translated into the functional currency using the exchange rate on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign Operations

Each subsidiary in the group is measured using the currency of the primary economic environment in which the entity operates, which is its functional currency. Foreign currency transactions are translated into functional currency using the exchange rates on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign operations are translated into the US dollar presentation currency using the closing rate for balance sheet accounts and the average quarterly rate for revenue and expense accounts. Resulting exchange differences arising in the period are recognized in other comprehensive income.

p. Income Taxes

The income tax expense represents the sum of the current tax and deferred tax.

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, with the exception of temporary differences on investments in subsidiaries, which are not recognized for wholly-owned subsidiaries as the Company controls the timing of reversal and they are not expected to be reversed

for the foreseeable future. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity.

q. Incentive Plans

Share-Based Compensation

Under the Company's share option plan, options to purchase common shares has been granted to directors, officers and employees at then-current market prices. The cost of share option transactions, which is considered to be the fair value of the option as determined using the Black-Scholes model, is recognized together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for share option transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of options that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized at the beginning and end of that period and is recognized in employee benefits expense.

No expense is recognized for awards that do not ultimately vest, except for share option transactions in which vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Long term incentive plans

On May 1, 2013 the Company introduced two new cash-based long term incentive plans: a Performance Share Unit plan and a Phantom Option plan.

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

r. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, which involves assessing whether its fulfillment depends on the use of a specific asset or assets or it conveys a right to use the asset.

The classification of leases as financing or operating leases requires the Company to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards or ownership of these assets and accordingly, whether the lease requires an asset and liability to be recognized on the balance sheet.

The Company leases assets, all of which have been determined to be operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Financing charges are reflected in the income statement.

s. Asset Swaps, Farm-out arrangements and Third party entitlements

Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss arising is recognized in net income.

Farm-outs and Third party entitlements ("TPE") generally occur in the exploration phase and are characterized by the transferor giving up future economic benefits, in the form of reserves, or payments based on reserves, in exchange for reduced future funding obligations, or in the case of TPE in exchange for reduced funding on a specific defined part of a project. In the exploration phase, the Company accounts for farm-outs and TPE on a historical cost basis. As such, no gain or loss is recognized; any consideration received is credited against the carrying value of the related asset.

3) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following pronouncements from the IASB are applicable to the Company and will become effective for future reporting periods, but have not yet been adopted:

- IAS 19 Employee Benefits – Amendments to IAS 19. The amended standard clarified the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions can be, but are not required to be recognized as a reduction in the service cost in the period in which the related service is rendered. The amendment is effective for annual periods beginning on or after July 1, 2014. Application of the amended standard is not expected to have an impact on the Company as it reflects current accounting policy of the Company.
- IAS 8 Operating Segments – Amendments to IAS 8. The amended standard requires (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segmented assets to the Company's assets when segment assets are reported. The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment is expected to have an impact on disclosure only and not the financial results of the Company.
- IFRS 2 Share-Based Payments – Amendments to IFRS 2. The standard amends the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment is not expected to have an impact on the Company as it reflects current accounting policy of the Company.
- IFRS 13 Fair Value Measurement – Amendments to IFRS 13. The amended standard clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts if the effect of discounting is immaterial. It also clarifies that portfolio exception can be applied not only to financial assets and liabilities, but also to other contracts within scope of IFRS 39 and IFRS 9. The amendment is effective for annual periods beginning on or after July 1, 2014. The application is not expected to have a significant impact on the Company.
- IAS 24 Related Parties – Amendments to IAS 24. The amended standard (i) revises the definition of related party to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarifies related disclosure requirements. The amendment is not expected to have an impact on the Company as there is no entity performing key management services for the Company.
- IFRS 15 Revenue from Contracts with Customers. IFRS 15 specifies that revenue should be recognized when an entity transfers control of goods or services at the amount the entity expects to be entitled to as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. The Company has not yet determined the impact of the standard on the Company's financial statements.

4) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at	December 31, 2014	December 31, 2013
	\$000s	\$000s
Cash	8,426	14,275
Cash equivalents	9,284	20,405
	17,710	34,680
Balances held in:		
Canadian dollars	79	3,087
US dollars	8,289	18,106
UK pounds	8,882	11,643
Other	460	1,844
Cash and cash equivalents	17,710	34,680

As at December 31, 2014, cash and cash equivalents (including short term deposits) carried annual interest rates between 0.05 percent and 0.55 percent (December 31, 2013 – between 0.05 percent and 0.55 percent).

5) RESTRICTED CASH

The Company had no restricted cash as at December 31, 2014.

Restricted cash of \$7,850,000 as at December 31, 2013 comprised \$2,785,000 to be used for expenditures on Breagh and \$5,063,000 in a retention account to be applied towards debt service costs due on April 30, 2014 as well as minor amounts held as restricted in Romania.

6) FINANCIAL INSTRUMENTS

The Company's financial instruments, including cash and cash equivalents, restricted cash, trade and other receivables, derivative financial instruments, trade and other payables and long-term debt have been categorized as follows:

- Cash and cash equivalents, restricted cash and derivative financial instruments – held for trading;
- Trade and other receivables – loans and receivables;
- Trade and other payables;
- Cladhan funding arrangement; and
- Long-term debt – other financial liabilities.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of derivative financial instruments is discussed in note 9. The fair value of the long-term debt is discussed in note 11.

The Company is exposed to various financial risks arising from normal-course business exposure as well as its use of financial instruments. These risks include market risks relating to foreign exchange rate fluctuations, commodity price risk and interest rate risk, as well as liquidity risk and credit risk as described below.

FOREIGN EXCHANGE RATE RISK

The Company's functional currencies for the UK and Netherlands, Canadian and Romanian operations are the UK pound, Canadian dollar and US dollar, respectively. Foreign exchange gains or losses can occur on translation of working capital denominated in currencies other than the functional currency of the jurisdiction which holds the working capital item. Excluding the impact of changes in the cross-rates, a 1 percent fluctuation in translation rates would have the following impact on net income or loss, based on foreign currency balances held at December 31, 2014.

