

STERLING RESOURCES LTD.

**2017 ANNUAL FINANCIAL STATEMENTS AND
MANAGEMENT DISCUSSION AND ANALYSIS**

MESSAGE TO SHAREHOLDERS

I am pleased to have the opportunity to write this letter welcoming you to the New Sterling Resources. On December 18, 2017, the Company finalized the reverse take-over transaction with Sterling Resources Ltd., completed the amalgamation with PetroTal Ltd. (“PetroTal”), a private company and acquired the assets of Gran Tierra Energy International (Peru) Holdings B.V., an indirect wholly-owned subsidiary of Gran Tierra Energy Inc. (“Gran Tierra”). At that time, the Company assumed the day to day operations of the Bretaña assets in Peru. On closing, we have created a well-funded, debt free company.

We believed all along that the assets in Peru would be best suited to a team with specific experience in fields like Bretaña. Our team, which compliments an existing team of professionals already on staff from Gran Tierra, has moved swiftly to meet the objectives of the company. The creation of an independent oil company in Peru is the beginning of a process to build value and provide shareholders with a growth vehicle in which to stay invested.

Our near-term strategy is to complete the work necessary, including procurement and installation of facilities, to bring the oil field online within 10-12 months from closing the transaction in December. We not only believe that goal is achievable, but we expect to begin producing the discovery well later this year. We have started the mobilization of equipment and facilities to the oil field and are pleased with the team’s progress.

While last year saw a significant transition for Sterling shareholders, this year should be even more active. We expect to finalize installation and commission the equipment to bring the oil field online, initiate first production and oil sales, and put a full field development plan in action that includes the drilling of ten new horizontal oil wells at Bretaña.

On behalf of the management team and the Board of Directors, we thank you for supporting our company’s mission and we will work tirelessly to build value for shareholders.

Sincerely,



Manuel Pablo Zúñiga-Pflücker
President and Chief Executive Officer
April 30, 2018

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, 2017 is dated April 30, 2018, and should be read in conjunction with Sterling's audited consolidated financial statements (the "financial statements") for the years ended December 31, 2017 and 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada.

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

This MD&A contains forward-looking statements that should be read in conjunction with the Company's disclosure under "*Forward Looking Statements and Business Risks*".

CORPORATE OVERVIEW AND STRATEGY

Sterling is a publicly-traded, international energy company incorporated and domiciled in Canada. The Company is currently engaged in the exploration for, and the development of, crude oil and natural gas and operates primarily in Peru, South America, in the Bretaña oil field. With an experienced management team and a strong, committed board of directors, growth is anticipated to occur through operational execution and strategic acquisitions.

The Company's immediate focus is to: (a) develop its approximately 2.2 million net acres of undeveloped land on the Bretaña field, one of the largest undeveloped discoveries in Peru, by applying management's knowledge and leveraging management's experience with the local suppliers and regulatory bodies; and (b) secure a farm-in partner to finance the drilling of the Block 107 Osheki prospect.

Until the completion of the ONE Transaction (defined below) on May 16, 2017, the Company was engaged in the exploration for, and the development and production of, crude oil and natural gas in the United Kingdom ("UK") and the Netherlands.

Prior to the plan of arrangement (defined below), on May 8, 2017, at the annual and special meeting of the shareholders of Sterling, the shareholders passed special resolutions approving the following:

- the sale of all or substantially all, of the assets of the Company resulting from the sale by the Company's wholly-owned subsidiary SRUK Holdings Ltd. ("SHL") of the entire issued share capital of Sterling Resources (UK) Ltd. ("SRUK") (the "ONE Transaction") pursuant to a share purchase agreement dated March 3, 2017 between the Company, SHL and Oranje-Nassau Energie B.V. ("ONE") (the "SRUK Share Purchase Agreement"); and
- the voluntary wind-up and dissolution of the Company and the distribution to shareholders in conjunction therewith, in each case as determined by the board of directors in its sole discretion.

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

On June 30, 2017, the Company made a distribution to its shareholders, pursuant to which the aggregate amount of US\$92.8 million or US\$0.63 per common share of Sterling ("Common Share") which was made as a return of capital, with the stated capital of the Common Shares being reduced accordingly. Further distributions of Sterling's remaining cash assets were at that time anticipated to be made on or prior to September 30, 2017 and during the 2018 fiscal year, respectively, prior to ultimately dissolving.

On or about June 29, 2017, Sterling became aware of PetroTal LLC and the potential for a transaction pursuant to which Sterling would complete a reverse take-over of PetroTal LLC, or an affiliate thereof, in connection with the acquisition of Peru assets (defined below).

On December 18, 2017, the Company completed a plan of arrangement with PetroTal Ltd. (“PetroTal”), the parent company of PetroTal LLC, under the ABCA, pursuant to which, among other things, the Company: (i) acquired all of the issued and outstanding shares of PetroTal; and (ii) amalgamated with PetroTal and continued as one corporation under the name “Sterling Resources Ltd.” (the “Plan of Arrangement”). See “*Plan of Arrangement*”.

