

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

The securities to which this offering relates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or the securities laws of any state of the United States. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States, and the securities offered herein may not be offered or sold in or into the United States or to U.S. persons unless registered under the 1933 Act and applicable state securities laws, or pursuant to an exemption from such registration requirements as described herein. "United States" and "U.S. persons" are as defined in Regulation S under the 1933 Act ("Regulation S").

Information has been incorporated by reference into this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Sterling Resources Ltd. at Suite 1450, 736-6<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3T7 (Telephone: (403) 237-9256), and are also available electronically at [www.sedar.com](http://www.sedar.com).

## **Rights Offering and New Issue**

**April 20, 2016**

### **Short Form Prospectus**



#### **STERLING RESOURCES LTD.**

**UP TO \$219,845,339**

**441,572,956 RIGHTS TO SUBSCRIBE FOR UP TO 14,277,525,577 COMMON SHARES AT A PRICE OF \$0.015398 PER SHARE**

**- and -**

**UP TO 14,277,525,577 COMMON SHARES ISSUABLE TO RELEVANT BONDHOLDERS**

This short form prospectus qualifies the distribution on the terms set forth herein of:

- (a) 441,572,956 rights ("Rights") to subscribe for and purchase from Sterling Resources Ltd. ("Sterling" or the "Corporation") an aggregate of 14,277,525,577 Common Shares (as defined herein), at a price (the "Subscription Price") of \$0.015398 per Common Share to Shareholders (as defined herein) of record as of the close of business (Eastern time) on April 27, 2016 (the "Record Date") on the basis of one (1) Right for each Common Share held; and
- (b) up to 14,277,525,577 Exchange Shares (as defined herein) to be issued to the Relevant Bondholders (as defined herein) on a *pro rata* basis by Sterling on the release or cancellation (as applicable) of the Exchanged Bond Liabilities (as defined herein) based upon the Subscription Price, which Exchange Shares are to be delivered to the Relevant Bondholders on or about the Closing Date (as hereinafter defined) in accordance with the Recapitalization Agreement (as defined herein) (the "Bond Exchange"). See "Recapitalization".

The offering of the Rights hereunder is referred to in this short form prospectus as the "Rights Offering". The gross proceeds to be received by the Corporation from the Rights Offering (as hereinafter defined), after such funds are converted to U.S. dollars by the Subscription Agent (as defined herein) at the exchange rate applicable on the business day immediately following the Expiry Date (as defined herein) less the Foreign Exchange Adjustment (as defined herein), if any (the "Rights Offering Proceeds") will be used solely to fund the release and cancellation of that portion of the liabilities of Sterling and Sterling Resources (UK) Ltd. ("SRUK") under or in connection with the Bonds (as defined herein), including the obligation to repay the principal amount thereof, together with any accrued and unpaid redemption premium, amendment fees and interest equal to the Rights Offering Proceeds and for no other purpose.

If the Rights Offering is terminated or cancelled, then neither Sterling nor the Subscription Agent will have any obligation with respect to the Rights except that the Subscription Agent will promptly return, without interest, any payments the Subscription Agent received from a subscriber.

The issued and outstanding Common Shares are listed and posted for trading on the TSX Venture Exchange (the “TSXV”) under the symbol “SLG”. On April 19, 2016, the last trading day prior to the filing of this short form prospectus, the closing price of the Common Shares on the TSXV was \$0.015.

The TSXV has accepted for filing the Rights Offering, including the listing of the Rights and the Common Shares issuable on exercise of the Rights (the “**Rights Offering Shares**”). The TSXV has conditionally approved the listing of the Exchange Shares which are qualified for distribution under this short form prospectus. Listing of the Exchange Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSXV. **There is currently no market through which the Rights may be sold and holders may not be able to resell such securities. This may affect the pricing of such securities in the secondary market, the transparency and availability of trading prices, the liquidity of such securities and the extent of issuer regulation. See “Risk Factors - There is currently no active trading market for the Rights”.**

	<u>Price to Public</u>	<u>Net Proceeds to the Corporation<sup>(1)(2)</sup></u>
Per Common Share.....	\$0.015398	\$0.015370
Total .....	\$0.015398	\$219,445,339

**Notes:**

- (1) Assumes the exercise of all Rights
- (2) After deducting expenses of the Rights Offering (as defined herein), estimated to be \$400,000, which will be paid from the general funds of Sterling.

**There is no minimum amount of funds that must be raised under the Rights Offering. This means that Sterling could complete the Rights Offering after raising only a small proportion of the Rights Offering proceeds set out above.**

The Corporation will distribute the Rights to Shareholders who are Qualifying Holders (as defined herein), as at the close of business (Eastern time) on the Record Date. Each such Shareholder will receive one (1) Right for each Common Share held.

Each Right will entitle the holder thereof (provided that such holder is a Qualifying Holder) (a “**Rightsholder**”) to purchase 32.33333333 Common Shares at the Subscription Price. No fractional Common Shares will be issued. Where the exercise of Rights would otherwise entitle a holder to receive fractional Common Shares, the holder’s entitlement will be reduced to the next lowest whole number of Common Shares.

**The Rights are fully transferable by holders into and within Canada under the laws of all of the provinces of Canada.** The Rights may be exercised commencing on April 29, 2016 (the “**Commencement Date**”) and will expire at 5:00 p.m. (Eastern time) (the “**Expiry Time**”) on May 19, 2016 (the “**Expiry Date**”). **Rights not exercised at or before the Expiry Time on the Expiry Date will be void and of no value. If a holder elects not to exercise the Rights issued to that holder, or elects to sell or transfer those Rights, the dilution of the holder’s current percentage ownership in the Corporation will be increased, potentially very significantly, including (where not all of the Rights issued hereunder have been exercised) by virtue of the subsequent issue by the Corporation of the Exchange Shares. It is anticipated, for instance, that if none of the Rights are exercised to acquire Common Shares pursuant to the Rights Offering, that the Bondholders would following the Recapitalization own 97% of the Common Shares, with Shareholders who were entitled to participate in the Rights Offering owning the remaining 3% of the Common Shares in an aggregate. See “Risks Relating to the Rights Offering – Shareholders May Suffer Significant Dilution”.**

To subscribe for Common Shares, a completed Rights Certificate (as herein defined), together with payment in full of the Subscription Price for each Common Share subscribed for, must be received by Computershare Investor Services Inc., in its capacity as subscription agent for the Rights Offering (the “**Subscription Agent**”) at 100 University Avenue, Toronto, Ontario, M5J 2Y1, Attention: Corporate Actions, 8<sup>th</sup> Floor, by the Expiry Time on the

Expiry Date. **All subscriptions for Common Shares made in connection with the Rights Offering will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.** A Rightsholder who exercises all such Rights by subscribing for the maximum number of Common Shares to which such holder is entitled to subscribe, may subscribe (the “**Additional Subscription Privilege**”) *pro rata* for additional whole Common Shares, if any, not otherwise purchased pursuant to the Basic Subscription Privilege at the Subscription Price. See “*Details of the Rights Offering – Additional Subscription Privilege*”.

A Rightsholder that exercises Rights is deemed to represent and warrant to the Corporation that the exercise of any of its Rights will not result in such Rightsholder becoming a “control person” within the meaning of TSXV Policy 1.1 *Interpretation* (“**TSXV Policy 1.1**”) due to it, alone or in combination with other persons, holding a sufficient number of the Common Shares so as to affect materially the control of the Corporation or that holds more than 20% of the outstanding Common Shares except where there is evidence showing that the Rightsholder does not materially affect the control of the Corporation. If the representation and warranty is breached by the Rightsholder, the Rightsholder unconditionally agrees that the portion of the Rights exercised that would entitle the Rightsholder to receive more than 20% of the Common Shares will be null and void and result in the cancellation of any such Rights immediately before the Expiry Time. Any Rights cancelled as a result of the foregoing will be taken up in accordance with the Additional Subscription Privilege, as applicable. See “*Details of the Rights Offering – Basic Subscription Privilege*” and “*Details of the Offering – How to Complete Rights Certificates – To Represent Exercise of Rights Will Not Create a Control Person – Form 5*”.

**There is no managing or soliciting dealer for the Rights Offering or the Bond Exchange, and the Corporation will pay no fee of any kind for the solicitation or the exercise of Rights or in connection with the Bond Exchange. No underwriter or agent has been involved in the preparation of this short form prospectus or performed any review of the contents of this short form prospectus.**

The Rights Offering is one of a series of transactions involving the Corporation which are being undertaken pursuant to the Recapitalization Agreement to improve the financial condition of the Corporation. See “*Recapitalization*”. Pursuant to the Recapitalization Agreement, and in full and final satisfaction of that portion of all of the liabilities of the Corporation and SRUK under or in connection with the Bonds (as defined herein) including the obligation to repay the Bond Liabilities (as defined herein), allocated as to the Purchased Liabilities (as defined herein), the Corporation and SRUK will procure that the Rights Offering Proceeds are delivered to the Bondholders (as defined herein). Nordic Trustee ASA (the “**Bond Trustee**”) will concurrently release or cancel the Purchased Liabilities on behalf of each of the Bondholders of record on the Expiry Date (the “**Relevant Bondholders**”) pursuant to a deed of waiver and the Purchased Liabilities shall be cancelled. The Purchased Liabilities will be selected *pro rata* from each Relevant Bondholder based on the amount of Bond Liabilities then owed to each Relevant Bondholder relative to the entire aggregate amount of Bond Liabilities then outstanding.

The Bond Trustee will thereafter concurrently release or cancel (as applicable) such amount of Bond Liabilities (the “**Exchanged Bond Liabilities**”) equal to the aggregate Subscription Price of the unsubscribed Common Shares under the Rights Offering at the Closing Date, after such amount is converted to U.S. dollars at the exchange rate for one U.S. dollar expressed in Canadian dollars based upon the noon buying rate provided by the Bank of Canada (the “**Final Prospectus Exchange Rate**”) on the date on which the final prospectus for the Rights Offering is filed (the “**Exchange Amount**”) in consideration for the issuance to the Relevant Bondholders of the Exchange Shares.

The Exchanged Bond Liabilities will be selected *pro rata* from each Relevant Bondholder based on the amount of Exchanged Bond Liabilities then owed to each Relevant Bondholder relative to the entire aggregate amount of Exchanged Bond Liabilities then outstanding. The Exchanged Bond Liabilities will be released pursuant to a unilateral deed of waiver and the Exchanged Bond Liabilities shall be cancelled.

Upon completion of the Bond Exchange and the release/cancellation of the Purchased Liabilities and the Exchanged Bond Liabilities, the only Bond Liabilities will be those remaining Bond Liabilities (the “**Remaining Bond Liabilities**”, which for avoidance of doubt, will all be considered as principal and will be no less than U.S. \$40,000,000, and will initially be held *pro rata* by the Relevant Bondholders) and the only Bonds outstanding shall be the corresponding number of the Bonds constituting the Remaining Bond Liabilities (the “**Remaining Bonds**”). The Remaining Bond Liabilities may ultimately be more than U.S. \$40,000,000 depending on certain circumstances including if there are Closing Date delays and/or proceeds are raised from the Rights Offering and on the day immediately following the Expiry Date, the value of the U.S. dollar is of greater value as compared to the Canadian dollar than it was on the date of the Final Prospectus.

This short form prospectus qualifies for distribution under applicable Canadian securities laws the Rights, Rights Offering Shares and the Exchange Shares in all of the Provinces of Canada (other than Québec) (the “**Qualifying Jurisdictions**”), and the Rights Offering hereunder is made only to Shareholders resident in each of the Qualifying Jurisdictions (“**Qualifying Holders**”). This short form prospectus is not to be construed as an offering of the Rights, Rights Offering Shares or Exchange Shares for sale in any jurisdiction outside of the Qualifying Jurisdictions (a “**Non-Qualifying Jurisdiction**”), except that Sterling may elect to distribute the Rights to certain investors (“**Eligible Foreign Investors**”) resident in a Relevant Member State (as defined herein), United Kingdom, the Cayman Islands, the British Virgin Islands and the Bailiwick of Guernsey (the “**Eligible Foreign Jurisdictions**”) to the extent that Sterling determines it is possible to do so on an exempt basis under, or without otherwise breaching, the securities laws or any other applicable laws of the Eligible Foreign Jurisdictions and to other Non-Qualifying Holders (as defined below) who have demonstrated to Sterling on or before the tenth day prior to the Expiry Date that the distribution and exercise of the Rights and issuance of the Common Shares upon such exercise is not prohibited by any applicable securities laws or any other applicable laws and will not require Sterling to file any documents, make any application, or pay any amount in their jurisdiction of residence, unless otherwise agreed by Sterling (“**Accredited Rights Holders**”), including Non-Qualifying Holders in the United States. See “*Details of the Rights Offering – Non-Qualifying Holders and Eligible Foreign Investors*”. The Rights are not qualified under the securities laws of any Non-Qualifying Jurisdiction, and except as contemplated herein, Rights Certificates will not be sent to a Shareholder with an address of record in any Non-Qualifying Jurisdiction or who appears not to be, or whom Sterling or the Subscription Agent has reason to believe is not, a Qualifying Holder (“**Non-Qualifying Holders**”). Instead, such Shareholders will be sent a letter advising them that their Rights Certificates will be held by the Subscription Agent, who will hold such Rights as agent for the benefit of all such Non-Qualifying Holders (other than Eligible Foreign Investors and Accredited Rights Holders that have directed the Subscription Agent to exercise their Rights). The Subscription Agent will hold such Rights until the tenth day prior to the Expiry Date to give Non-Qualifying Holders an opportunity to claim their Rights Certificates from the Subscription Agent by satisfying the Corporation that they are Accredited Rights Holders. After May 9, 2016, the Subscription Agent will attempt, on a best efforts basis, to sell the Rights issued to Non-Qualifying Holders (other than those held for Eligible Foreign Investors and Accredited Rights Holders) through the facilities of the TSXV prior to the Expiry Time on a date or dates and at a price or prices as the Subscription Agent determines in its sole discretion. See “*Details of the Rights Offering – Non-Qualifying Holders and Eligible Foreign Investors*”. With respect to U.S. persons (as defined), a Non-Qualifying Holder is an Accredited Rights Holder only if such Non-Qualifying Holder (1)(i) is a direct or indirect holder with an address of record in the United States and who is an “accredited investor” that satisfies one or more of the criteria set forth in Rule 501(a) of Regulation D promulgated under the 1933 Act (“**Regulation D**”) (each, a “**U.S. Accredited Investor**”) and certifies to the Corporation that it is a U.S. Accredited Investor; (ii) is a professional fiduciary organized, incorporated (or (if an individual) resident in the United States) and holding Common Shares on the Record Date pursuant to one or more discretionary accounts or similar accounts (other than an estate or trust) solely for the account or benefit of one or more beneficial owners, none of which was or is a “U.S. person” as defined in Regulation S under the 1933 Act (each, a “**U.S. Qualified Fiduciary**”), and certifies to the Corporation in a manner acceptable to the Corporation that it is a U.S. Qualified Fiduciary; or (iii) is outside the Qualifying Jurisdictions and the United States; and (2) satisfies the Corporation that such offering to and subscription by such holder or transferee is lawful and in compliance with all applicable securities and other laws.

Certificates evidencing the Rights will be issued in: (i) definitive form (a “**Definitive Rights Certificate**”) to each Qualifying Holder who holds Common Shares in definitive certificate form as of the Record Date (a “**Registered Holder**”); and (ii) book-entry form (a “**Global Rights Certificate**” and, together with Definitive Rights Certificates, the “**Rights Certificates**”) to each Qualifying Holder who holds Common Shares in book-entry form through a securities broker or dealer, bank or trust company or other CDS Participant (a “**Participant**”) in the book-based system administered by CDS Clearing and Depository Services Inc. (“**CDS**”) as of the Record Date (a “**Beneficial Holder**”). In the case of a Registered Holder, such holder may subscribe for Common Shares by delivering to the Subscription Agent the Rights Certificates, duly completed and exercised, together with the Subscription Price for each Common Share subscribed for. See “*Details of the Rights Offering – Basic Subscription Privilege*” and “*Details of the Rights Offering – How to Complete Rights Certificates*”. In the case of a Beneficial Holder, such holder may subscribe for Common Shares by instructing the Participant holding its Rights sufficiently in advance of the Expiry Date to exercise all or a specified number of such Rights and forwarding the Subscription Price for each Common Share subscribed for to such Participant. A Registered Holder wishing to subscribe for additional Common Shares pursuant to the Additional Subscription Privilege must forward to the Subscription Agent the Rights Certificates, duly completed and exercised, together with the Subscription Price for each additional Common Share subscribed for. A Beneficial Holder wishing to subscribe for additional Common Shares pursuant to the Additional Subscription Privilege must forward its request to the Participant that holds such holder's Rights

sufficiently in advance of the Expiry Date, along with payment for the number of additional Common Shares requested. Any excess funds will be returned by mail or, in the case of a Beneficial Holder, credited to the holder's account with its Participant, without interest or deduction. **Participants will have an earlier deadline for receipt of instructions and payment than the Expiry Date.** Shareholders should contact their particular Participant for complete details on how to exercise their Basic Subscription Privilege and the Additional Subscription Privilege. See “*Details of the Offering – Common Shares held through CDS*”.

**Any Rights Offering Shares issued to Accredited Rights Holders in the United States that are U.S. persons or that are acting for the account or benefit of U.S. persons or persons in the United States will be restricted securities within the meaning of Rule 144 and may not be offered, sold, pledge or otherwise transferred, directly or indirectly, except pursuant to exemptions from the registration requirements of the 1933 Act and any applicable securities laws of any state of the United States or in a transaction outside of the United States in accordance with Regulation S under the 1933 Act, and the Rights Offering Shares issued to such Accredited Rights Holders will be certificated and will bear a U.S. legend to such effect.**

A Rightsholder is not, by virtue of holding one or more Rights, a Shareholder and does not have any of the rights of a Shareholder.

Upon the completion of the Recapitalization (as defined herein), including the Rights Offering, it is currently anticipated that there would be approximately 14,719,098,533 Common Shares issued and outstanding. See “*Consolidated Capitalization*”.

**This offering is made by a Canadian issuer. Consolidated financial statements incorporated by reference in this short form prospectus have been prepared in accordance with International Financial Reporting Standards, and are subject to Canadian generally accepted auditing standards. These standards may be materially different from the accounting and auditing standards of other jurisdictions.**

Prospective subscribers should be aware that the acquisition or disposition of the securities described in this short form prospectus and the expiry of an unexercised Right may have tax consequences in Canada or elsewhere, depending on each particular prospective investor's specific circumstances. See “*Certain Canadian Federal Income Tax Considerations*”. Such consequences for investors who are resident in, or citizens of, jurisdictions outside of Canada are not described fully herein. Prospective subscribers should consult their own tax advisors with respect to such tax considerations.

All references herein to \$ are to Canadian dollars unless otherwise stated. All references herein to U.S.\$ are to United States dollars unless otherwise stated. On April 20, 2016 the exchange rate for one U.S. dollar expressed in Canadian dollars based upon the noon buying rate provided by the Bank of Canada was U.S.\$1.00 = \$1.2626.

Sterling's head office and registered office are both located at Suite 1450, 736-6th Avenue S.W., Calgary, Alberta.

Sterling's Chief Executive Officer and Chief Financial Officer, Jacob Ulrich and David Blewden, respectively who have each signed the Certificate of the Issuer in this short form prospectus reside outside of Canada. Teck Soon Kong, Gavin Wilson and John Collenette are directors of the Corporation who also reside outside of Canada. Messrs. Ulrich, Blewden, Kong, Wilson and Collenette have each appointed Stikeman Elliott LLP, 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta, T2P 5C5 as their agent for service of process in Alberta. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person who resides outside of Canada or any company that is incorporated or organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.

**An investment in the securities offered hereunder is speculative and involves a high degree of risk, including due to the current conditions in the industry in which the Corporation operates and its current financial condition. The risk factors identified under the heading “*Risk Factors*” and “*Forward Looking Information*” or incorporated by reference should be carefully reviewed and evaluated by prospective purchasers before purchasing the securities being offered hereunder.**

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## GLOSSARY OF TERMS

In addition to certain terms defined elsewhere in this short form prospectus, when used in this short form prospectus, including on the face hereof, the following terms have the following meanings:

“**1933 Act**” means the United States Securities Act of 1933;

“**ABCA**” means the *Business Corporations Act* (Alberta);

“**Accredited Rights Holder**” means a Non-Qualifying Holder who has demonstrated to Sterling on or before the tenth day prior to the Expiry Date that the distribution and exercise of the Rights and issuance of the Common Shares upon such exercise is not prohibited by any applicable securities laws or any other applicable laws and will not require Sterling to file any documents, make any application, or pay any amount in their jurisdiction of residence, unless otherwise agreed by Sterling;

“**Additional Common Shares**” means the additional Common Shares available, if any, under the Additional Subscription Privilege;

“**Additional Subscription Privilege**” means the entitlement of a Rightsholder who exercises such Rightsholder’s Basic Subscription Privilege in full to subscribe *pro rata* for additional whole Common Shares not otherwise purchased pursuant to the Basic Subscription Privilege at the Subscription Price, if available;

“**Affiliate**” has the meaning ascribed to such term in National Instrument 45-106 – *Prospectus Exemptions*;

“**AIF**” means the annual information form of the Corporation dated April 14, 2016 for the year ended December 31, 2015;

“**allowable capital loss**” means one-half of a capital loss;

“**Amended and Restated Bond Agreement**” means the Bond Agreement after it has been amended and restated under Amendment and Restatement Agreement No. 4;

“**Amendment and Restatement Agreement No. 3**” means an amendment and restatement agreement entered into among Sterling, SRUK and the Bond Trustee on November 30, 2015 governing the Bonds;

“**Amendment and Restatement Agreement No. 4**” means an amendment and restatement agreement to be entered into among Sterling, SRUK and the Bond Trustee on the Closing Date as part of the Recapitalization setting out the revised terms and conditions governing the Remaining Bonds in accordance with the descriptions set out in the Recapitalization Agreement and the terms set out in the Recapitalization Term Sheet;

“**Annual Financial Statements**” means the audited consolidated balance sheets as at December 31, 2015 and 2014 and the consolidated income statement, consolidated statement of comprehensive income (loss), consolidated statement of changes in equity and consolidated statement of cash flows for the years ended December 31, 2015 and 2014, and related notes, together with the auditor’s report thereon, dated April 14, 2016;

“**Annual MD&A**” means management’s discussion and analysis of the financial condition and results of operations of the Corporation for the year ended December 31, 2015, dated April 14, 2016;

“**Basic Subscription Privilege**” means the entitlement of a Rightsholder to subscribe for 32.333333333 Common Shares for each Right held at the Subscription Price;

“**Beneficial Holder**” means a Qualifying Holder who holds Common Shares in book-entry form through a Participant in the book-based system administered by CDS as of the Record Date;

“**Bondholders**” means the holders of Bonds, as registered in the Verdipapirsentralen ASA (VPS) in Norway;



“**Bondholder Meeting**” means the meeting of the Bondholders held on March 18, 2016;

“**Bondholder Summons**” means the bondholder summons delivered to the Bondholders on March 11, 2016 seeking the approval by such Bondholders of the Recapitalization at the Bondholder Meeting;

“**Bondholder Voting Agreement**” means voting and support agreements entered into on March 11, 2016 among Sterling, SRUK and each of the Supporting Bondholders, pursuant to which the Supporting Bondholders have agreed, among other things, and subject to certain terms and conditions, to vote:

- (a) all Bonds held by them in favour of the Recapitalization; and
- (b) all Common Shares held by them in favour of the Recapitalization Resolutions, and against any resolution that could adversely affect consummation of the Recapitalization, at the Company Meeting;

“**Bonds**” means the U.S. \$225 million senior secured bonds maturing April 30, 2019 of which U.S. \$180,000,000 principal amount plus certain accrued interest, fees and costs, is outstanding, issued by SRUK pursuant to the Original Bond Agreement;

“**Bond Agreement**” means the Original Bond Agreement, as amended;

“**Bond Exchange**” has the meaning described on the face page hereof;

“**Bond Liabilities**” means, collectively, all liabilities of the Corporation and SRUK under or in connection with the Bonds including the obligation to repay the principal amount thereof, together with any accrued and unpaid redemption premium, amendment fees and interest;

“**Bond Redemption**” has the meaning attributed to such term in the Bond Agreement;

“**Bond Redemption Deadline**” means February 29, 2016;

“**Bond Trustee**” means Nordic Trustee ASA;

“**Breaching Bondholder**” means a Supporting Bondholder that has breached its obligations pursuant to the Bondholder Voting Agreement to which it is a party;

“**Business Day**” means any day of the year, other than a Saturday, Sunday or any day on which major banks are closed for business in Calgary, Alberta, Oslo, Norway or London, England;

“**BVI**” means the British Virgin Islands;

“**Canadian Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder;

“**Carry**” means the carry provided by TAQA in relation to the UK Cladhan oil field pursuant to an agreement dated 2013, whereby it funded the development expenditures on an 11.8% interest in the field with an uplift of 17% per annum on such carried costs to be repaid out of net cash flow from the 11.8% interest;

“**CDS**” means CDS Clearing and Depository Services Inc.;

“**Closing Date**” means the date of the closing of the Rights Offering, which is expected to be May 27, 2016 or such other date as the Parties may agree to, but in any event such date shall be no later than the Outside Date;

“**Commencement Date**” means April 29, 2016;

“**Commitment Letter**” means an irrevocable commitment letter provided by a Supporting Bondholder or an Affiliate thereof agreeing to provide a portion of the financing contemplated under the New Loan Agreement on the terms set out in Part B of the Recapitalization Term Sheet;

“**Common Shares**” means common shares in the capital of the Corporation;

“**Company Disclosure Letter**” means the disclosure letter dated March 11, 2016 and delivered by the Corporation and SRUK to the Bond Trustee;

“**Company Employees**” means the officers, employees and independent contractors of the Corporation and its Subsidiaries;

“**Company Meeting**” means, collectively, the special or annual and special meeting(s) of Shareholders, including any adjournment or postponement of such meeting(s) in accordance with the terms of the Recapitalization Agreement, to be called and held following the Closing Date in accordance with the TSXV Approval and to consider, among other things, the Recapitalization Resolutions and any other resolution required in connection with the Recapitalization;

“**Confidentiality Agreements**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Consolidation Resolution**” means the special resolution approving the consolidation of the Common Shares as and to the extent and on the terms required by the TSXV Approval in connection with or as a result of the Recapitalization;

“**Control Person**” shall have the meaning ascribed to such term in Section 1.2 of TSXV Policy 1.1;

“**Control Person Resolution**” means the resolution approving the creation of one or more new Control Persons pursuant to the Recapitalization to be considered at the Company Meeting by Shareholders (excluding a new Control Person and any interested parties of any Control Person with respect to the approval of itself, but for certainty, a Control Person shall be able to vote on the approval of any other new Control Person(s));

“**Corporation**” means Sterling Resources Ltd.;

“**CRA**” means the Canada Revenue Agency;

“**Cygam**” means Cygam Energy Inc.;

“**Dea UK**” means the upstream business in the United Kingdom owned by RWE AG until March 2015, then by LetterOne until December 2015;

“**Definitive Rights Certificate**” means a certificate evidencing the Rights issued in definitive certificate form;

“**Directed Selling Efforts**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Direct Subscribing Bondholders**” means the Supporting Bondholders who elect to subscribe for Common Shares of the Corporation directly (or indirectly through one or more Affiliates);

“**Eligible Foreign Investor**” means certain investors resident in an Eligible Foreign Jurisdiction to whom Sterling may elect to distribute Rights, but only to the extent that Sterling determines it is possible to do so on an exempt basis under, or without otherwise breaching, the securities laws or any other applicable laws of the Eligible Foreign Jurisdictions;

“**Eligible Foreign Jurisdiction**” means a Relevant Member State, the United Kingdom, the Cayman Islands, the British Virgin Islands and the Bailiwick of Guernsey;

“**Event of Default**” has the meaning attributed to such term in the Bond Agreement;

“**Exchanged Bond Liabilities**” means the amount of the Bond Liabilities equal to the aggregate Subscription Price of the unsubscribed Common Shares under the Rights Offering at the Closing Date;

“**Exchange Amount**” means the amount of the Exchanged Bond Liabilities after such amount is converted to U.S. dollars at the Final Prospectus Exchange Rate;

“**Exchange Shares**” means the Common Shares to be issued to the Relevant Bondholders on a *pro rata* basis by Sterling on the release or cancellation (as applicable) of the Exchanged Bond Liabilities;

“**Expiry Date**” means May 19, 2016;