	\$000s
Canadian dollar vs. UK pound	10
Canadian dollar vs. US dollar	2
UK pound vs. Euro	1
UK pound vs. US dollar	1,903

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

INTEREST RATE RISK

From time to time the Company may have significant cash or cash-equivalent balances invested at prevailing short-term interest rates. Accordingly, cash flows are sensitive to changes in interest rates on these investments. Based on total cash and cash equivalents and restricted cash at December 31, 2014, a 1 percentage point change in average interest rates over a twelve month period would increase or decrease net income or loss by approximately \$177,100.

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

LIQUIDITY RISK

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

The Company does not expect to have sufficient funds to make a required \$32.7 million payment to Bondholders and to make the first monthly transfer of \$5.3 million to the Debt Service Retention Account ("DSRA") on April 30, 2015. The estimated shortfall is approximately \$25 million (allowing for the compliance with the minimum UK liquidity requirement of \$10 million). Accordingly, the Company is currently considering a range of financing options including seeking a further set of Bond amendments. Cash proceeds of \$32.5 million, less any required tax liabilities, from the sale of the Company's Romanian business to CIEP (see note 21) are expected to be received upon completion of the transaction around the end of June 2015, and hence will not be available to assist in making the payment to bondholders on April 30, 2015 or to fund the monthly DSRA transfer on this date. In addition to the Romanian sale, the Company is also continuing discussions with a number of potential purchasers for a sale of a 10-15 percent interest in the UK Breagh gas field and other incremental financings to improve the longer term financial position of the Company. See the "Going Concern" section of note 2.

The following table as of December 31, 2014 for the years 2015 through 2019 and thereafter, shows the maturities of financial liabilities:

	2015	2016	2017	2018	2019	Thereafter	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Coupon payment	17,213	13,162	9,113	5,062	1,013	-	45,563
Principal repayment	45,000	45,000	45,000	45,000	22,500	-	202,500
Bonus principal repayment	2,250	2,250	2,250	2,250	-	-	9,000
Trade and other payables	15,404	-	-	-	-	-	15,404
Cladhan funding arrangement	9,300	16,685	-	-	-	-	25,985
	89,167	77,097	56,363	52,312	23,513	-	298,452

COMMODITY PRICE RISK

The Company is exposed to the risk of commodity price fluctuations on its future natural gas production. For Breagh, the Company will sell gas produced at a price linked to the UK spot market, which is a liquid market. The Company's policy is to manage downside price risk in support of debt service obligations, through the use of derivative commodity contracts. The Company was required under its now repaid bank credit facility to purchase monthly cash-settled put options to hedge 40 percent of its forecast gas production volumes from proved reserves (P90) from the first phase of Breagh development, for a 24-month period starting on October 1, 2012 (see note 9). Such contracts expired during the third quarter of 2014. In January 2015, the Company purchased monthly cash-settled UK gas price put options for the second and third quarters of 2015 at a strike price of 40 pence per therm (NBP) for a volume equivalent to 4.0 Bcf of gas, or approximately 75 percent of expected production for the period. The put options were purchased from BNP Paribas and Vitol SA for a total consideration of approximately \$1.4 million. The Company may consider future hedging through the purchase of further gas price put options when sufficient funds are available.

CREDIT RISK

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Company. The Company's trade and other receivables are primarily for gas sold in one month and paid in the following month, with governments for recoverable amounts of value added taxes ("VAT") or joint venture partners in the oil and natural gas industry. The Company currently sells its gas to only one customer Vitol (which is a shareholder in the Company). At December 31, 2014 the amount receivable from Vitol was \$9,876,000, which was paid within the following month and the Company had no other material concentrations of receivables with any third party.

Impairment to a financial asset is only recorded when there is objective evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated. Evidence of impairment may include default or delinquency by a debtor or indicators that the debtor may enter bankruptcy. Where aged debtors are present, these are secured by the partner's interest in the underlying oil and gas properties the value of which exceeds any debts.

The Company's receivables are subject to normal industry risk and management believes collection risk is minimal. There were no material amounts past due but not impaired at December 31, 2014 (December 31, 2013 - nil)

The Company has deposited its cash, cash equivalents and restricted cash with reputable financial institutions, with which management believes the risk of loss to be remote. The maximum credit exposure associated with financial assets is their carrying value. At December 31, 2014 the cash, cash equivalents and restricted cash were held with seven different institutions from five countries, mitigating the credit risk of a collapse of one particular bank.

CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure sufficient funds are available for operational purposes while retaining flexibility to cope with adverse movements in production rates, commodity prices and interest rates. A secondary objective is to have a capital structure broadly comparable with the Company's peer group of international exploration and production companies, in order to contribute towards an efficient market valuation. In addition, at all times the Company is required to comply with the terms of its Bond which includes a minimum group equity ratio and a minimum level of unrestricted cash in the UK subsidiary (see note 11). As such, the Company considers working capital, debt and equity as part of its capital management planning.

The Company may amend its capital structure to fit with its corporate objectives by issuing equity or equity-linked instruments and by issuing debt or entering into, or extending, credit facilities with banks. No dividend payment or return of capital to shareholders is contemplated for the foreseeable future.

The Company assesses its capital structure on a forward-looking basis by modelling net cash flows over the next few years and considering the economic conditions and operational factors which could lead to financial stress.

Sterling does not expect to have sufficient funds to make a required \$32.7 million payment to Bondholders and to make the first monthly transfer of \$5.3 million to the DSRA on April 30, 2015. The estimated shortfall is approximately \$25 million (allowing for satisfaction of the minimum UK liquidity requirement of \$10 million). Accordingly, Sterling is currently considering a range of financing options including seeking a further set of Bond amendments. Cash proceeds of \$32.5 million, less any required tax liabilities, from the sale of Sterling's Romanian business to CIEP (see "note 21") are expected to be received upon completion of the transaction around the end of June 2015, and hence will not be available to assist in making the payment to bondholders on April 30, 2015 or to fund the monthly DSRA transfer on this date. In addition to the Romanian sale, the Company is also continuing discussions with a number of potential purchasers for a sale of a 10-15 percent interest in the UK Breagh gas field

and other incremental financings to improve the longer term financial position of the Company. See the "Going Concern" section of note 2. Other than these plans, no changes were made in the Company's capital management objectives, policies or processes during the period ended December 31, 2014.

