

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of Sterling Resources Ltd. ("Sterling" or the "Company") for the three months ended March 31, 2018, is dated May 29, 2018, and should be read in conjunction with the Company's unaudited condensed consolidated financial statements (the "financial statements") for the three months ended March 31, 2018 and 2017, as well as the Company's audited consolidated financial statements for the year ended December 31, 2017. The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting 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 thousands of 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. 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 beginning with 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.

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.

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, could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A.

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 JUDGEMENTS AND ESTIMATES

Management is required to make judgments, assumptions and estimates that have a significant impact on the Company's financial results. Significant judgments in the financial statements include going concern, functional currency, impairment indicators, assessment of transfers from E&E to PPE and asset acquisition. Significant estimates in the financial statements include commitments, contingent liabilities, provision for future decommissioning obligations, recoverable amounts for exploration and evaluation assets and accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, discount rates, cost estimates and production profiles. By their nature, all 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 QUARTERLY INFORMATION

Three months ended March 31,	2018	2017
<hr/> \$ thousands except where defined <hr/>		
Revenues	-	-
Net (loss) income	(1,544)	-
Net (loss) income per weighted average Common Share - basic and diluted (\$)	(0.00)	-
Exploration and evaluation asset additions	4,731	-
Net working capital surplus (deficit)	42,554	-
Total assets	97,363	-
Total liabilities	16,864	-
Shareholders' equity	80,499	-
<hr/>		
Common Shares outstanding (000s)	537,736	-

For the three months ended March 31, 2018, the Company recorded a net loss of \$1.54 million (\$Nil in March 31, 2017).

Capital expenditures were \$4.7 million in the period. Sterling expects to invest \$30.6 million in capital projects in 2018, as approved by its Board of Directors. It is expected that activity levels will increase significantly in the following periods as the execution of the approved 2018 budget progresses.

Working capital decreased to \$42.6 million at March 31, 2018 compared to \$47.4 million at December 31, 2017 mainly because of the increased capital expenditures in the period.

Net loss for the three months ended March 31, 2018 is largely comprised of the following elements:

ACCRETION ON DECOMMISSIONING OBLIGATIONS

During the three months ended March 31, 2018, the Company recognized an accretion expense of \$218 thousand as a result of updating the net present value of its decommissioning liabilities.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

General and administration expense was \$1.3 million for the three months ended March 31, 2018 compared to \$0.91 million for the three months ended December 31, 2017.

DISCUSSION OF OPERATIONS

In 2018, the Company plans to commence the development of 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 spud 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 June 2018, at which time the Company will open the well and expect to be able to produce 100 percent oil at a reduced rate of approximately 1,000 barrels per day. This early commissioning phase will last until the full water treatment and reinjection equipment is installed, which is expected to be in October 2018. The Company is negotiating future oil sales prices and pipeline tariffs with Peru's state oil company, PeruPetro. The bulk of the Company's capital expenditures have been to bring the oil field online.

The Bretaña oil field will require approximately \$18.3 million to be put on production before year-end 2018, allocated as follows: \$13.6 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 has completed a work over of 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.

SUMMARY OF QUARTERLY RESULTS

\$000s	3 months ended				3 months ended			
	Mar-31 2018	Dec-31 2017	Sep-30 2017	Jun-30 2017	Mar-31 2017	Dec-31 2016	Sep-30 2016	Jun-30 2016
Revenue	-	-	-	-	-	-	-	-
Net (loss) income	(1,544)	(2,754)	-	-	-	-	-	-
Net (loss) income per weighted average Common Share – basic and diluted (\$)	(0.00)	(0.13)	-	-	-	-	-	-

FINANCING ACTIVITIES AND LIQUIDITY

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 March 31, 2018 is provided below.

Net Working Capital

(\$ thousands)	March 31, 2018
Cash	42,059
VAT and other receivables	2,557
Inventory	295
Prepaid expenses	241
Trade and other payables	(2,598)
	42,554

Net working capital, defined as current assets less current liabilities was \$47.4 million as at December 31, 2017.

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. The relinquishment was subsequently approved by PeruPetro S.A. on January 22, 2018.

EXPLORATION AND EVALUATION ACTIVITY

During the three months ended March 31, 2018, the Company's evaluation and exploration activity had an increase due to the capital expenditures incurred development of the Bretaña oil field. During the period ended December 31, 2017, the level of activity was minimal.

DECOMMISSIONING OBLIGATIONS

The following table sets out the Company's decommissioning obligations for the Peruvian assets:

(\$ thousands)	March 31, 2018
Balance, beginning of the period	14,048
Additions from Peru asset acquisition	-
Accretion of decommissioning discount	218
Balance, end of the period	14,266

The Company has estimated the net present value of its decommissioning liabilities to be \$14.27 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 2.0 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:

- 537,736,005 Common Shares;
- 26,750,000 performance warrants of the Company (“Performance Warrants”); and
- 2,086,500 Agents’ Warrants.