PLAN OF ARRANGEMENT

On November 9, 2017, Sterling and PetroTal entered into an arrangement agreement (the “Arrangement Agreement”) to effect a business combination pursuant to the Plan of Arrangement. In addition, on November 9, 2017, Sterling entered into a share purchase agreement (the “Share Purchase Agreement”) with PetroTal, Gran Tierra Energy Inc. (“GTE”), and its wholly owned subsidiary Gran Tierra Energy International Holdings Ltd. (“GTEIH”) to acquire Gran Tierra Energy International (Peru) Holdings B.V. (“GTE Peru”), an indirect wholly-owned subsidiary of GTE.

The Plan of Arrangement was completed on December 18, 2017 and resulted in the amalgamation of Sterling and PetroTal under the name “Sterling Resources Ltd”. The Plan of Arrangement constituted a reverse take-over pursuant to the policies of the TSX Venture Exchange. Pursuant to the Arrangement, each common share of PetroTal, including 34,000,000 common shares of PetroTal issued upon the conversion of subscription receipts issued in connection with a brokered private placement, was exchanged for 5.35 Common Shares, resulting in the issuance of an aggregate of 203,300,005 Sterling Shares. See “*Financing Activities and Liquidity*”.

As an additional consideration for the SPA transaction, GTEIH has a 20% carried working interest in Block 107, located in the Ucayali basin in Peru, which interest may, at the option of Gran Tierra, either be converted to a non-carried working interest or be forfeited following the drilling of an exploration well in Block 107. From and after the date of a positive election, GTEIH will pay its pro rata share of costs associated with its 20 percent working interest. Upon closing of the SPA, Gran Tierra Energy holds approximately 45.8 percent of the outstanding common shares of Sterling, with voting rights associated with Sterling shares not to exceed 30 percent of the issued and outstanding shares.

GTE Peru is now a wholly-owned subsidiary of the Company. The acquisition was accounted for as an asset acquisition with the consideration paid being allocated on a fair value basis to the net assets acquired.

FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS

Certain statements contained in this MD&A may constitute 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. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

Forward-looking statements or information in this MD&A include, but are not limited to:

- expectations regarding the timing and completion of the long-term testing facilities;
- expectations for oil prices, and together with other factors including the timing and amount of capital expenditures during 2018, their impact on the Company’s cash balances;
- the Company’s cash requirements and funding expectations;
- the Company’s expectations regarding commitments, future cash flows and cash balances and its plans for mitigating risks that may affect its cash position;
- the Company’s drilling plans on any of its blocks;
- development and growth plans; and

- the Company's strategy and the Company's plans and expectations (see "Discussion of Operations").

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

- will produce hydrocarbons which are consistent with the production profiles prepared by the independent reserves evaluator;
- operates in an environment of political and regulatory stability;
- will be able to obtain all necessary partner and regulatory approvals for a particular course of action on satisfactory terms;
- 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; and
- will be able to progress plans for future investments in the Bretaña field and achieve expected incremental production from such future investments.

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

- liabilities inherent in oil and natural gas operations;
- volatility in market prices for oil and natural gas;
- legal, political and economic instability in Peru;
- uncertainties associated with estimating oil and natural gas resources;
- changes to trade relations;
- completion for capital, acquisitions of reserves and resources, undeveloped lands and skilled personnel;
- geological, technical, drilling and processing problems;
- inadequate infrastructure in Peru;
- changes in income tax laws and incentive programs relating to the oil and natural gas industry;
- risks and uncertainties associated with the regulatory environment in which the Company operates and will operate;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- incorrect assessments of the value of acquisitions;
- 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 independent reserves evaluator or 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 price fluctuations;
- 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, 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;
- the Company's majority shareholder has significant influence on the Company and may also affect the market price and liquidity of the Company's securities;
- 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 may not be available or may be very expensive and restrictive;
- the Company's operations are subject to the risk of litigation;
- significant competition exists in attracting and retaining skilled personnel;
- 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 country 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;
- failure to meet contractual agreements may result in a loss of the Company's interests; and
- failure to follow corporate and regulatory formalities may call into question the validity of the existence and conduct of the Company and its subsidiaries and their respective rights in relation to the Company's assets.

These factors should not be considered exhaustive. Additional risks and uncertainties relating to the Company and its business can be found in the annual information form for the year ended December 31, 2017, which is available on SEDAR 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 ASSUMPTIONS, ESTIMATES AND JUDGEMENTS

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, financing arrangements, impairment indicators, asset acquisition and joint arrangements. Significant estimates in the financial statements include deferred tax assets and liabilities, provisions, commitments and contingent liabilities, provision for future decommissioning obligations, exploration

and evaluation assets and functional currency. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, discount rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty, may be beyond management's control and the effect on future consolidated financial statements from changes in such estimates could be significant.

NON-GAAP FINANCIAL MEASURES

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

Property, plant and equipment and exploration and evaluation asset expenditures is defined as expenditures on property, plant and equipment and exploration and evaluation assets including the effects of accruals (see note 6 in the Company's financial statements for the years ended December 31, 2017 and 2016) and is used to monitor the capital intensity of assets.

Net working capital surplus (deficit) is defined as current assets less current liabilities. See "*Financing Activities and Liquidity*".