7) EXPLORATION AND EVALUATION ASSETS

During the year ended December 31, 2014, \$2,066,000 of directly attributable general and administration costs were capitalized to exploration and evaluation assets ("E&E") (December 31, 2013 – \$1,767,000).

On January 29, 2014 the Company completed the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a sub-divided portion of block 15 Midia in the Romanian Black Sea as announced in October 2012 (the "Carve-out Transaction"). Sterling received an initial net payment of \$24.9 million after-tax in the first quarter of 2014 and could receive a contingent payment of a further \$29.25 million upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the portion sold, and a final contingent payment of \$19.5 million upon first commercial production from the portion sold. A gain on disposal after fees of \$27,301,000 was recorded in the income statement in the year ended December 30, 2014.

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

Dry hole costs of \$7,798,000 related to block 27 Muridava licence in Romania (December 31, 2013 – nil).

In March, 2015 the Company announced details for the Romanian Sale Agreement (see note 21) in which the Company entered into an agreement to sell its entire Romanian business. Based on the market value established in this transaction the Company has impaired the amount carried in exploration and evaluation assets for this segment by \$45,275,000 as at December 31, 2014.

Other impairment costs related to:

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

As at	2014	2013
	\$000s	\$000s
Balance, beginning of the year	82,830	113,131
E&E expenditures	35,823	11,699
Non-cash decommissioning costs (note 10)	656	-
Transfer to development oil and gas properties (note 8)	-	(39,446)
Dry hole costs	(7,798)	-
Impairment	(57,815)	-
Foreign exchange	(1,852)	(2,554)
Balance, end of the year	51,844	82,830

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

Within the development oil and gas properties category are the amounts transferred in from exploration and evaluation assets for Breagh and Cladhan. Depletion on the Breagh asset commenced with first production on October 12, 2013. No depletion has yet been charged on the Cladhan asset as it is not expected to produce until the end of the third quarter of 2015. Development oil and gas properties are assessed for indicators of impairment at each reporting date. At December 31, 2014,

the Cladhan UK offshore property was indicated to be impaired due to lower commodity prices and capital overruns. The recoverable amounts were based on the fair value less cost of disposal method and were determined at the level of the cash generating unit determined to be the Cladhan development oil and gas property. The recoverable amounts were based on discounted future cash flows over the next seven years, derived using proved plus probable reserves as at December 31, 2014. The cash flows (based on level III fair value hierarchy) used commodity prices based on Sterling's independent reserves report, produced by RPS Energy, December 31, 2014 price forecast (see note 20) and a pre-tax discount rate of 10 percent. After comparison of the carrying value and its fair value the property was impaired by \$22,802,000 (December 31, 2103 –nil).

A five per cent increase in the discount rate would increase the impairment amount by \$1,140,000, and a five per cent decrease to prices would increase the impairment by \$4,800,000.

During the year ended December 31, 2014, \$620,000 of directly attributable general and administration costs were capitalized to development oil and gas properties (December 31, 2013 – \$1,255,000).

As at	2014			2013		
	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 year	390,259	1,529	391,788	262,999	1,699	264,698
Additions						
– PP&E expenditures	55,692	237	55,929	69,757	2	69,759
– Non-cash decommissioning costs (note 10)	38,981	-	38,981	6,161	-	6,161
Disposals	-	(8)	(8)	-	(227)	(227)
Reclassification to inventory	(1,068)	-	(1,068)	-	-	-
Transfers from exploration and evaluation properties (note 7)	-	-	-	39,446	-	39,446
Foreign exchange differences	(26,236)	(193)	(26,429)	11,896	55	11,951
Balance, end of the year	457,628	1,565	459,193	390,259	1,529	391,788
Accumulated depreciation and depletion						
Balance, beginning of the year	(7,948)	(1,050)	(8,998)	(6,731)	(951)	(7,682)
Depreciation and depletion	(31,218)	(167)	(31,385)	(902)	(215)	(1,117)
Impairment	(22,802)	-	(22,802)	-	-	-
Disposals	-	-	-	(142)	182	40
Foreign exchange differences	2,977	119	3,096	(173)	(66)	(239)
Balance, end of the year	(58,991)	(1,098)	(60,089)	(7,948)	(1,050)	(8,998)
Net book value						
Balance, beginning of the year	382,311	479	382,790	256,268	748	257,016
Balance, end of the year	398,637	467	399,104	382,311	479	382,790

9) DERIVATIVE FINANCIAL INSTRUMENTS

In 2011, as a requirement of the Company's former Credit Facility (hereinafter defined), the Company purchased monthly cash-settled put options to hedge 40 percent of its forecast natural gas production volumes from proved reserves ("P90") for the first phase of Breagh development, for a 24-month period starting on October 1, 2012. The strike price for the options was 55 pence per 100,000 British thermal units ("therm") and the total volume hedged was 10.1 billion cubic feet ("Bcf"). Half of the

put options were purchased for an upfront cash premium of £2,195,000 (\$3,589,000), and the other half were purchased on a deferred premium basis for a total cost of £2,713,000 (\$4,220,000). On May 3, 2013 the Company paid the entire outstanding deferred hedging premiums at the same time as repayment of the entire Credit Facility, extinguishing any derivative financial liability. The last of the derivative financial contracts expired at the end of the third quarter of 2014.

The derivatives were revalued to their fair value at each period end. Any gain or loss arising was recorded through the income statement in the period in which it arose. For the year ended December 31, 2014, the Company recognized an unrealized gain of \$7,000 compared to the year ended December 31, 2013 when an unrealized loss of \$1,054,000 was recognized.