“**Expiry Time**” means 5:00 p.m. (Eastern time);

“**Fairness Opinion**” means the opinion as to the fairness of the Recapitalization, from a financial point of view, to the Shareholders, rendered by FirstEnergy as of March 9, 2016, based upon and subject to various considerations set forth therein;

“**FCA**” means the United Kingdom Financial Conduct Authority;

“**Financial Promotion Order**” means the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005;

“**FirstEnergy**” means FirstEnergy Capital LLP;

“**Final Prospectus Exchange Rate**” means the exchange rate for one U.S. dollar expressed in Canadian dollars based upon the noon buying rate provided by the Bank of Canada on the date on which the final prospectus for the Rights Offering is filed;

“**Final Prospectus Outside Date**” means: (i) if the Permitted Transaction Diligence Condition is satisfied on or before April 8, 2016, May 13, 2016; or (ii) if the Permitted Transaction Diligence Condition is not satisfied on or before April 8, 2016, April 20, 2016, or such later date as the Corporation and the Bond Trustee may agree in writing;

“**Flowstream Agreement**” means the loan agreement dated December 5, 2008 between Gemini, the Corporation and SRUK, as amended on July 22, 2009 and as novated from Gemini to Flowstream Sif Ltd. on September 18, 2014;

“**Foreign Exchange Adjustment**” means the amount equal to:

- (a) the Subscribed Rights multiplied by the Subscription Price converted to U.S. dollars at the exchange rate applied by the Subscription Agent on the Business Day immediately following the Expiry Date when the Subscription Agent converts the gross proceeds of the Rights Offering to U.S. dollars; less
- (b) the Subscribed Rights multiplied by the Subscription Price converted to U.S. dollars at the Final Prospectus Exchange Rate;

provided that if the Foreign Exchange Adjustment is less than zero it shall be deemed to be zero;

“**FSMA**” means the United Kingdom Financial Services and Markets Act 2000, as amended;

“**Gemini**” means Gemini Oil & Gas Fund II, L.P.;

“**Global Rights Certificate**” means a certificate evidencing the Rights issued in book-entry form;

“**Governmental Entity**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Guarantee**” has the meaning attributed to such term in the Bond Agreement;

“**Holder**” means a Shareholder who, for purposes of the Canadian Tax Act and at all relevant times, acquires and holds as beneficial owner his, her or its Rights and any Common Shares acquired on exercise of Rights as capital property and deals at arm's length with and is not affiliated with the Corporation;

“**Insolvency Event**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Intercreditor Agreement**” means an intercreditor agreement to be entered into among the Corporation, SRUK, Newco, the Bond Trustee and the Lenders on the Closing Date, substantially on the terms set out in the Recapitalization Term Sheet;

“**Jefferies**” means Jefferies International Limited;

“**Laws**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Lender**” means a Supporting Bondholder or an Affiliate thereof who has provided a Commitment Letter;

“**LetterOne**” means LetterOne Holdings;

“**Licenses**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Liens**” has the meaning attributed to such term in the Recapitalization Agreement;

“**LTI Resolution**” means a resolution of the board of directors of the Corporation to cause the strike price, exercise price, or any market reference price threshold for any existing Options, Phantom Options, and PSUs to be increased proportionately with the Common Share consolidation contemplated by the Consolidation Resolution;

“**Mailing Date**” means the date on which the Corporation will effect and complete the mailing of commercial copies of this short form prospectus to each of the registered and beneficial holders of the Common Shares in Canada, which date will be as soon as possible following the Record Date;

“**Material Adverse Effect**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Material Contract**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Meridian**” means Meridian Capital International Fund;

“**MI 61-101**” means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*;

“**Newco**” means a special purpose vehicle that is a private company limited by shares pursuant to the laws of England and Wales, with the Corporation as the sole shareholder;

“**New Loan Agreement**” means the agreement governing the Super Senior Facility to be entered into among Newco, SRUK, the Corporation and the Lenders on the Closing Date in accordance with the terms set out in the Recapitalization Term Sheet;

“**Non-Qualifying Holder**” means a Shareholder with an address of record in any Non-Qualifying Jurisdiction or who appears not to be, or whom Sterling or the Subscription Agent has reason to believe is not, a Qualifying Holder;

“**Non-Qualifying Jurisdiction**” means any jurisdiction outside of the Qualifying Jurisdictions;

“**Non-Resident Holder**” means a Holder who, for purposes of the Canadian Tax Act and any applicable income tax treaty or convention and at all relevant times, is neither resident nor deemed to be resident in Canada and does not use or hold, and will not be deemed to use or hold, Rights or Common Shares in a business carried on in Canada;

“**Norwegian Registrar**” means DNB Bank ASA;

“**Note**” means a U.S. dollar non-interest bearing promissory note to be issued by the Corporation to SRUK on the Closing Date with a principal amount equal to the Exchange Amount;

“**OGA**” means the Oil & Gas Authority within the Department of Energy and Climate Change of the United Kingdom or the said Department of Energy and Climate Change itself;

“**OGA Letter**” means a letter from the OGA confirming that the Secretary of State does not intend, upon completion of the Recapitalization, to revoke any of the Licenses and/or seek a further change of control of SRUK;

“**Options**” means options to acquire Common Shares;

“**Ordinary Course**” means taken in the ordinary course of the normal day-to-day operations of the business of the Corporation or SRUK, as applicable;

“**Original Bond Agreement**” means the bond agreement between SRUK and the Bond Trustee dated May 2, 2013 governing the Bonds;

“**Other Transaction**” means a transaction that is an alternative to the Recapitalization;

“**Outside Date**” means June 7, 2016, provided that if the Permitted Transaction Diligence Condition is satisfied on or before April 8, 2016, June 30, 2016 or such other date as may be agreed to in writing by the Parties;

“**Outstanding Instalment Deadline**” means the date by which SRUK was to pay the outstanding amortization instalment (with accrued interest) in connection with the Bonds;

“**Participant**” means a securities broker or dealer, bank or trust company or other CDS Participant;

“**Parties**” means the parties to the Recapitalization Agreement;

“**Permitted Transaction**” means any Other Transaction for which the Bond Trustee has provided a Permitted Transaction Consent Letter;

“**Permitted Transaction Consent Letter**” means a written consent of the Bond Trustee in accordance with the terms and conditions in such written consent allowing the board of directors of the Corporation to pursue and support an Other Transaction;

“**Permitted Transaction Diligence Condition**” means the satisfaction of those due diligence and related provisions in relation to a Permitted Transaction as set forth and defined in the Permitted Transaction Consent Letter;

“**Person**” has the meaning attributed to such term in the Recapitalization Agreement;

“**Preliminary Prospectus Outside Filing Date**” means March 21, 2016;

“**PSU**” means a performance share unit of the Corporation;

“**Phantom Options**” means phantom options of the Corporation;

“**Proposed Amendments**” means all specific proposals to amend the Canadian Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof;

“**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) and includes any relevant implementing measures in each Relevant Member State;

“**Purchased Liabilities**” means an aggregate principal amount of Bonds and associated accrued and unpaid redemption premium, amendment fees and interest applicable to such principal amount of Bonds equal to the Rights Offering Proceeds;

“**Qualifying Holder**” means a Shareholder resident in a Qualifying Jurisdiction;

“**Qualifying Jurisdiction**” means any of the Provinces of Canada (other than Québec);

“**RBL**” means a reserves-based loan;

“**Recapitalization**” means the elements of the recapitalization, as more fully described in the Recapitalization Agreement and herein under the heading “*Recapitalization*”;

“**Recapitalization Agreement**” means the recapitalization agreement entered into among the Bond Trustee, SRUK and the Corporation on March 11, 2016, as amended by amending agreement no.1 dated April 8, 2016 and amending agreement no.2 dated April 15, 2016;

“**Recapitalization Resolutions**” means the Control Person Resolution, the Consolidation Resolution and any other resolution which the Corporation and the Bond Trustee (acting reasonably) consider to be necessary and incidental to the Recapitalization;

“**Recapitalization Term Sheet**” means the term sheet appended to the Recapitalization as Schedule A;

“**Record Date**” means April 27, 2016;

“**Redemption Deadline**” means the date by which SRUK was to achieve a targeted redemption of the Bonds;

“**Registered Holder**” means a Qualifying Holder who holds Common Shares in definitive certificate form as of the Record Date;

“**Registered Plans**” means trusts governed by RRSPs, RRIFs, deferred profit sharing plans, registered education savings plans, registered disability savings plans and TFSAs, all as defined under the Canadian Tax Act;

“**Regulation D**” means Regulation D promulgated under the 1933 Act;

“**Regulation S**” means Regulation S promulgated under the 1933 Act;

“**Relevant Bondholders**” means the Bondholders of record on the Expiry Date;

“**relevant information**” means copies or details of any notifications, submissions, filings, responses or other communications with the OGA of the type referred to herein;

“**Relevant Member State**” means a member state of the European Economic Area that has implemented the Prospectus Directive;

“**Remaining Bond Liabilities**” means the amount of the Bond Liabilities remaining after the completion of the Bond Exchange and the release/cancellation of the Purchased Liabilities and the Exchanged Bond Liabilities in accordance with the terms set out in the Recapitalization Agreement (which Remaining Bond Liabilities, for the avoidance of doubt, shall all be considered principal and shall be no less than U.S. \$40,000,000) and shall initially be held *pro rata* by the Relevant Bondholders;

“**Remaining Bonds**” means the Bonds constituting the Remaining Bond Liabilities;

“**Representation Letter**” means a form of investor representation letter to be furnished by a Non-Qualifying Holder whose address of record is outside the Qualifying Jurisdictions but who is eligible because it is an Accredited Rights

Holder or who holds Common Shares on behalf of a Beneficial Holder who is resident in a Qualifying Jurisdiction to provide evidence satisfactory to the Subscription Agent and the Corporation, as to the eligibility of the holder or Beneficial Holder to such Rights;

“**Resident Holder**” means a Holder who, at all relevant times, for purposes of the Canadian Tax Act and any applicable income tax treaty or convention, is or is deemed to be a resident of Canada;

“**Right**” has the meaning described on the face page hereof;

“**Rightholder**” means the holder of a Right (provided that such holder is a Qualifying Holder);

“**Rights Certificates**” means, collectively, the Global Rights Certificate and the Definitive Rights Certificates;

“**Rights Offering**” means the offering of the Rights hereunder;

“**Rights Offering Proceeds**” means the gross proceeds to be received by the Corporation from the Rights Offering, after such funds are converted to U.S. dollars by the Subscription Agent at the exchange rate applicable on the business day immediately following the Expiry Date less the Foreign Exchange Adjustment, if any;

“**Rights Offering Shares**” means the Common Shares issuable on exercise of the Rights;

“**Romanian Sale**” means the sale to Carlyle International Energy Partners of the Corporation’s Romanian assets announced in March 2015 for cash proceeds of U.S. \$32.5 million;

“**RPS**” means RPS Energy Canada Ltd.;

“**SEC**” means the United States Securities and Exchange Commission;

“**Security Document**” has the meaning attributed to such term in the Bond Agreement;

“**Shareholders**” means the holders of Common Shares as of the Record Date;

“**Share Purchase Agreement**” means the share purchase agreement to be entered into between the Corporation and Newco pursuant to which the Corporation will sell and Newco will purchase all of the issued and outstanding shares in the capital of SRUK free and clear from all Liens;

“**Shell**” means Shell UK Ltd.;

“**SIBA**” means the *Securities and Investment Business Act, 2010*;

“**SRN**” means Sterling Resources Netherlands B.V.;

“**SRUK**” means Sterling Resources (UK) Ltd.;

“**Sterling**” means Sterling Resources Ltd.;

“**Sterling Group**” means the Corporation, SRUK, SRN and Newco (upon incorporation);

“**Subscribed Rights**” means the total number of Rights duly subscribed and paid for by holders of Rights under the Rights Offering;

“**Subscription Agent**” means the subscription agent for the Rights Offering, being Computershare Investor Services Inc.;

“**Subscription Office**” means the address of the Subscription Agent set out in “*Details of the Rights Offering Subscription Agent and Subscription Office*”;

“**Subscription Price**” means the subscription price per Common Share pursuant to the Rights Offering, being \$0.015398 per Common Share;

“**Superior Transaction**” means a written *bona fide* Other Transaction proposal which would result in a Bond Redemption and repayment of the Bond Trustee’s expenses up to and including the closing date of the Other Transaction, that the Corporation’s board of directors determines in good faith, after consultation with its financial and outside legal advisors, is a transaction that meets the requirements set out in “*The Recapitalization Agreement – Other Transactions*”;

“**Superior Transaction Certificate**” means a certificate issued to the Bond Trustee by the Corporation and SRUK and signed by the Chief Executive Officer of the Corporation and SRUK (not in their personal capacity) confirming that the Corporation’s board of directors and the board of directors of SRUK have determined in good faith, after consultation with their outside legal advisors, that the Other Transaction constitutes a Superior Transaction and that failure to enter into the Superior Transaction would be inconsistent with their fiduciary duties under applicable law;

“**Super Senior Facility**” means a new super senior credit facility in the maximum principal amount of U.S.\$40 million to be provided to SRUK pursuant to the New Loan Agreement;

“**Super Senior Facility Discharge Date**” means the date that amounts borrowed under the New Loan Agreement are repaid or prepaid and cancelled in full;

“**Supporting Bondholders**” means the Bondholders who delivered Bondholder Voting Agreements;

“**TAQA**” means TAQA Bratani Limited;

“**taxable capital gain**” means one-half of a capital gain;

“**Termination Date**” means the earlier of the day of the Company Meeting and the date on which the Recapitalization Agreement is terminated in accordance with its terms;

“**Transferee**” means the purchaser of Rights from a Rightsholder;

“**TSXV**” means the TSX Venture Exchange;

“**TSXV Approval**” means the conditional approval of the TSXV to the Recapitalization and the transactions contemplated thereby, including specifically in relation to the Rights Offering and the creation of any new control person;

“**TSXV Approval Outside Date**” means the Final Prospectus Outside Date, or such later date as the Corporation and the Bond Trustee may agree to in writing;

“**TSXV Policy 1.1**” means TSXV Policy 1.1 *Interpretation*;

“**TSXV Policy 5.9**” means TSXV Policy 5.9 *Protection of Minority Security Holders in Special Transactions*;

“**United States**” has the meaning attributed to such term in Regulation S under the 1933 Act;

“**U.S. Accredited Investor**” means a Non-Qualifying Holder who is a direct or indirect holder with an address of record in the United States and who is an “accredited investor” that satisfies one or more of the criteria set forth in Rule 501(a) of Regulation D;

“**U.S. person**” has the meaning attributed to such term in Regulation S under the 1933 Act;



**“U.S. Qualified Fiduciary”** means a professional fiduciary organized, incorporated (or (if an individual) resident in the United States) and holding Common Shares on the Record Date pursuant to one or more discretionary accounts or similar accounts (other than an estate or trust) solely for the account or benefit of one or more beneficial owners, none of which was or is a “U.S. person” as defined in Regulation S;

**“Vitol”** means Vitol S.A.; and

**“Voting Bonds”** has the meaning attributed to such term in the Bond Agreement.

Words importing the singular number include the plural and vice versa, and words importing a gender include all genders.

## FORWARD-LOOKING INFORMATION

Certain statements in this short form prospectus and the information incorporated herein by reference that are not current statements or historical facts constitute “forward-looking information” within the meaning of applicable Canadian securities laws. Forward-looking information and statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by them. Sentences and phrases containing words such as “believe”, “estimate”, “anticipate”, “plan”, “predict”, “outlook”, “goals”, “targets”, “projects”, “may”, “hope”, “can”, “will”, “shall”, “should”, “expect”, “intend”, “is designed to”, “continues”, “with the intent”, “potential”, “strategy”, and the negative of any of these words, or variations of them, or comparable terminology that does not relate strictly to current or historical facts, are all indicative of forward-looking information or statements. Discussions containing forward-looking statements may be found, among other places, in the “General Development of the Business”, “Description of the Business” and “Risk Factors” sections in the AIF and in “*Details of the Rights Offering*” and “*Risk Factors*” herein and in other documents incorporated by reference herein. Examples of forward-looking information and statements in this short form prospectus, the AIF and other documents incorporated by reference herein include, but are not limited to:

- the use of proceeds of the Rights Offering and its impact on the Corporation;
- the benefits of the Recapitalization;
- the timing and completion of the Recapitalization and the various components thereof;
- the timing and receipt of Shareholder approval to the Recapitalization Resolutions (as defined herein);
- the impact of the Recapitalization on the Shareholders and the Relevant Bondholders;
- the Corporation’s future financial and operational situation after the completion of the Rights Offering and issuance of the Exchange Shares;
- the fees and expenses associated with the completion of the Rights Offering and the issuance of the Exchange Shares;
- the focus of capital expenditures;
- future debt levels and annual interest costs;
- capital expenditure programs, including without limitation the timing of, the sources of capital and expenses related to, and the nature of, the development of the Breagh and Cladhan fields;
- development activities in the greater Breagh area, including the performance testing of the gas terminal plant and equipment and the timing of completion of commissioning works, potential Phase 2 development of Breagh (including the timing and significance of new 3D seismic for understanding and defining the scope of the eastern area of the Breagh field, development drilling campaign timing, the development and implementation of a program to re-enter and hydraulically stimulate existing wells in the field, the timing and completion of front-end engineering and design work on onshore compression at the Teesside Gas Processing Plant and final investment decision and expectations for the timing and impact on production once operational, the timing of submission of a Field Development Plan addendum for Phase 2, the remaining development costs and the Company’s net obligation on Phase 1 and pre-sanction costs on Phase 2;
- expectations for the timing of pay-out (if achieved at all) of the Carry provided by TAQA in relation to the UK Cladhan oil field pursuant to an agreement dated 2013 whereby it funded the development expenditures on an 11.8% interest;
- expectations for the abandonment of two wells on the Sheryl licence and the timing thereof;
- expectations for the processing and interpretation of seismic data over the F17 and F18 blocks in the Netherlands;
- expectations regarding the Corporation’s cost structure;

- expectations regarding the closing of the Recapitalization Agreement and all associated agreements, and the subsequent effect on the financial health of the Sterling Group;
- expectations regarding the subscription by shareholders for new Common Shares as part of the Rights Offering;
- expectations for the Corporation's ability to satisfy the financial covenants under the Bond Agreement and, after execution, under the Super Senior Facility;
- expectations for receiving the OGA Letter providing comfort that it does not intend to seek a further change of control or revoke any licenses upon completion of the Recapitalization;
- expectations regarding certain counterparties to one or more agreements with any member of the Sterling Group seeking to use the Recapitalization as a basis to assert certain rights against the Corporation or SRUK, including based on change of control arguments, to terminate or seek monetary compensation or penalties against the Corporation or SRUK;
- factors upon which the Corporation will decide whether to undertake a specific course of action;
- the quantity, timing and volumes of hydrocarbon production from the Corporation's Breagh and Cladhan fields, including for Breagh benefits from hydraulic stimulation performed on wells;
- the sale, partial sale, farming-in or farming-out of certain properties, including the UK licences containing its Niadar, Darach and Ossian prospects;
- the realization of anticipated benefits of acquisitions and dispositions;
- the possible impact of changes in government policy with respect to onshore and offshore drilling and development requirements;
- the Corporation's ability to obtain certain government and regulatory approvals;
- the Corporation's cash requirements and funding for the next year;
- the Corporation's drilling plans and plans for completion and installation of production platforms or other infrastructure, on any of its licences;
- tax matters, including: the Corporation's tax horizon in each of the UK, the Netherlands and Canada; its expectations with respect to claiming ring fence expenditure supplement and the implications on UK ring fence corporation tax and supplementary charge corporation tax losses; its intention to claim field allowances as applicable in relation to the Breagh and Cladhan fields and the impact thereof to Sterling;
- the Corporation's strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the Corporation's expectations regarding government policies with respect to concerns about climate change and the protection of the environment;
- the Corporation's expectations regarding the future operatorship of, and investments in, the UK Breagh gas field by INEOS Group AG as the new owner of the Dea UK North Sea gas fields; and
- the Corporation's plans and expectations that are described on page 23 under of the Annual MD&A and on page 41 of the Annual Financial Statements.

The material assumptions in making these forward-looking statements include certain assumptions related to the completion and impact of the Recapitalization or are disclosed in the Annual MD&A under the headings "Forward-Looking Statements and Business Risks", "Significant Judgments and Estimates", "Income Taxes", "Forward View", "Financing Activities", "Cladhan Funding Arrangements", "Liquidity and Solvency", and "2016 Plans".

Although the Corporation 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 Corporation cannot guarantee future results, levels of activity, performance, or achievements. Some of the risks and other factors, certain of which are

beyond the Corporation's control, that could cause results to differ materially from those expressed in the forward-looking statements contained in this short form prospectus and the documents incorporated by reference herein include, but are not limited to:

- the Corporation will be unable to complete the Recapitalization;
- recovery and reserves and resource 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 Corporation;
- risks associated with the funding, determination, evaluation, assessment and measurement of oil and gas deposits or reserves;
- 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 gas price fluctuations;
- without the addition of reserves through exploration, acquisition or development activities, the Corporation's reserves and production will decline over time as reserves are exploited;
- production and processing operations may prove more difficult, more costly or less efficient than planned;
- all modes of transportation of hydrocarbons involve inherent and significant risks;
- interruptions in availability of exploration, production or supply infrastructure;
- third party contractors and providers of capital equipment can be scarce;
- reliance on other operators and stakeholders limited the Corporation's control over certain activities;
- availability of joint venture partners and terms of agreement between them and Sterling will depend on factors beyond the Corporation's control;
- permits, approvals, authorizations, consents and licenses may be difficult to obtain, sustain or renew;
- regulatory requirements can be onerous and expensive;
- the Corporation cannot completely protect itself against title disputes;
- the Corporation is substantially dependent on its executive management;
- environmental legislation can have an impact on the Corporation's operations;
- additional funding and/or a refinancing of existing debt may be required to carry out the Corporation's business operations and to expand reserves and resources;
- the Corporation's operations are subject to the risk of litigation;
- issuance or arrangement of debt to finance acquisitions would increase the Corporation's debt levels and further changes in circumstances may lead these debt levels to beyond the Corporation's ability to service and repay;
- significant competition exists in attracting and retaining skilled personnel;
- competition in the international oil and gas industry could limit the Corporation's ability to obtain licences and key supplies, such as drilling rigs;
- future acquisitions may involve common acquisition risks and may not meet expectations;
- 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 Corporation;
- political or government changes in legislation or policy in the countries in which the Corporation operates may have a negative impact on those operations;
- labour unrest could affect the Corporation's ability to explore for, produce and market its oil and gas production;
- risks related to the countries in which the Corporation operates;
- uncertainties of legal systems in jurisdictions in which the Corporation operates;
- failure to meet contractual agreements may result in the loss of the Corporation's interests;
- failure to meet contractual and regulatory formalities may call into question the validity of the Corporation, its subsidiaries or its assets; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking information and statements contained in this short form prospectus and the documents incorporated by reference herein: (a) were made as of the dates stated therein and have not been updated except as modified or superseded by a subsequently filed document that is also incorporated by reference in this short form prospectus; (b) represent the Corporation's views as of the date of such documents and should not be relied upon as representing the Corporation's views as of any subsequent date; and (c) are expressly qualified by this cautionary statement. While the Corporation anticipates that subsequent events and developments may cause its views to change, the Corporation specifically disclaims any intention or obligation to update forward-looking information and statements, whether as a result of new information, future events or otherwise, except to the extent required by applicable securities laws.

Forward-looking information and statements contained in this short form prospectus and the documents incorporated herein by reference about prospective results of operations, financial position or cash flows that are based upon assumptions about future economic conditions and courses of action are presented for the purpose of assisting securityholders in understanding management's current views regarding those future outcomes, and may not be appropriate for other purposes.

There can be no assurance that the forward-looking information and statements will prove to be accurate, and actual results and future events could vary or differ materially from those anticipated by them. Accordingly undue reliance should not be placed on forward-looking information and statements. Forward-looking information and statements for time periods subsequent to 2016 involve greater risks and require longer term assumptions and estimates from those for 2016, and are consequently subject to greater uncertainty. Therefore, special caution should be taken in terms of placing reliance on such long-term forward-looking information and statements.

## SUMMARY OF THE RIGHTS OFFERING

*This summary of the Rights Offering is qualified by, and should be read in conjunction with, the detailed information contained elsewhere in this short form prospectus.*

<b>Record Date:</b>	April 27, 2016.
<b>Expiry Date and Time:</b>	5:00 p.m. (Eastern time) on May 19, 2016.
<b>Closing Date:</b>	May 27, 2016.
<b>Entitlement to Rights:</b>	Each Shareholder of record as at the close of business on the Record Date is entitled to receive one Right for each Common Share held. Subject to exceptions related to Non-Qualifying Holders as noted herein. Neither Rights Certificates nor a copy of this short form prospectus will be mailed to Non-Qualifying Holders.
<b>Subscription Price:</b>	\$0.015398 per Common Share.
<b>Maximum Number of Common Shares Issuable pursuant to Rights Offering:</b>	14,277,525,577 Common Shares. There is no minimum number of Common Shares.
<b>Maximum Net Proceeds to the Corporation pursuant to Rights Offering:</b>	Approximately \$219,445,339 million, assuming the exercise of all Rights and after deduction of the estimated expenses of the Rights Offering of \$400,000. The expenses of the Rights Offering will be paid from general funds of the Corporation.
<b>Basic Subscription Privilege:</b>	<p>Every Right will entitle a Qualifying Holder thereof to subscribe for 32.333333333 Common Shares at the Subscription Price. See “<i>Details of the Offering – Basic Subscription Privilege</i>”.</p> <p>A Rightsholder that exercises Rights is deemed to represent and warrant to the Corporation that the exercise of any of its Rights will not result in such Rightsholder becoming a “control person” within the meaning of TSXV Policy 1.1 due to it, alone or in combination with other persons, holding a sufficient number of the Common Shares so as to affect materially the control of the Corporation or that holds more than 20% of the outstanding Common Shares except where there is evidence showing that the Rightsholder does not materially affect the control of the Corporation. If the representation and warranty is breached by the Rightsholder, the Rightsholder unconditionally agrees that the portion of the Rights exercised that would entitle the Rightsholder to receive more than 20% of the Common Shares will be null and void and result in the cancellation of any such Rights immediately before the Expiry Time. Any Rights cancelled as a result of the foregoing will be taken up in accordance with the Additional Subscription Privilege, as applicable. See “<i>Details of the Rights Offering – Basic Subscription Privilege</i>” and “<i>Details of the Offering – How to Complete Rights Certificates – To Represent Exercise of Rights Will Not Create a Control Person – Form 5</i>”.</p>
<b>Additional Subscription Privilege:</b>	Qualifying Holders who exercise in full the Basic Subscription Privilege for their Rights are also entitled to subscribe <i>pro rata</i> for Common Shares, if any, not otherwise purchased pursuant to the Basic Subscription Privilege at the Subscription Price, if available. See “ <i>Details of the Offering – Additional Subscription Privilege</i> ”.
<b>Standby Commitment:</b>	There is no standby commitment.

**Qualifying and Non-Qualifying Holders**

Rights Certificates will be sent to Qualifying Holders and, except as contemplated herein, Rights Certificates will not be sent to Non-Qualifying Holders. Instead, Non-Qualifying Holders will be sent a letter advising them that their Rights Certificates will be held by the Subscription Agent, who will hold such Rights as agent for the benefit of all such Non-Qualifying Holders (other than Eligible Foreign Investors and Accredited Rights Holders that have directed the Subscription Agent to exercise their Rights). The Subscription Agent will hold such Rights until the tenth day prior to the Expiry Date to give Non-Qualifying Holders an opportunity to claim their Rights Certificates from the Subscription Agent by satisfying the Corporation that they are Accredited Rights Holders.

After May 9, 2016, the Subscription Agent will attempt, on a best efforts basis, to sell the Rights issued to Non-Qualifying Holders (other than those held for Eligible Foreign Investors and Accredited Rights Holders) through the facilities of the TSXV, prior to the Expiry Time on a date or dates and at a price or prices as the Subscription Agent determines in its sole discretion.

See “*Details of the Rights Offering — Non-Qualifying Holders and Eligible Foreign Investors*”.

**Use of Proceeds:**

The proceeds will be used solely to satisfy the Purchased Liabilities.

**Listing and Trading**

The Rights and the Rights Offering Shares will be freely tradeable upon issuance and listed on the TSXV.