SELECTED ANNUAL INFORMATION

Years ended December 31,	2017	2016
\$ thousands except where defined		
Revenues	-	-
Net (loss) income	(2,754)	-
Net (loss) income per weighted average Common Share - basic and diluted (\$)	(0.13)	-
Exploration and evaluation asset expenditures	154	-
Net working capital surplus (deficit)	47,431	-
Total assets	98,766	-
Total liabilities	16,723	-
Shareholders' equity	82,043	-
Common Shares outstanding (000s)-basic	537,736	147,186

The year ended December 31, 2017 was a transformative year for the Company. The transactions that were completed, summarized under "*Corporate Overview and Strategy*", had a significant impact on the comparability of the Company's period over period results.

For the year ended December 31, 2017, the Company recorded a net loss of \$2.75 million (\$0.13 per weighted average Common Share).

Net loss for the year ended December 31, 2017 is largely comprised of the following elements:

TRANSACTION COSTS-PLAN OF ARRANGEMENT

For the year ended December 31, 2017, the Company incurred \$1.8 million in costs related to structuring and completing the Plan of Arrangement. See "*Plan of Arrangement*". The Company incurred an additional \$2.9 million in legal and professional costs related to the brokered private placement offering of subscription receipts, which were charged against share capital as subscription receipt costs. See "*Financing Activities and Liquidity*".

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, 2017, the Company recorded a foreign exchange loss of \$32 thousands primarily related to the cash balances and transactions in Peruvian Soles.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

For the year ended December 31, 2017, general and administration expense was \$0.91 million, including \$0.43 million related to employee performance bonuses accrued during the year.

DISCUSSION OF OPERATIONS

In 2018, the Company plans to develop the Bretaña oil field. Initially, facilities will be brought into the field in order to place the existing oil discovery well on production. Following that, the Company plans to spud its first development well, which is expected to be completed in late 2018.

As of the date hereof, the Company's objective of putting the Bretaña field online by year-end 2018 is on target, with commissioning of facilities expected to begin as early as August 2018. Facilities have been transported to the field from storage, and production equipment has been procured and brought to the field to be installed. The Company is negotiating future oil prices and pipeline tariffs with Peru's state oil company, PeruPetro.

The Bretaña oil field expects to require approximately \$22.5 million to be put on production before year-end 2018, allocated as follows: \$17.8 million in facilities and civil works to start production from the existing discovery well that tested oil during a short-term test prior to being shut in, as well as some maintenance work on the other projects; and the remaining \$4.7 million to complete the ongoing Bretaña full field development environmental permit and for capitalized general and administrative expenses. In addition, the Company also plans to invest \$2.0 million to work over the existing oil well and the existing water reinjection well. The Company expects to spud Bretaña's second oil producing well before year end at a cost of \$5.4 million, representing about one third of the total cost of this well that is expected to be completed in early 2019. The Company will also invest \$0.5 million on Osheki's logistics, with the expectation of bringing a joint venture partner to drill this important prospect the following year.

INCOME TAXES

At December 31, 2017, the tax basis in excess of net book value was \$181.7 million (tax effected – \$58.1 million) that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

At December 31, 2017, the Company had operating loss carryforwards of \$4.1 million (December 31, 2016 – \$nil), which will expire between 2018 and 2019. No deferred tax assets have been recognized in respect of the operating loss carryforwards as at December 31, 2017.

SUMMARY OF QUARTERLY RESULTS

\$000s	2017				2016			
	3 months ended				3 months ended			
	Dec.31	Sep. 30	Jun. 30	Mar. 31	Dec.31	Sep. 30	Jun. 30	Mar. 31
Revenue	-	-	-	-	-	-	-	-
Net (loss) income	(2,754)	-	-	-	-	-	-	-
Net (loss) income per weighted average Common Share – basic and diluted (\$)	(0.13)	-	-	-	-	-	-	-

The factors discussed under "Operating Highlights" are critical in assessing the comparability of the Company's quarter over quarter results.

FINANCING ACTIVITIES AND LIQUIDITY

On November 9, 2017, in conjunction with the Plan of Arrangement, PetroTal entered into an agreement with a syndicate of investment dealers for a brokered private placement offering of subscription receipts on a best efforts agency basis at a price of \$1.00 per Subscription Receipt. On December 12, 2017, PetroTal issued a total of 34,000,000 subscription receipts for aggregate gross proceeds of \$34.0 million. On December 18, 2017, each subscription receipt was converted into one common share of PetroTal and such shares were exchanged for Common Shares pursuant to the Plan of Arrangement.

The costs associated with the private placement offering of subscription receipts amounted to \$2.9 million. The Company also issued 390,000 (2,086,500 after conversion) warrants ("Compensation Warrants") to the agents as compensation.

It is anticipated that the Company's commissioning of facilities and development of the Bretaña field will be funded through funds received from the private placement. A breakdown of the Company's net working capital as at December 31, 2017 is provided below.

Net Working Capital

(\$ thousands)	December 31, 2017
Cash	48,783
VAT and other receivables	881
Inventory	295
Prepaid expenses	147
Trade and other payables	(2,675)
	47,431

Net working capital, defined as current assets less current liabilities was \$47.4 million as at December 31, 2017. See "Discussion of Operations" for a discussion of the Company's working capital requirements in 2018.