As at December 31, 2014 the prepayment option on the bond (see note 11) was revalued at \$3,300,000 (December 31, 2013 - \$6,610,000), which resulted in a loss of \$3,310,000 in the year ended December 31, 2014 (see note 11). The decrease in the value of the prepayment option results principally from a general increase in the credit spreads in the debt markets.

The combined movements in derivative financial instruments resulted in an unrealized loss of \$3,303,000 being recorded through the income statement in the year ended December 31, 2014 (year ended December 31, 2013 – loss of \$305,000).

IO) PROVISIONS

The following table sets out a continuity of provisions:

As at	December 31, 2014			December 31, 2013		
	Decommissioning	Other	Total	Decommissioning	Other	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Balance, beginning of the year	17,646	-	17,646	10,865	1,194	12,059
Arising during the year	9,268	-	9,268	3,124	-	3,124
Obligation disposal	-	-	-	(142)	-	(142)
Revisions to estimates	30,370	-	30,370	3,037	-	3,037
Settlement of provisions	-	-	-	-	(1,217)	(1,217)
Foreign exchange differences	(2,857)	-	(2,857)	138	23	161
Accretion of discount (note 17)	1,137	-	1,137	624	-	624
Balance, end of the year	55,564	-	55,564	17,646	-	17,646
Total current liabilities	767	-	767	764	-	764
Total non-current liabilities	54,797	-	54,797	16,882	-	16,882

DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at December 31, 2014 to be approximately \$80,323,000, which will be incurred between 2015 and 2036. Additions to the decommissioning obligations in the year ended December 31, 2014 relate to two oil producing wells and a water injector well on the Cladhan licence and the Breagh A07 and A08 wells. Two wells on the Sheryl licence are planned to be abandoned in 2015 and this portion of the decommissioning obligation, \$767,000, has been disclosed as a current liability (December 31, 2013 - \$764,000). Revisions to estimates resulted from a revised operator abandonment assessment on the Breagh development and a reduction in the risk free interest rates (used for discounting) based on UK and US long-term government bond rates varying from 1.39 percent to 2.41 percent (December 31, 2013 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2013 – 2 percent) were used to calculate the longer term decommissioning obligations at December 31, 2014.

OTHER PROVISIONS

This provision was set up in 2010 to provide for an underpayment of employment taxes, associated interest and possible penalties relating to the Company's share option plan for UK employees. This provision was settled by the Company in 2013 for the amount previously recorded.

II) LONG-TERM DEBT

In April, 2013 the Company's UK subsidiary Sterling Resources (UK) Ltd, subsequently re-registered as Sterling Resources (UK) plc, (the "Issuer") completed the issuance of a \$225 million senior secured bond (the "Bond"). As of December 31, 2014, the Bond had been amortized down to \$202.5 million.

Proceeds were received on April 30, 2013 (the "Settlement Date"). The Bond matures on April 30, 2019 and carries an interest coupon of 9 percent payable semi-annually on April 30 and October 30 of each year. The Bond is callable (prepayable) at the option of the Issuer at any time with a call price of 105 percent of par value for the first three years and a roll-up of outstanding interest for the first two years. After three years, the call price reduces to 103.5 percent of par value in year 4, 102 percent in year 5, and finally 101 percent and 100.5 percent for the first and second halves of the final year. Having commenced on October 30, 2014, the Bond will amortize 10 percent of the issue amount every six months. The amortizations will be performed at a price of 105 percent of par value except for the final instalment which will be repaid at 100 percent of par value. There is a wide-ranging security package in favour of the bond trustee including a charge over the Issuer's interests in the Breagh and Cladhan fields and over the shares of the Issuer, as well as a parent company guarantee. The call option on the bond was valued using the Black-Karasinski model which takes into account interest rate volatility. Key inputs used in the model were related to the credit spread of the Company and the United States dollar discount curve. The fair value of the prepayment option on the Settlement Date was determined to be \$5,861,000, and was revalued at December 31, 2014 at \$3,300,000. The decrease in the value of the prepayment option results principally from a general increase in the credit spreads in the debt markets.

There are two financial covenants under the Bond agreement. First, at the consolidated group level, the Company must maintain at all times a minimum equity ratio of 40 percent (defined as total Equity divided by total Assets according to IFRS). Second, the UK subsidiary must maintain at all times a minimum level of liquidity (unrestricted cash and cash equivalents) of \$10 million; this level was reduced to \$7.5 million from November 30, 2014 to January 30, 2015 pursuant to the December Bond Amendments (described below). As at December 31, 2014 the Company was in compliance with both these covenants.

In December, 2014 the Company and the holders ("Bondholders") of the UK senior secured bond (the "Bond") issued by its subsidiary Sterling Resources (UK) plc approved amendments (the "December Bond Amendments") to the Bond agreement dated May 2, 2013 at a meeting of Bondholders. This original Bond agreement was then superseded by the Amended and Restated Bond Agreement (the "Bond Agreement").

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

An amendment fee was paid to Bondholders of \$2.5 million (the "Amendment Fee") in December 2014, with the balance of the DSRA transferred back to an unrestricted bank account of the Company. In addition, Bondholders were provided with additional security relating to the Company's Romanian business comprising a first-ranking security package over the Company's offshore and onshore licences in Romania, a pledge of the shares of the Company's Romanian subsidiary, Midia Resources SRL, a pledge of certain of the Company's receivables, and a guarantee of certain obligations by Midia Resources SRL. No deferral of the scheduled semi-annual interest payment and amortization instalment on April 30, 2015, or of any other interest payments or amortization instalments to Bondholders was being made, nor were any new Bonds being issued, as a result of the December Bond Amendments.

The Company does not expect to have sufficient funds to make the required \$32.7 million payment to Bondholders and to make the first monthly transfer to the DSRA on April 30, 2015, while still complying with the minimum UK liquidity requirement of \$10 million. Accordingly, the Company is currently considering a range of financing options including seeking a further set of Bond amendments.