## SUMMARY OF STEPS OF THE RECAPITALIZATION

*This summary of the Recapitalization is qualified by, and should be read in conjunction with, the detailed information contained elsewhere in this short form prospectus.*

- 1. Rights Offering:** The Corporation will conduct the Rights Offering, as described above in “Summary of the Rights Offering”.
- 2. Bond Exchange:** The Bondholders or their assignees (directly, or indirectly through an affiliate, or through the Bond Trustee) will subscribe for the Exchange Shares at the Subscription Price and in the Exchange Amount in consideration indirectly for the full and final satisfaction of the Exchanged Bond Liabilities.
- 3. Transfer of SRUK:** The Corporation will incorporate Newco, a new wholly-owned subsidiary pursuant to the law of England and Wales and subsequently transfer the entire share capital of SRUK to Newco in order to provide additional security to the Bondholders and lenders under the New Loan Agreement and greater flexibility in a future refinancing of the Super Senior Facility and the Bonds post-recapitalization.
- 4. Remaining Bonds:** The Corporation and SRUK will enter into the Amended and Restated Bond Agreement No.4 with the Bond Trustee for the purpose of setting out the revised terms and conditions governing the Remaining Bonds.
- 5. Super Senior Credit Facility:** At the same time as the entry into the Amended and Restated Bond Agreement No. 4, the Corporation, Newco and SRUK will enter into the Super Senior Facility with certain of the Supporting Bondholders or their Affiliates pursuant to the terms of the New Loan Agreement.
- 6. Ancillary Agreements:** At the same time as the entry into the Amended and Restated Bond Agreement No. 4 and the New Loan Agreement, the Corporation, SRUK and Newco will also enter into the Intercreditor Agreement, and each of the Corporation and its affiliates (including Newco) shall execute the guarantees and security documents contemplated in the Amended and Restated Bond Agreement No. 4 and the New Loan Agreement.
- 7. Shareholder Approval:** The Corporation will, following the Bond Exchange, call and conduct the Company Meeting as soon as practicable following the Closing Date (ideally and if feasible in conjunction with the Corporation’s annual meeting of shareholders) to consider, among other things, the Recapitalization Resolutions.
- 8. Consolidation:** The Corporation will then consolidate its Common Shares on a basis to be determined by the board of directors of the Corporation following the completion of the Bond Exchange and the holding of the Company Meeting.

## KEY DATES AND TIMES OF THE RIGHTS OFFERING

	Date
Record Date	April 27, 2016
Mailing Date for final short form prospectus and Rights Certificates	April 28, 2016
Commencement Date	April 29, 2016
Date that Rights will be listed for trading on the TSXV	April 29, 2016
Date on which Common Shares will trade on an ex-rights basis	May 19, 2016



Date on which sale of Rights by Non-Qualifying Holders by Subscription Agent begins	May 10, 2016
End of trading of Rights on the TSXV	May 19, 2016
Expiry Time and Expiry Date	5:00 p.m. (Eastern time) on May 19, 2016
Anticipated Closing Date of the Rights Offering	May 27, 2016

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of the Corporation, at 1450, 736 – 6<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3T7 (telephone: (403) 215-9263) and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents filed with the securities commission or other similar authority in those provinces of Canada in which the Corporation is a reporting issuer (or equivalent) are specifically incorporated by reference in and form an integral part of this short form prospectus:

- (a) the AIF;
- (b) the Annual Financial Statements;
- (c) the Annual MD&A;
- (d) the information circular of the Corporation dated April 16, 2015 with respect to the annual and special meeting of the Shareholders held on May 28, 2015;
- (e) the Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information setting out information effective as of December 31, 2015, dated April 14, 2016;
- (f) the Form 51-101F2 Report on Reserves Data setting out information effective as of December 31, 2015, dated April 7, 2016;
- (g) the Form 51-101F3 Report of Management and Directors on Oil and Gas Disclosure setting out information effective as of December 31, 2015, dated April 14, 2016; and
- (h) the material change report dated March 17, 2016 relating to the announcement of the Recapitalization.

Documents referenced in any of the documents incorporated by reference in this short form prospectus but not expressly incorporated by reference therein or herein and not otherwise required to be incorporated by reference therein or herein are not incorporated by reference in this short form prospectus. Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any annual information form, annual financial statements and the auditor's report thereon, interim financial statements, management's discussion and analysis of financial conditions and results of operations, material change report (except confidential material change report), business acquisition report and information circular, filed by the Corporation with the securities commissions or similar authorities in Canada after the date of this short form prospectus and before the termination of the distribution are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

## MARKETING MATERIALS

Any template version of “marketing materials” (as defined in National Instrument 41-101 – *General Prospectus Requirements*) filed after the date of the final short form prospectus and before the termination of the distribution hereunder is deemed to be incorporated into the final short form prospectus. Such template version of marketing materials is not part of the final short form prospectus to the extent that the contents of such template version of marketing materials have been modified or superseded by a statement contained in the final short form prospectus.

## STERLING RESOURCES LTD.

### Corporate History

Sterling was incorporated under the *Companies Act* (Alberta) on August 31, 1979 under the name of “Peoples Oil Limited”. Sterling was continued pursuant to Articles of Continuance under Section 261 of the ABCA on July 2, 1982. The name was changed from “Peoples Oil Limited” to “Sterling Resources Ltd.” by Articles of Amendment dated February 10, 1997. The registered and head office of Sterling is 1450, 736-6<sup>th</sup> Avenue S.W., Calgary, Alberta, Canada T2P 3T7.

### Business of the Corporation

Sterling is a Canadian-listed international oil and gas company headquartered in Calgary, Alberta with assets in the United Kingdom, France and the Netherlands. Sterling’s primary strategy for achieving growth has been focused on the acquisition of petroleum and natural gas rights and the exploration for, and the development and production of, crude oil and natural gas. In its early years, the Corporation focused on onshore activities in Canada and the United States, and acquired its first international assets in Romania in 1997, followed by assets in the United Kingdom acquired in 1998. In the following years, the Corporation withdrew from North America and developed its business in Europe, acquiring additional assets in the Netherlands and France. Sterling has also withdrawn from its business in Romania, selling its Romanian assets in 2015 by way of a sale of its wholly-owned subsidiary, Midia Resources SRL, to Carlyle International Energy Partners. A full summary of Sterling’s interests and acreage holdings as at December 31, 2015 is provided in the AIF.

At this time, Sterling has two active wholly-owned subsidiaries in connection with two key projects: (i) SRUK, in connection with a 30% equity interest in the Breagh area development in the UK Southern North Sea as a non-operating joint venture partner with Ineos UK SNS Limited, where Sterling sells the gas production from the Breagh field pursuant to a 2011 Gas Trading and Services Agreement with Vitol; and a 2% equity interest in the Cladhan field as a non-operating joint venture partner with TAQA and Molgrowest (I) Limited, where Sterling sells oil production pursuant to a 2015 oil sales agreement with Shell; and (ii) SRN in connection with petroleum licences offshore in the Netherlands. Upon pay-out to TAQA of the Carry, (if achieved at all) and provided the remaining net present value of the 11.8% interest at that time is positive, the Corporation’s equity interest in the Cladhan field will increase from the current 2% to 13.8%.

The Common Shares are listed on the TSXV under the symbol SLG.

Further particulars with respect to Sterling’s business operations and ownership restrictions are contained under the headings “General Development of the Business” and “Description of the Business” in the AIF and in the other documents incorporated herein by reference.

### Bankruptcies

In addition to the disclosure contained in the documents incorporated by reference into this short form prospectus, Robert Carter, a director of the Corporation, was a director of Cygam from September, 2012 to July, 2014, which was within one year of Cygam making a voluntary assignment in bankruptcy on April 2, 2015 pursuant to the provisions of the *Bankruptcy and Insolvency Act* (Canada).

Jacob Ulrich, the Chief Executive Officer and a director of the Corporation, was a director of VOSTOK Energy PLC, a private corporation, when it went into administration in the United Kingdom in 2013 and was subsequently sold in December, 2013. Mr. Ulrich is also a director of Astrakhan Oil Corporation Limited, a private company with Russian assets that made a petition for bankruptcy on March 11, 2016 to a Russian court.

Finally, Gavin Wilson, a director of the Corporation, was a director of Buccaneer Energy Limited from December, 2013 to June, 2014. Buccaneer filed a bankruptcy petition under Chapter 11 of the United States Bankruptcy Code on May 31, 2014.

## **DETAILS OF THE RIGHTS OFFERING**

### **Issue of Rights and Rights Certificates**

Shareholders of record as of the close of business (Eastern time) on the Record Date will be issued one Right for each Common Share held at that time. For Shareholders who hold their Common Shares in registered form, a Rights Certificate evidencing the number of Rights issued to the Shareholder as at the Record Date will be mailed with a copy of this short form prospectus to each such Shareholder as of the close of business (Eastern time) on the Record Date who is a Qualifying Holder with an address of record in a Qualifying Jurisdiction and may be distributed to Eligible Foreign Investors to the extent that Sterling determines it is possible to do so on an exempt basis under, or without otherwise breaching, the securities laws or any other applicable laws of the Eligible Foreign Jurisdictions and to Accredited Rights Holders as more fully described below. See “*Details of the Offering – Rights Certificate – Common Shares Held in Registered Form*”. Except as set forth above, neither Rights Certificates nor a copy of this short form prospectus will be mailed to Non-Qualifying Holders who are or appear to be, or whom the Corporation or the Subscription Agent have reason to believe are, residents of a Non-Qualifying Jurisdiction. Subscriptions will generally not be accepted from Non-Qualifying Holders, except that Sterling may elect to distribute the Rights to certain Eligible Foreign Investors and Accredited Rights Holders. See “*Details of the Rights Offering – Non-Qualifying Holders and Eligible Foreign Investors*”.

Shareholders who hold their Common Shares through a Participant will not receive physical certificates evidencing their ownership of Rights. On the Record Date, a global certificate representing such Rights will be issued in registered form to, and in the name of, CDS or its nominee. The Corporation expects that each beneficial Shareholder will receive a confirmation of the number of Rights issued to such Shareholder from the beneficial Shareholder's Participant. CDS will be responsible for establishing and maintaining book-entry accounts for Participants holding Rights. See “*Details of the Offering – Common Shares Held Through CDS*”.

The Rights may not be transferred to any U.S. persons unless transferred in a transaction exempt from the registration requirements of the 1933 Act. No assurance can be given that any such exemption will be available. Therefore, Rights held by U.S. persons will likely only be permitted to be transferred in transactions outside the United States in accordance with Regulation S under the 1933 Act. See “*Sale or Transfer of Rights and Common Shares*” for a description of certain transfer procedures and restrictions.

### **Basic Subscription Privilege**

A Rightsholder who is a Qualifying Holder (or an Eligible Foreign Investor or Accredited Rights Holder as may be applicable) will be entitled to exercise each Right to subscribe for 32.333333333 Common Shares at the Subscription Price of \$0.015398 per Common Share for each Common Share issuable pursuant to each Right held pursuant to its Basic Subscription Privilege. To determine the maximum whole number of Common Shares for which a subscriber may subscribe under the Rights Offering, the subscriber should multiply the number of Rights held by 32.333333333 and round down to the nearest whole number.

The subscriber may subscribe for the resulting whole number of Common Shares or any lesser whole number of Common Shares by subscribing and making payment in the manner described herein before the Expiry Time on the Expiry Date. A Rightsholder that subscribes for some, but not all, of the Common Shares pursuant to its Basic Subscription Privilege will be deemed to have elected to waive the unexercised balance of such Rights and such unexercised balance of Rights will be void and of no value unless the Subscription Agent is otherwise specifically

advised by such holder at the time the Rights Certificate is surrendered that the Rights are to be transferred to a third party or are to be retained by the holder. Participants that hold Rights for more than one Beneficial Holder may, upon providing evidence satisfactory to the Corporation and the Subscription Agent, exercise Rights on behalf of their accounts on the same basis as if the beneficial Shareholders were Shareholders of record.

In order to exercise the Rights represented by a Rights Certificate, a Registered Holder, if a Qualifying Holder (or an Eligible Foreign Investor or Accredited Rights Holder), must complete and deliver the Rights Certificate to the Subscription Agent in accordance with the terms of the Rights Offering in the manner and upon the terms set out in this short form prospectus and pay the aggregate Subscription Price.

For Rights held through a Participant, a Beneficial Holder, if resident in a Qualifying Jurisdiction or an Eligible Foreign Jurisdiction, or an Accredited Rights Holder, may subscribe for Common Shares by instructing the Participant holding the Rights to exercise all or a specified number of such Rights and forwarding the aggregate Subscription Price for the Common Shares subscribed for in accordance with the terms of the Rights Offering to such Participant. Participants may have an earlier deadline for receipt of instructions and payment than the Expiry Time on the Expiry Date.

The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of "Computershare Investor Services Inc.". In the case of subscription through a Participant, the Subscription Price is payable by certified cheque, bank draft or money order drawn to the order of such Participant, by direct debit from the subscriber's brokerage account or by electronic funds transfer or other similar payment mechanism. The entire Subscription Price for the Common Shares subscribed for must be paid at the time of subscription and must be received by the Subscription Agent at the Subscription Office in the manner specified herein on or before the Expiry Time on the Expiry Date. Accordingly, a subscriber subscribing through a Participant should ensure it delivers its payment and instructions sufficiently in advance of the Expiry Date to allow the Participant to properly exercise the Rights on its behalf.

If mail is used for delivery of subscription funds, for the protection of the subscriber certified mail, return receipt requested, should be used and sufficient time should be allowed to avoid the risk of late delivery.

**Subscriptions for Common Shares pursuant to the Basic Subscription Privilege will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.**

See "*Details of the Rights Offering – How to Complete Rights Certificates – To Subscribe for Common Shares (Basic Subscription Privilege) – Form 1*".

A Rightsholder that exercises Rights is deemed to represent and warrant to the Corporation that the exercise of any of its Rights will not result in such Rightsholder becoming a "control person" within the meaning of TSXV Policy 1.1 due to it, alone or in combination with other persons, holding a sufficient number of the Common Shares so as to affect materially the control of the Corporation or that holds more than 20% of the outstanding Common Shares except where there is evidence showing that the Rightsholder does not materially affect the control of the Corporation. If the representation and warranty is breached by the Rightsholder, the Rightsholder unconditionally agrees that the portion of the Rights exercised that would entitle the Rightsholder to receive more than 20% of the Common Shares will be null and void and result in the cancellation of any such Rights immediately before the Expiry Time. Any Rights cancelled as a result of the foregoing will be taken up in accordance with the Additional Subscription Privilege, as applicable. See "*Details of the Offering – How to Complete Rights Certificates – To Represent Exercise of Rights Will Not Create a Control Person – Form 5*".

No Common Shares will be issued or distributed to any holder, if at the time of such issue or distribution, the holder is in the United States, is a U.S. person, is acting for the account or benefit of a U.S. person or person in the United States or otherwise a resident of any jurisdiction or place other than the Qualifying Jurisdictions, except to holders that are Accredited Rights Holders or an Eligible Foreign Investor.

## **Additional Subscription Privilege**

A Rightsholder who has exercised in full its Basic Subscription Privilege is entitled to subscribe, pursuant to the Additional Subscription Privilege, *pro rata* for additional Common Shares, if any, at the Subscription Price. The Additional Common Shares available for such purpose will be those, if any, which have not been subscribed and paid for under the Basic Subscription Privilege by holders of Rights by the Expiry Time on the Expiry Date. Where there is a sufficient number of Additional Common Shares to satisfy all subscriptions under the Additional Subscription Privilege, each holder who has validly subscribed for Additional Common Shares will be issued the number of Additional Common Shares for which such holder has subscribed. If there is an insufficient number of Common Shares available to satisfy all subscriptions for Additional Common Shares, each holder who has validly subscribed for Additional Common Shares will be allocated Additional Common Shares in the manner described under “*Details of the Rights Offering – How to Complete Rights Certificates – To Subscribe for Additional Common Shares (Additional Subscription Privilege) – Form 2*”.

**Subscriptions for Common Shares pursuant to the Additional Subscription Privilege will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.**

No Additional Common Shares will be issued or distributed to any holder, if at the time of such issue or distribution, the holder is in the United States, is a U.S. person, is acting for the account or benefit of a U.S. person or person in the United States or otherwise a resident of any jurisdiction or place other than the Qualifying Jurisdictions, except to holders that are Accredited Rights Holders or Eligible Foreign Investors.

## **Non-Qualifying Holders and Eligible Foreign Investors**

Except as set forth below, the Rights are only being distributed to Qualifying Holders. Non-Qualifying Holders are holders of record of Common Shares as at the close of business on the Record Date who are not Qualifying Holders. Shareholders of record will be presumed to be resident in the place of their address of record, unless the contrary is shown to the satisfaction of the Corporation.

The Rights Offering is being made only in the Qualifying Jurisdictions. Accordingly, and except as contemplated herein, neither the Rights nor the Rights Offering Shares are being offered to persons who are, or appear to be, or who the Corporation or the Subscription Agent have reason to believe are, residents of any other jurisdiction or place other than the Qualifying Jurisdictions, nor will the Corporation or the Subscription Agent accept subscriptions from any security holder or from any transferee of Rights who is or appears to be, or who the Corporation or the Subscription Agent have reason to believe is, a resident of any jurisdiction or place other than the Qualifying Jurisdictions. Notwithstanding the foregoing, Sterling may elect to distribute the Rights to certain Eligible Foreign Investors resident in the United Kingdom, the Cayman Islands, the British Virgin Islands and the Bailiwick of Guernsey to the extent that Sterling determines it is possible to do so on an exempt basis under, or without otherwise breaching, the securities laws or any other applicable laws of the Eligible Foreign Jurisdictions and to other Non-Qualifying Holders who have demonstrated to Sterling on or before the tenth day prior to the Expiry Date that the distribution and exercise of the Rights and issuance of the Common Shares upon such exercise is not prohibited by any applicable securities laws and will not require Sterling to file any documents, make any application, or pay any amount in their jurisdiction of residence. Eligible Foreign Investors and Accredited Rights Holders will be entitled to direct the Subscription Agent to exercise their Rights on their behalf. Eligible Foreign Investors and Accredited Rights Holders will be required to submit payment in full of the Subscription Price for each Common Share subscribed for on or prior to the Expiry Time on the Expiry Date.

The Rights Offering does not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful. The Rights Offering is not being made to, nor will deposits be accepted from or on behalf of, holders of Rights in any jurisdiction in which the making or acceptance thereof would not be in compliance with the laws of such jurisdiction. However, the Corporation may, in its sole discretion, take such action as it may deem necessary to extend the Rights Offering to holders of Common Shares in such jurisdiction. Any person resident outside of the Qualifying Jurisdictions, who is subject to the laws of a jurisdiction where the Rights Offering may be lawful, should seek advice from an attorney or other qualified securities authority to satisfy himself or herself with respect to the availability and applicability of any exemption or other provision of the applicable securities legislation that would make the Rights Offering to him or her lawful.

Rights Certificates will not be delivered by the Corporation to Non-Qualifying Holders. Instead, such Shareholders will be sent a letter advising them that their Rights Certificates will be held by the Subscription Agent, who will hold such Rights as agent for the benefit of all such Non-Qualifying Holders (other than Eligible Foreign Investors and Accredited Rights Holders that have directed the Subscription Agent to exercise their Rights). The Subscription Agent will hold such Rights until the tenth day prior to the Expiry Date to give Non-Qualifying Holders an opportunity to claim their Rights Certificates from the Subscription Agent.

After May 9, 2016, the Subscription Agent will attempt, on a best efforts basis, to sell the Rights that would otherwise have been issued to Non-Qualifying Holders (other than those held for Eligible Foreign Investors and Accredited Rights Holders) through the facilities of the TSXV prior to the Expiry Time on a date or dates and at a price or prices as the Subscription Agent determines in its sole discretion. See “*Details of the Rights Offering – Non-Qualifying Holders and Eligible Foreign Investors*”.

**The Subscription Agent’s ability to sell Rights, and the prices obtained for the Rights, will be dependent on market conditions. The Subscription Agent will not be subject to any liability for failure to sell any Rights held by persons who are Non-Qualifying Holders at any particular price or prices, or at all.** The proceeds received by the Subscription Agent from the sale of Rights, net of any applicable costs, brokerage fees and expenses, will be divided among the Non-Qualifying Holders (other than Eligible Foreign Investors and Accredited Rights Holders who have directed the Subscription Agent to exercise their Rights) *pro rata* according to the total number of Rights issued to each such Non-Qualifying Holder pursuant to the Rights Offering. The Subscription Agent will mail cheques to applicable Non-Qualifying Holders at their addresses appearing in the records of the Subscription Agent for their respective proportions of those net proceeds, subject to any applicable taxes which must be withheld for particular Shareholders, provided that the Subscription Agent shall not be required to make any such payment to a Non-Qualifying Holder in the event the aggregate amount owing to such Shareholder in connection with the sale of its Rights by the Subscription Agent is less than \$10.00. Such amount shall be forwarded to the Corporation to be used by the Corporation to set-off a portion of the remuneration payable to the Subscription Agent for its services hereunder. **There is a risk that the proceeds received from the sale of Rights will not exceed the costs of or incurred by the Subscription Agent in connection with the sale of such Rights and, if applicable, the Canadian tax required to be withheld. In such event, no proceeds will be remitted.**

**Prospective subscribers should be aware that the acquisition or disposition of the securities described in this short form prospectus and the expiry of an unexercised Right may have tax consequences in Canada or elsewhere, depending on each particular prospective investor’s specific circumstances. See “*Certain Canadian Federal Income Tax Considerations*”. Such consequences for investors who are resident in, or citizens of, jurisdictions outside of Canada are not described fully herein. Prospective subscribers should consult their own tax advisors with respect to such tax considerations.**

The Subscription Agent shall only sell those Rights which are held by Registered Holders who are Non-Qualifying Holders (other than those held for Eligible Foreign Investors and Accredited Rights Holders). The Subscription Agent shall not sell Rights on behalf of the Beneficial Holders in the manner described above. Rights delivered to Participants may not be delivered by those Participants to Beneficial Holders who are resident in a Non-Qualifying Jurisdiction. Such Rights should be sold by the applicable Participant on behalf the Beneficial Holder. See “*Details of the Rights Offering – Delivery of Rights by Participants*”.

A Non-Qualifying Holder whose address of record is outside the Qualifying Jurisdictions but who is eligible because it is an Accredited Rights Holder or who holds Common Shares on behalf of a Beneficial Holder who is resident in a Qualifying Jurisdiction must notify the Subscription Agent, in writing (at the Subscription Office or by facsimile transmission at 1-905-771-4082; Attention: Corporate Actions), on or before the tenth day prior to the Expiry Date if such holder or Beneficial Holder wishes to participate in the Rights Offering. In that case, such holder or Beneficial Holder must provide evidence, satisfactory to the Subscription Agent and the Corporation, as to the eligibility of the holder or Beneficial Holder to such Rights. Specifically, such holder or Beneficial Holder may be able to exercise the Rights and purchase Common Shares provided that they furnish a form of investor representation letter (“**Representation Letter**”) to the Corporation on or before May 9, 2016. The form of Representation Letter will be available from the Corporation or the Subscription Agent upon request. Beneficial owners of Rights or Common Shares should contact their broker to obtain the Representation Letter. If such holder or Beneficial Holder fails to provide the evidence described above, the Subscription Agent will attempt to sell the

Rights held on behalf of such holder or Beneficial Holder as described above. Unless otherwise agreed and acknowledged by the Corporation, payment of the Subscription Price to the Subscription Agent along with the completion of Form 1 on the Rights Certificate will constitute a representation to the Subscription Agent and the Corporation that the purchaser of the Common Shares and Additional Common Shares, if any, is neither a Non-Qualifying Holder nor the agent of any such person.

### *United States*

The Rights and the Rights Offering Shares offered hereunder have not been and will not be registered under the 1933 Act or any state securities laws and may not be offered or sold in the United States or any of its territories or possessions absent an exemption from the registration requirements of the 1933 Act and any applicable state securities laws. Accordingly, subscriptions will not be accepted from any security holder or transferee who is in the United States, its territories or possessions, except pursuant to an available exemption from the registration requirements of the 1933 Act and any applicable state securities laws and therefore will only be accepted from Accredited Rights Holders.

Such security holder or transferee will be an Accredited Rights Holder if such Shareholder (1)(i) is a U.S. Accredited Investor and certifies to the Corporation that it is a U.S. Accredited Investor or who is an executive officer or director of the Corporation; (ii) is a U.S. Qualified Fiduciary, and certifies to the Corporation that it is a U.S. Qualified Fiduciary; or (iii) is outside the Qualifying Jurisdictions and the United States; and (2) satisfies the Corporation that such offering to and subscription by such security holder or transferee is lawful and in compliance with all applicable securities and other laws.

All Rights or Common Shares issued to Accredited Rights Holders in the United States, that are U.S. persons or that are acting for the account or benefit of U.S. persons or persons in the United States will be “restricted securities” within the meaning of Rule 144 under the 1933 Act, and may not be offered, sold, pledged or otherwise transferred, directly or indirectly, except pursuant to exemptions from requirements of the 1933 Act and any applicable laws of the United States or in a transaction outside of the United States in accordance with Regulation S under the 1933 Act. Regulation S permits the resale of the Rights and any Common Shares by persons through the facilities of the TSXV, provided that the offer is not made to a person in the United States, neither the seller nor any person acting on its behalf knows that the transaction has been prearranged with a buyer in the United States, and no “directed selling efforts”, as that term is defined in Regulation S, are conducted in the United States in connection with the resale. Certain additional conditions are applicable to the Corporation’s “affiliates”, as that term is defined under the 1933 Act. The Rights or Common Shares issued to Accredited Rights Holders will be certificated and will bear a U.S. legend restricting the transfer of such securities.

### *United Kingdom*

With respect to the United Kingdom, the securities being offered hereunder are only available to: (i) persons outside the United Kingdom; or (ii) persons in the United Kingdom who are: (a) a “qualified investor” within the meaning of Section 86(7) of the United Kingdom Financial Services and Markets Act 2000, as amended (“FSMA”), acting as principal or in circumstances where Section 86(2) of the FSMA applies; and (b) also within the categories of persons referred to in Article 19 (investment professionals) or Article 49 (high net worth companies, unincorporated associations, etc.) of the United Kingdom’s Financial Promotion Order (all such persons together being referred to as “relevant persons”). The securities being offered hereunder are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons.

Any person who is not a relevant person should not act or rely on this document or any of its contents. This document contains no offer of transferable securities to the public in the United Kingdom within the meaning of Sections 85(1) and 102B of the FSMA. This document is not a prospectus for the purposes of Section 85(1) of the FSMA. Accordingly, this document has not been examined or approved as a prospectus by the United Kingdom FCA under Section 87A of the FSMA or by the London Stock Exchange and has not been filed with the FCA pursuant to the rules published by the FCA implementing the Prospectus Directive (2003/71/EC) nor has it been approved by a person authorized under the FSMA, for the purposes of Section 21 of the FSMA.



### *European Economic Area*

In relation to each Relevant Member State of the European Economic Area that has implemented the Prospectus Directive, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer to the public of any Rights, Rights Offering Shares or Exchange Shares is not being made and will not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Rights, Rights Offering Shares or Exchange Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a “qualified investor” as defined under the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Rights, Rights Offering Shares or Exchange Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any Rights, Rights Offering Shares or Exchange Shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that (A) it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive, and (B) in the case of any Rights, Rights Offering Shares or Exchange Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (x) the Rights, Rights Offering Shares or Exchange Shares acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than “qualified investors” as defined in the Prospectus Directive, or in circumstances in which the prior consent of the subscribers has been given to the offer or resale, or (y) where Rights, Rights Offering Shares or Exchange Shares have been acquired by it on behalf of persons in any Relevant Member State other than “qualified investors” as defined in the Prospectus Directive, the offer of those Rights, Rights Offering Shares or Exchange Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression “**an offer to the public**” in relation to any Rights, Rights Offering Shares or Exchange Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any Rights, Rights Offering Shares or Exchange Shares to be offered so as to enable an investor to decide to purchase any Rights, Rights Offering Shares or Exchange Shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) and includes any relevant implementing measure in each Relevant Member State.

### *British Virgin Islands*

The securities offered hereunder may not be distributed or offered in the BVI unless the Corporation or the person distributing or offering the securities on its behalf is licensed to carry on business in the BVI. The securities may be distributed or offered to BVI business companies, international partnerships formed in the BVI or BVI resident individuals from outside BVI without restriction. A BVI business company is a company formed or otherwise governed by the *BVI Business Companies Act* (British Virgin Islands) (as amended) and a BVI inter. Accordingly, BVI business companies, BVI international partnerships and BVI resident individuals as at the Record Date will be treated by the Corporation as a Qualifying Holder.