CAPITAL RESOURCES

As of December 31, 2017, the Company holds the following commitments in the exploration blocks in Peru, which are guaranteed by letters of credit:

Block	Beneficiary	Amount - \$000s	Commitment
107	PeruPetro S.A.	3,000	Minimum work – Phase 5 – Two exploration wells
133	PeruPetro S.A.	3,000	Minimum work – Phase 3 – 200 km 2D Seismic

Blocks 123 & 129 – On December 27, 2017, due to persisting security conditions preventing the continuation of the exploration program, the Company applied for a relinquishment of these blocks. See notes 13 and 15 on the financial statements for further details.

EXPLORATION AND EVALUATION ACTIVITY

During the year ended December 31, 2017, the Company's evaluation and exploration activity in the Bretaña oil field was minimal and, prior to the Company's acquisition of GTE Peru, GTE and its affiliates did not perform any material development activities in the Bretaña oil field during the year ended December 31, 2017.

DECOMMISSIONING OBLIGATIONS

The following table sets out the Company's decommissioning obligations for the Bretaña field:

(\$ thousands)	December 31, 2017
Balance, beginning of the year	-
Additions from Peru asset acquisition (note 1)	14,023
Accretion of decommissioning discount	25
Balance, end of the year	14,048

The Company has estimated the net present value of its decommissioning liabilities to be \$14.05 million based on a total undiscounted future liability, after inflation adjustment of \$15.45 million. The present value of the obligations was calculated using a credit-adjusted risk rate of 5.85 percent to reflect the market assessment of the time value of money as well as risks specific to the liabilities that have not been included in the cash flow estimates. The inflation rate used in determining the cash flow estimates varies from 0.1 percent to 2.30 percent.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company had no related party transactions or off-balance sheet arrangements.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at the date hereof, there are issued and outstanding:

- 537,740,991 Common Shares;
- 23,540,000 performance warrants of the Company ("Performance Warrants"); and
- 2,086,500 Compensation Warrants.

For a description of the Performance Warrants and Compensation Warrants, refer to Sterling's annual information form available via SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

Additional information about Sterling Resources Ltd. and its business activities, including Sterling's annual information form and audited financial statements for the years ended December 31, 2017 and 2016 are available via SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the management discussion and analysis and notes to the consolidated financial statements 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 professional 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.



Manuel Pablo Zuniga-Pflucker
Chief Executive Officer



Gregory E. Smith
Chief Financial Officer

April 30, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sterling Resources Ltd.

We have audited the accompanying consolidated financial statements of Sterling Resources Ltd., which comprise the consolidated balance sheet as at December 31, 2017 and December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 audits. We conducted our audits 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 in our audits 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 balance sheet of Sterling Resources Ltd. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

The logo for Debitte LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Professional Accountants
April 30, 2018
Calgary, Alberta

CONSOLIDATED BALANCE SHEET

(\$ thousands)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash (note 4)	48,783	-
VAT and other receivables (note 7)	881	-
Inventory	295	-
Prepaid expenses	147	-
	50,106	-
Non-current assets		
Exploration and evaluation assets (note 6)	38,571	-
Property, plant and equipment	109	-
VAT receivables (note 7)	9,980	-
	48,660	-
Total Assets	98,766	-
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables (note 8)	2,675	-
	2,675	-
Non-current liabilities		
Decommissioning obligations (note 9)	14,048	-
Total Liabilities	16,723	-
Equity		
Share capital (note 10)	84,793	-
Contributed surplus (note 10)	4	-
Deficit	(2,754)	-
Total equity	82,043	-
Total liabilities and equity	98,766	-

CONSOLIDATED INCOME STATEMENT

For the years ended December 31 (\$ thousands, except per share amounts)	2017	2016
Expenses		
General and administration expense	(910)	-
Depreciation and amortization	(2)	-
Transaction costs (note 1)	(1,810)	-
Foreign exchange loss	(32)	-
Total expenses	(2,754)	-
Net loss	(2,754)	-
Net loss per common share (note 11)		
Basic and diluted (\$)	(0.13)	-

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the years ended December 31 (\$ thousands)	2017	2016
Net loss	(2,754)	-
Comprehensive loss	(2,754)	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(\$ thousands)	Share Capital	Contributed Surplus	Surplus / (deficit)	Total
Balance at January 1, 2016	-	-	-	-
Equity Issuances (note 10)	-	-	-	-
Balance at December 31, 2016	-	-	-	-
Balance at January 1, 2017	-	-	-	-
Equity Issuances (note 10)	87,659	-	-	87,659
Subscription receipt costs (note 10)	(2,862)	-	-	(2,862)
Agents' warrants	(4)	4	-	-
Loss for the period	-	-	(2,754)	(2,754)
Balance at December 31, 2017	84,793	4	(2,754)	82,043

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31 (\$ thousands)	2017	2016
Cash flows from operating activities		
Net loss for the period	(2,754)	-
Adjustments for:		
Unrealized foreign exchange loss	24	-
Depreciation and amortization	2	-
Accretion of decommissioning obligation	25	-
	(2,703)	-
Changes in non-cash working capital:		
Trade and other receivables	(56)	-
Prepays	(91)	-
Trade and other payables	1,763	-
Net cash used in operating activities	(1,087)	-
Cash flows from investing activities		
Exploration and evaluation asset additions	(154)	-
Net cash used in investing activities	(154)	-
Cash flows from financing activities		
Proceeds from subscription receipts, net of issuance costs	31,139	-
Cash acquired from reverse takeover and Gran Tierra Peru	18,893	-
Net cash provided by financing activities	50,032	-
Net Increase in cash	48,791	-
Cash, beginning of the year	-	-
Effect of translation on foreign currency cash	(8)	-
Cash, end of the year	48,783	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2017 and 2016. All amounts are stated and presented in United States dollars unless otherwise noted.