The Bond is listed on the Nordic Alternative Bond Market in Oslo, but is not actively traded. Therefore a value based on the mid-point of the bid/ask price range supplied by Pareto Securities AS, the principal broker for the Company's bonds, was used to calculate the fair-value of the Bond of \$185 million as at December 31, 2014. Under the effective interest rate method \$3,091,000 was recorded as a liability at December 31, 2014 (December 31, 2013 - \$3,449,000).

At December 31, 2012, the Company had a senior secured credit facility to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility"). The amount drawn under the Credit Facility was £87.9 million (\$145.7 million), comprising £77.9 million (\$129.1 million) under the main tranche and £10.0 million (\$16.6 million) under the cost overrun tranche. This full amount was repaid out of the proceeds of the Bond on May 3, 2013 together with associated costs and the Credit Facility was terminated as of this date.

As at	December 31, 2014			December 31, 2013		
	Credit Facility	Bond	Total	Credit Facility	Bond	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Balance, beginning of the year	-	226,368	226,368	138,293	-	138,293
Proceeds from (repayment/amortization of) loan funds	-	(23,625)	(23,625)	(136,278)	225,000	88,722
Transaction costs	-	-	-	-	(7,427)	(7,427)
Borrowing costs	-	4,426	4,426	3,764	2,787	6,551
Prepayment option on long-term debt	-	-	-	-	5,861	5,861
Foreign exchange differences	-	501	501	(5,779)	147	(5,632)
Balance, end of the year	-	207,670	207,670	-	226,368	226,368
Total current liabilities	-	47,250	47,250	-	23,625	23,625
Total non-current liabilities	-	160,420	160,420	-	202,743	202,743

12) CLADHAN FUNDING ARRANGEMENTS

In April 2013, the Company signed agreements with TAQA Bratani ("TAQA"), a partner in the Cladhan field which ensured that the Company was in a position, regardless of the closing of the then contemplated Bond, to submit evidence of funding ability for its share of the development costs of Cladhan to the Department of Energy and Climate Change by April 17, 2013 to enable field development plan approval. In conjunction with an earlier non-repayable carry arising from a transaction with TAQA in 2012 (the "First Carry"), these agreements also provided for a full carry of the then anticipated development capital costs until first oil, anticipated in 2015. As part of the 2013 transaction, the Company made a permanent transfer of a 12.6 percent interest in the Cladhan field to TAQA in exchange for a repayable carry by TAQA of development expenditures on an 11.8 percent interest in Cladhan (the "Second Carry"), which will be transferred to TAQA for the duration of the carry. Transfer of the 12.6 percent interest was completed in August 2013 and the Second Carry is now available.

Pursuant to these TAQA funding arrangements the Company retains a 2.0 percent interest in Cladhan throughout, for which the original budgeted development cost is funded out of a portion of the fixed First Carry. As at December 31, 2014, the cost overruns on the project mean that the Company is forecasting to have to fund an additional \$1.9 million in development costs relating to the 2.0 percent interest. The rest of the First Carry, which amounted to \$53.6 million in total at December 31, 2013, was available to fund development costs on the 11.8 percent interest and was fully utilized in the third quarter of 2014, at which point the Second Carry has started to fund the ongoing development costs for the 11.8 percent interest only. A 17 percent per annum uplift is applicable to such carried costs on the Second Carry. As at December 31, 2014 the balance of the Second Carry was \$25,985,000, \$9,300,000 is recorded as a current liability on the balance sheet as it is expected to be repaid out of revenues in the current year and \$16,685,000 as a non-current liability due to be repaid in 2016-2018. After pay-out of the Second Carry, which is expected to occur in the first quarter of 2018 under RPS pricing assumptions, the 11.8 percent interest will be returned to Sterling whose equity interest would then be 13.8 percent. In a downside case of higher capital expenditures, low oil prices or low production, the timing for pay-out would be delayed but Sterling would have no further liability to TAQA. The overall economics of this transaction are improved considerably by the fact that Sterling does not lose any of the significant historical capital allowances (approximately \$20 million as at January 1, 2013) associated with the 12.6 percent interest. As part of this agreement, Sterling transferred its 12.5 percent interest in South Cladhan to TAQA for nominal consideration in August 2013. Sterling retains the contingent upside payments linked to future reserves pursuant to the First Carry.

13) COMMITMENTS AND CONTINGENCIES

Commitments as of December 31, 2014, for the years 2015 through 2019 and thereafter, are comprised as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Facilities, oil and gas drilling	21,079	80,756	-	-	-	-	101,835
Seismic	-	-	-	-	-	-	-
Licence fees	1,515	1,147	1,217	1,758	2,300	-	7,937
Other operating	870	641	464	399	196	-	2,570
Office and other leases	1,306	826	592	584	584	1,169	5,061
	24,770	83,370	2,273	2,747	3,080	1,169	117,403

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

Included in the table above are \$38,500,000 of facilities, oil and gas drilling costs, \$294,000 of costs under office and other leases and \$866,000 of costs under other operating category relating to the Company's Romanian operations which on completion of the Romanian sale agreement (See note 21) will be transferred to the purchasers.

Also included in the table above under the office and other leases subtotal is a commitment for office space that was assigned to a third party in December, 2013. Under the terms of the sublease, Sterling continues to be liable to the landlord for any default under the lease caused by the assignee. It is expected that after the granting of an inducement of a rent-free period which ended in May 2014, approximately \$4,091,000 of the office and other leases commitment will be covered by this sub-lease.