Although not currently in force, it is expected that Part II of the SIBA will be brought into force and become law in the BVI in the near future. Upon Part II of SIBA coming into force, the securities offered hereunder may not be, and will not be, offered to the public or to any person in the BVI for purchase or subscription by or on behalf of the

Corporation. The securities may continue to be offered to BVI business companies and international limited partnerships formed in the BVI, but only where the offer will be made to, and received by, the relevant BVI company or limited partnership entirely outside of the BVI. Once Part II of SIBA comes into force, the securities may also be offered to persons located in the BVI who are “qualified investors” for the purposes of SIBA.

This short form prospectus has not been reviewed, approved or registered with the Financial Services Commission of the BVI and will not be so registered upon Part II of SIBA coming into force. No registered prospectus has been or will be prepared in respect of the securities for the purposes of SIBA.

### **Commencement Date and Expiry Time**

The Rights will be eligible for exercise on and following the Commencement Date and will expire at 5:00 p.m. (Eastern time) on the Expiry Date. Holders who exercise their Rights pursuant to the terms and conditions contained herein will not become a Shareholder of record until the Expiry Date. **RIGHTS NOT EXERCISED BY THE EXPIRY TIME ON THE EXPIRY DATE WILL BE VOID AND OF NO VALUE.**

### **Subscription Agent and Subscription Office**

Computershare Investor Services Inc. has been appointed to act as the Subscription Agent to: (a) receive subscriptions and payments from holders of Rights Certificates for the Common Shares subscribed for under the Basic Subscription Privilege and Additional Subscription Privilege; (b) perform the services relating to the exercise and transfer of the Rights; and (c) use its best efforts to sell Rights issued to Non-Qualifying Holders (other than Eligible Foreign Investors and Accredited Rights Holders that have directed the Subscription Agent to exercise their Rights) and to deliver the proceeds thereof to applicable Non-Qualifying Holders. The Corporation will pay for all such services of the Subscription Agent. The Subscription Agent will accept subscriptions for Common Shares and payment of the Subscription Price from holders of Rights only at the following address, such address being the Subscription Office:

By registered mail, by hand or by courier:

Computershare Investor Services Inc.  
100 University Avenue, 8<sup>th</sup> Floor  
Toronto, Ontario M5J 2Y1

Attention: Corporate Actions

Toll Free: 1-800-564-6253  
E-Mail: [corporateactions@computershare.com](mailto:corporateactions@computershare.com)

By regular mail:

Computershare Investor Services Inc.  
P.O. Box 7021, 31 Adelaide Street E  
Toronto, Ontario M5C 3H2

Attention: Corporate Actions

The method of delivery of Rights Certificates to the Subscription Agent is at the discretion of the Rightsholder. Neither the Subscription Agent nor the Corporation will be liable for the failure to deliver or the delivery of Rights Certificates or the Subscription Price to an address other than the address set out above. Delivery to an address other than the address set out above may result in a subscription for Common Shares or a transfer of Rights not being accepted. If mail is used, registered mail is recommended.

### **Delivery of Rights by Participants**

Rights delivered to Participants may not be delivered by those Participants to Beneficial Holders who are resident in Non-Qualifying Jurisdictions. Participants receiving Rights which would otherwise be deliverable to residents of Non-Qualifying Jurisdictions should sell those Rights on behalf of such holders and remit the proceeds to them.

### **Common Shares Held in Registered Form**

For Registered Holders who are Qualifying Holders (or Eligible Foreign Investors or Accredited Rights Holders), a Rights Certificate representing the total number of Rights to which each such holder is entitled as at the close of

business on the Record Date, will be mailed to each such holder, together with this short form prospectus. In order to exercise the Rights represented by the Rights Certificate, such Rightsholder must complete and deliver the Rights Certificate and pay the aggregate Subscription Price to the Subscription Agent in the name and upon the terms set out herein. See “*Details of the Rights Offering – Basic Subscription Privilege*” and “*Details of the Rights Offering – How to Complete Rights Certificates*”.

**Rights not exercised before the Expiry Time on the Expiry Date will be void and of no value. All subscriptions for Common Shares made in connection with the Rights Offering will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.**

### **Common Shares Held Through CDS**

For Beneficial Holders, a global certificate representing the total number of Rights to which all such holders are entitled as at the close of business on the Record Date will be issued in registered form to CDS and will be deposited with CDS on the Commencement Date. The Corporation expects that each such Beneficial Holder will receive a confirmation of the number of Rights issued to it from its Participant in accordance with the practices and procedures of that Participant. CDS will be responsible for establishing and maintaining book-entry accounts for Participants holding Rights through their respective depositaries.

Neither the Corporation nor the Subscription Agent will have any liability for: (a) the records maintained by CDS or Participants relating to the Rights or the book-entry accounts maintained by them; (b) maintaining, supervising or reviewing any records relating to such Rights; or (c) any advice or representations made or given by CDS or Participants with respect to the rules and regulations of CDS or any action to be taken by CDS or Participants.

The ability of a holder having an interest in Rights held through a Participant to pledge such interest or otherwise take action with respect to such interest (other than through a Participant) may be limited due to the lack of a physical certificate.

Beneficial Holders must arrange transfers of Rights through their Participant. It is anticipated by the Corporation that each such transferor or transferee of a Right will receive a customer confirmation of transfer from the Participant through which such Right is transferred in accordance with the practices and policies of such Participant. See “*Details of the Offer – Sale or Transfer of Rights*” and “*Details of the Rights Offering – How to Complete Rights Certificates*”. The Rights may not be transferred to any U.S. persons, unless transferred in a transaction exempt from the registration requirements of the 1933 Act. No assurance can be given that any such exemption will be available. Therefore, Rights held by U.S. persons will likely only be permitted to be transferred in transactions outside the United States in accordance with Regulation S under the 1933 Act.

Except as otherwise specifically provided herein (see “*Details of the Rights Offering – Non-Qualifying Holders and Eligible Foreign Investors*”), payment of the Subscription Price will constitute a representation to the Corporation, the Subscription Agent and to any CDS Participant that the Subscriber is not in the United States or the agent of any person in the United States and is not purchasing the Common Shares or Additional Common Shares, if any, for the account or benefit of, or for the resale to, any person in the United States.

**Rights not exercised before the Expiry Time on the Expiry Date will be void and of no value. All subscriptions for Common Shares made in connection with the Rights Offering will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.**

### **How to Complete Rights Certificates**

#### ***To Subscribe For Common Shares (Basic Subscription Privilege) — Form 1***

In order to subscribe for Common Shares, a holder of a Rights Certificate must complete and sign Form 1 on the Rights Certificate in accordance with the instructions thereon and deliver the completed and signed Rights Certificate, together with the full payment for the number of Common Shares subscribed for, to the Subscription Office in the manner described herein on or before the Expiry Time on the Expiry Date. The completion of Form 1

constitutes a binding agreement to subscribe for the number of Common Shares specified. Payment for the number of Common Shares subscribed for at the Subscription Price must be made by certified cheque, bank draft, money order or other form of payment acceptable to the Subscription Agent in Canadian funds payable to the order of “Computershare Investor Services Inc.” Under no circumstances will interest accrue or be paid by the Corporation or the Subscription Agent on any consideration received in connection with the exercise of Rights.

**The method of delivery is at the discretion and risk of the holder of the Rights Certificate and delivery to the Subscription Agent will only be effective when actually received by the Subscription Agent at the Subscription Office. Rights Certificates and payments received after the Expiry Time on the Expiry Date will not be accepted.**

A holder of a Rights Certificate who completes Form 1 so as to exercise some but not all of the Rights represented by such Rights Certificate will be deemed to have elected not to exercise the balance of the Rights represented thereby.

Execution and delivery of a Form 1 constitutes a representation and warranty to the Corporation, its directors and officers, and to the Subscription Agent and its officers, directors and employees by the Rights Certificate holder that: (a) the holder is not a Non-Qualifying Holder (unless it is an Eligible Foreign Investor or Accredited Rights Holder); (b) the holder is not purchasing the Common Shares for resale to any person who is a citizen or resident of a Non-Qualifying Jurisdiction; and (c) the holder is not a person who is prevented by any applicable legal, regulatory or contractual restrictions from purchasing the Common Shares. The person executing and delivering Form 1 will be deemed to know and accept that the Corporation, its directors and officers, and the Subscription Agent and its officers, directors and employees are relying upon such representation and warranty in accepting such subscription and issuing and distributing the subscribed for Common Shares.

If a Rightsholder is unsure how to subscribe, the holder should contact the Subscription Agent.

**Subscriptions for Common Shares pursuant to the Basic Subscription Privilege will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.**

***To Subscribe for Additional Common Shares (Additional Subscription Privilege) — Form 2***

A holder of a Rights Certificate who subscribes for all of the Common Shares which can be subscribed for pursuant to such Rights Certificate under the Basic Subscription Privilege is entitled to subscribe for Additional Common Shares at the Subscription Price under the Additional Subscription Privilege. In order to exercise the Additional Subscription Privilege, a holder of a Rights Certificate must, in addition to completing and signing Form 1 on the Rights Certificate, complete and sign Form 2 on the Rights Certificate in accordance with the instructions thereon and specify the number of Additional Common Shares which the holder wishes to subscribe for. The completion of Form 2 constitutes a binding commitment to subscribe for the number of Additional Common Shares specified. The completed and signed Rights Certificate, together with the full payment for the total number of Common Shares subscribed for (including the Additional Common Shares), must be delivered to the Subscription Agent in the manner described herein on or before the Expiry Time on the Expiry Date. Payment for the number of Additional Common Shares subscribed for must be made by certified cheque, bank draft, money order or other form of payment acceptable to the Subscription Agent in Canadian funds payable to the order of “Computershare Investor Services Inc.”.

**The method of delivery is at the discretion and risk of the holder of the Rights Certificate and delivery to the Subscription Agent will only be effective when actually received by the Subscription Agent at the Subscription Office. Rights Certificates and payments received after the Expiry Time on the Expiry Date will not be accepted.**

If there are sufficient Additional Common Shares to satisfy all subscriptions by participants in the Additional Subscription Privilege, each such participant will be issued the number of Additional Common Shares for which the holder has so subscribed. If the aggregate number of Additional Common Shares subscribed for by all holders of Rights who exercise the Additional Subscription Privilege exceeds the number of Additional Common Shares

available, each Rightsholder who exercises the Additional Subscription Privilege will be entitled to receive that number of Additional Common Shares which is the lesser of:

- (a) the number of Additional Common Shares subscribed for by the holder under the Additional Subscription Privilege; and
- (b) the product (disregarding fractions) obtained by multiplying the aggregate number of Additional Common Shares available by a fraction, the numerator of which is the number of Rights exercised by the holder under the Basic Subscription Privilege and the denominator of which is the aggregate number of Rights exercised under the Basic Subscription Privilege by all holders of Rights who exercise the Additional Subscription Privilege.

If any Rightsholder has subscribed for fewer Additional Common Shares than the number resulting from the application of the formula in (b) above, the excess Additional Common Shares will be allocated in the manner described above among the holders of Rights who were allocated fewer Additional Common Shares than they subscribed for. In the event of an oversubscription for Additional Common Shares pursuant to the Additional Subscription Privilege, the Subscription Agent will return to subscribers the excess funds paid for the subscription of such Additional Common Shares not available to be issued to such subscribers.

**Subscriptions for Common Shares pursuant to the Additional Subscription Privilege will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.**

#### ***Sale and Transfer of Rights — Form 3***

Holders of Rights who do not wish to exercise their Rights may sell or transfer their Rights through the facilities of the TSXV while the Rights are listed or through usual investment channels, such as investment dealers and brokers, at the expense of the holder. Holders of Rights may elect to exercise only a part of their Rights and dispose of the remainder of them.

In order to transfer Rights, a holder of a Rights Certificate must complete and sign Form 3 on the Rights Certificate, have the signature guaranteed by a Canadian Schedule I chartered bank, a major trust company in Canada, a member of the Securities Transfer Agents Medallion Program (STAMP), a member of the Stock Exchange Medallion Program (SEMP) or a member of the New York Stock Exchange Inc. Medallion Signature Program (MSP) and deliver the Rights Certificate to the Transferee. Members of these programs are usually a member of a recognized stock exchange in Canada or a member of the Investment Industry Regulatory Organization of Canada. The signature of the Transferee on any one or more of the forms on the Rights Certificate must correspond exactly with the name of the Transferee shown on Form 3. It is not necessary for the Transferee to obtain a new Rights Certificate to exercise the Basic Subscription Privilege or the Additional Subscription Privilege; however, the signature of the Transferee on any one or more of the forms must correspond in every particular with the name of the Transferee shown on Form 3. If Form 3 is properly completed, then the Corporation and the Subscription Agent will treat the Transferee as the absolute owner of the Rights represented by the Rights Certificate for all purposes and will not be affected by any notice to the contrary.

The Rights may not be transferred to any U.S. persons, unless transferred in a transaction exempt from the registration requirements of the 1933 Act. No assurance can be given that any such exemption will be available. Therefore, Rights held by U.S. persons will likely only be permitted to be transferred in transactions outside the United States in accordance with Regulation S under the 1933 Act.

#### ***Dividing or Combining Rights Certificates — Form 4***

A Rights Certificate may be divided, exchanged or combined by completing and signing Form 4 on the Rights Certificate and delivering such Rights Certificate to the Subscription Agent at the Subscription Office in the manner specified herein in time for the new Rights Certificate(s) to be issued and used before the Expiry Date. Rights Certificates need not be endorsed if the new Rights Certificate(s) is issued in the same name.

### ***To Represent Exercise of Rights Will Not Create a Control Person – Form 5***

In order to exercise Rights that may be exercised pursuant to the Basic Subscription Privilege or Additional Subscription Privilege, a holder of a Rights Certificate must complete and sign Form 5 in the middle of the face page of the Rights Certificate. By completing and signing Form 5 a holder of a Rights Certificate is deemed to represent and warrant to the Corporation that the exercise of any of its Rights will not result in such Rightsholder becoming a “control person” within the meaning of TSXV Policy 1.1 due to it, alone or in combination with other persons, holding a sufficient number of the Common Shares so as to affect materially the control of the Corporation or that holds more than 20% of the outstanding Common Shares except where there is evidence showing that the Rightsholder does not materially affect the control of the Corporation. If the representation and warranty is breached by the Rightsholder, the Rightsholder unconditionally agrees that the portion of the Rights exercised that would entitle the Rightsholder to receive more than 20% of the Common Shares will be null and void and result in the cancellation of any such Rights immediately before the Expiry Time. Any Rights cancelled as a result of the foregoing will be taken up in accordance with the Additional Subscription Privilege.

#### **Payment**

Payment for the number of Common Shares subscribed for must be made by certified cheque, bank draft, money order or other form of payment acceptable to the Subscription Agent in Canadian funds payable to the order of “Computershare Investor Services Inc.”. Payment for all Common Shares subscribed for must be paid at the time of subscription. In the event of an over subscription for Additional Common Shares pursuant to the Additional Subscription Privilege, the Subscription Agent will return to subscribers the excess funds paid for the subscription of such Additional Common Shares not available to be issued to such subscribers.

#### **Undeliverable Rights**

Rights Certificates returned to the Subscription Agent as undeliverable will not be sold by the Subscription Agent and no proceeds of sale will be credited to such holders.

#### **No Fractional Shares**

Fractional Common Shares will not be issued upon the exercise of Rights. Where the exercise of Rights would otherwise entitle a holder to receive fractional Common Shares, the holder’s entitlement will be reduced to the next lowest whole number of Common Shares. Where the exercise of the Rights would result in the payment of a fractional cent in respect of the aggregate Subscription Price, the aggregate Subscription Price payable by such holder will be rounded up to the next whole cent.

#### ***Signatures***

Signatures by a trustee, executor, administrator, guardian, attorney, officer of a corporation or any person acting in a fiduciary or representative capacity should be accompanied by evidence of authority satisfactory to the Subscription Agent. All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscription will be determined by the Corporation in its sole discretion, and any determination by the Corporation will be final and binding on the Corporation and its security holders. Upon delivery or mailing of the completed Rights Certificate to the Subscription Agent, the exercise of the Rights and the subscription for Common Shares is irrevocable.

#### **Validity and Rejection of Subscriptions**

Upon delivery or mailing of the completed Rights Certificate to the Subscription Agent, the exercise of the Rights and the subscription for Common Shares is irrevocable. The Corporation reserves the right to reject any subscription if it is not in proper form, if in breach of the terms and conditions provided herein, or if the acceptance thereof or the issuance of Common Shares pursuant thereto could be unlawful. The Corporation also reserves the right to waive any defect in respect of any particular subscription. Neither the Corporation nor the Subscription Agent is under any duty to give any notice of any defect or irregularity in any subscription, nor will they be liable for the failure to give

any such notice. **Any Rightsholder that fails to complete its subscription in accordance with the foregoing instructions prior to the Expiry Time on the Expiry Date will forfeit its Rights and such Rights will be void and of no value under the Basic Subscription Privilege or Additional Subscription Privilege attaching to those Rights.**

### **Registration and Delivery of Share Certificates**

Unless the Subscription Agent is instructed otherwise in writing by a subscriber, Common Shares purchased through the exercise of Rights will be registered in the name of the person subscribing for those Common Shares and certificates representing the Common Shares will be mailed by ordinary pre-paid mail as soon as practicable after the Expiry Date to the subscriber at the address appearing on the Rights Certificate.

On the Closing Date, a global certificate representing all the Common Shares subscribed for by Beneficial Holders will be issued in registered form to, and in the name of, CDS or its nominee.

The Subscription Agent will be fully discharged from all responsibility as agent with regard to the funds received when it has forwarded certificates representing Common Shares to the subscribers entitled to them and forwarded the proceeds of the Rights Offering to the Corporation.

### **Sale or Transfer of Rights and Common Shares**

Holders of Rights in registered form in Canada may, instead of exercising their Rights to subscribe for Common Shares, sell or transfer their Rights through the facilities of the TSXV while the Rights are listed or sell or transfer their Rights to any person outside of the United States that is not a Non-Qualifying Holder by completing Form 3 on the Rights Certificate and delivering the Rights Certificate to the transferee. See “*Details of the Rights Offering — How to Complete Rights Certificates*”. A permitted transferee of the Rights of a registered holder of a Rights Certificate may exercise the Rights transferred to such permitted transferee without obtaining a new Rights Certificate. If a Rights Certificate is transferred outside of the United States in blank, the Corporation and the Subscription Agent may thereafter treat the bearer as the absolute owner of the Rights Certificate for all purposes and neither the Corporation nor the Subscription Agent will be affected by any notice to the contrary.

Beneficial Holders who wish to sell or transfer their Rights must do so in the same manner in which they sell or transfer Common Shares. See “*Details of the Rights Offering — Common Shares Held Through CDS*”.

The Rights may not be transferred to any U.S. persons, unless transferred in a transaction exempt from the registration requirements of the 1933 Act. No assurance can be given that any such exemption will be available. Therefore, Rights held by U.S. persons will likely only be permitted to be transferred in transactions outside the United States in accordance with Regulation S under the 1933 Act. See “*Statement as to Resale Restrictions*” regarding applicable resale restrictions.

Persons interested in selling or purchasing Rights should be aware that the exercise of Rights by holders who are not located in a Qualifying Jurisdiction will not be permitted unless the person exercising the Rights meets the conditions and satisfies the procedures described under “*Details of the Rights Offering — Non-Qualifying Holders and Eligible Foreign Investors*” above.

### **Intention of Directors and Officers of the Corporation**

None of the directors and officers of the Corporation who own Common Shares intend to exercise their Rights to purchase Common Shares under the Basic Subscription Privilege.

### **Dilution to Existing Shareholders**

If a holder elects not to exercise the Rights issued to that holder, or elects to sell or transfer those Rights, the dilution of the holder’s current percentage ownership in the Corporation will be increased, potentially very significantly,

including (where not all of the Rights issued hereunder have been exercised) by virtue of the subsequent issue by the Corporation of the Exchange Shares. See “*Risk Factors – Shareholders May Suffer Significant Dilution*”.

### **Reservation of Common Shares**

The Corporation will, at all times, reserve sufficient unissued Common Shares as will permit the exercise of all the outstanding Rights for Common Shares during the period beginning at the Commencement Date and ending on the Expiry Date at the Expiry Time.

### **Effect on Options, Phantom Options and PSUs**

As at March 11, 2016, there were 441,572,956 Common Shares, 22,143,329 Options to acquire Common Shares, 209,654 Phantom Options and 4,588,169 PSUs outstanding. At the present time, the Corporation is not making any adjustments to the number of Common Shares that may be issued upon exercise, or to the exercise price, of the Options or any adjustments to the number of outstanding phantom options or performance share units or any other attributes thereof other than corresponding adjustments related to the proposed consolidation of the then outstanding Common Shares on a ratio to be determined by the board of directors of the Corporation following completion of the Recapitalization and which is expected to be put before the Shareholders for their consideration at the same meeting of the Shareholders called to approve the Recapitalization Resolutions. The actual ratio for the proposed Common Share consolidation will be determined by the board of directors of the Corporation upon completion of the Recapitalization. However, in light of the Recapitalization, the Corporation intends to review its security based compensation plans in due course. See “*Recapitalization – Shareholder and Bondholder Approvals Required in Connection with the Recapitalization – Shareholder Approval*”.

## **MINORITY SHAREHOLDER CONSIDERATIONS**

The Corporation, by virtue of its Common Shares being listed on the TSXV, is subject to TSXV Policy 5.9, which adopts in its entirety MI 61-101. The intent of both TSXV Policy 5.9 and MI 61-101 is to ensure that all security holders of an issuer are treated in a manner that is both fair and that is perceived to be fair in connection with certain transactions, including insider bids, issuer bids, business combinations and related party transactions. This policy objective is achieved by requiring enhanced disclosure, approval by certain categories of security holders (excluding interested or related parties, as appropriate), independent formal valuations and approval and oversight by a special committee of independent directors, in each case as may be applicable depending upon the nature of the transaction.

Based on a review of public filings and ongoing dialogue with its Shareholders, the Corporation has determined that it has a number of significant Shareholders, including a number which either alone or together with other entities with which they act jointly or in concert have beneficial ownership of, or control or direction over, directly or indirectly Common Shares carrying more than 10% of the voting rights attached to the Common Shares. As such, each such entity is a “related party” for purposes of MI 61-101. The Recapitalization, involving as it does the issuance of Rights (and the Rights Offering Shares on the exercise thereof) to Shareholders and Exchange Shares to Relevant Bondholders (some of whom may also be Shareholders and related parties), constitutes a “related party transaction” (as defined in MI 61-101).

Absent an applicable exemption, the Corporation would, as a result, be obligated to obtain a formal valuation of the non-cash assets involved in the Recapitalization and seek and obtain the approval of Shareholders (excluding, among others, Shareholders that are interested parties or related parties of interested parties or joint actors of any Shareholders) to the Recapitalization. The Recapitalization is exempt from such requirements in the circumstances, however, pursuant to Section 5.1(g) and 5.7(e) of MI 61-101, respectively, because: (a) the Corporation is in serious financial difficulty; (b) the Recapitalization is designed to improve the financial position of the Corporation; (c) the Recapitalization is not subject to court approval or order under bankruptcy or insolvency legislation or section 192 of the ABCA; (d) the Corporation has a number of independent directors in respect of the Recapitalization; and (e) the Corporation’s board of directors, acting in good faith, determined, and at least two thirds of the Corporation’s independent directors, acting in good faith, determined that the Corporation is in serious financial difficulty and that the Recapitalization is designed to improve the financial position of the Corporation and that the terms of the Recapitalization are reasonable in the circumstances to the Corporation.



## RECAPITALIZATION

### Background to and Reasons for the Recapitalization

Since mid-2012, Sterling has suffered from a number of asset-related issues which have severely damaged the Corporation's financial position. In addition, commodity prices, especially the UK spot gas price, have weakened materially since the Corporation's production from the UK Breagh gas field began in 2013, also damaging the Corporation's financial position. These issues are described in more detail below. The cumulative impact of these issues has led to the Corporation incurring a higher than expected level of financial debt, leading to the need to agree a recapitalization with the Sterling Group, after attempts to sell the Corporation, SRUK or assets, and to refinance the Sterling Group, were unsuccessful.

The Corporation's principal asset is the Breagh gas field in the UK, which provides approximately 96 percent of the Corporation's current production and 99 percent of the Corporation's proved plus probable reserves at the end of 2015, based on the end-2015 reserves evaluations for Cladhan and for Breagh prepared by the Group's independent reserves auditor, RPS. Since Breagh development approval was obtained from the UK government in June 2011, the Corporation's financial position has been adversely impacted by the delay in achieving first gas, by a material increase in the development cost, by a number of early operational problems and by the lower than expected production rates from the initial wells, all as previously disclosed in the Corporation's news releases and financial filings.

At the time of development approval, first gas was expected at the end of June 2012 but was only achieved in October 2013. The development cost for Phase 1 of the field (excluding drilling and onshore compression, which are not yet completed) net to the Corporation increased from approximately U.S.\$130 million at the time of development approval to U.S.\$190 million when completed. The early operational problems included a seven week shutdown of the field in late 2013 to address damage at the onshore Teesside Gas Processing Plant due to issues from pipeline pigging operations initiated at the offshore platform. Further operational problems were experienced during 2014, resulting in two further shutdowns to inspect and remedy issues at the Teesside Gas Processing Plant. As well as these operational issues, initial gas production rates from several of the wells were significantly lower than expected.

As a consequence, the Corporation's financial position was severely weakened by these issues. This led to the need to arrange a bridging loan with Vitol in December 2012 and then to refinance the Sterling Group's original RBL in April 2013, which at that time had a facility balance of approximately U.S.\$140 million. That process culminated with the issue by SRUK of the Bonds pursuant to the Original Bond Agreement and the use of the proceeds therefrom to repay the RBL and other indebtedness.

The Corporation's other producing asset, the UK Cladhan oil field, also suffered from delay and cost increases at the development stage. Compared to the expectation at the time of development approval, the field was 12 months late coming on stream and the final development cost was approximately 30% higher. The Corporation has also been adversely affected by the significant weakness in commodity prices over the past one to two years, principally the UK gas price but also to a lesser degree by the international oil price. Since the date Breagh came on stream, the forward curve UK gas price averaged over the following 12 months (in order to remove seasonal variations) has declined from approximately U.S.\$10.80 per thousand cubic feet on the day Breagh came on stream to U.S.\$4.20 per thousand cubic feet as of February 29, 2016.

As a result of the asset related problems and weak commodity prices, SRUK summoned meetings of the Bondholders which led to amendments to the Original Bond Agreement being entered into in December 2014, May 2015 and November 2015, in order not to breach the then applicable terms of the Bond Agreement.

From approximately September 2014 to December 2015, the Corporation was also adversely impacted by the uncertainty regarding the sale processes run by RWE AG to sell Dea UK and then, after this sale was completed in March 2015, by LetterOne to sell Dea UK (which was completed in December 2015). For RWE AG's sale process, the uncertainty regarded the ability of LetterOne to sell within the timetable imposed by the UK government and the identity of the ultimate buyer. During this period, potential asset or corporate buyers and providers of finance were, in the view of the Corporation, deterred from entering into any acquisition or financing transaction with the Sterling

Group because of uncertainty over the future ownership of Dea UK (as operator of the Breagh field) and what future development strategy the future owner would seek to pursue in relation to Breagh.

The most recent wells drilled, A07 and A08, were both hydraulically stimulated in 2014, achieving a significant increase in production rates compared to what would have been expected without hydraulic stimulation; all future wells are now expected to be hydraulically stimulated. Since the annual maintenance shutdown on the Breagh field in June 2015, the field has performed reliably and at production rates similar to, or slightly ahead of, management's expectations and the rates projected by RPS. For the first two months of 2016, Breagh production averaged 25.8 million standard feet of sales gas per day net to Sterling. The field is achieving a high level of operational facilities uptime, being 99 percent over the first two months of 2016.

The Cladhan field, while significantly smaller than Breagh in terms of net reserves and production, has also performed well since production start-up in December 2015 and has achieved an average production rate over the first two months of 2016 of 210 barrels of oil per day net to Sterling, broadly in line with RPS projections.