1. CORPORATE INFORMATION

Sterling Resources Ltd. (the “Company” or “Sterling”) 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 Peru, South America. The Company’s registered office is located at 4000, 421 – 7th Avenue S.W., Calgary, Alberta, Canada.

These audited consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

These audited consolidated financial statements (the “Financial Statements”) were approved for issuance by the Company’s Board of Directors on April 30, 2018, on the recommendation of the Audit Committee.

PLAN OF ARRANGEMENT

On November 9, 2017, Sterling and PetroTal Ltd (“PetroTal”) entered into an arrangement agreement (the “Arrangement”) whereby Sterling and PetroTal would complete a business combination pursuant to a plan of arrangement (the “Plan of Arrangement”) under the Alberta *Business Corporations Act*.

The plan of arrangement was completed on December 18, 2017 and resulted in the amalgamation of Sterling and PetroTal under the name “Sterling Resources Ltd”. The plan of arrangement constituted a reverse takeover pursuant to the policies of the TSX Venture Exchange (the “TSXV”) and was subject to the acceptance of the TSXV. Pursuant to the Arrangement, each common share of PetroTal was exchanged for 5.35 common shares of Sterling, resulting in the issuance of an aggregate of 203,300,005 Sterling Shares.

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

On December 18, 2017, pursuant to the SPA and in the manner set forth in the Plan of Arrangement, Sterling completed the acquisition of all the issued and outstanding common shares of Gran Tierra Energy International (Peru) Holdings B.V. for 187,250,000 common shares of Sterling, at a deemed price of approximately US\$0.1869 per Sterling Share. As an additional consideration for the SPA transaction, GTEIH has a 20% carried working interest in Block 107, located in the Ucayali basin in Peru, which interest may, at the option of Gran Tierra, either be converted to a non-carried working interest or be forfeited following the drilling of an exploration well in Block 107. From and after the date of a positive election, GTEIH will pay its pro rata share of costs associated with its 20 percent working interest. Upon closing of the SPA, Gran Tierra Energy holds approximately 45.8 percent of the outstanding common shares of Sterling, with voting rights associated with Sterling shares not to exceed 30 percent of the issued and outstanding shares. The Company incurred costs of \$1.81 million in the structuring and closing of the Plan of Arrangement.

Upon completion of the transaction, GTE Peru became a wholly-owned subsidiary of Sterling Resources Ltd. The acquisition was accounted for as an asset acquisition with the consideration paid being allocated on a fair value basis to the net assets acquired. The following table shows the allocation of the cost of the acquisition based on the relative fair values of the assets and liabilities acquired.

Consideration paid (\$ thousands):	
187,250,000 shares at \$0.1869 per share	34,997
Allocation of consideration paid:	
Exploration and evaluation assets	38,571
Property, plant and equipment	111
Net working capital	415
Long term receivables	9,923
Decommissioning obligations	(14,023)
	34,997

THE FINANCING

On November 9, 2017, in conjunction with the Plan of Arrangement, PetroTal entered into an agreement with a syndicate of investment dealers (the “Agents”), for a brokered private placement offering of subscription receipts on a best efforts agency basis at a price of US\$1.00 per Subscription Receipt. On December 12, 2017, PetroTal closed a brokered private placement offering of 34,000,000 subscription receipts for aggregate gross proceeds of \$34.00 million (the “Financing”). The costs associated with the private placement offering of subscription receipts amounted to \$2.9 million. The Company also issued 390,000 (2,086,500 after conversion) warrants to the Agents as compensation (note 10).

Each Subscription Receipt was exchanged into one common share in the capital of PetroTal without any further action required on the part of the holder of the Subscription Receipt and without payment of any additional consideration, upon the completion of the plan of arrangement of Sterling and PetroTal.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”).

BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

PRINCIPLES OF CONSOLIDATION

The Company’s consolidated financial statements comprise the financial statements of the Company and the wholly-owned group of companies. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company’s, using consistent accounting policies.

Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions with the Company’s subsidiaries, are eliminated on consolidation.

USES OF ACCOUNTING ASSUMPTIONS, ESTIMATES AND JUDGMENTS

The preparation of the Company’s 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 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 the Financial Statements are summarized below:

Functional Currency

The functional currency of each of the Company's entities is the United States dollar, which is the currency of the primary economic environment in which the entities operate.

Exploration and Evaluation Assets

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.

Petroleum and natural gas assets are grouped into cash generating units ("CGUs") identified as having largely independent cash flows and are geographically integrated. The determination of the CGUs was based on management's interpretation and judgement.

Impairment Indicators

The Company monitors internal and external indicators of impairment relating to the exploration and evaluation assets. Among others, the following are the types of indicators used:

- The entity's right to explore in an area has expired during the period or will expire in the near future without renewal;
- No further exploration or evaluation work is planned or budgeted in the specific area;
- 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.