14) 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	December 31, 2014		December 31, 2013	
	Shares	Amount	Shares	Amount
	000s	\$000s	000s	\$000s
Balance, beginning of the year	309,621	387,902	222,869	328,811
Issued for cash:				
– equity issuances	71,579	32,142	84,333	61,494
Share issuance costs	-	(104)	-	(4,137)
Shares issued in connection with short-term loan	-	-	2,419	1,734
Balance, end of the year	381,200	419,940	309,621	387,902

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

On January 8, 2013, the Company announced that it had closed on a secured \$12 million bridging loan agreement with a subsidiary of Vitol Holding B.V. ("Vitol"), an existing shareholder, (the "Loan"). The Loan bore interest at a rate of LIBOR plus 1.0 percent, payable in arrears, subject to a maximum of 2.0 percent per annum during its term. As consideration for the Loan, Vitol received 2,418,500 common shares of Sterling at C\$0.75 per common share which was the market value on the date of issue. This Loan was repaid on March 22, 2013, ahead of its contractual maturity date of March 31, 2013.

On March 11, 2013 the Company announced the closing of the offering of 23,000,000 common shares in the capital of the Company by way of a short form prospectus and 61,333,334 common shares pursuant to a private placement, in each case on a bought deal basis at a price of C\$0.73 per common share, which represented gross proceeds of \$61.5 million (net after transaction costs \$57.4 million).

15) SEGMENTED INFORMATION

The Company has four geographical reporting segments. Canada is the location of the head office. The United Kingdom, Romania and other international locations are involved in exploration and development operations. Other international comprises operations in France and the Netherlands. Revenues recorded below were from a single external customer.

	Canada	United Kingdom	Romania	Other International	Consolidated
Segmented Results	\$000s	\$000s	\$000s	\$000s	\$000s
Year ended December 31, 2014					
Revenues	-	80,296	-	-	80,296
Impairment of oil and gas properties	-	(35,342)	(45,275)	-	(80,617)
Net (loss) income	(4,070)	149,712	(32,577)	(2,055)	111,010

Year ended December 31, 2013					
Revenues	-	3,513	-	-	3,513
Net loss	(7,673)	(17,505)	(3,074)	(2,926)	(31,178)

	Canada	United Kingdom	Romania	Other International	Consolidated
Segmented Assets	\$000s	\$000s	\$000s	\$000s	\$000s
Year ended December 31, 2014					
Exploration and evaluation assets	-	15,896	25,000	10,948	51,844
Exploration and evaluation expenditures	-	12,028	20,787	3,008	35,823
Development properties	-	398,637	-	-	398,637
Development property expenditures	-	55,692	-	-	55,692

Year ended December 31, 2013					
Exploration and evaluation assets	-	18,003	56,292	8,535	82,830
Exploration and evaluation expenditures	-	4,977	6,252	470	11,699
Development properties	-	382,311	-	-	382,311
Development property expenditures	-	69,757	-	-	69,757

16) INCENTIVE PLANS

A) STOCK OPTION PLAN

The Company has a stock option plan (the "Stock Option Plan") whereby, it may grant equity-settled options to its directors, officers, employees and consultants. On December 31, 2014 there were 16,208,000 (December 31, 2013 – 7,955,000) 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. No awards were made under the Stock Option Plan in 2013. The stock options are denominated in Canadian dollars and all dollar amounts in tables in this note represent the Canadian dollar amount.

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

Years ended December 31,	2014		2013	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	000s	CAD\$	000s	CAD\$
Continuity of Common Share Options				
Balance, beginning of the year	7,995	1.97	12,803	2.02
Granted during the year	13,290	0.55	-	-
Cancelled/forfeited during the year	(1,983)	2.04	(1,538)	2.00
Expired during the year	(3,054)	1.83	(3,310)	2.15
Outstanding, end of the year	16,208	0.82	7,955	1.97
Exercisable, end of the year	3,288	1.93	6,685	2.00

A Black-Scholes option pricing model was used to calculate the fair value of the options granted during the year ended December 31, 2014 (there was no award during the year ended December 31, 2013), using the following weighted-average assumptions:

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

Volatility in the price of the Company's common shares is calculated using the daily average price quoted on the TSX Venture Exchange over the period immediately preceding the issue of the option which is equivalent to the expected hold period to exercise.

The calculation of the fair value of options granted assumes an option forfeiture rate based on the cumulative historical level of forfeitures at the time the option is issued.

The weighted average fair value of options granted during the year ended December 31, 2014 was Canadian \$0.30 per share. There were no options granted in the year ended December 31, 2013. For the year ended December 31, 2014 \$1,423,000 (December 31, 2013 - \$827,000) of share-based compensation was expensed and was included in the employee expense figure of \$7,110,000 (2013 – \$7,332,000).

The following stock options were outstanding as at December 31, 2014:

Exercise Price		Options Outstanding			Options Exercisable		
		Options	Average Remaining Contract	Weighted Average Exercise Price	Options	Average Remaining Contract	Weighted Average Exercise Price
From C\$	To \$	000s	Life (Days)	C\$	000s	Life (Days)	C\$
0.55	0.99	12,980	1,609	0.55	-	-	-
1.00	1.49	567	400	1.36	567	400	1.36
1.50	1.99	1,845	308	1.81	1,845	308	1.81
2.00	2.49	550	147	2.03	550	147	2.03
2.50	2.99	-	-	-	-	-	-
3.00	3.49	133	292	3.18	133	292	3.18
3.50	4.25	133	251	4.25	133	251	4.25
1.29	4.25	16,208	1,347	0.82	3,228	294	1.93

B) LONG TERM INCENTIVE PLANS

PERFORMANCE SHARE UNIT PLAN

A total of 3,946,000 Performance Share Units ("PSUs") were awarded to certain senior employees during May 2013 with an effective date of May 31, 2012 and an exercise price based on the Company's common share price on that date (C\$0.98/share). These PSUs will vest on May 31, 2015 and expire on May 31, 2016. At December 31, 2014, 1,147,000 of these PSUs have been forfeited as a result of employee departures.

In October 2013, a further award was made of 3,670,899 PSUs with an effective date of June 1, 2013 and an exercise price based on the Company's common share price on that date (C\$0.75/share.) These PSUs will vest on June 1, 2016 and expire on June 1, 2017. At December 31, 2014, 207,000 of these PSUs have been forfeited as a result of employee departures.