The Corporation has pursued several asset and corporate sale processes over the past several years in attempts to raise cash or development carries and also to reduce exposure to remaining development costs. Starting in August 2011, the Corporation engaged a financial advisor to sell a partial interest in Breagh or Cladhan which did not deliver any acceptable offers. In April 2012, SRUK sold a partial interest in the UK Cladhan field to TAQA, separately from the financial advisor-led process which commenced in 2011. A further interest in Cladhan was sold to TAQA in April 2013. During 2013-2014, the Corporation also undertook an active farm-out process in order to reduce or offset its financial exposure on its exploration well commitments. It successfully completed a farm out to Shell on UK license P1792 (containing the Belinda and Evelyn discoveries and Beverly prospect; Sterling 20% interest) in early 2013 that resulted in the Corporation's remaining well commitment being fully carried. During 2014, an active process to farm out 100% well commitments on its UK licenses P1914 (containing the Nia and Niadar prospects) and P2133 (containing the Ossian and Darach prospects) were not successful. Further, during 2014, the Corporation commenced an equity-reduction process in relation to its Romanian licences as well as initiating discussions with interested parties on a partial sale of the Corporation's interest in the Breagh field. The Romanian equity reduction process led to the Romanian Sale. Negotiations were well advanced for the sale of half of the Corporation's Breagh interest in late 2014, but the buyer withdrew principally (in the Corporation's view) because of the uncertainty at the time of the aforementioned RWE/LetterOne process. During the second half of 2014 and first half of 2015 the Corporation continued to engage with a number of interested parties on a partial or full sale of its Breagh interest, including the receipt of a number of proposals, none of which were evaluated as being attractive.

In 2014 and 2015, the Corporation had discussions with a number of lending banks regarding a potential refinancing of the Bonds into an RBL, possibly with an equity or equity-linked component, with the objective of providing additional financing capacity at a lower overall cost. In May 2015, these efforts were augmented by the appointment of MHW Associates Limited to assist in pursuing certain other non-RBL structured finance alternatives. The ability to negotiate the debt element of such a refinancing was, in the view of the Corporation, adversely impacted by the RWE/LetterOne situation referred to above and by late 2015 it had become clear that no suitable refinancing could be achieved.

Pursuant to the Bond amendments agreed in December 2014, SRUK agreed to the engagement by the Bond Trustee of FTI Consulting, Inc. in April 2015 to perform a financial review of the business, assets, cash flow and business plan of the Corporation and its affiliates and to continue to monitor and report on SRUK and the progress of any sale or other process conducted by SRUK.

Pursuant to the Bond amendments agreed in May 2015, the Corporation retained Jefferies as a financial advisor in July 2015 to assist the Corporation in pursuing potential corporate transactions and a potential sale of all or part of the Corporation's assets.

Following Jefferies' appointment, the Corporation undertook a comprehensive formal asset or corporate sale process in the second half of 2015. In pursuit of potential purchasers, over 50 potential purchasers were approached, of which approximately half entered into confidentiality agreements.

While a number of those potential sale transactions were being considered, in order to afford the Corporation further time to advance its dialogue with potential counterparties to a transaction, SRUK negotiated a third set of amendments to the Bond Agreement which were approved at the Bondholder meeting on November 6, 2015. The third set of amendments provided, among other things, a postponement of the October 30, 2015 instalment on the Bonds and introduced a significant number of refinancing milestones on SRUK in connection with the intended completion of one or more financing and asset/corporate sale or merger transactions intended to achieve a targeted redemption of the Bonds as soon as practically possible and in any event on or before the Bond Redemption Deadline together with a payment of the outstanding amortization instalment (with accrued interest) by the Outstanding Instalment Deadline. By the Outstanding Instalment Deadline, SRUK was required to have achieved a full redemption of the Bonds by way of a refinancing, a corporate sale or merger, or an asset sale. In addition, following the approval of the proposed amendments to the Bond Agreement in the Bondholder meeting on November 6, 2015, Andrew Leeser became a board observer on the Corporation's board of directors on November 16, 2015 and was appointed as an incremental director on the SRUK board of directors on November 27, 2015. An experienced company restructuring specialist, Mr. Leeser's appointment was intended to assist SRUK in the planning and delivery of a transaction acceptable to Bondholders, with certain rights in that regard, including the right to report to the Bond Trustee and its advisers.

Over ten formal proposals were received from potential purchasers, each of which was rigorously vetted by the boards of directors of the Corporation and SRUK and the Corporation's financial and legal advisors, but in each case it was determined that no offer was both sufficiently attractive and capable of being executed in the short term. As such, the Corporation and SRUK commenced a collaborative process with the Bond Trustee and each of the Supporting Bondholders, among other Bondholders, pursuant to which the Corporation would be recapitalized, a significant amount of SRUK's outstanding debt under the Bonds would be extinguished, and additional standby funding would be provided, affording the Corporation with much needed financial flexibility and additional liquidity in order to pursue its corporate and commercial objectives.

Throughout this collaborative process, the boards of directors of both the Corporation and SRUK met regularly to discuss the options available to the Group including the possibility of executing a corporate or asset sale as well as a recapitalization, and approved amendments and waivers to the bond agreement as required, having due regard for the interests of both shareholders and creditors.

On January 25, 2016, the Corporation retained FirstEnergy as its financial advisor to assist in assessing the recapitalization being negotiated and, ultimately, to render an opinion to the directors of the Corporation as to its fairness, from a financial point of view, to the Shareholders. FirstEnergy delivered a presentation to the Corporation's board of directors on February 5, 2016 looking at, among other things, the macro-economic background, exploration and production sector performance, and strategic alternatives.

Negotiations in relation to a recapitalization transaction continued over the course of the next several weeks.

During that period, and in view of the significant progress being made towards the Recapitalization, the Bondholders, at a meeting held on March 7, 2016 approved an extension of the Bond Redemption Deadline to April 1, 2016 and the Outstanding Instalment Deadline to March 15, 2016 or such later date as may be specified by the Bond Trustee (which extensions had been signed and become effective prior to the amounts falling due and payable). The Bond Trustee further extended the Outstanding Instalment Deadline to March 18, 2016.

Ultimately, the board of directors of the Corporation met on March 9, 2016, with representatives from FirstEnergy and the Corporation's legal advisors in attendance. At the meeting, the board of directors of the Corporation: (i) reviewed the terms of the Recapitalization Agreement and received the advice of legal counsel thereon; and (ii) received a verbal opinion from FirstEnergy, as independent financial advisor, that, as of the date thereof, the Recapitalization was fair, from a financial point of view, to the Shareholders. Additionally, the board of directors of SRUK conducted a telephone meeting on March 9, 2016. At the meeting, the board of directors of SRUK reviewed the terms of the Recapitalization Agreement and received the advice of legal counsel thereon. Having undertaken a thorough review of, and carefully considering the Recapitalization and the alternatives, including consulting with external financial and legal advisors, the board of directors of the Corporation and SRUK unanimously (with, in the case of the Corporation, Gavin Wilson abstaining due to conflict) determined, among other things: (i) that the Recapitalization is in the best interests of the Corporation and SRUK, respectively; and (ii) to recommend that

Shareholders vote in favour of those aspects of the Recapitalization that require Shareholder approval; and (iii) approved the delivery of the Bondholder Summons seeking the approval by such Bondholders of the Recapitalization at the Bondholder Meeting; and (iv) approved the entering into by each of the Corporation and SRUK of the Recapitalization Agreement and the carrying out of the Recapitalization.

On March 11, 2016, the Supporting Bondholders also executed irrevocable Bondholder Voting Agreements in respect of the Bondholder Meeting and the Company Meeting to support the Recapitalization. Finally, and on the basis of the Bondholder Voting Agreements and for reasons of expediency, the Bond Trustee entered into the Recapitalization Agreement with each of SRUK and the Corporation on March 11, 2016. Bondholders at the Bondholder Meeting approved the Recapitalization, with 98.63% of Bonds represented at the meeting being voted in favour.

Management and the board of directors of the Corporation and SRUK believe that the Recapitalization is in the best interest of all Shareholders, for the following reasons:

- No acceptable alternative refinancing opportunities or corporate sale or merger opportunities (whether for the Corporation or SRUK) or asset sale opportunities are available and capable of completing in time to achieve the extended Bond Redemption Deadline and the Outstanding Instalment Deadline, despite considerable effort by the Corporation over the past two years;
- In the absence of a recapitalization, in the Corporation's view, further extensions of the Bond Redemption Deadline and the Outstanding Instalment Deadline are unlikely. In this situation, the Corporation's view is that there would be a very significant risk that the Bond Trustee (acting on behalf of the Bondholders) would then accelerate the Bonds and exercise its share pledge over the shares of SRUK. Losing SRUK would leave the Corporation without any ongoing source of funds or material realizable assets and would place the Corporation at a very high risk of insolvency, which would represent a materially worse outcome for Shareholders, creditors and other stakeholders;
- The provision of up to U.S.\$40 million of additional standby financing by way of the Super Senior Facility could assist in funding Breagh development or other corporate costs, and would make the Sterling Group more robust to a continuing very low gas price environment and better able to withstand operational disruptions;
- The reduction in the Corporation's total indebtedness and annual interest burden by approximately U.S.\$173 million and U.S.\$22 million respectively (excluding any new financing pursuant to the proposed New Loan Agreement) will create a viable long term financial base; and
- Existing Shareholders will be able to maintain their relative *pro rata* position in the Corporation by subscribing for new Common Shares through the Rights Offering on the same financial terms as the Bondholders.

Over the four years 2016 to 2019 inclusive, the Corporation has commitments amounting to approximately U.S.\$54 million (see "Commitments and Contingencies" in the Corporation's Annual MD&A), of which U.S.\$41 million arises from UK exploration well drilling costs on licenses P1914 and P2133, with much smaller committed costs thereafter. The Corporation expects to be able to farm-down these exploration licences or seek further license extensions so that it would not incur such costs in this time period. In addition, expected (but not committed) capital expenditures on the UK Breagh field over this same four year period on the assumption of drilling wells A09 and A10 and installing onshore compression should amount to approximately U.S.\$51 million (see "Development Activity - Breagh Development - Forward View" in the Corporation's Annual MD&A), again with much smaller committed costs thereafter. The Corporation has modelled its expected future net cash flows (excluding the U.S.\$41 million of UK exploration well drilling costs) on the basis that the Company expects to be able to farm-down these exploration licenses or seek further license extensions so that it would not incur such costs over the four years 2016 to 2019 inclusive) and on a pre-financing basis projects a minimum Sterling Group cash balance of approximately U.S.\$5 million during the four year period (reached at the end of the fourth quarter of 2018). Beyond this period, the Corporation expects cash balances to grow for several years. In this regard, in the Corporation's view the key risks

are interruptions to production from Breagh and lower than expected UK gas prices. The Corporation intends to mitigate the risk of the former by insuring for loss of production income and to mitigate the risk of the latter through gas price hedging. Taken together with these intended mitigation measures, the Corporation expects the availability of up to U.S.\$40 million of additional funding from the Super Senior Facility to provide sufficient headroom to meet all reasonable downside scenarios of operating and financial performance.

### **The Recapitalization**

The Recapitalization contemplates the following key elements, all as more fully described in the Recapitalization Agreement:

#### ***Rights Offering***

The Corporation will conduct the Rights Offering as contemplated herein.

#### ***Bond Exchange***

Pursuant to the Recapitalization Agreement, the Corporation will subscribe for shares of SRUK for an aggregate subscription price equal to the Exchange Amount and the Corporation will issue a U.S. dollar non-interest bearing promissory note to SRUK on the Closing Date with a principal amount equal to the Exchange Amount (the “**Note**”) in payment of the subscription price for such shares of SRUK, which shares will be issued as fully paid and non-assessable common shares of SRUK. SRUK will then assign and transfer the Note to the Bond Trustee in full and final satisfaction of the Exchanged Bond Liabilities.

The Relevant Bondholders will then subscribe for the Exchange Shares, which shall equal the number of unsubscribed Common Shares under the Rights Offering, as follows:

- (a) any of the Direct Subscribing Bondholders may, by providing registration instructions to the Corporation at least five business days prior to the Closing Date, choose to subscribe for Common Shares of the Corporation directly (or indirectly through one or more Affiliates) for an aggregate subscription price equal to the Exchanged Bond Liabilities attributable to such Direct Subscribing Bondholder;
- (b) the Bond Trustee, for and on behalf of the remaining other Relevant Bondholders (or their assignees, as applicable) will subscribe for Common Shares, on a *pro rata* basis, for an aggregate subscription price equal to the aggregate Exchanged Bond Liabilities less the Exchanged Bond Liabilities attributable to Direct Subscribing Bondholders;
- (c) the Common Shares subscribed for pursuant to (a) and (b) above will have an aggregate subscription price equal to the Exchange Amount and the Bond Trustee will transfer the Note to the Corporation as payment of the subscription price on behalf of all Relevant Bondholders;
- (d) the Corporation will cause the number of Exchange Shares to be issued as non-certificated inventory uncertificated securities deposited to CDS Clearing and Depository Services Inc. or its nominee, CDS & Co., and registered to:
  - (i) each of the Direct Subscribing Bondholders in case of the Exchange Shares subscribed by them; and
  - (ii) the Norwegian Registrar’s custodian bank in Canada, in case of the Exchange Shares subscribed by the Bond Trustee, for and on behalf of the Relevant Bondholders (or their assignees, as applicable)(on a *pro rata* basis) or as otherwise directed in writing by the Bond Trustee, and

such Exchange Shares shall be freely tradable (subject to “control person” restrictions under applicable securities laws) and shall be issued as fully paid and non-assessable Common Shares.

The Bond Trustee will concurrently release or cancel (as applicable) the Exchanged Bond Liabilities by way of a unilateral deed of waiver to be signed by the Bond Trustee on behalf of each of the Relevant Bondholders. The Exchanged Bond Liabilities will be selected *pro rata* from each Relevant Bondholder based on the amount of the Exchanged Bond Liabilities then owed to each Relevant Bondholder relative to the entire aggregate amount of Exchanged Bond Liabilities then outstanding and as soon as reasonably practicable thereafter, the Norwegian Registrar will confirm to SRUK that the Exchanged Bond Liabilities have been cancelled.

The parties acknowledged and agreed under the Recapitalization Agreement that: (a) upon completion of the Bond Exchange, the Bond Liabilities will have been reduced to the Remaining Bond Liabilities and the only Bonds outstanding shall be the Remaining Bonds; and (b) to the extent that any of the transactions contemplated above are not completed in their entirety, then none of such transactions will be regarded as having been completed and the Parties agreed to use their best efforts to do all such things and take all such steps to give effect to this acknowledgement and agreement.

#### ***Transfer of SRUK to New Subsidiary***

The Corporation will incorporate a special purpose vehicle that is a private company limited by shares pursuant to the laws of England and Wales (“Newco”), with the Corporation as the sole shareholder and the constitutional documents of which will be in form and substance satisfactory to the Bond Trustee, acting reasonably, for the purpose of acquiring all of the issued and outstanding share capital of SRUK pursuant to the Recapitalization. The Corporation will enter into, and will cause Newco to enter into, the Share Purchase Agreement pursuant to which the Corporation will sell and Newco will purchase all of the issued and outstanding shares in the capital of SRUK free from all Liens (as defined in the Recapitalization Agreement), save the Liens securing the obligations under the Amended and Restated Bond Agreement and the New Loan Agreement and obligations under the Flowstream Agreement, and with all rights and privileges attached to them.

The Corporation will waive, and procure the waiver of, any restrictions on the transfer to which it or any third party may be entitled in relation to such shares pursuant to the articles of association of SRUK or otherwise, and the Corporation will, and will cause Newco to, comply with its obligations under the Share Purchase Agreement, and the Corporation will deliver to Newco, and the Corporation will cause Newco to deliver to the Corporation, those deliverables contemplated by the terms of the Share Purchase Agreement as completion deliverables in order to effect the transfer of the shares of SRUK from the Corporation to Newco.

#### ***Amendment and Restatement of Bond Agreement***

SRUK and the Corporation will enter into Amendment and Restatement Agreement No. 4 with Newco and the Bond Trustee on the Closing Date as part of the Recapitalization setting out the revised terms and conditions governing the Remaining Bonds in accordance with the descriptions set out in the Recapitalization Agreement and the terms set out in the Recapitalization Term Sheet appended as Schedule A to the Recapitalization Agreement.

The Corporation and SRUK also unconditionally and irrevocably confirmed and agreed under the Recapitalization Agreement that the Guarantee (as defined in the Bond Agreement) and the security created under any Security Document (as defined in the Bond Agreement) (as amended as the case may be) will, on and after the date of the Recapitalization Agreement and on and after the date on which the amendments contained in the Bondholder Summons become effective, continue in full force and effect and extend to all the liabilities and obligations of the Corporation and SRUK under or in respect of the Bond Agreement and any other Finance Document (as defined the Bond Agreement).

Pursuant to the Amended and Restated Bond Agreement, no less than U.S.\$40 million of Remaining Bonds will be extended to a final maturity date of April 30, 2020 with fixed interest payments semi-annually on April 30 and October 30 each year and accruing from the Closing Date up to and including the Super Senior Facility Discharge

Date in an amount of 9.00% payable by way of issuance of additional Bonds and following the Super Senior Facility Discharge Date in an amount of 9.00% payable in cash.

Following the Super Senior Facility Discharge Date, prepayments of the Bonds are to be made: (a) upon a change of control whereby Bondholders will be able to exercise a put option in respect of the Bonds at a price of 101% of par plus accrued interest on the same basis as under the existing Bond Agreement; (b) subject to certain exceptions, from the proceeds of disposals of assets by Group companies, on the same basis as under the New Loan Agreement; and (c) from the application of a six-monthly cash sweep commencing on and from October 30, 2018, subject to a minimum Group cash requirement of U.S.\$10 million on that cash sweep date and on each of the month-end dates in the 12 month period immediately following that cash sweep date.

SRUK will be provided a call option under the Amended and Restated Bond Agreement pursuant to which, simultaneously with or following the Super Senior Facility Discharge Date, SRUK may redeem the Bonds in whole or in part at any time at a price equal to par value of the Bonds plus accrued interest at the date of settlement of such option.

Financial covenants comprise, on a simplified basis: (i) a minimum field life cover ratio of 1.5x, dropping to 1.0x after the Super Senior Facility Discharge Date; (ii) cumulative production for the previous 12 months to be not less than 90% of budgeted amount; (iii) a minimum Group cash requirement of U.S.\$5 million at all times; (iv) following the Super Senior Facility Discharge Date, a minimum Group cash requirement of U.S.\$5 million on a projected basis through to the bond maturity date; and (v) following the Super Senior Facility Discharge Date, a backward-looking minimum debt service cover ratio of 1.0x.

Representations and warranties and information covenants to be provided by SRUK in the Amended and Restated Bond Agreement will be equivalent to those provided under the New Loan Agreement as described below. The Amended and Restated Bond Agreement as well as general undertakings and events of default will also contain such amendments as are necessary in order to implement the Recapitalization and to remove provisions that the Bond Trustee and SRUK agree to be redundant and, without prejudice to the foregoing, any other changes that the Bond Trustee and SRUK agree to be appropriate.

### *New Loan Agreement*

SRUK will enter into the Super Senior Facility on the terms and conditions set out in the New Loan Agreement in the maximum principal amount of U.S.\$40 million with Newco, the Corporation and the Lenders on the Closing Date in accordance with the terms set out in the Recapitalization Term Sheet.

Pursuant to the New Loan Agreement, two tranches of U.S.\$20 million each will be provided by the Lenders on a revolving, multi-currency basis. Certain utilisation conditions apply to the usage of both tranches as set out in the Recapitalization Term Sheet. Tranche A is to be utilised first, with Tranche B only capable being utilised if Tranche A is fully drawn and then only to fund certain capital expenditures. The final maturity date of the Super Senior Facility falls 24 months after the Closing Date (with an optional extension to April 30, 2019 subject to satisfying certain conditions as set out in the Recapitalization Term Sheet) with repayment of the Super Senior Facility by way of a bullet repayment on such final maturity date.

The interest rate for each tranche is the aggregate of the applicable margin and LIBOR (subject to a LIBOR floor of 1%). Tranche A margin is 13% per annum and Tranche B margin is 13% per annum increasing by 100 basis points each quarter from drawdown of Tranche B (subject to an overall cap of 15% per annum). Interest payment dates are semi-annual falling on April 30 and October 30 each year, with Tranche A interest being payable in cash and Tranche B payable in kind.

A 7% arrangement fee is payable on each Tranche – for Tranche A, this shall be paid in cash on the Closing Date; for Tranche B – this shall be paid in cash upon the earlier of: (i) the first utilisation of Tranche B; and (ii) 24 months after the Closing Date (provided that no fee shall be payable if the Super Senior Facility is cancelled in full before that date). Further, a commitment fee is payable on certain amounts of unused Super Senior Facility at the rate of half of the applicable margin paid on each interest payment date – for Tranche A, the commitment fee is payable in

cash; for Tranche B, the commitment fee is only payable following the first utilisation of Tranche B and is payable in kind.

In the event of a cancellation of any commitments under the Super Senior Facility and, subject to certain customary exceptions, a cancellation premium is payable in respect of Tranche A and, following the first utilisation of Tranche B, Tranche B at the rate of the relevant commitment fee applicable to the cancelled amount from the date of cancellation to the final maturity date at such time assuming such cancelled amount will remain undrawn and uncanceled.

Mandatory prepayments of the Super Senior Facility are to be made: (a) as a result of a sale of all or substantially all of the Group's assets, a change of control, and where it would be unlawful for a Lender to perform any of its obligations as contemplated by the finance documents or to fund, issue or maintain its share in the Super Senior Facility (prepayment to be limited to such Lender's share of the Super Senior Facility); and (b) (subject to certain exceptions) from the proceeds of disposals of assets by Group companies, insurance claims or any initial public offering of a Group company or any holding company thereof. Amounts prepaid (subject to exceptions in relation to certain prepayments under (b) above) may not be redrawn and shall be applied first in prepayment of Tranche B in full (if applicable) before prepaying Tranche A.

Financial covenants are as those applying to the Bonds under the Amended and Restated Bond Agreement and in addition there are further utilisation conditions which comprise, on a simplified basis: (i) a minimum interest cover ratio (EBITDA to Super Senior Facility cash charges) of 1.0x; (ii) a minimum 4-year rolling net present value cover ratio of 1.3x; (iii) a minimum cash requirement of U.S.\$5 million on a projected basis until the Super Senior Facility Discharge Date; and (iv) in respect of a proposed utilisation of Tranche B, a minimum field life cover ratio of 1.75x with regards to the outstanding balance under the Super Senior Facility only.

#### ***Intercreditor Agreement***

The Corporation, SRUK, the Bond Trustee, Newco and the Lenders, among others, will enter into the Intercreditor Agreement on the Closing Date, substantially on the terms set out in the Recapitalization Term Sheet, to document among other things: (i) the ranking of debt claims as among the finance parties and intra-group lenders; (ii) the ranking of security and guarantees as between the finance parties; and (iii) the principles governing the enforcement of security and the application of proceeds following any such enforcement.

The Corporation will, and will cause each of member of the Sterling Group (including Newco, but excluding SRN) to execute the guarantees and security documents contemplated in the Amended and Restated Bond Agreement, the New Loan Agreement and the Intercreditor Agreement.

#### ***Bond Exchange Closing Date***

The closing of the Bond Exchange will be completed at the offices of Stikeman Elliott LLP, 4300 Bankers Hall West, 888-3<sup>rd</sup> Street S.W., Calgary, Alberta at 9:30 a.m. (Calgary time) on the Closing Date or at such other time and/or such other date and/or at such other place as the parties may agree upon in writing.

### **Shareholder and Bondholder Approvals Required in Connection with the Recapitalization**

#### ***Bondholder Approval***

Pursuant to the Bondholder Summons, the Bondholders Meeting was convened on March 18, 2016 to consider the Recapitalization and certain proposed amendments to the Bond Agreement as set forth above under “ – *Amendment and Restatement of Bond Agreement*” and to authorize the Bond Trustee to, among other things, take such steps on behalf of the Bondholders as may be necessary or desirable in connection with the implementation of the Recapitalization.

Bondholders approved all such matters exceeding the required threshold of 66⅔%.



No further Bondholder approvals are required to implement the Recapitalization.

### ***Shareholder Approval***

The Recapitalization itself does not require Shareholder approval. Although the Recapitalization constitutes a “related party transaction” for purposes of MI 61-101 and TSXV Policy 5.9, which characterization would normally require both a formal valuation and minority Shareholder approval, the Corporation is able to rely on an exemption therefrom. See “*Minority Shareholder Considerations*”.

However, one of the Supporting Bondholders, Meridian, has represented to the Corporation that it, has beneficial ownership of, or control or direction over, directly or indirectly approximately U.S.\$55.973 million Bonds and 38,097,003 Common Shares (8.6% of the currently issued and outstanding Common Shares on an undiluted basis). In the event that no Common Shares are issued pursuant to the Rights Offering, the Bond Exchange will result in Meridian, together with an existing shareholder of the Corporation, YF Finance Limited (together with Meridian, the “**Meridian Concert Parties**”), beneficially owning, or exercising control or direction over, directly or indirectly approximately 4,515,983,637 Common Shares (30.7% of the then issued and outstanding Common Shares on an undiluted basis). In addition, an indirect shareholder of Meridian is a Bondholder and, in the event no Common Shares are issued pursuant to the Rights Offering, such indirect shareholder of Meridian will beneficially own 1,967,125,746 Common Shares (13.4% of the then issued and outstanding Common Shares on an undiluted basis). In the event that 50% of the Common Shares issuable pursuant to the Rights Offering are issued pursuant thereto (and assuming none of such Common Shares were issued to any Meridian Concert Parties), the Meridian Concert Parties would beneficially own, or exercise control or direction over, directly or indirectly approximately 2,296,092,821 Common Shares (15.6% of the then issued and outstanding Common Shares on an undiluted basis) and the indirect shareholder of Meridian would beneficially own 983,562,873 Common Shares (6.7% of the then issued and outstanding Common Shares on an undiluted basis).

Meridian will, in the event that no Common Shares are issued pursuant to the Rights Offering, become a Control Person of the Corporation by virtue of such percentage exceeding 20% of the Corporation’s then issued Common Shares. In the event that 50% of the Common Shares issuable pursuant to the Rights Offering are issued pursuant thereto (and assuming none of such Common Shares were issued to any Meridian Concert Parties), Meridian will not become a Control Person of the Corporation. The indirect shareholder of Meridian referenced above acts independently from Meridian in relation to such indirect shareholder’s shareholdings in the Corporation, and such indirect shareholder’s shareholdings in the Corporation will therefore not be considered when determining whether Meridian will become a Control Person.

Pursuant to *TSXV Policy 4.3 – Shares for Debt*, approval of disinterested Shareholders is required in respect of the creation of a new control person. As a result, the Corporation has applied to the TSXV for the TSXV’s conditional approval to the Corporation calling and holding a Shareholder meeting as soon as possible following the Bond Exchange at which approval will be sought for the Control Person Resolution. If the Recapitalization does result in Meridian holding in excess of 20% of the Common Shares, Meridian has agreed on the terms of its Bondholder Voting Agreement to either undertake to the TSXV not to vote such Common Shares or, if it so elects and the TSXV so agrees, to transfer the voting rights associated therewith pursuant to a voting trust agreement, in either case, until the Control Person Resolution occurs.

The Corporation also anticipates proposing a consolidation of the then outstanding Common Shares on a ratio to be determined by the board of directors of the Corporation following completion of the Recapitalization and which is expected to be put before the Shareholders for their consideration at the same meeting of the Shareholders called to approve the Control Person Resolution. The actual ratio for the proposed Common Share consolidation will be determined by the board of directors of the Corporation upon completion of the Recapitalization.

The Supporting Bondholders have agreed, among other things, pursuant to the Bondholder Voting Agreements, and subject to certain terms and conditions, to tender or vote: (i) all Bonds held by them in favour of the Recapitalization, at the Bondholder Meeting; and (ii) at the Company Meeting, all of their Common Shares (including any Exchange Shares received pursuant to the Bond Exchange) in favour of the Recapitalization Resolutions and against the approval, consent, ratification and adoption of any matter or transaction that, if approved, consented to, ratified or adopted could reasonably be expected to delay, challenge, frustrate or hinder the

consummation of the Recapitalization and the approval of the Recapitalization Resolutions, as applicable, at the special or annual and special meeting(s) of Shareholders, including any adjournment or postponement of such meeting(s) in accordance with the terms of the Recapitalization Agreement, to be called and held following the Closing Date in accordance with the TSXV Approval and to consider, among other things, the Recapitalization Resolutions and any other resolution required in connection with the Recapitalization unless, and to the extent that, such Supporting Bondholder's Common Shares must be excluded from the vote as a result of the TSXV Approval.

It is presently anticipated that the Company Meeting will occur on or before July 11, 2016.