The assessment of impairment indicators requires the exercise of judgment. If an impairment indicator exists, then the recoverable amounts of 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 Obligations

Decommissioning obligations will be incurred by the Company at the end of the operating life of wells or supporting infrastructure. The ultimate asset decommissioning costs and timing are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques, experience at other production sites. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The expected amount of expenditure is estimated using a discounted cash flow calculation with a risk-free discount rate.

Liabilities for environmental costs are recognized in the period in which they are incurred, normally when the asset is developed and the associated costs can be estimated.

Deferred Tax Assets & Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of oil and gas reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected. The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

Provisions, commitments and contingent liabilities

Amounts recorded as provisions and amounts disclosed as commitments and contingent liabilities are estimated based on the terms of the related contracts and management's best knowledge at the time of issuing the consolidated financial statements. The actual results ultimately may differ from those estimates as future confirming events occur.

SIGNIFICANT ACCOUNTING POLICIES

a. Cash

Cash includes deposits held with banks in Canada and the United Kingdom that are available on demand and highly liquid.

b. Restricted Cash

Cash and cash equivalents unavailable for use by the Company or its subsidiaries due to certain restrictions that may be in place are classified as restricted cash.

c. Property, Plant and Equipment

Property, plant and equipment is recorded at cost less accumulated depreciation. Depreciation begins when the asset is put into service and is calculated annually using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective asset. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance, and any resulting gain or loss is reflected in the consolidated statement of loss and comprehensive loss.

When commercial production in an area has commenced, PP&E properties, excluding surface costs are depleted using the unit-of-production method over their proved plus probable reserve life. Proved plus probable reserves are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of proved plus probable reserves that affect unit-of-production calculations are accounted for on a prospective basis

d. Inventory

Inventory consists of materials and supplies to be used in exploration activities and is measured at the lesser of acquisition cost and net realizable value. The cost of the inventory is recognized using the weighted average method.

e. Financial Instruments

Financial instruments are classified into one of the following categories: fair-value-through-profit-and-loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. Financial

instruments are measured in the consolidated statement of financial position at fair value, except for loans and receivables, held-to-maturity, and other financial liabilities, which are measured at amortized cost. Subsequent measurement of financial instruments measured at fair value is dependent upon initial classification as follows: (1) fair-value-through-profit-and-loss financial assets are measured at fair value with changes in fair value recognized in net income (loss); (2) available-for-sale financial instruments are measured at fair value with changes in fair value recognized in other comprehensive income until the instrument is derecognized or impaired.

The Company's financial instruments consist of cash, and other receivables and trade and other payables. These are included in current assets and current liabilities, respectively due to their short-term nature. The Company initially measures financial instruments at fair value.

f. Exploration and Evaluation Assets

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are expensed as incurred.

At each reporting date, the carrying amounts of the Company's exploration and evaluation assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year. The exploration and evaluation phase of a particular project is completed when both the technical feasibility and commercial viability of extracting oil or gas are demonstrable for the project or there is no prospect of a positive outcome for the project. Exploration and evaluation assets with commercial reserves will be reclassified to development and production assets and the carrying amounts will be assessed for impairment and adjusted (if appropriate) to their estimated recoverable amounts.

When an area is determined to be technically feasible and commercially viable the accumulated costs are transferred to property, plant and equipment, where they are depleted. Exploration and evaluation assets are not amortized during the exploration and evaluation stage. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive income (loss) as impairment of exploration and evaluation assets.

g. Decommissioning Obligations

The Company recognizes a decommissioning liability in relation to the evaluation and exploration assets and to property, plant and equipment, in the period in which a reasonable estimate of the fair value can be made of the statutory, contractual, constructive or legal liabilities associated with the retirement of the oil and gas properties, facilities and pipelines. The amount recognized is the estimated cost of decommissioning, discounted to its present value using a credit-adjusted discount rate. The estimates are reviewed periodically. Changes in the provision resulting from changes to the timing of expenditures, costs or risk-free rates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment or exploration and evaluation assets. The unwinding of the discount on the decommissioning provision is charged to the consolidated statement of loss and comprehensive loss. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated income statement.

h. Income Taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss. Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in

respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

i. Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

j. 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 period-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.

k. Earnings per Share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares (the “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.

l. Fair Value Measurements

Financial instruments recorded at fair value in the consolidated balance sheet (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 below:

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.

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

Level III

Valuations are made using inputs for the asset or liability that are not based on observable market data. Sterling uses Level III inputs for fair value measurements in inputs such as commodity prices in impairment assessments.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following pronouncements from the International Accounting Standards Board are issued and will become effective for future reporting periods. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued final amendments to IFRS 9, replacing IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple category and measurement models in IAS 39. The categorization approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting. The requirements of IFRS 9 are effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaced the multiple classification and measurement models for financial assets that existed under IAS 39 Financial Instruments, and the basis on which financial assets are measured determines their classification as either, at amortized cost, fair value through profit and loss, or fair value through other comprehensive income. Therefore, the adoption of this standard results in a reclassification of financial assets classified as loans and receivables to financial assets at amortized cost, however there is no impact to the measurement of these financial assets. The implementation of IFRS 9 will not have a material effect on the Company’s consolidated financial statements.