For a description of the Performance Warrants and Agents’ 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 unaudited condensed consolidated financial statements and all information in the management discussion and analysis and notes to the condensed consolidated financial statements are the responsibility of management. The condensed consolidated financial statements were prepared by management in accordance with International Accounting Standards "IAS" 34 – Interim Financial Reporting outlined in the notes to the condensed consolidated financial statements. Other financial information appearing throughout the report is presented on a basis consistent with the condensed 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 condensed consolidated financial statements.

The Audit Committee reviewed the condensed consolidated financial statements with management and with the auditors. The Board of Directors has approved the unaudited condensed consolidated financial statements.



Manuel Pablo Zuniga-Pflucker
Chief Executive Officer



Gregory E. Smith
Chief Financial Officer

May 29, 2018

CONDENSED CONSOLIDATED BALANCE SHEET

(\$ thousands)	March 31, 2018	December 31, 2017
(Unaudited)		
ASSETS		
Current assets		
Cash (note 4)	42,059	48,783
VAT and other receivables (note 6)	2,557	881
Inventory	295	295
Prepaid expenses	241	147
	45,152	50,106
Non-current assets		
Exploration and evaluation assets (note 5)	43,262	38,571
Property, plant and equipment	146	109
VAT receivable (note 6)	8,803	9,980
	52,211	48,660
Total Assets	97,363	98,766
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	2,598	2,675
	2,598	2,675
Non-current liabilities		
Decommissioning obligations (note 7)	14,266	14,048
Total liabilities	16,864	16,723
Equity		
Share capital (note 8)	84,793	84,793
Contributed surplus (note 8)	4	4
Deficit	(4,298)	(2,754)
Total equity	80,499	82,043
Total liabilities and equity	97,363	98,766

Commitments (note 11)

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED INCOME STATEMENT

Three months ended March 31,

(\$ thousands, except per share amounts)

2018

2017

(unaudited)

	2018	2017
Expenses		
General and administration expense	(1,296)	-
Finance expense	(218)	-
Depreciation and amortization	(17)	-
Impairment expense	(40)	-
Foreign exchange gain	27	-
Total expenses	(1,544)	-
Net loss	(1,544)	-
Net loss per common share (note 10)		
Basic and diluted (\$)	(0.00)	-

See accompanying notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three months ended March 31,

(\$ thousands)

2018

2017

(unaudited)

Net loss

(1,544)

-

Comprehensive loss

(1,544)

-

See accompanying notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(\$ thousands)	Share Capital	Contributed Surplus	Surplus / (deficit)	Total
(unaudited)				
Balance at January 1, 2017	-	-	-	-
Equity Issuances (note 8)	-	-	-	-
Loss for the period	-	-	-	-
Balance at March 31, 2017	-	-	-	-
Balance at January 1, 2018	84,793	4	(2,754)	82,043
Equity Issuances (note 8)	-	-	-	-
Loss for the period	-	-	(1,544)	(1,544)
Balance at March 31, 2018	84,793	4	(4,298)	80,499

See accompanying notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended March 31,

(\$ thousands) (unaudited)	2018	2017
Cash flows from operating activities		
Net loss for the period	(1,544)	-
Adjustments for:		
Unrealized foreign exchange gain	(54)	-
Depreciation and amortization	17	-
Impairment	40	-
Accretion of decommissioning obligation	218	-
	(1,323)	-
Changes in non-cash working capital:		
VAT and other receivables	(445)	-
Prepaid expenses	(94)	-
Trade and other payables	(1,288)	-
Net cash used in operating activities	(3,150)	-
Cash flows from investing activities		
Exploration and evaluation asset additions	(3,518)	-
Property, plant and equipment additions	(54)	-
Net cash used in investing activities	(3,572)	-
Net cash (used) provided by financing activities	-	-
Net decrease in cash	(6,722)	-
Cash, beginning of the period	48,783	-
Effect of translation on foreign currency cash	(2)	-
Cash, end of the period	42,059	-

See accompanying notes to the condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As at and for the three months ended March 31, 2018. All amounts are stated and presented in thousands 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 unaudited condensed 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 unaudited condensed consolidated financial statements (the “Financial Statements”) were approved for issuance by the Company’s Board of Directors on May 29, 2018.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The Financial Statements were prepared in accordance with International Accounting Standards “IAS” 34, Interim Financial Reporting. They do not contain all disclosures required by International Financial Reporting Standards “IFRS” for annual financial statements and, accordingly, should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the years ended December 31, 2017 and 2016, which outline the Company’s significant accounting policies in Note 2 thereto, which have been applied consistently in these Financial Statements, as well as the Company’s critical accounting judgments and key sources of estimation uncertainty which are also set out in Note 2 thereto.