As of March 11, 2016, the Supporting Bondholders have, collectively, beneficial ownership of, or control or direction over, directly or indirectly approximately U.S.\$138,168,874 Bonds (76.8% of the Bonds) and 38,097,003 Common Shares (8.6% of the currently issued and outstanding Common Shares on an undiluted basis). In the event that no Common Shares are issued pursuant to the Rights Offering, the Bond Exchange will result in such Supporting Bondholders collectively beneficially owning, or exercising control or direction over, directly or indirectly approximately 10,959,497,958 Common Shares (74.5% of the then issued and outstanding Common Shares on an undiluted basis).

As a result, and even after excluding those Common Shares beneficially owned, or over which control or direction is exercised, by the Meridian Concert Parties (and the indirect shareholder of Meridian) representing over 20% of the issued and outstanding Common Shares from the vote in respect of the Control Person Resolution, it is anticipated that the Recapitalization Resolutions will be approved by Shareholders at the meeting duly called for that purpose.

### **THE RECAPITALIZATION AGREEMENT**

On March 11, 2016, the Corporation, SRUK, and the Bond Trustee entered into the Recapitalization Agreement which prescribes the terms and conditions under which the Recapitalization is to be undertaken and the rights and obligations of the parties thereto.

The following is a summary only of certain provisions of the Recapitalization Agreement, does not purport to be complete and is qualified in its entirety by reference to the provisions of the Recapitalization Agreement which is available under Sterling's issuer profile at [www.sedar.com](http://www.sedar.com). In this section, capitalized terms not otherwise defined in this short form prospectus have the meanings ascribed to such terms in the Recapitalization Agreement.

#### **Conditions Precedent to the Completion of the Bond Exchange**

The obligation of the Bond Trustee to complete the Bond Exchange will be subject to the satisfaction of the following conditions prior to or at the Closing Date (each of which is for the exclusive benefit of the Bond Trustee and may be waived by the Bond Trustee in whole or in part, without prejudice to any other condition), provided that the conditions in paragraphs (d), (f), (i), (j), (m) and (o) will also be for the benefit of the Corporation and SRUK in respect of their obligation to complete the Bond Exchange and can only be waived by all of the parties to the Recapitalization Agreement (the "**Parties**") (provided that such conditions will not be enforceable by the Corporation, SRUK or the Bond Trustee if any failure to satisfy such conditions results from an action, error or omissions by or within the control of the Party seeking enforcement):

- (a) the Corporation and SRUK must have each fulfilled or complied in all material respects with each of the covenants and obligations of the Corporation and SRUK, respectively, contained in the Recapitalization Agreement;
- (b) the representations and warranties of the Corporation and SRUK in the Recapitalization Agreement which are qualified by the expression "material" or "Material Adverse Effect" must be true and correct as of the date of the Recapitalization Agreement and as of the Closing Date and all other representations and warranties of the Corporation and SRUK in the Recapitalization Agreement must be true and correct in all material respects as of the date of the Recapitalization Agreement and as of the Closing Date;

- (c) all required stakeholder, regulatory, lender and TSXV approvals, consents, waivers and filings that are required in connection with the Recapitalization must have been obtained or made, as applicable, on terms satisfactory to the Bond Trustee, acting reasonably;
- (d) the Corporation will have received the TSXV Approval in form and substance satisfactory to the Corporation and the Bond Trustee, each acting reasonably, and an OGA Letter;
- (e) there must not exist or have occurred any Material Adverse Effect (as defined in the Recapitalization Agreement);
- (f) the following agreements must be in agreed final form to the satisfaction of the Bond Trustee, the Corporation and SRUK, each acting reasonably, and signature pages for each of the following from the Corporation and the applicable members of the Sterling Group (which includes Newco, upon incorporation) are held in escrow by the Corporation's legal counsel and signature pages from the Bond Trustee and each of the Lenders who has provided a Commitment Letter agreeing to provide a portion of the financing contemplated under the New Loan Agreement on the terms set out in Part B of the Recapitalization Term Sheet, as applicable, are held in escrow:
  - (i) Amendment and Restatement Agreement No.4;
  - (ii) the New Loan Agreement;
  - (iii) all guarantees and security documents contemplated in the Amended and Restated Bond Agreement and the New Loan Agreement; and
  - (iv) the Intercreditor Agreement,

the terms of which must be substantively and substantially consistent in all material respects with those set forth in the Recapitalization Term Sheet, except to the extent approved by the Bond Trustee, the Corporation and SRUK, each acting reasonably;
- (g) all conditions precedent contained in the New Loan Agreement and the Amended and Restated Bond Agreement must have been satisfied or waived;
- (h) there must not reasonably be expected to occur, after giving effect to the Recapitalization any material default or event of default under any Material Contract (other than those defaults or events of default that are remedied or waived as part of the Recapitalization or summarized in the Company Disclosure Letter);
- (i) there must not be in effect any preliminary or final decision, order or decree by a Governmental Entity (as that term is defined in the Recapitalization Agreement), no application made to any Governmental Entity, and no action or investigation announced, threatened or commenced by any Governmental Entity, in consequence of or in connection with the Recapitalization, and the Corporation must have delivered a certificate confirming same to the Bond Trustee;
- (j) the listing and posting on the TSXV of the Rights, the Rights Offering Shares and the Exchange Shares must have been approved by the TSXV pursuant to the TSXV Approval, subject only to standard listing conditions;
- (k) the composition of the board of directors for the Corporation and the boards of directors of SRUK and Newco effective as of the Closing Date must be satisfactory to the Bond Trustee, subject to certain conditions;
- (l) there must not be any claims, litigation, investigations or proceedings, including appeals and applications for review, in progress, or to the knowledge of the Corporation, pending, commenced

or threatened, by any Person (as defined in the Recapitalization Agreement) that have a reasonable likelihood of success or by any Governmental Entity, in respect of the Rights Offering or the Bond Exchange;

- (m) there must not be any order issued by a Governmental Entity pursuant to Laws (as defined in the Recapitalization Agreement), nor may there be any change of Law, in either case which suspends or ceases trading in the Rights or the Common Shares or operates to prevent or restrict the lawful distribution of the Rights, the Rights Offering Shares or Exchange Shares;
- (n) since the respective dates as of which information is given in the Final Prospectus as amended by any Prospectus Amendment there must have been no material change (as that term is defined in the *Securities Act* (Alberta)) with respect to the Corporation or its Subsidiaries on a consolidated basis, and the Corporation must have delivered a certificate confirming same to the Bond Trustee;
- (o) any Bondholder(s) who, by virtue of the transactions contemplated by the Recapitalization and following the completion of all such transactions, will become a Shareholder holding in excess of 20% of the outstanding Common Shares must have entered into a voting trust agreement or undertaking in form satisfactory to the TSXV;
- (p) the Bond Trustee, on behalf of the Relevant Bondholders, must have received a legal opinion dated the Closing Date, in form and substance satisfactory to the Bond Trustee, acting reasonably, addressed to the Bondholders from counsel to the Corporation, as to the laws of Alberta and the laws of Canada applicable therein, with respect to certain matters;
- (q) the Bond Trustee will have received a final copy of a tax report from PricewaterhouseCoopers LLC, together with an executed reliance letter in favour of the Bond Trustee as of the Closing Date, each in form and substance satisfactory to the Bond Trustee, acting reasonably;
- (r) the Corporation must have applied to Her Majesty's Revenue and Customs for stamp duty group relief and must have received a response granting the relief so requested;
- (s) the Recapitalization will have been approved by a majority of at least 2/3 of Voting Bonds (as defined in the Bond Agreement) represented at the Bondholder Meeting;
- (t) the Corporation will have entered into a registrar agreement with the Norwegian Registrar;
- (u) all reasonable fees and out-of-pocket expenses of the Bond Trustee payable pursuant to the fee agreement between SRUK and the Bond Trustee dated May 1, 2013 and all reasonable fees and disbursements of professional advisors to the Bond Trustee will have been paid by the Corporation; and
- (v) the Corporation will have delivered to the Bond Trustee a certificate issued to the Bond Trustee and signed by the Chief Executive Officer of the Corporation (not in his personal capacity) confirming that: (A) the Corporation has passed the LTI Resolution; (B) no Options, Phantom Options and PSUs (each as defined in the Recapitalization Agreement) will be exercised on a cashless basis, or for a cash payment, in connection with the Recapitalization; and (C) following both the Bond Exchange and the consolidation of the Common Shares contemplated by the Consolidation Resolution, the number of Common Shares potentially issuable pursuant to all remaining Options, Phantom Options and PSUs is not more than an aggregate of 0.2% of the outstanding Common Shares (including, for certainty, the Exchange Shares issued pursuant to the Recapitalization).

#### **Covenants of the Corporation and SRUK**

The Corporation and SRUK have agreed to the following covenants under the Recapitalization Agreement:

- (a) Except with regard to a Permitted Transaction or a Superior Transaction, the Corporation will not take any action, or omit to take any action, with the intent of delaying, challenging, frustrating or hinder the consummation of the Recapitalization;
- (b) The Corporation and SRUK will, and will cause any member of the Sterling Group to, as applicable, execute any and all documents and perform any and all commercially reasonable acts required by the Recapitalization Agreement (it being understood and agreed that the Recapitalization Terms are deemed to be commercially reasonable for the purposes of the Recapitalization Agreement) to satisfy its obligations under the Recapitalization Agreement and in respect of the Recapitalization, including, without limitation, Amendment and Restatement Agreement No.4, the New Loan Agreement, the Intercreditor Agreement and all ancillary definitive documentation in relation thereto;
- (c) Upon execution of the Recapitalization Agreement by the Corporation, SRUK and the Bond Trustee, the Corporation will, in a timely manner, cause to be issued a press release or other public disclosure that discloses the material provisions of the Recapitalization Agreement, and which press release was issued by the Corporation on March 11, 2016;
- (d) The Corporation was required to prepare and file this short form prospectus on or before the Preliminary Prospectus Outside Filing Date;
- (e) The Corporation will, as soon as reasonably practicable, and in any event, on or before the Final Prospectus Outside Date, file with the securities commissions or similar securities regulatory authorities of the Qualified Jurisdictions, the Final Prospectus relating to the proposed distribution of the Rights, the Rights Offering Shares issuable thereunder and the Exchange Shares, and take such other steps and proceedings that may be necessary in order to qualify the distribution of the Rights Offering Shares and the Exchange Shares in each of the Qualifying Jurisdictions in which the Final Prospectus has been filed;
- (f) If required by Laws, the Corporation will prepare any amendment to this short form prospectus or any documentation supplemental thereto or any amending or supplemental documentation or any similar document required to be filed by it under the Laws and as soon as reasonably practicable comply with all applicable filing and other requirements under the Laws as a result of any material change;
- (g) The Corporation has given or will give, as the case may be, the Bond Trustee and its Advisors a reasonable opportunity to review and comment on drafts of this short form prospectus and any amendments thereto, and on any documentation supplementation thereto, and must give reasonable consideration to any comments made by the Bond Trustee and its Advisors, and agreed that all information contained in this short form prospectus relating to the Recapitalization Agreement, the Bond Trustee, the Bonds, the Bond Agreement, the Bond Exchange and the Bondholders must be in a form and content satisfactory to the Bond Trustee, acting reasonably;
- (h) It will use its commercially reasonable efforts to obtain as soon as reasonably practicable all necessary consents, approvals or exemptions for the creation, offering and issuance of (i) the Rights, the Rights Offering Shares issuable thereunder and the Exchange Shares in all Qualifying Jurisdictions as contemplated in the Recapitalization Agreement and in this short form prospectus and (ii) the entering into and performance by it of the Recapitalization Agreement;
- (i) The Corporation and SRUK will use commercially reasonable efforts to obtain the OGA Letter from the OGA as soon as reasonably practicable. Subject to compliance by the Bond Trustee with its covenants in the Recapitalization Agreement, the Corporation and SRUK will as soon as reasonably practicable provide to OGA in a complete and accurate form all information which is requested or required by OGA from them with respect to the review of the Recapitalization. Without prejudice to the foregoing, the Corporation and SRUK will insofar as it relates to the Recapitalization and/or an OGA Letter: (i) promptly notify the Bond Trustee and its advisors

sufficiently in advance (and provide copies or, in the case of non-written communications, details) of any notification, submission, filing, response or other communications it proposes to make or submit to OGA; (ii) review regularly with the Bond Trustee and its advisors the progress of any notifications or filings; (iii) permit the Bond Trustee and/or such of its advisors as the Bond Trustee, acting reasonably, considers necessary to attend all meetings with OGA (unless expressly prohibited by OGA) and participate in all material telephone or other conversations and to make oral submissions at such meetings or in telephone or other conversations with the OGA; and (iv) communicate with the OGA only after prior consultation with the Bond Trustee and its advisors (provided that no consultation is required in respect of any communication that is immaterial) or, where the OGA initiates the relevant communication, any communication (other than any communication that is immaterial) by the Corporation and/or SRUK will be subject to consultation with the Bond Trustee and its advisors, which consultation will occur as soon as reasonably practicable following the relevant communication (and taking due consideration of any comments which the Bond Trustee and/or its advisors may have regarding any notification, submission, filing, response or other such communication) and promptly provide the Bond Trustee and its advisors with copies of all such submissions, notifications, filings, responses and other communications in the form submitted, sent or received (including immaterial communications).

The Bond Trustee may disclose copies or details of any notifications, submissions, filings, responses or other communications of the type referred to above (each, a “**relevant information**”) to any or all of the Supporting Bondholders and/or any of their advisors, in each case on a strictly confidential and need-to-know basis, provided however that the Bond Trustee must at all times hold confidential all relevant information which constitutes “Information” (as defined in the confidentiality letter dated on or about March 7, 2016 between the Corporation, SRUK and certain third parties that the Corporation and/or SRUK has requested to provide information in connection with its or their endeavours to obtain an OGA Letter (the “Confidentiality Letter”)) on terms no less onerous than the terms provided in the Confidentiality Letter.

The Corporation and SRUK will notify the Bond Trustee immediately (but in any event within one business day) on becoming aware: (i) that any circumstances or matters have arisen that could result in the Corporation not receiving the OGA Letter prior to the Outside Date, together with those details of the relevant circumstances as are in the Corporation or SRUK’s possession at the relevant time; and (ii) that an OGA Letter has been obtained;

(j) Shareholder Approval.

- (i) If the TSXV Approval requires Shareholder approval in connection with the creation of one or more new Control Persons (as defined in TSXV Policy 1.1 – Interpretation) pursuant to the Recapitalization or as otherwise required by the TSXV Approval, the Corporation will:
  - (A) set a record date for the Company Meeting as soon as practicable following the Closing Date and convene and conduct the Company Meeting no later than 45 days following the Closing Date and not adjourn, postpone or cancel (or propose the adjournment, postponement or cancellation of) the Company Meeting without the prior written consent of the Bond Trustee, acting reasonably;
  - (B) subject to the terms of the Recapitalization and compliance by the directors and officers of the Corporation with their fiduciary duties, use its commercially reasonable efforts to solicit proxies in favour of the approval of the Recapitalization Resolutions and any other resolution required in connection with the Recapitalization and against any resolution submitted by any Person that is inconsistent with the Recapitalization Resolutions and the completion of any of the transactions contemplated by the Recapitalization Agreement;

- (C) consult with the Bond Trustee in fixing the date of the Company Meeting and the record date of the Company Meeting and give notice to the Bond Trustee of the Company Meeting and allow the Bond Trustee's representatives and legal counsel to attend the Company Meeting;
  - (D) promptly advise the Bond Trustee, at such times as the Bond Trustee may reasonably request and at least on a daily basis on each of the last 10 business days prior to the date of the Company Meeting, as to the aggregate tally of the proxies received by the Corporation in respect of the Recapitalization Resolutions and any other resolution required in connection with the Recapitalization;
  - (E) promptly advise the Bond Trustee of any communication (written or oral) from or claims brought by (or threatened to be brought by) any Person in opposition to the Recapitalization, Recapitalization Resolutions or any other resolution required in connection with the Recapitalization; and
  - (F) not change the record date for the Shareholders entitled to vote at the Company Meeting in connection with any adjournment or postponement of the Company Meeting unless required by Law;
- (ii) The Corporation will promptly prepare and complete, in consultation with the Bond Trustee, the Company Circular (as that term is defined in the Recapitalization Agreement) together with any other documents required by Law in connection with the Company Meeting and the Recapitalization, and the Corporation will use its reasonable commercial efforts to do so on or before the record date for the Company Meeting and cause the Company Circular and such other documents to be filed and sent to each Shareholder and other Persons as required by Law, in each case using all reasonable commercial efforts so as to permit the Company Meeting to be held by the date contemplated in the Recapitalization Agreement.
  - (iii) The Corporation will ensure that the Company Circular complies in all material respects with Law, does not contain any Misrepresentation (as that term is defined in the Recapitalization Agreement) and provides the Shareholders with sufficient information to permit them to form a reasoned judgment concerning the matters to be placed before the Company Meeting. Without limiting the generality of the foregoing the Company Circular must include: (A) a copy of the Fairness Opinion; (B) a statement that the Corporation's board of directors has received the Fairness Opinion, and has unanimously (with any interested directors abstaining), after receiving legal and financial advice, determined that the Recapitalization is in the best interests of the Corporation and recommends that Shareholders vote in favour of the Recapitalization Resolutions and any other resolution required in connection with the Recapitalization; and (C) a statement that each Supporting Bondholder intends to vote all of such Person's Common Shares in favour of the Recapitalization Resolutions;
  - (iv) The Corporation will give the Bond Trustee and its Advisors a reasonable opportunity to review and comment on drafts of the Company Circular and other related documents, and will give reasonable consideration to any comments made by the Bond Trustee and its Advisors, and agreed that: (A) all information contained in the Company Circular relating to the Bond Trustee, the Bonds, the Bond Agreement, the Recapitalization Agreement, the Bond Exchange and the Bondholders must be in a form and content satisfactory to the Bond Trustee, acting reasonably; and (B) all information relating solely to the Sterling Group included in the Company Circular must be in a form and content satisfactory to the Corporation, acting reasonably;

- (v) Each Party will promptly notify the other Parties if at any time before the date of the Company Meeting it becomes aware that the Company Circular contains a Misrepresentation, or otherwise requires an amendment or supplement. The Parties will co-operate in the preparation of any such amendment or supplement as required or appropriate, and the Corporation will promptly mail, file or otherwise publicly disseminate any such amendment or supplement to the Shareholders and, if required by Law, file the same with the Securities Commission or any other Governmental Entity as required;
- (vi) Subject to the following sentence, the Corporation will not hold any special or annual and special meeting(s) of Shareholders in the time period commencing on the date of the Recapitalization Agreement and ending on or prior to the earlier of the Company Meeting and the Termination Date. In the event that the Corporation is required pursuant to Law or its by-laws to hold any annual, special or annual and special meeting(s) of Shareholders during this period, it will: (A) give prompt notice in writing to the Bond Trustee (and in any event within one business day of its determination that it must hold such meeting); and (B) if such meeting is held after the Closing Date with a record date that allows the Supporting Bondholders to vote their Exchange Shares thereat, the Corporation will make the passing of the Recapitalization Resolutions the first order of business to be voted on by the Shareholders of such meeting, such that any new Control Person(s) as a result of the Recapitalization will be entitled to vote on the remaining matters of business presented at such meeting;
- (k) The Corporation and SRUK covenanted and agreed, on a joint and several basis, to be liable to and to indemnify and save harmless the Bond Trustee and each of the Supporting Bondholders (other than a Breaching Bondholder) and any assignees, together with their respective subsidiaries (as that term is defined in the *Securities Act* (Alberta)) and Affiliates and their respective present and former shareholders, members, partners, officers, directors, employees, auditors, advisors and agents (each an “**Indemnified Party**” and, collectively, the “**Indemnified Parties**”) from and against any and all liabilities and losses and any claims, actions or proceedings by Persons who are not party to the Recapitalization Agreement or any Bondholder Voting Agreement (but excluding any liabilities or claims attributable to any of such Persons’ gross negligence, fraud or wilful misconduct as determined by the final, non-appealable judgment of a court of competent jurisdiction) arising on or prior to the earlier of: (A) the Closing Date; and (B) the Termination Date provided and to the extent that such claims arise directly or indirectly in connection with the Recapitalization Agreement, the Recapitalization or any proceedings commenced with respect to the Recapitalization or any related transaction; and (ii) to reimburse each Indemnified Party promptly upon demand for all reasonable legal and other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, or providing evidence in or preparing to serve or serving as a witness with respect to, any lawsuit, investigation, claim or other proceeding relating to any of the foregoing (including, without limitation, in connection with the enforcement of the indemnification obligations set forth in the Recapitalization Agreement). If any matter or thing contemplated in the preceding sentence (any such matter or thing being a “**Claim**”) is asserted against any Indemnified Party or if any potential Claim contemplated hereby comes to the knowledge of any Indemnified Party, the Indemnified Party must notify the Corporation and SRUK as soon as reasonably possible of the nature and particulars of such Claim (provided that any failure to so notify the Corporation and SRUK will not affect the Corporation’s or SRUK’s liability under the Recapitalization Agreement except to the extent that the Corporation or SRUK is prejudiced thereby and then only to the extent of any such prejudice) and the Corporation and SRUK will, subject as hereinafter provided, be entitled (but not required) to assume at its expense the defence of any suit brought to enforce such Claim; provided that the defence of such Claim must be conducted through legal counsel reasonably acceptable to the Indemnified Party and that no admission of liability or settlement in respect of any such Claim may be made by the Corporation or SRUK (other than a settlement that (i) includes a full and unconditional release of the Indemnified Parties without any admission or attribution of fault or liability on their part and (ii) does not require any Indemnified Party to pay any amount or agree to



any ongoing covenants) or the Indemnified Party without, in each case, the prior written consent of the other, such consent not to be unreasonably withheld. In respect of any Claim, the Indemnified Party will have the right to retain separate or additional counsel to act on its or their behalf in the defence thereof, provided that the fees and disbursements of such counsel will be paid by the Indemnified Party unless (i) the Corporation or SRUK fails to assume and diligently and actively prosecute the defence of the Claim on behalf of the Indemnified Party within 10 business days after each of the Corporation and SRUK has received notice of the Claim, (ii) the Corporation, SRUK and the Indemnified Party will have mutually agreed to the retention of the separate or additional counsel, or (iii) the named parties to the Claim (including any added third or impleaded party) include both the Indemnified Party and the Corporation or SRUK, and the Indemnified must have been advised by its counsel that representation of both parties by the same counsel would be inappropriate due to the actual or potential differing interests between them, in which case the Corporation or SRUK will not have the right to assume the exclusive defence of the Claim and the Corporation and SRUK will be liable to pay the reasonable fees and expenses of the separate or additional counsel for the Indemnified Party.

- (l) The Corporation must make an application to the TSXV for the TSXV Approval on or before March 16, 2016 and thereafter must take all action as may be required and appropriate, including the payment of all regulatory and listing fees, so that the Rights Offering Shares and the Exchange Shares have been conditionally approved for listing on the TSXV, subject to receipt of customary final documentation;
- (m) The Corporation must take all action as may be necessary and appropriate so that the Rights Offering, the Bond Exchange and the transactions contemplated in the Recapitalization Agreement will be effected in accordance with Laws. The Corporation must consult with the Bond Trustee and its Advisors upon their reasonable request regarding the manner in which the Rights Offering, the Bond Exchange and the other transactions contemplated herein will comply with Laws, and it must provide to the Bond Trustee and its Advisors copies of any documents that are to be submitted by it to any Securities Commission or other regulatory authority for such purpose prior to being so submitted and it must give the Bond Trustee and its Advisors an opportunity to comment on same, and the Corporation must not file this short form prospectus or any amendment hereto without first providing notice, together with a copy of this short form prospectus or any amendment hereto, as the case may be, to the Bond Trustee;
- (n) The Corporation will use commercially reasonable efforts to effect and complete the mailing of commercial copies of the Final Prospectus to each of the registered holders of the Common Shares in Canada as soon as possible following the Record Date and to the beneficial holders of Common Shares in Canada as soon as possible following the Record Date;
- (o) From the date of the Recapitalization Agreement through the earlier of (i) the Closing Date and (ii) the Termination Date:
  - (i) Except as set forth in the Company Disclosure Letter, the Corporation will not, and will not permit any member of the Sterling Group to, without the prior written consent of the Bond Trustee, amend or modify in any material respect or terminate or waive any material right under any Material Contract (as that term is defined in the Recapitalization Agreement) or enter into any contract or agreement that would be a Material Contract if in effect on the date hereof unless on commercially reasonable terms and in the Ordinary Course;
  - (ii) The Corporation will provide draft copies of all press releases, disclosure documents and definitive agreements with respect to the Recapitalization to the Bond Trustee and its Advisors for review and comment, and all such documents must be acceptable to the Bond Trustee, acting reasonably and in a manner consistent with the terms of the Recapitalization Agreement;

- (iii) Following a reasonable advance request by the Bond Trustee or any of the Relevant Bondholders who are parties to a Confidentiality Agreement, the Corporation will, to the extent permitted by Law and the terms of any confidentiality obligations to which the Corporation is subject, and subject to and in accordance with the terms of the applicable Confidentiality Agreements (as defined in the Recapitalization Agreement), provide the Bond Trustee or such Supporting Bondholder, or any of them, as the case may be, with reasonable access to the Corporation's and its Subsidiaries' books and records (other than books or records that are subject to solicitor-client privilege) for review in connection with the Recapitalization; provided that the provision of access to books and records must be made or undertaken in a manner that minimizes disruption to the Corporation and its Subsidiaries' and its and their business and operations;
- (iv) The Corporation and SRUK must not:
  - (A) make any bonus or profit sharing distribution or similar payment of any kind;
  - (B) grant any general increase in the rate of wages, salaries, bonuses or other remuneration of any Company Employees (as defined below);
  - (C) except as required by Law: (i) increase any severance, change of control or termination pay to (or amend any existing arrangement with) any Company Employee or any director of the Corporation or any of its Subsidiaries; (ii) increase the benefits payable under any existing severance or termination pay policies with any Company Employee or any director of the Corporation or any of its Subsidiaries; (iii) increase the benefits payable under any employment agreements with any Company Employee or any director of the Corporation or any of its Subsidiaries (other than, in the case of a Corporation Employee who is not a director or executive officer of the Corporation, in the Ordinary Course); (iv) enter into any employment, deferred compensation or other similar agreement (or amend any such existing agreement) with any Company Employee or any director of the Corporation or any of its Subsidiaries (other than, in the case of a Company Employee who is not a director or executive officer of the Corporation, in the Ordinary Course); or (v) increase compensation, bonus levels or other benefits payable to any Company Employee or any director of the Corporation (other than, in the case of a Company Employee who is not a director or executive officer of the Corporation, in the Ordinary Course); or
  - (D) adopt, and must not permit any member of the Sterling Group to adopt, any new Employee Plan or any amendment or modification of an existing Employee Plan or grant any Options, PSUs, or Phantom Options thereunder, as applicable, except in the Ordinary Course.
- (v) The Corporation will cause the strike price, exercise price, or any market reference price threshold for any existing Options, Phantom Options, and PSUs to be increased proportionately with the Common Share consolidation contemplated by the Consolidation Resolution pursuant to the LTI Resolution;
- (vi) Except with the consent of the Bond Trustee or as contemplated by the Recapitalization and the transactions contemplated in the Recapitalization Agreement (including without limitation the transactions contemplated by Article 5 of the Recapitalization Agreement), or in respect of an Other Transaction, the Corporation must not:
  - (A) amend the Corporation's constituting documents or the terms of any outstanding debt security, including the Bonds;

- (B) split, combine or reclassify any shares of the Corporation or of any of its subsidiaries or declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof);
  - (C) redeem, repurchase, or otherwise acquire or offer to redeem, repurchase or otherwise acquire any shares of capital stock of the Corporation or any of its subsidiaries;
  - (D) issue, grant, deliver, sell, pledge or otherwise encumber, or authorize the issuance, grant, delivery, sale, pledge or other encumbrance of any shares of capital stock, securities, any options, warrants or similar rights exercisable or exchangeable for or convertible into such capital stock, of the Corporation or any of its Subsidiaries, except for the issuance of Common Shares issuable upon the exercise of the currently outstanding Options; or
  - (E) reorganize, amalgamate or merge the Corporation, or, to the extent prejudicial to the Recapitalization, any subsidiary of the Corporation;
- (vii) Except with the consent of the Bond Trustee or as contemplated by the Recapitalization Agreement and the transactions contemplated hereby, or in respect of an Other Transaction, or in respect of the New Loan Agreement, the Corporation must not (i) prepay, redeem prior to maturity, defease, repurchase or make other prepayments in respect of any non-revolving indebtedness; (ii) make any other payments (other than interest payments as and when due in the Ordinary Course) or pay any fees of any kind in respect of any non-revolving indebtedness for borrowed money (other than in respect of the Bond Agreement) including, without limitation, any consent, waiver or default fee; (iii) directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any indebtedness of any kind whatsoever (except for indebtedness that is incurred in the ordinary course of business and that is not Material); or (iv) create, incur, assume or otherwise cause or suffer to exist or become effective any new lien, charge, mortgage, hypothec or security interest of any kind whatsoever on, over or against any of its assets or property (except for any lien, charge, hypothec or security interest that is incurred in the ordinary course of business and that is not Material);
- (viii) Except: (i) with the express prior written consent of the Bond Trustee (which consent must not be unreasonably withheld, conditioned or delayed); (ii) as required by the Recapitalization Agreement and the transactions contemplated hereby; (iii) in connection with an Other Transaction; (iv) as required by Law; or (v) as set forth in Section 6.1(o)(vii) of the Company Disclosure Letter, the Corporation will, and will cause each of its Subsidiaries to, conduct its business in the Ordinary Course, and the Corporation will use commercially reasonable efforts to maintain and preserve its and its Subsidiaries' business organization, assets (including, for greater certainty, the Company Assets (as is defined in the Recapitalization Agreement), properties, employees, goodwill and business relationships with customers, suppliers, distributors, licensors, partners and other Persons with which the Corporation or any of its Subsidiaries has business relations and to perform and comply with all of its obligations under the Material Contracts;
- (ix) The Corporation will immediately notify the Bond Trustee in writing of any written demand, request or inquiry (formal or informal) by any Securities Commission, the TSXV or other Governmental Entity that concerns any matter relating to the affairs of the Corporation that may affect the Rights Offering, the Bond Exchange, the transactions contemplated in the Recapitalization Agreement, or any other matter contemplated by the Recapitalization Agreement, or that relates to the issuance, or threatened issuance, by any such authority of any cease trading or similar order or ruling relating to any securities of

the Corporation. Any notice delivered to the Bond Trustee as aforesaid must contain reasonable details of the demand, request, inquiry, order or ruling in question;

- (x) The Corporation will not make and will not permit any of its Subsidiaries to make expenditures for the purchase, lease or acquisition of assets (other than current assets) required to be capitalized for financial reporting purposes in accordance with IFRS or commitment to do so, which would exceed the remaining cumulative capital expenditures forecast for the calendar year 2016 set out in the Corporation's agreed form cash flow model (in relation to Breagh, applying the Corporation's 10 well plus 1 re-entered/stimulated well, April 2017 rig start, October 2018 onshore compression online case), without the prior written consent of the Bond Trustee, such consent not to be unreasonably withheld; and
- (xi) None of the Corporation, SRUK, any of their respective affiliates or any Person acting on their behalf will engage in any Directed Selling Efforts (as defined in the Recapitalization Agreement) in the United States or take any action that would cause the exclusion from registration afforded by Regulation S adopted by the SEC under the 1933 Act to be unavailable for issuance, offers and sales of any Rights, Rights Offering Shares and the Exchange Shares outside the United States as contemplated by the Recapitalization Agreement or take any action (including making any general solicitation or advertising) that would cause the exemption afforded by Rule 506(b) of Regulation D to be unavailable for issuance, offers and sales of the Rights and Rights Offering Shares in the United States as contemplated by the Recapitalization Agreement.