IFRS 15- Revenue from contracts with customers

In May 2014, the IASB and FASB jointly issued IFRS 15 “Revenue from Contracts with Customers,” which replaces IAS 18 “Revenue,” IAS 11 “Construction Contracts,” and other revenue related interpretations. In April 2016, the IASB issued amendments to IFRS 15, clarifying the application of certain of its underlying principles, including the identification of a performance obligation, and the determination of whether a company is a principal or is acting as an agent in the provision of a good or service. The amendments became effective concurrent with the effective date of IFRS 15 on January 1, 2018. The implementation of IFRS 15 will not have a material effect on the Company’s consolidated financial statements.

IFRS 2 - “Share-based Payment”

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based accounting transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The implementation of IFRS 2 will not have a material effect on the Company’s consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 “Leases”, which replaces IAS 17 “Leases”. IFRS 16 eliminates the distinction between operating and financing leases and provides a single lessee accounting model that requires the lessee to recognize assets and liabilities for all leases on its balance sheet. Leases to explore for or use oil or natural gas are specifically excluded from the scope of IFRS 16. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been applied. The Company has not yet assessed the potential effect of the implementation of IFRS 16 on its consolidated financial statements.

4. CASH

Cash consists of the following:

(\$ thousands)	December 31, 2017	December 31, 2016
Balances held in:		
US dollars	48,764	-
Peruvian Soles	19	-
Total cash	48,783	-

The Company does not record any restricted cash; however once qualified as an operator in Peru, up to \$6 million in cash could be restricted depending on status of work commitments (note 13).

5. FINANCIAL INSTRUMENTS

The Company's financial instruments, including cash, other receivables, and other payables. 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 Company is exposed to various financial risks arising from normal-course business exposure. These risks include market risks relating to foreign exchange rate fluctuations, interest rate risk and commodity price risk and as well as liquidity risk and credit risk as described below.

FOREIGN EXCHANGE RATE RISK

The Company's functional currency is the United States dollar. 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 one percent fluctuation in translation rates would have the following impact on net income or loss, based on foreign currency balances held at December 31, 2017.

	(\$ thousands)
US Dollar vs. Canadian dollar	Nil
US Dollar vs. Peruvian Sol	Nil

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 at December 31, 2017, there is no interest risk impact as the Company does not have cash balances invested at short term interest rates.

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's liquidity position has improved in the year ended December 31, 2017 following the closing of the arrangement on December 18, 2017 (note 1). Cash and cash equivalents in the year ended December 31, 2017 increased to approximately \$50 million.

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 VAT and other receivables are primarily for sales tax credits ("VAT") on exploration and evaluation expenses incurred in prior years. These credits will be applied to future oil development activities or recovered as per the sale tax recovery legislation currently in effect. The Company had no other material concentrations of receivables with third parties.

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. Management believes that there is no risk on the recoverability and or applicability of the sales tax credits. Therefore, no impairment to the carrying value of these assets has been estimated.

The Company has deposited its cash and cash equivalents 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, 2017, the cash and cash equivalents were held with five different institutions from two countries, mitigating the credit risk of a collapse of one particular bank.

6. EXPLORATION AND EVALUATION ASSETS

The following table sets out a continuity of the exploration and evaluation assets:

(\$ thousands)	December 31, 2017	December 31, 2016
Balance, beginning of the year	-	-
Additions from Peru asset acquisition (note 1)	38,417	-
Additions during the year	154	-
Balance, end of the year	38,571	-

7. VAT AND OTHER RECEIVABLES

(\$ thousands)	December 31, 2017	December 31, 2016
VAT receivable - Current	531	-
Other receivables	350	-
Total current	881	-
VAT receivable- Non-current	9,980	-
Total VAT and other receivables	10,861	-

8. TRADE AND OTHER PAYABLES

(\$ thousands)	December 31, 2017	December 31, 2016
Trade payables	227	-
Tax withholdings payable	149	-
Accrued liabilities	2,185	-
Other payables	114	-
Total trade and other payables	2,675	-

9. DECOMMISSIONING OBLIGATIONS

The following table sets out the continuity of decommissioning obligations:

(\$ thousands)	December 31, 2017	December 31, 2016
Balance, beginning of the year	-	-
Additions from Peru asset acquisition (note 1)	14,023	-
Accretion of decommissioning discount	25	-
Balance, end of the year	14,048	-

The Company has estimated the net present value of its decommissioning liabilities to be \$14.05 million based on a total undiscounted future liability, after inflation adjustment of \$15.45 million. The present value of the obligations was calculated using a credit-adjusted risk rate of 5.85 percent to reflect the market assessment of the time value of money as well as risks specific to the liabilities that have not been included in the cash flow estimates. The inflation rate used in determining the cash flow estimates varies from 0.1 percent to 2.30 percent.

10. 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:

	December 31, 2017	
	Shares	Amount
	000s	\$000s
Balance, beginning of the year	-	-
Equity issuances:		
PetroTal – Pre-Transaction (effected for Share Exchange)	21,400	-
PetroTal - Subscription Receipts (note 1)	181,900	34,000
Consideration Paid by PetroTal (Sterling Shares @ FV)	147,186	18,662
Acquisition of Gran Tierra Energy International Holdings	187,250	34,997
Less agents' warrants	-	(4)
Less subscription receipts costs	-	(2,862)
Balance, end of the year	537,736	84,793

Pursuant to the Arrangement Agreement closed on December 18, 2017, whereby Sterling and PetroTal completed a plan of arrangement that constituted a reverse takeover under the policies of the TSX Venture Exchange, Sterling acquired all of the issued and outstanding PetroTal shares from PetroTal shareholders in exchange for 5.35 Sterling shares for each PetroTal share. An aggregate of 203,300,005 Sterling shares were issued a deemed price of \$0.1869 per Sterling share.