The number of PSUs that ultimately vest is based on service conditions and market conditions linked to the Company's common share price, both on an absolute return basis and in comparison to a group of Sterling's peers. No amounts have been expensed in the twelve month period ending December 31, 2014 (twelve month period to December 31, 2013 – nil) relating to the PSU plans. The intrinsic value of outstanding PSUs at December 31, 2014 was nil (December 31, 2013 – nil).

PHANTOM OPTION PLAN

Under the Phantom Option Plan, a total of 270,000 phantom options were granted to employees who did not receive awards under the PSU Plan in May 2013 with an effective date of May 31, 2012 and an exercise price based on the Company's common share price at that date (C\$0.98/share). These Phantom Options will vest in three equal tranches on the first, second and third anniversaries of the award and will expire two years after vesting. At December 31, 2014, 30,000 of these phantom options had been forfeited.

In October 2013, 255,840 Phantom Options were granted with an effective date of May 31, 2013 and an exercise price based on the Company's common share price on that date (C\$0.76/share). At December 31, 2014, 16,640 of these phantom options had been forfeited. The intrinsic value of outstanding POPs at December 31, 2014 was nil (December 31, 2013 – nil).

17) FINANCING COSTS

	2014	2013
	\$000s	\$000s
Interest expense	26,022	18,607
Amortization of debt issuance expense	-	255
Transaction costs on short-term loan	-	1,930
Capitalization of borrowing costs	(917)	(11,827)
	25,105	8,966
Accretion of decommissioning discount (note 10)	1,137	624
Total financing costs	26,242	9,590

Financing costs for the year ended December 31, 2014 were \$26,242,000 consisting primarily of borrowing costs of \$24,188,000 on the Bond. Interest expense of \$917,000 relating to the Cladhan funding arrangements has been capitalized as borrowing costs. The balance of the financing costs include accretion of the discount on decommissioning obligations and have increased in the period due to greater decommissioning obligations on the Breagh development (principally arising from the drilling of more production wells and revisions to estimates) and the drilling of two producer and one water injector oil wells on the Cladhan development.

On January 8, 2013, the Company announced that it had closed on a secured \$12 million bridging loan agreement with Vitol, an existing shareholder. All interest charged under this loan has been charged to financing costs as interest expense and the debt issuance costs of \$1,930,000 (including \$1,734,000 of common shares issued as consideration for the loan – refer to note 14) were fully expensed in the twelve month period ended December 31, 2013 as the loan was repaid on March 22, 2013.

18) GAIN ON DISPOSAL

In the first quarter of 2014 the Company completed the sale and purchase agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a sub-divided portion of block 15 Midia in the Romanian Black Sea as announced in October 2012. A total of \$31,946,000 of cash was received on which Romanian VAT was chargeable (net cash after VAT- \$24,926,000), and this resulted in a gain on disposal after fees of \$27,301,000, partly offset by \$4,325,000 of taxes payable on the transaction.

19) 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:

	2014	2013
Weighted average shares outstanding (000s)	340,802	294,353
Net income (loss) (\$000s)	111,010	(31,178)
Weighted average net income (loss) per share (\$)		
Basic	0.33	(0.11)
Diluted	0.33	(0.11)

For the years ended December 31, 2014 and 2013, the dilutive effect of the Company's outstanding options was not included in diluted shares as they were antidilutive.

20) DEFERRED TAX

Notwithstanding that Sterling UK was loss making in the year ended December 31, 2013, in the first quarter of 2014 the Company recognized for the first time a deferred tax asset to the amount of \$144,520,000 resulting in a credit to the income statement of this sum. This deferred tax asset relates to Sterling's UK tax losses. The Company has now been able to generate revenue consistently from the Breagh field. Further, with sustained production management estimates that, based on its profit forecast and reserves available, there was sufficient evidence to recognize a deferred tax asset of \$194,013,000 at December 31, 2014, mainly due to tax losses in the subsequent nine month period ended December 31, 2014 and further allowances for ring fence expenditure supplement partly offset by foreign exchange movements.

Sterling has prepared a base case economic model which projects that all the existing carried-forward UK tax losses as at December 31, 2014 will ultimately be utilized in the UK subsidiary company Sterling Resources (UK) plc in future years, both against the reversal of existing taxable temporary differences and future taxable profits from expected production from the Breagh and Cladhan fields. Under UK tax law, there is no statutory time-limit determining an expiry of carried-forward UK tax losses. Accordingly, a UK deferred tax asset of \$194,013,000 as at December 31, 2014 (December 31, 2013 – Nil) has been recognized in the Statement of Financial Position.

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

- Information on reserves and cashflows for Breagh and Cladhan are drawn from the reports produced by Sterling's independent reserves evaluator RPS Energy Canada Ltd. ("RPS"):
 - i) RPS Energy Report "Executive Summary Reserves and Resources Evaluation for the Breagh Gas Field Quad 42 UK North Sea as at December 31, 2014" and
 - ii) RPS Energy Report "Executive Summary Reserves and Resources Evaluation for the Cladhan Oil Field Quad 210 License Blocks UK North Sea as at December 31, 2014".
- RPS has assumed the following economic assumptions:
 - i) RPS end-2014 NBP sales gas price. \$8.52/Mcf for 2015, \$8.81/Mcf for 2016, \$9.42/Mcf for 2017, \$9.77 for 2018 escalated 2 percent thereafter.
 - ii) RPS end-2014 Brent crude oil price. \$70.03/bbl for 2015, \$74.64/bbl for 2016, \$79.50/bbl for 2017, \$84.50 for 2018, \$89.50 for 2019, \$93.85 for 2020 escalated 2 percent thereafter. Cladhan crude is assumed to realise a premium to Brent of \$1.13/bbl for 2015, \$0.88/bbl in 2016, \$0.88/bbl in 2017, \$0.92/bbl in 2018, \$0.97/bbl in 2019, \$1.02/bbl in 2020 and \$1.07 /bbl in 2021.
 - iii) Exchange rate GBP/USD 1.60 throughout field life.
- RPS has evaluated the economic life of field up to 2035 for Breagh and up to 2021 for Cladhan for the 2P reserves cases.
- As at December 31, 2014 the Company had non-expiring non-capital losses of approximately \$673 million (December 31, 2013 – \$616 million) and non-expiring supplementary charge losses of approximately \$613 million (December 31, 2013 - \$584 million) which may be applied against future oil and gas ring-fence income for UK tax purposes.
- Management's best estimates on costs arising from debt-financing, general and administrative expenses (up to 10 years from end 2014) and exploration and appraisal expenses (up to 3 years from end 2014) have been incorporated.
- Subsequent to RPS preparing its reserves report, well timings have slipped by several months and it is now expected that new wells and re-worked existing wells will be hydraulically stimulated on a batch basis. Based on current information, the company is expected to be tax-paying in 2025.