#### **Covenants of the Bond Trustee**

The Bond Trustee has agreed to the following covenants under the Recapitalization Agreement:

- (a) Not to take any action, or omit to take any action, which could reasonably be expected to delay, challenge, frustrate or hinder the consummation of the Recapitalization, provided however, that this covenant will not prevent the Bond Trustee from consulting with any or all Bondholders in respect of any matter or from taking any reasonable preliminary actions (including, without limitation, calling and holding a meeting of the Bondholders) in respect of any event or circumstance which may entitle the Bond Trustee to terminate the Recapitalization Agreement in accordance with the terms thereof;
- (b) To execute any and all documents and perform any and all commercially reasonable acts required by the Recapitalization Agreement to satisfy its obligations under the Recapitalization Agreement and in respect of the Recapitalization including, without limitation, Amendment and Restatement Agreement No.4, the Intercreditor Agreement and all ancillary definitive documentation in relation thereto;
- (c) To use commercially reasonable efforts to obtain or assist the Corporation and SRUK to obtain the TSXV Approval and an OGA Letter in connection with the Recapitalization, including, in respect of notifications relating to, and efforts to obtain, an OGA Letter, by promptly, subject to receiving information from relevant third parties, providing the Corporation and SRUK any comments which the Bond Trustee and/or its advisors may have regarding any notification, submission, filing, response or other communication in relation thereto, in each case at the Corporation's or SRUK's expense;
- (d) Not to support any Bondholder in taking any enforcement action in respect of the Bonds; and
- (e) Not to engage in any Directed Selling Efforts in the United States or take any action that would cause the exclusion from registration afforded by Regulation S adopted by the SEC under the 1933 Act to be unavailable for issuance, offers and sale of any Rights, Rights Offering Shares and

Exchange Shares outside the United States as contemplated by the Recapitalization Agreement or take any action (including making any general solicitation or advertising) that would cause the exemption afforded by Rule 506(b) of Regulation D to be unavailable for issuance, offers and sales of the Rights and Rights Offering Shares in the United States as contemplated by the Recapitalization Agreement, it being understood that the fulfilment of the Bond Trustee of its obligations in delivering the Bondholder Summons to the Bondholders was not prohibited by the Recapitalization Agreement.

## **Termination**

The Recapitalization Agreement may be terminated by the Bond Trustee delivering to the Corporation a written notice, in the exercise of its sole discretion, upon the occurrence and, if applicable continuation of any of the following events:

- (a) the Final Prospectus not being filed by the Final Prospectus Outside Date (as defined in the Recapitalization Agreement);
- (b) the TSXV Approval having not been received by the Corporation on or prior to the TSXV Approval Outside Date or if any of the conditions or restrictions contained in the TSXV Approval have a material negative financial impact on the Bondholders with regard to the Bond Exchange or have an impact on the timing of the Recapitalization such that it cannot be concluded by the Outside Date;
- (c) the occurrence of a Material Adverse Effect;
- (d) the occurrence of any Event of Default (as defined in the Bond Agreement) pursuant to the Bond Agreement, as amended in the manner contemplated by the Bondholder Summons;
- (e) the Corporation or SRUK takes any action inconsistent with the Recapitalization Agreement or fails to comply with, or defaults in the performance or observance of, any material term, condition, covenant or agreement set forth in the Recapitalization Agreement, which, if capable of being cured, is not cured within five business days after the receipt of written notice of such failure or default;
- (f) any representation, warranty or acknowledgement of any of the Corporation or SRUK made in the Recapitalization Agreement proves untrue in any material respect as of the date when made;
- (g) the issuance of any final decision, order or decree by a Governmental Entity, in consequence of or in connection with the Recapitalization, which restrains or impedes in any material respect or prohibits the Recapitalization or any material part thereof or requires or purports to require a material variation of the Recapitalization;
- (h) an Insolvency Event (as defined in the Recapitalization Agreement) having occurred in respect of any member of the Sterling Group, unless such event occurs with the prior written consent of the Bond Trustee;
- (i) the conditions precedent to the completion of the Recapitalization are not satisfied or waived by the Outside Date (as that term is defined in the Recapitalization Agreement) or the Bond Trustee determines, acting reasonably, that there is no reasonable prospect that such conditions will be satisfied or waived by the Outside Date, in each case provided that any such non-satisfaction is not caused, directly or indirectly, by any action or inaction of the Bond Trustee;
- (j) any Commitment Letter is rescinded or revoked or any Lender purports to rescind or revoke its Commitment Letter;

- (k) completion of the Recapitalization has not occurred by 5:00 p.m. (Calgary time) on the Outside Date, provided that the failure to complete the Recapitalization is not caused, directly or indirectly, by any action or inaction of the Bond Trustee or the Supporting Bondholders;
- (l) the Recapitalization is not approved by the majority of at least 2/3 of Voting Bonds represented at the Bondholder Meeting on or prior to March 31, 2016;
- (m) prior to the Closing Date, a breach by such number of Breaching Bondholders of their respective Bondholder Voting Agreements as collectively beneficially own or exercise control or direction over, directly or indirectly, such number of Bonds, Exchange Shares or Common Shares that after excluding such Common Shares, the total number of Common Shares collectively beneficially owned or over which control or direction, directly or indirectly, is exercised by all other Supporting Bondholders would, following the Bond Exchange, represent less than either: (i) 66⅔% of the issued and outstanding Common Shares; or (ii) a simple majority of the issued and outstanding Common Shares after excluding those Common Shares held by any new Control Person as a result of the Recapitalization (with respect to voting with regard to itself only);
- (n) prior to the Company Meeting, the Corporation holds a meeting of the Shareholders (whether as a result of the requisition of meeting by a Shareholder (unless the Shareholder requisitioning such meeting is also a Supporting Bondholder or an Affiliate thereof), the order of a court of competent jurisdiction or otherwise) at which the Supporting Bondholders would not be entitled to vote their Exchange Shares (including in circumstances where the Bond Exchange has not yet taken place), and the outcome of such meeting would impact the Recapitalization in a manner adverse to Bondholders, to be determined by the Bond Trustee in its sole discretion, acting reasonably; or
- (o) if either: (i) the termination of the definitive agreement with regard to a Permitted Transaction or Superior Transaction, as applicable; or (ii) the date that is 75 days following the date of the definitive agreement with regard to the Permitted Transaction or Superior Transaction, as applicable, following which such definitive agreement with regard to the Other Transaction must be terminated by the Corporation, has occurred.

The Recapitalization Agreement may be terminated by Sterling delivering to the Bond Trustee a written notice, in the exercise of its sole discretion, upon the occurrence and continuation of any of the following events:

- (a) the conditions described in the Recapitalization Agreement for the benefit of the Corporation and SRUK are not satisfied or waived by the Outside Date or the Corporation and SRUK determine, acting reasonably, that there is no reasonable prospect that such conditions will be satisfied or waived by the Outside Date, in each case provided that any non-satisfaction is not caused, directly or indirectly, by any action or inaction of any member of the Sterling Group;
- (b) the issuance of any final decision, order or decree by a Governmental Entity, in consequence of or in connection with the Recapitalization, in each case which restrains or impedes in any material respect or prohibits the Recapitalization or any material part thereof or requires or purports to require a material variation of the Recapitalization;
- (c) any Commitment Letter is rescinded or revoked or any Lender purports to rescind or revoke its Commitment Letter;
- (d) the breach by such number of Breaching Bondholders of their respective Bondholder Voting Agreements as collectively beneficially own or exercise control or direction over, directly or indirectly, such number of Bonds, Exchange Shares or Common Shares that:
  - (i) after excluding such Bonds, the total number of Bonds collectively beneficially owned or over which control or direction, directly or indirectly, is exercised by all other Supporting Bondholders would represent less than 66⅔% of the votes at the Bondholder Meeting; or

- (ii) after excluding such Common Shares, the total number of Common Shares collectively beneficially owned or over which control or direction, directly or indirectly, is exercised by all other Supporting Bondholders would, following the Bond Exchange, represent less than either: (A) 66⅔% of the issued and outstanding Common Shares; or (B) a simple majority of the issued and outstanding Common Shares after excluding those Common Shares held by any new Control Person as a result of the Recapitalization (with respect to voting with regard to itself only).

The Recapitalization Agreement, and the obligations of all the parties thereunder, may also be terminated by mutual written agreement between (a) the Corporation; (b) SRUK; and (c) the Bond Trustee.

If the TSXV Approval does not require the Recapitalization Resolutions (or any other resolution with respect to the Recapitalization), then the Recapitalization Agreement will terminate automatically without any further required action or notice immediately following the closing of the Bond Exchange. The Recapitalization Agreement will terminate automatically without any further required action or notice at 5:00 p.m. (local time in the location in which the Company Meeting is conducted) on the date upon which all of the Recapitalization Resolutions (or any other resolution with respect to the Recapitalization) are either approved or not approved by the requisite majority of Shareholders.

The Recapitalization Agreement will terminate automatically without any further required action or notice at 5:00 p.m. (Calgary time) on the date upon which a Permitted Transaction or Superior Transaction, as applicable, is completed in accordance with the Recapitalization Agreement, and the Corporation has satisfied its payment obligations under the Recapitalization Agreement and a Bond Redemption (as defined in the Bond Agreement) has occurred.

As fully set out in the Recapitalization Agreement, depending on the event triggering the termination of the Recapitalization Agreement, certain provisions of the agreement survive termination.

### **Other Transactions**

The Recapitalization Agreement permits the Corporation to solicit inquiries or proposals regarding an Other Transaction following the date of the Recapitalization Agreement and prior to the Expiry Date; provided, however, that the Corporation is prohibited from, directly or indirectly, without the knowledge and prior written consent of the Bond Trustee: (i) participating in any substantive discussions or negotiations with any person regarding any Other Transaction; (ii) accepting, approving, endorsing or recommending or proposing publicly to accept, approve, endorse or recommend any Other Transaction; or (iii) entering into, or publicly proposing to enter into, any agreement in respect of any Other Transaction.

Notwithstanding anything to the contrary in the Recapitalization Agreement, prior to the Expiry Date: (i) the Corporation's board of directors may pursue and support an Other Transaction following the date of the Recapitalization Agreement upon receipt of a Permitted Transaction Consent Letter, the form of which having been previously agreed by the parties; (ii) the Corporation's board of directors retains the right to pursue and support an Other Transaction following the date of the Recapitalization Agreement and prior to the Expiry Date if, after receiving advice from its advisors and after consulting with the Bond Trustee, the board of directors of the Corporation determines that: (A) such Other Transaction constitutes or would have a high prospect of constituting a Superior Transaction; and (B) the support of such Other Transaction would be necessary for compliance with their fiduciary duties as directors of the Corporation; and (iii) following satisfaction of these conditions, the Corporation will be entitled to respond to inquiries and take such other steps as may be necessary to pursue and support such potential Other Transaction, provided that the Corporation will not, unless otherwise permitted pursuant to a Permitted Transaction Consent Letter, and will not allow its directors, officers, employees and independent contractors or representatives (including any financial or other advisor) to, disclose any non-public information to such Person without having entered into a confidentiality and standstill agreement with such Person that contains customary provisions for a corporate acquisition transaction in Canada (a correct and complete copy of which confidentiality and standstill agreement must be provided to the Bond Trustee before any such non-public information is provided), provided that such confidentiality and standstill agreement may not include any provision: (i) calling for an exclusive right to negotiate; or (ii) restricting the sharing of any information with respect to the

Other Transaction with the Bond Trustee, the Supporting Bondholders and their respective advisors, unless the Corporation, as of the date of the Recapitalization Agreement, is already a party to a confidentiality agreement with a person proposing an Other Transaction (or its Affiliate if bound by such existing confidentiality agreement), in which case such confidentiality agreement will be deemed to satisfy the provisions of the Recapitalization Agreement in relation to customary provisions regardless of the actual provisions of the Recapitalization Agreement. The Corporation will promptly provide to the Bond Trustee any material non-public information concerning the Sterling Group provided to such other Person.

A Superior Transaction means a written *bona fide* Other Transaction proposal which would result in a Bond Redemption and repayment of the Bond Trustee's expenses up to and including the closing date of the Other Transaction, that the Corporation's board of directors determines in good faith, after consultation with its financial and outside legal advisors, is a transaction: (a) that has a high prospect of being completed in accordance with its terms, without undue delay and in any event within 75 days, taking into account all financial, legal, regulatory and other aspects of such Other Transaction proposal and the Person making such proposal, including financing risk; (b) that would, if consummated in accordance with its terms (but not assuming away any risk of non-completion), result in a transaction more favourable, from a financial point of view, to the Corporation's Shareholders, and no less favourable to the Bondholders, than the transaction contemplated by the Recapitalization Agreement; (c) that is not subject to any due diligence condition; (d) that can be terminated unilaterally by the Corporation, without the payment of any fees to the Person making the proposal for the Other Transaction, on the 75<sup>th</sup> day following the entering into of a definitive agreement for the Other Transaction; (e) that is not subject to a financing condition and in respect of which any required financing to complete such Other Transaction has been demonstrated to the satisfaction of the Corporation's board of directors, acting in good faith (after receipt of financial and legal advice) to have been obtained or is reasonably likely to be obtained; and (f) that provides for the reasonable costs and expenses of the Bond Trustee and the Bondholders (including out-of-pocket expenses and professional advisor fees and disbursements) arising in connection with the Other Transaction to be borne by the Person making the proposal for the Other Transaction (regardless of whether the Other Transaction is completed or terminated).

Prior to the Expiry Date, the Corporation's board of directors may, pursuant to the pursuit and support of a Permitted Transaction and subject to and in accordance with the terms of the Permitted Transaction Consent Letter, or an Other Transaction as contemplated above, and with regard to an Other Transaction that is not a Permitted Transaction following the delivery of a Superior Transaction Certificate issued to the Bond Trustee by the Corporation and SRUK and signed by the Chief Executive Officer of the Corporation and SRUK (not in their personal capacity) confirming that the Corporation's board of directors and the board of directors of SRUK have determined in good faith, after consultation with their outside legal advisors, that the Other Transaction constitutes a Superior Transaction and that failure to enter into the Superior Transaction would be inconsistent with their fiduciary duties under applicable law, authorize the Corporation to enter into a definitive agreement with respect to such Permitted Transaction or Superior Transaction, as applicable, and upon the entering into of such agreement, the parties' rights and obligations under the Recapitalization Agreement will be suspended until the earliest to occur of:

- (a) the date on which a Bond Redemption occurs and the Bond Trustee's expenses are repaid as contemplated in the Recapitalization Agreement up to and including such date, on which date the Recapitalization Agreement shall automatically terminate in accordance with the terms thereof;
- (b) the termination of the definitive agreement with regard to the Permitted Transaction or Superior Transaction, as applicable; or
- (c) the date that is 75 days following the date of the definitive agreement with regard to the Permitted Transaction or Superior Transaction, as applicable, following which such definitive agreement with regard to the Other Transaction must be terminated by the Corporation,

and in the case of (b) or (c), the Bond Trustee will have the option, exercisable in its sole discretion, to (A) terminate the Recapitalization Agreement, in which case Section 12.6 of the Recapitalization Agreement, with respect to survival and the effect of termination, will apply, or (B) upon providing written notice to the Corporation and SRUK, reinstate the obligations of the Parties to complete the Recapitalization with changes to the applicable date(s) by which the Corporation was to have taken certain actions which at the time of any such suspension had not yet passed (and additions of applicable date(s) for the re-taking of any actions, if necessary) such that the doing of the



first of any such act or thing would be mandated to occur no later than 10 business days following the date of the termination of the agreement pertaining to the Other Transaction and other applicable date(s) would be reinstated so as to provide an identical number of calendar days between each such action as was anticipated by the provisions prior to any such suspension; provide that in no event will the Outside Date be extended beyond August 24, 2016 unless agreed to in writing by the Parties.

### **Other Provisions of the Recapitalization Agreement**

Each of the Corporation, SRUK, and the Bond Trustee have agreed to use commercially reasonable efforts to cause all conditions precedent to be complied with on or before the Closing Date to the extent that such conditions relate to acts to be performed or caused to be performed by such Party on or before the Closing Date.

### **FAIRNESS OPINION**

FirstEnergy was engaged by the Corporation to provide an opinion to the board of directors of the Corporation as to the fairness of the Recapitalization, from a financial point of view, to the Shareholders. FirstEnergy rendered its Fairness Opinion that as of March 9, 2016, based upon and subject to the various considerations set forth therein, the Recapitalization, if implemented, is fair, from a financial point of view, to the Shareholders. FirstEnergy was not engaged to prepare (and did not prepare) a formal valuation or appraisal of Sterling or of any of the assets, liabilities or securities of Sterling and the Fairness Opinion should not be construed as such.

The full text of the Fairness Opinion is attached as Schedule “A” to this short form prospectus and should be read carefully and in its entirety. The Fairness Opinion describes the scope of the review undertaken by FirstEnergy, the assumptions made by FirstEnergy, the limitations on the use of the Fairness Opinion, and the basis of FirstEnergy’s fairness analysis for the purposes of the Fairness Opinion, among other matters. The summary of the Fairness Opinion set forth in this short form prospectus is qualified in its entirety by reference to the full text of the Fairness Opinion. FirstEnergy has provided its written consent to the inclusion of the Fairness Opinion in this short form prospectus. The Fairness Opinion states that it may not be used or relied upon by any person or entity other than the board of directors of the Corporation or for any other purpose without the express prior written consent of FirstEnergy.

### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Stikeman Elliott LLP, counsel to the Corporation, the following summary describes as of the date hereof the principal Canadian federal income tax considerations generally applicable to a Shareholder who receives Rights pursuant to this Rights Offering in his, her or its capacity as a Shareholder. This summary is applicable only to a Shareholder who, for purposes of the *Income Tax Act* (Canada) and the regulations thereunder and at all relevant times, is a Holder.

Rights and Common Shares will generally be considered to be capital property to a Holder unless such Rights and/or Common Shares, as the case may be, are held by the Holder in the course of carrying on a business or were acquired in one or more transactions considered to be an adventure or concern in the nature of trade.

Certain Holders who are resident in Canada for the purposes of the Canadian Tax Act and who hold Common Shares that do not otherwise qualify as capital property may in certain circumstances make an irrevocable election in accordance with subsection 39(4) of the Canadian Tax Act to have their Common Shares and every “Canadian security” (as defined in the Canadian Tax Act) owned by such Holder deemed to be capital property. Rights will not be Canadian securities for this purpose and therefore will not be deemed to be capital property under subsection 39(4) of the Canadian Tax Act. Holders should consult their own tax advisors for advice as to whether an election under subsection 39(4) of the Canadian Tax Act is available and/or advisable in their particular circumstances.

This summary is not applicable to a Holder: (i) that is a “specified financial institution” for the purposes of the Canadian Tax Act; (ii) that is a “financial institution” for the purposes of the mark-to-market rules in the Canadian Tax Act; (iii) an interest in which is or would constitute a “tax shelter investment” for the purposes of the Canadian Tax Act; (iv) whose “functional currency” for the purposes of the Canadian Tax Act is the currency of a country

other than Canada; or (v) that has entered into a derivative forward agreement for purposes of the Canadian Tax Act in respect of Rights or Common Shares to be acquired on exercise of Rights. Such Holders should consult their own tax advisors with respect to their own circumstances.

This summary is based on the provisions of the Canadian Tax Act and the regulations thereunder in force on the date hereof and counsel's understanding of the current administrative policies and assessing practices of the CRA published in writing and publicly available prior to the date hereof. This summary takes into account all Proposed Amendments and assumes that all such Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental or legislative decision or action or changes in the administrative policies and assessing practices of the CRA, nor does it take into account provincial, territorial or foreign income tax legislation or considerations which may differ from those described in this summary.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. Holders should consult their own tax advisors having regard to their own particular circumstances.

### **Residents of Canada**

This portion of the summary is generally applicable to a Resident Holder who, at all relevant times, for purposes of the Canadian Tax Act and any applicable income tax treaty or convention, is or is deemed to be a resident of Canada.

Pursuant to the terms of this Rights Offering, a Resident Holder that is a Non-Qualifying Holder will not be entitled to exercise Rights but will instead be entitled to proceeds (if any) received on the disposition of such Rights by the Subscription Agent.

### ***Receipt of Rights***

Generally, no amount will be required to be included in computing the income of a Resident Holder as a consequence of receiving Rights under this Rights Offering. The cost to a Resident Holder of a Right received under this Rights Offering will be nil and such cost will be averaged with the adjusted cost base of each other Right held by the Resident Holder as capital property (including any identical rights acquired otherwise than pursuant to this Rights Offering) for the purpose of determining the Resident Holder's adjusted cost base of each Right.

### ***Exercise of Rights***

A Resident Holder will not realize a gain or loss upon the exercise of a Right to acquire a Common Share. Where Rights are exercised, the Resident Holder's aggregate cost of the Common Shares acquired thereby will be equal to the aggregate amount of the Subscription Price and the Resident Holder's adjusted cost base (if any) of the Rights so exercised.

A Resident Holder's adjusted cost base of a Common Share will be determined by averaging the cost of such Common Share with the adjusted cost base of all other Common Shares held by the Resident Holder as capital property.

### ***Expiry of Rights***

The expiry or termination of an unexercised Right will result in a capital loss to a Resident Holder equal to the adjusted cost base, if any, of the Right immediately before its expiry or termination. Any such capital loss will be subject to the treatment described below under "*Taxation of Capital Gains and Capital Losses*".

### ***Disposition of Rights and Common Shares***

A disposition of a Right (including a disposition of a Right by the Subscription Agent on behalf of a Resident Holder that is a Non-Qualifying Holder) or Common Share by a Resident Holder (other than, in the case of a Common Share, a disposition to the Corporation and, in the case of a Right, a disposition pursuant to the exercise or expiry of a Right), will generally result in the Resident Holder realizing a capital gain (or a capital loss) to the extent that the proceeds of disposition received, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Resident Holder of the Right or Common Share, as the case may be, immediately before the disposition.

The tax treatment of capital gains and capital losses is discussed in greater detail below under “*Taxation of Capital Gains and Capital Losses*”.

### ***Taxation of Capital Gains and Capital Losses***

Generally, a taxable capital gain realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year and an allowable capital loss realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year (subject to and in accordance with rules contained in the Canadian Tax Act). Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Canadian Tax Act.

A Resident Holder that, throughout the relevant taxation year, is a “Canadian-controlled private corporation” (as defined in the Canadian Tax Act) may be liable to pay a refundable tax of 10% on its “aggregate investment income” (as defined in the Canadian Tax Act), including any taxable capital gains.

If the Resident Holder is a corporation, the amount of any capital loss otherwise realized on a disposition or deemed disposition of a Common Share may be reduced by the amount of dividends received or deemed to have been received by it on such share (and, in certain circumstances a share exchanged for such share) to the extent and under the circumstances prescribed by the Canadian Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns such a share or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns any such share. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

### ***Non-Residents of Canada***

This portion of the summary is generally applicable to a Non-Resident Holder who, for purposes of the Canadian Tax Act and any applicable income tax treaty or convention and at all relevant times, is neither resident nor deemed to be resident in Canada and does not use or hold, and will not be deemed to use or hold, Rights or Common Shares in a business carried on in Canada.

Special considerations, which are not discussed in this summary, may apply to a Holder that is an insurer that carries on an insurance business in Canada and elsewhere. Such Holders should consult their own adviser.

Pursuant to the terms of this Rights Offering, a Non-Resident Holder that is a Non-Qualifying Holder will not be entitled to exercise Rights but will instead be entitled to proceeds (if any) received on the disposition of such Rights by the Subscription Agent.

### ***Receipt of Rights***

The issuance of Rights to a Non-Resident Holder will not be subject to Canadian withholding tax and generally no other tax will be payable under the Canadian Tax Act by a Non-Resident Holder in respect of the receipt of Rights.

### ***Exercise of Rights***

The exercise of Rights by a Non-Resident Holder will not constitute a disposition of Rights for purposes of the Canadian Tax Act and, consequently, no gain or loss will be realized by the Non-Resident Holder upon the exercise of the Rights.

### ***Expiry of Rights***

A Non-Resident Holder will not be subject to tax under the Canadian Tax Act in respect of the expiry or termination of an unexercised Right.

### ***Disposition of Rights and Common Shares***

A Non-Resident Holder will generally not be subject to tax under the Canadian Tax Act in respect of any capital gain, and will not be able to deduct the allowable portion of any capital loss, realized on a disposition of Rights (including a disposition of a Right by the Subscription Agent on behalf of a Non-Resident Holder that is a Non-Qualifying Holder) or Common Shares unless the Rights and/or Common Shares disposed of constitute “taxable Canadian property” of the Non-Resident Holder and, in respect of any capital gain, the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention.

Provided the Common Shares are listed on a designated stock exchange (which includes the TSXV), Rights and Common Shares will generally not constitute taxable Canadian property of a Non-Resident Holder at any particular time unless at any time during the 60-month period immediately preceding such particular time: (a) 25% or more of the issued shares of any class or series of the capital stock of the Corporation were owned by one or any combination of (i) the Non-Resident Holder, (ii) persons not dealing at arm's length with the Non-Resident Holder, or (iii) partnerships in which the Non-Resident Holder or a person not dealing at arm's length with the Non-Resident Holder held a membership interest directly or indirectly through one or more partnerships; and (b) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, Canadian resource properties, timber resource properties or an option in respect of, an interest in, or for civil law a right in, any such property.