In addition, pursuant to the share purchase agreement among Sterling, Gran Tierra Energy Inc. (“GTE”), and its wholly owned subsidiary Gran Tierra Energy International Holdings Ltd. (“GTEIH”), Sterling acquired all of the issue and outstanding shares of Gran Tierra Energy International (Peru) Holdings B.V. (“GTE Peru”), an indirect wholly-owned subsidiary of GTE. In consideration for the Gran Tierra Peru shares, Sterling issued 187,250,000 Sterling shares at a deemed price of \$0.1869 per Sterling share. This acquisition was completed on December 18, 2017.

AGENTS' WARRANTS

As disclosed in note 1, pursuant to the agency agreement entered into and, as compensation for the services rendered in connection with the brokered private placement offering, the Agents received a fee of US\$0.06 per each subscription receipt subscribed and 390,000 warrants (the “Agents’ Warrants”) at the offering price of \$1.00 per Agents’ Warrant. On conversion at 5.35 Sterling shares per warrant, total number of Agents’ Warrants amounts to 2,086,500. Each converted Agents’ Warrant entitles the holder to purchase one common share of the Company at an exercisable price of \$0.1869 per converted Agents’ Warrant on or before June 12, 2019.

The fair value of the Agents' Warrants estimated at \$4.00 (using a Black Scholes option pricing model) was netted against proceeds from share capital (as share issue costs).

The following assumptions were used in the Black-Scholes option pricing model to estimate the fair value of the Broker's Warrants as at the date of issue.

	December 12, 2017
Number of warrants	2,086,500
Share price at valuation date	\$ 0.1089
Exercise price	\$ 0.1869
Risk-free interest rate (percent)	1.684
Expected life of option	1.50
Volatility in the price of the Company's shares (percent)	30.0
Expected annual dividend yield (percent)	0.00
Call Option Value	\$ 0.0019
Value of warrants	\$ 3,903

PERFORMANCE WARRANTS

There are 5,000,000 performance warrants outstanding. The warrants have an exercise price of \$1.00 per share, a 5-year term and will vest upon achievement of certain oil and gas production targets, within a specified period of time following the closing of the Arrangement Agreement (note 1). Each warrant will be adjusted as to the number of shares to be issued on the exercise date and the exercise price of the warrant. The fair value of the compensation warrants is dependent upon certain valuations and other studies that have yet to be completed. The fair value of the compensation warrants is zero as none of the vesting conditions have been achieved.

The number of warrants as of December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Balance, beginning of the year	-	-
Additions during the year	7,086,500	-
Balance, end of the year	7,086,500	-

11. NET LOSS PER SHARE

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

	2017	2016
Weighted average shares outstanding (000s)	20,434	-
Net loss (\$000s)	(2,754)	-
Weighted average loss per share (\$)		
Basic	(0.13)	-
Diluted	(0.13)	-

12. RELATED PARTIES

The Company's related parties include its key management personnel, directors and entities which are directly or indirectly owned and controlled by the Company. The key management personnel of the Company are comprised of executives of the Company and members of its board of directors. Key management personnel compensation for the year ended December 31, 2017, including bonuses and benefits, was \$0.69 million. Additionally, 4,400,000 performance warrants were issued to key management personnel with an exercise price of \$1.00 and a five-year term to exercise the option (note 10).

15. SUBSEQUENT EVENTS

On January 22, 2018, pursuant to the application filed on December 27, 2017, the national oil company, PeruPetro, approved the relinquishment of blocks 123 and 129.

CORPORATE INFORMATION

DIRECTORS

JAMES B. TAYLOR (1) (5)
Chair
Santa Fe, USA

RYAN ELLSON (4) (5)
Calgary, Canada

GARY S. GUIDRY (2) (7)
Calgary, Canada

MARK McCOMISKEY (3) (6)
Greenwich, USA

DOUGLAS C. URCH (3) (8)
Calgary, Canada

GAVIN WILSON (1) (7)
Zurich, Switzerland

MANUEL ZUNIGA-PFLUCKER
Katy, USA

- (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
- (7) Health, Safety, Environment and Social Committee
- (8) Chair of Health, Safety, Environment and Social Committee

OFFICERS

MANUEL ZUNIGA-PFLUCKER
President and Chief Executive Officer

GREGORY E. SMITH
Executive Vice President and Chief Financial Officer

CHARLES FETZNER
Vice President, Asset Development

ESTUARDO ALVAREZ-CALDERON
Vice President, Exploration and Development

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

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STOCK EXCHANGE LISTING

THE TSX VENTURE EXCHANGE
Stock Exchange Trading Symbol: SLG

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ANNUAL GENERAL AND SPECIAL MEETING

May 30, 2018 at 10.00 AM Mountain Daylight Time
The Clarkson & Tétrault Boardroom
McCarthy Tétrault LLP
Suite 4000, 421 – 7th Avenue S.W. Calgary, Alberta,
Canada, T2P 4K9