BASIS OF MEASUREMENT

These 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 Financial Statements have been prepared using the accrual basis of accounting.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following pronouncements from the International Accounting Standards Board (“IASB”) became effective on January 1, 2018. The Company adopted these standards as follows:

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 were 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. The standard also requires entities to recognize a loss allowance for expected credit losses on financial assets with the objective to recognize lifetime expected credit losses for all financial instruments, however there was no impact to the measurement of these financial assets, for the Company. The implementation of IFRS 9 did not have a material effect on the Company's 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 did not have a material effect on the Company's 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 were effective for annual periods beginning on or after January 1, 2018. The implementation of IFRS 2 did not have a material effect on the Company's Financial Statements.

The following pronouncements from the IASB are issued and become effective on January 1, 2019. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

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)	March 31, 2018	December 31, 2017
Balances held in:		
US dollars	42,041	48,764
Peruvian Soles	18	19
Cash and cash equivalents	42,059	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 11).

5. EXPLORATION AND EVALUATION ASSETS

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

(\$ thousands)	March 31, 2018	December 31, 2017
Balance, beginning of the period	38,571	-
Additions from Peru asset acquisition	-	38,417
Additions during the period	4,731	154
Impairment during the period	(40)	-
Balance, end of the period	43,262	38,571

6. VAT AND OTHER RECEIVABLES

(\$ thousands)	March 31, 2018	December 31, 2017
VAT receivable - Current	2,155	531
Other receivables	402	350
Total current	2,557	881
VAT receivable - Non-current	8,803	9,980
Total VAT and other receivables	11,360	10,861

7. DECOMMISSIONING OBLIGATIONS

The following table sets out the continuity of decommissioning obligations:

(\$ thousands)	March 31, 2018	December 31, 2017
Balance, beginning of the period	14,048	-
Additions from Peru asset acquisition	-	14,023
Accretion of decommissioning discount	218	25
Balance, end of the period	14,266	14,048

The Company has estimated the net present value of its decommissioning liabilities to be \$14.3 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 is 2.0 percent.

8. 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:

	March 31, 2018		December 31, 2017	
	Shares	Amount	Shares	Amount
	000s	US\$000s	000s	US\$000s
Balance, beginning of the period	537,736	84,793	-	-
Equity issuances:				
PetroTal - Pre-Transaction (effected for Share Exchange)	-	-	21,400	-
PetroTal - Subscription Receipts	-	-	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 period	537,736	84,793	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 issued 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.

PERFORMANCE WARRANTS

The performance warrants have an exercise price of \$0.187 per share, a 5-year term and will vest upon achievement of certain oil and gas production targets, within a specified period of time. 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 zero as none of the vesting conditions have been achieved.

The following table sets out a continuity of outstanding performance warrants:

	Three months ended March 31, 2018	Year ended December 31, 2017
Balance, beginning of the period	26,750,000	26,750,000
Granted during the period	-	-
Balance, end of the period	26,750,000	26,750,000

AGENTS' WARRANTS

As compensation for the services rendered in connection with the brokered private placement offering, the Agents received warrants which 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. There are 2,086,500 Agents' warrants outstanding.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments includes cash, other receivables, and trade 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 March 31, 2018.

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

INTEREST RATE RISK

Based on total cash and cash equivalents at March 31, 2018, 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 continues to be adequate as a result of the closing of the plan of arrangement on December 18, 2017.

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 Value Added Tax "VAT" and other receivables are primarily for sales tax credits 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 March 31, 2018, 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.

10. NET LOSS PER SHARE

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

Three months ended March 31,	2018	2017
Weighted average shares outstanding (000s)	537,736	-
Net loss (\$000s)	(1,544)	-
Weighted average net loss per share (\$)		
Basic	(0.00)	-
Diluted	(0.00)	-

11. COMMITMENTS

As of March 31, 2018, the Company holds the following letters of credit guaranteeing its commitments in the exploration blocks:

Block	Beneficiary	Amount - \$000s	Guarantee
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 the blocks. On January 22, 2018, pursuant to this application, 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) Corporate Governance and Compensation Committee
- (6) Chair of Corporate Governance and Compensation Committee
- (7) Health, Safety, Environment and Corporate Social Responsibility Committee
- (8) Chair of Health, Safety, Environment and Corporate Social Responsibility 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
Corporate Secretary

INVESTOR RELATIONS

E-Mail: info@sterling-resources.com

AUDITOR

DELOITTE LLP

LEGAL COUNSEL

McCARTHY TÉTRAULT LLP

REGISTRAR AND TRANSFER AGENT

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

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9th Floor, 100 University Avenue Toronto, Ontario, Canada
M5J 2Y1
Tel: 800-564-6253
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STOCK EXCHANGE LISTING

THE TSX VENTURE EXCHANGE
Stock Exchange Trading Symbol: SLG

OFFICES

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