Years ended December 31,	2014	2013
	\$000s	\$000s
Loss before taxation for the year	91,913	31,178
Canadian statutory federal-provincial corporate tax rate	25.0%	25.0%
Computed income tax recovery at statutory rate	22,978	7,794
Increase (decrease) resulting from:		
Share-based compensation	(334)	(203)
Other differences	(2,561)	(510)
Supplementary allowance on eligible ring fence expenditures	39,848	36,019
Rate adjustments and other	2,873	(2,294)
Derivatives and non-taxable foreign exchange	4,107	4,216
Movement in deferred tax benefits not recognized	133,512	(45,022)
Gain on sale proceeds from Midia Block licence interest assignment	6,825	-
Foreign tax on licence interest assignments	(4,325)	-
Income tax credit	202,923	-

Tax in Income Statement from continuing operations, Years ended December 31,	2014	2013
	\$000s	\$000s
Income Tax:		
Current year charge	(4,325)	-
Deferred tax credit	207,248	-
Total tax credit	202,923	-

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

Tax in the Statement of Financial Position, Years ended December 31,	2014	2013
	\$000s	\$000s
Deferred tax asset / (liability):		
Balance, beginning of the year	-	-
Credit to Income Statement	207,248	-
Foreign exchange differences	(13,235)	-
Balance, end of the year	194,013	-

Deferred tax asset analysis at December 31, 2014

	\$000s	\$000s	\$000s	\$000s	\$000s
	Total Company	Sterling Resources (UK) plc	Sterling Resources Ltd	Sterling Resources Netherlands BV	Midia Resources SRL
Net book value of assets (in excess) of tax pools	(222,595)	(235,550)	10,649	2,306	-
Share issuance, options and debt costs	933	-	933	-	-
Loss carry-forwards	413,460	398,273	11,965	929	2,293
Small field allowance	4,704	4,704	-	-	-
Decommissioning obligations	27,169	26,586	583	-	-
Unrealized gains and losses	-	-	-	-	-
Less deferred tax benefits deemed not probable to be recovered	(29,658)	-	(24,130)	(3,235)	(2,293)
Deferred tax asset recognised at December 31, 2014	194,013	194,013	-	-	-

Deferred tax asset analysis at December 31, 2013

	\$000s	\$000s	\$000s	\$000s	\$000s
	Total Company	Sterling Resources (UK) plc	Sterling Resources Ltd	Sterling Resources Netherlands BV	Midia Resources SRL
Net book value of assets (in excess) of tax pools	(244,258)	(246,651)	783	1,610	-
Share issuance, options and debt costs	1,744	-	1,744	-	-
Loss carry-forwards	384,258	371,240	724	10,720	1,574
Small field allowance	-	-	-	-	-
Decommissioning obligations	8,344	7,896	448	-	-
Unrealized gains and losses	(4)	(4)	-	-	-
Less deferred tax benefits deemed not probable to be recovered	(150,084)	(132,481)	(3,699)	(12,330)	(1,574)
Deferred tax asset recognised at December 31, 2013	-	-	-	-	-

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

At December 31, 2014 the Company had non-capital losses of approximately \$47 million (December 31, 2013 – \$43 million) which may be applied against future income for Canadian tax purposes. These non-capital losses expire after twenty years, primarily between 2027 and 2034.

As at December 31, 2014 the Company also had non-expiring tax pools of approximately \$35 million (December 31, 2013 – \$61 million) which may be applied against future income for Canadian tax purposes.

As at December 31, 2014 the Company had non-capital losses and other tax deductible costs of approximately \$20 million (December 31, 2013 – \$17 million) which may be applied against future income for Netherlands tax purposes. These expire after nine years from 2019 onwards.

As at December 31, 2014 the Company had non-capital losses \$14 million (December 31, 2013 – \$10 million) which may be applied against future income for Romanian tax purposes. These expire after seven years from 2018 onwards.

2I) SUBSEQUENT EVENTS

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

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

CORPORATE INFORMATION

DIRECTORS

JAMES H. COLEMAN ⁽³⁾ ⁽⁶⁾
Chair
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ELEANOR J. BARKER ⁽¹⁾ ⁽⁵⁾
Toronto, Canada

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

JOHN COLLENETTE
London, England

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

JACOB S. ULRICH
London, England

GAVIN WILSON ⁽¹⁾
Zurich, Switzerland

(1) Reserves Committee

(2) Chair of Reserves Committee

(3) Audit Committee

(4) Chair of Audit Committee

(5) Governance and Compensation Committee

(6) Chair of Governance and Compensation Committee

OFFICERS

JACOB S. ULRICH
Chief Executive Officer

DAVID M. BLEWDEN
Chief Financial Officer

SHERRY L. CREMER
Treasurer and Corporate Secretary

JOHN M. RAPACH
Chief Operating Officer

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AUDITOR

DELOITTE LLP

BANKER

THE ROYAL BANK OF CANADA

LEGAL COUNSEL

STIKEMAN ELLIOTT LLP

RESERVES EVALUATORS

RPS ENERGY

REGISTRAR AND TRANSFER AGENT

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

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Stock Exchange Trading Symbol: SLG

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