Notwithstanding the foregoing, in certain circumstances Rights and/or Common Shares could be taxable Canadian property by virtue of deeming rules in the Canadian Tax Act. Where Rights and/or Common Shares constitute “taxable Canadian property” of a Non-Resident Holder and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention, a capital gain (or a capital loss) realized on the disposition or deemed disposition of Rights and/or Common Shares will generally be subject to the same Canadian federal income tax consequences discussed above applicable to a Resident Holder under “*Residents of Canada – Taxation of Capital Gains and Capital Losses*”.

## **ELIGIBILITY FOR INVESTMENT**

In the opinion of Stikeman Elliott LLP, counsel to the Corporation, the Rights and Common Shares, if issued on the date hereof, would be as of the date hereof, Registered Plans, provided that the Rights and the Common Shares are listed on a designated stock exchange as defined in the Canadian Tax Act (which includes the TSXV).

Notwithstanding that Rights and Common Shares may be qualified investments for a trust governed by a RRSP, RRIF or a TFSA, the annuitant under a RRSP or RRIF or the holder of a TFSA may be subject to a penalty tax if such Rights and/or Common Shares are a “prohibited investment” for the RRSP, RRIF or TFSA for purposes of the Canadian Tax Act. Rights and Common Shares will generally not, as of the date hereof, be a “prohibited investment” for trusts governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Corporation for purposes of the Canadian Tax Act, or (ii) has a “significant interest” (as defined in the Canadian Tax Act) in the Corporation.

**Holders should consult their own tax advisors regarding their particular circumstances.**

## DESCRIPTION OF SECURITIES BEING DISTRIBUTED

### Rights

Sterling will distribute an aggregate of 441,572,956 Rights pursuant to this short form prospectus. Such Rights will entitle the holders thereof to acquire an aggregate of 14,277,525,577 Common Shares at the Subscription Price. See “*Details of the Rights Offering*” for a description of the material attributes and characteristics of the Rights.

### Common Shares

Sterling is authorized to issue an unlimited number of Common Shares. Common Shares have attached to them the following rights, privileges, restrictions, and conditions: (i) except for meetings at which only holders of another specified class or series of shares of the Corporation are entitled to vote separately as a class or series, each holder of a Common Share is entitled to receive notice of, to attend, and to vote at all meetings of Shareholders; (ii) subject to the rights, privileges, restrictions, and conditions attached to any preferred shares, the Shareholders are entitled to receive dividends if, and when, declared by the directors of the Corporation; and (iii) subject to the rights, privileges, restrictions, and conditions attached to any other class of shares of the Corporation, the Shareholders are entitled to share equally in the remaining property of the Corporation upon liquidation, dissolution, or winding-up of the Corporation.

### PRICE RANGE AND TRADING VOLUME

The Common Shares are listed and trade on the TSXV under the symbol “SLG”. The following table sets forth the price ranges and volume traded of the Common Shares for the periods specified.

	High (C\$)	Low (C\$)	Volume
<b>2015</b>			
March	0.21	0.125	3,101,150
April	0.20	0.15	9,327,291
May	0.19	0.155	5,366,811
June	0.19	0.17	1,302,715
July	0.19	0.14	1,124,857
August	0.15	0.05	2,054,706
September	0.085	0.055	907,629
October	0.10	0.06	829,262
November	0.08	0.04	1,180,945
December	0.045	0.025	2,991,435
<b>2016</b>			
January	0.04	0.03	2,999,864
February	0.045	0.03	3,160,808
March	0.04	0.015	14,826,060
April (1 to 19)	0.02	0.015	6,719,138

On April 19, 2016, the closing price of the Common Shares on the TSXV was \$0.015.

### CONSOLIDATED CAPITALIZATION

The following table sets forth the unaudited consolidated share and loan capitalization of Sterling as at December 31, 2015 and on a *pro forma* basis as at December 31, 2015 after giving effect to the Recapitalization, as if the Recapitalization had occurred on December 31, 2015. This table should be read in conjunction with the Annual Financial Statements.

Designation	Authorized	As at December 31, 2015	As at December 31, 2015 after giving effect to the Recapitalization <sup>(3)(4)(5)</sup>
Bonds	U.S.\$225,000,000	U.S.\$180,000,000 <sup>(1)(2)</sup>	U.S.\$40,000,000 <sup>(6)</sup>
New Loan Agreement	-	-	- <sup>(7)</sup>
Common Shares	Unlimited	\$427,440,000 (441,572,956 Common Shares)	\$646,885,000 <sup>(6)</sup> (14,719,098,533 Common Shares)

**Notes:**

- (1) U.S. \$180 million is the principal amount outstanding on the Bonds as at December 31, 2015 and will be outstanding at the Closing Date. The full Bond Liabilities, which are U.S.\$214,130,000 as of the Closing Date and comprise U.S.\$180,000,000 of principal, U.S.\$13,500,000 of Bond redemption premium (being 7.5% of principal), U.S.\$6,000,000 of unpaid amendment fees (arising pursuant to the Amendment and Restatement Agreement No. 3 because full redemption of the Bond had not occurred by February 29, 2015) and U.S.\$14,630,000 of accrued but unpaid interest (being 14% interest from October 30, 2015 through to the Closing Date). The foregoing presumes a Closing Date of May 27, 2016.
- (2) This amount is not directly comparable with the Bond debt as shown in the Annual Financial Statements, which was calculated using the effective interest rate (“EIR”) method under IFRS. Using this method, after initial recognition, interest-bearing loans and borrowing are subsequently measured at amortized cost which is calculated by taking into account any discount or premium on acquisition and fees or costs integral to the EIR. Long-term debt transaction costs, which may include but are not limited to bank fees, legal costs and time-writing, are capitalized at inception and are amortized over the life of the loan using the EIR method.
- (3) Assumes the exercise of all Rights (assuming no Non-Qualifying Holders). However, insofar as a number of Common Shares equivalent to the number of unsubscribed Common Shares pursuant to the Rights Offering will be acquired by Bondholders pursuant to the Bond Exchange and all net proceeds of the Rights Offering will be used by Sterling solely to fund the redemption of the Bonds by SRUK, the reduction in the aggregate principal amount of the Bonds and the aggregate number of Common Shares issued pursuant to the Rights Offering and the Bond Exchange will be substantially the same regardless of the number of Rights that are exercised.
- (4) The aggregate gross proceeds to be received by the Corporation from the Rights Offering are estimated to be up to approximately \$219,845,339 million (U.S. \$174,121,130 million) and the expenses associated with the Rights Offering are estimated to be \$400,000 (U.S. \$316,807), assuming the exercise of all Rights (assuming no Non-Qualifying Holders), and assuming that the exchange rate applicable to the gross proceeds to be received by the Corporation from the Rights Offering, on the Business Day immediately following the Expiry Date is the same as the exchange rate applicable as of the date of this short form prospectus, which is U.S. \$1.00 = \$1.2626. The aggregate gross proceeds will be used solely to satisfy the Purchased Liabilities and for no other purpose.
- (5) The Corporation anticipates proposing a consolidation of the then outstanding Common Shares on a ratio to be determined by the board of directors of the Corporation following completion of the Recapitalization and which is expected to be put before the Shareholders for their consideration at the meeting of the Shareholders following completion of the Recapitalization called to approve the Control Person Resolution. See “Recapitalization – Shareholder and Bondholder Approvals Required in Connection with the Recapitalization – Shareholder Approval”. The actual ratio for the proposed Common Share consolidation will be determined by the board of directors of the Corporation upon completion of the Recapitalization. As the ratio for the proposed Common Share consolidation is not yet known, no *pro forma* calculation of the number of Common Shares outstanding following the proposed Common Share consolidation has been included in the table.
- (6) If any or all Rights are exercised (assuming no Non-Qualifying Holders), assumes that there is no delay in the Closing Date from that anticipated on the date hereof and that the exchange rate applicable to the gross proceeds to be received by the Corporation from the Rights Offering, on the Business Day immediately following the Expiry Date is the same as the exchange rate applicable as of the date of this short form prospectus, which is U.S. \$1.00 = \$1.2626. If no Rights are exercised, assumes that there is no delay in the Closing Date from that anticipated on the date hereof.
- (7) Pursuant to the New Loan Agreement, two tranches of U.S. \$20 million each will be made available by the Lenders on a revolving, multi-currency basis. Assumes no drawdown immediately after the Closing Date. The second tranche is only capable of being utilized if the first tranche of U.S. \$20 million is fully drawn, and then only to fund certain capital expenditures. See “Recapitalization – The Recapitalization – New Loan Agreement”.

### USE OF PROCEEDS

The aggregate net proceeds to be received by the Corporation from the Rights Offering are estimated to be approximately \$219,445,339 million, after deducting the estimated expenses of the Rights Offering of \$400,000 (which expenses will include, without limitation, Subscription Agent, legal and accounting fees), assuming the

exercise of all Rights (assuming no Non-Qualifying Holders). As a result, the entirety of the gross proceeds to be received by the Corporation from the Rights Offering, after such funds are converted to U.S. dollars by the Subscription Agent at the exchange rate applicable on the business day immediately following the Expiry Date, which rate will be based on the prevailing market rate on the date the funds are converted, less the Foreign Exchange Adjustment (as defined in the Recapitalization Agreement), if any (the “**Rights Offering Proceeds**”) will be used solely to satisfy the Purchased Liabilities and for no other purpose. An amount equal to the Foreign Exchange Adjustment (if any) will be retained within the general funds of the Corporation, and all expenses related to the Rights Offering, including without limitation Subscription Agent, legal and accounting fees, will be paid from the general funds of the Corporation.

The Corporation and SRUK will direct the Subscription Agent to deliver the Rights Offering Proceeds to an account in the name of SRUK held with DNB Bank ASA by wire transfer to be received on or before 9:00 a.m. Central European Time on the 4th business day following the Expiry Date, and by such time SRUK shall have provided DNB Bank ASA with irrevocable instructions to transfer the Rights Offering Proceeds to the Norwegian Registrar at 9:00 a.m. Central European Time on such date (the Rights Offering Proceeds being held by the Norwegian Registrar to the order of SRUK pursuant to an existing paying agent agreement between SRUK and the Norwegian Registrar).

Provided that the Rights Offering Proceeds have been transferred to the Norwegian Registrar as set out above, and subject to the receipt of an irrevocable deed of waiver in respect of the Bond Exchange, SRUK and the Bond Trustee shall on the Closing Date irrevocably instruct the Norwegian Registrar to distribute the Rights Offering Proceeds to release or cancel (as applicable) the Bond Liabilities as follows, and the following actions shall be taken:

- (a) the Bond Trustee shall release or cancel (as applicable) the Purchased Liabilities by way of a unilateral deed of waiver to be signed by the Bond Trustee on behalf of each of the Relevant Bondholders;
- (b) the Purchased Liabilities will be selected *pro rata* by the Bond Trustee from each Relevant Bondholder based on the amount of Bond Liabilities owed to each Relevant Bondholder on the Expiry Date relative to the entire aggregate amount of Bond Liabilities then outstanding; and
- (c) as soon as reasonably practicable thereafter, the Norwegian Registrar shall confirm to SRUK that the Purchased Bond Liabilities have been cancelled.

For a description of the Corporation’s consolidated share and loan capitalization as at December 31, 2015, both before and after giving effect to the Recapitalization and based on various assumptions, see “*Consolidated Capitalization*”.

#### **PLAN OF DISTRIBUTION**

There is no managing or soliciting dealer for the Rights Offering and no fee of any kind will be paid by the Corporation for the solicitation of the exercise of Rights. No underwriter or agent has been involved in the preparation of this short form prospectus or performed any review of the contents of this short form prospectus.

The Rights issuable to Shareholders are anticipated to be mailed to Qualifying Shareholders of record as at the close of business on the Record Date on or about April 28, 2016. The Rights issuable to Shareholders of record as at the close of business on the Record Date who are Non-Qualifying Holders shall be delivered to the Subscription Agent and dealt with as described elsewhere herein. See “*Details of the Rights Offering – Non-Qualifying Holders and Eligible Foreign Investors*”.

On the Closing Date, Sterling shall issue to the Relevant Bondholders, in their capacity as such, their *pro rata* share of any Exchange Shares and the Relevant Bondholders will receive the Exchange Shares in accordance with the Recapitalization Agreement. See “*Details of the Rights Offering – Bond Exchange*”.

Sterling has applied to the TSXV for approval of the listing of the Rights, the Rights Offering Shares and the Exchange Shares, which listing may therefore be subject to Sterling fulfilling any requirements imposed by the TSXV.

**There is currently no market through which the Rights or Exchange Shares may be sold and holders may not be able to resell such securities. This may affect the pricing of such securities in the secondary market, the transparency and availability of trading prices, the liquidity of such securities and the extent of issuer regulation. See “Risk Factors - There is currently no active trading market for the Rights or the Exchange Shares”.**

**The Rights, Rights Offering Shares and the Exchange Shares have not been and will not be registered under the 1933 Act, or under the securities laws of any state of the United States, and, subject to certain exceptions, may not be offered or sold within the United States, or to or for the account or benefit of a person in the United States or a U.S. person. Further, the Rights may not be exercised in the United States, or for the account or benefit of a person in the United States or a U.S. person, absent an exemption from federal and state registration requirements. “United States” and “U.S. person” are as defined in Regulation S under the 1933 Act.**

#### **INTENTION OF INSIDERS TO EXERCISE RIGHTS**

After reasonable inquiry, the Corporation is uncertain as to the number of Rights that will be exercised by insiders of the Corporation under the Rights Offering. A small number of insiders have indicated they are considering the exercise of their Rights under the Rights Offering; however, it is uncertain whether such insiders will do so, and no commitments to exercise their respective Rights have yet been made.

#### **DESCRIPTION OF SHARE CAPITAL**

The authorized share capital of the Corporation consists of an unlimited number of Common Shares without par value. The holders of Common Shares are entitled to one vote per share at meetings of Shareholders, to receive dividends as declared by the Corporation and to receive the Corporation’s remaining property and assets upon dissolution or winding up. The Common Shares are not subject to any future call or assessment and there are no preemptive, conversion or redemption rights attached to such shares. As of the date of this short form prospectus, there are 441,572,956 Common Shares issued and outstanding.

#### **STATEMENT AS TO RESALE RESTRICTIONS**

None of the Rights, the Rights Offering Shares or the Exchange Shares have been or will be registered under the 1933 Act or any state securities laws, and such securities may not be offered or sold within the United States or any of its territories or possessions except pursuant to an exemption from the registration requirements of the 1933 Act and any applicable state securities laws. The Corporation may accept a subscription in certain limited circumstances from a person or agent in the United States if the Corporation determines that such offering to and subscription by such person or agent is lawful and in compliance with applicable U.S. federal and state securities laws. This short form prospectus may not be sent or delivered to Shareholders in the United States other than in limited circumstances, if any, as determined by the Corporation in its sole discretion.

Any Rights Offering Shares issued to Accredited Rights Holders in the United States and Exchange Shares issued to persons in the United States that are U.S. persons or that are acting for the account or benefit of U.S. persons or persons in the United States will be restricted securities within the meaning of Rule 144 and may not be offered, sold, pledge or otherwise transferred, directly or indirectly, except pursuant to exemptions from the registration requirements of the 1933 Act and any applicable securities laws of any state of the United States or in a transaction outside of the United States in accordance with Regulation S under the 1933 Act, and the Rights Offering Shares issued to such Accredited Rights Holders will be certificated and will bear a U.S. legend to such effect.

The foregoing is a summary only and is not intended to be exhaustive. Holders of Rights or Rights Offering Shares and Exchange Shares that are U.S. persons should consult with their advisors concerning restrictions on resale, and



should not resell their Rights or the Rights Offering Shares until they have determined that any such resale is in compliance with the requirements of applicable legislation.

## **RISK FACTORS**

**An investment in the securities offered hereunder is speculative and involves a high degree of risk, including due to the current conditions in the industry in which the Corporation operates and its current financial condition.** A prospective purchaser of such securities should carefully consider the information and risks faced by the Corporation described in this short form prospectus and the documents incorporated by reference herein, including without limitation, the risk factors set out under the heading “Risks Factors” in the AIF and in the Annual MD&A. Such risks may not be the only risks facing Sterling. Additional risks not currently known may also negatively impact Sterling’s business operations and results of operations. In addition to such risk factors, investors should consider the following additional risks related to the Recapitalization:

### **Risks Relating to the Recapitalization**

#### *Potential Effect of the Recapitalization*

There can be no assurance as to the effect of the Recapitalization on Sterling’s relationships with its suppliers, customers, purchasers, manufacturers or contractors. To the extent that the Recapitalization results in the tightening of payment or credit terms, increases in the price of supplied goods, or the loss of a major supplier, customer, purchaser, manufacturer or contractor, or of multiple other suppliers, customers, purchasers, manufacturers or contractors, this could have a material adverse effect on the Sterling Group’s business, financial condition, liquidity and results of operations.

#### *The Recapitalization May Not Improve the Financial Condition of Sterling’s Business*

Management believes that the Recapitalization will enhance Sterling’s liquidity and provide it with continued operating flexibility. However, such belief is based on certain assumptions, including, without limitation, that Sterling’s consolidated sales and relationships with suppliers, customers and competitors will not be materially adversely affected while the Recapitalization is underway and that they will be stable or will improve following the completion of the Recapitalization in the increasingly competitive marketplace in which Sterling operates, that general economic conditions and the United Kingdom gas price will not deteriorate significantly further (to the extent protection is not available via any gas price hedging that may be put in place), as well as Sterling’s continued ability to manage costs. Should any of those assumptions prove false, the financial position of Sterling may be materially adversely affected and Sterling may not be able to pay its debts as they become due.

As at December 31, 2015, the Corporation had US\$10.9 million of cash and cash equivalents and US\$1.3 million of restricted cash, and had near term debt obligations of US\$3.3 million of accrued interest and US\$189.6 million as the current portion of the long term Bond debt.

After giving effect to the Recapitalization, the Corporation is expected to have a broadly similar level of cash (assuming no unexpected material changes in revenue or costs, and if no material expenditures on hedging premium) and will have no near term debt service obligations (as there is no near term interest payable in cash or repayments relating to the Remaining Bonds, and no immediate need to draw on the Super Senior Facility) and will have access to up to US\$40 million of additional funding from the Super Senior Facility.

The capital and equity market conditions for companies engaged in the oil and gas business have been depressed in recent months and there can be no assurance as to whether or when a recovery will occur. Such conditions have negatively affected the value of the Corporation’s assets and its ability to raise capital. There can be no assurance that the Corporation will be able to meet its ongoing obligations through asset sales or new financings. The Corporation’s level of indebtedness will also have the effect of limiting the Corporation’s ability to obtain additional financing and increasing its vulnerability to general adverse economic and industry conditions, including changes in interest rates.

### ***Dependence on Additional Financing and Potential for Insolvency or Winding-Up***

The Corporation has experienced losses in the past and may incur additional losses in the foreseeable future. The business of the Corporation is capital intensive and, in light of anticipated negative free cash flow from operations, will require continuing sources of outside financing to fund additional investments, working capital needs, capital expenditures and other cash requirements.

Although not expected, there can be no assurance that the Corporation will be able to meet its debt service obligations and covenants under any other financing arrangements that it currently has or may be able to secure, including the New Loan Agreement. If the Corporation is unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments or if it otherwise fails to comply with the various covenants in its indebtedness, it would be in default under the terms thereof, which would permit the holders of such indebtedness to accelerate the maturity of the indebtedness. The Corporation's ability to meet its obligations will depend on its future performance, which will be subject to prevailing economic conditions and to financial, business and other factors, including factors beyond the Corporation's control.

If the Corporation is unable to meet such obligations, or to complete the Rights Offering and other activities pursuant to the Recapitalization, there is a significant risk that it will become insolvent or bankrupt or resolve to wind-up or liquidate or be ordered wound-up or liquidated. The Common Shares do not constitute indebtedness and are equity capital of the Corporation, which rank junior to all indebtedness and non-equity claims in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound-up, the Corporation's assets would be made available to satisfy the obligations of the creditors under its financing arrangements, including the New Loan Agreement, whether those obligations are secured or unsecured, before being available for distribution to the holders of its Common Shares. Accordingly, all or a substantial portion of the Corporation's assets could be unavailable for distribution to its Shareholders.

### ***SRUK's Production Licenses May be Revoked***

The UK production licences held by SRUK provide that, following a change of control of a licensee, the Minister is entitled to serve a notice on the licensee stating that the Minister proposes to revoke the licence unless there is a further change of control of the licensee. If such further change of control does not occur within a specified period, the Minister is then entitled to revoke the licence. It is possible that the Minister could seek to exercise its powers to require a further change of control following the Recapitalization. As a result, the Corporation and SRUK covenanted to use commercially reasonable efforts to obtain the OGA Letter as soon as reasonably practicable confirming that the Secretary of State does not intend to either seek a further change of control or revoke any licenses upon completion of the Recapitalization. The Bond Trustee covenanted to use commercially reasonable efforts to obtain or assist the Corporation and SRUK to obtain the OGA Letter in connection with the Recapitalization.

There is no assurance that the Minister will issue an OGA Letter or regard itself as being bound by any such OGA Letter, if issued. Furthermore, obtaining the OGA Letter may require the cooperation of, and disclosure of information by, certain Bondholders. If this cooperation and disclosure is not forthcoming it could prevent the OGA Letter from being obtained. Finally, the form of OGA Letter, if not substantially as already agreed by the Bond Trustee, the Corporation and SRUK, must be acceptable to each of SRUK and the Bond Trustee, acting reasonably. As such, it is also possible that an OGA Letter is issued that is unacceptable in form and substance.

### ***Potential Change of Control Implications***

It is possible that certain counterparties to one or more agreements with any member of the Sterling Group may seek to use the Recapitalization as a basis to assert certain rights against the Corporation or SRUK, including based on change of control arguments, to terminate or seek monetary compensation or penalties against the Corporation or SRUK. The Corporation and SRUK do not know whether any such assertions will be advanced, and if so, in relation to which contracts and in what manner; though the Corporation and SRUK are of the view that no such assertions are supportable based upon the provisions of the applicable contracts and the anticipated impact of the Recapitalization.

In any event, the Corporation and SRUK cannot currently quantify the financial impact, if any, of the loss of any benefits under any such contracts in the event that any such assertion is successful.

## **Risks Relating to the Common Shares**

### ***Volatility of Market Price of Common Shares***

There can be no assurance about the trading price of the Common Shares and the market price of the Common Shares may be volatile. The volatility may affect the ability of holders to sell the Rights and/or Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to Sterling's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Sterling or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Forward-Looking Information*".

### ***Sales of a Significant Number of Common Shares in the Public Markets, or the Perception of Such Sales, Could Depress the Market Price of the Common Shares and the Rights***

Sales of a significant number of Common Shares or other equity-related securities in the public markets by Sterling or by Sterling's significant Shareholders could depress the market price of the Common Shares or the Rights. In addition, with any sale or issuance of equity securities by Sterling (including upon exercise of the Rights), investors will suffer dilution of their voting power and Sterling may experience dilution in its earnings per share. Sterling cannot predict the effect that future sales of Common Shares or other equity-related securities would have on the market price of the Common Shares or the Rights. The price of the Common Shares and the Rights could be affected by possible sales of Common Shares or by hedging or arbitrage trading activity.

## **Risks Relating to the Rights Offering**

### ***There is Currently No Active Trading Market for the Rights***

There is currently no public market for the Rights and there can be no assurance that a public market for such securities will ever develop. Although Sterling intends to list the Rights on the TSXV, if an active trading market does not develop on such exchange, it could have an adverse effect on the market price of, and a security holder's ability to sell, the Rights.

### ***Shareholders May Suffer Significant Dilution***

If a Shareholder does not exercise its Rights for Common Shares pursuant to the Basic Subscription Privilege, or if a Shareholder sells or transfers its Rights, the Shareholder's current ownership percentage may be significantly diluted by the issuance of Common Shares pursuant to the exercise of Rights by other holders of such Rights and/or the issuance of the Exchange Shares.

If a Shareholder wishes to minimize the dilution which shall result from the Recapitalization, the Shareholder should fully exercise the Rights issued to that Shareholder to subscribe for and purchase Common Shares. If a holder elects not to exercise the Rights issued to that holder, or elects to sell or transfer those Rights, the dilution of the holder's current percentage ownership in the Corporation will be increased, potentially very significantly, including (where not all of the Rights issued hereunder have been exercised) by virtue of the subsequent issue by the Corporation of the Exchange Shares.

Regardless of whether or not the Shareholder exercises all or any of its Rights, given that the Relevant Bondholders will, indirectly, release or cancel (as applicable) their Exchanged Bond Liabilities for Exchange Shares equal in number to the number of unsubscribed Common Shares under the Rights Offering pursuant to the Bond Exchange, unless a significant number of Shareholders exercise their Rights in full, the Bondholders will own a large majority of the Common Shares following the completion of the Recapitalization. It is anticipated, for instance, that if none of the Rights are exercised to acquire Common Shares pursuant to the Rights Offering, that the Bondholders would

following the Recapitalization own 97% of the Common Shares, with Shareholders who were entitled to participate in the Rights Offering owning the remaining 3% of the Common Shares in an aggregate.

### ***Subscription of Common Shares Pursuant to a Right***

Once a subscriber exercises its Rights, it may not revoke the exercise. The public trading market price of Sterling's Common Shares may decline before the subscriber converts its Rights. If a subscriber exercises its Rights and, afterwards, the public trading market price of the Common Shares decreases below the Subscription Price, the subscriber will be unable to profitably convert its Rights.

### ***Termination of Rights Offering***

Sterling may decide not to continue with the Rights Offering or to terminate the Rights Offering in certain circumstances, including upon the termination of the Recapitalization Agreement. This decision could be based on many factors including the failure to satisfy one or more of the conditions set forth in the Recapitalization Agreement. Sterling currently has no intention to terminate the Rights Offering, but is reserving the right to do so. If Sterling cancels or terminates the Rights Offering, neither Sterling nor the Subscription Agent will have any obligation with respect to the Rights except to return, without interest, any payments to the Subscription Agent received from a subscriber.

### ***Exercise of Rights***

Rightsholders pursuant to the Rights Offering must act promptly to ensure that all required forms and payments are actually received by the Subscription Agent before the Expiry Date, unless extended. Beneficial owners of Rights must act promptly to ensure that its broker, custodian bank or other nominee acts for it and that all required forms and payments are actually received by the subscription agent before the Expiry Date of the Rights Offering. Sterling will not be responsible if a holder's broker, custodian or nominee fails to ensure that all required forms and payments are actually received by the Subscription Agent before the Expiry Time. If a Rightsholder fails to complete and sign the subscription forms, send an incorrect payment amount or otherwise fail to follow the subscription procedures that apply to its exercise in the Rights Offering, the Subscription Agent may, depending on the circumstances, reject its subscription or accept it only to the extent of the payment received. Neither Sterling nor the Subscription Agent undertakes to contact a subscriber concerning an incomplete or incorrect subscription form or payment, nor is Sterling under any obligation to correct such forms or payment. Sterling has the sole discretion to determine whether a subscription exercise properly follows the subscription procedures.

## **PRIOR SALES**

The Corporation has not issued any Common Shares or securities convertible or exchangeable into Common Shares in the 12 month period prior to the date of this short form prospectus except for:

- (a) an aggregate of 60,372,876 Common Shares issued to Gemini on August 26, 2015 at a deemed price of \$0.157 per Common Share as partial consideration for the termination of an investment agreement with Gemini; and
- (b) an aggregate of 12,395,000 Options granted on August 24, 2015 to participants in the Corporation's stock option plan at an exercise price of \$0.07 per Common Share.

## **INTERESTS OF EXPERTS**

Certain legal matters in connection with the distribution of the Rights, Rights Offering Shares and the Exchange Shares qualified by this short form prospectus will be passed upon on behalf of the Corporation by Stikeman Elliott LLP. At the date hereof, partners and associates of such firm as a group beneficially owned, directly or indirectly, less than 1% of the outstanding Common Shares.

The auditor of the Corporation is Deloitte LLP. Deloitte LLP is independent within the meaning of the Rules of Professional Conduct of the Canadian Professional Accountants of Alberta.

Reserve estimates contained in certain documents incorporated by reference in this short form prospectus have been audited in reports prepared by RPS. As at the date hereof, to the knowledge of Sterling, neither RPS nor its officers beneficially own, directly or indirectly, any of the Common Shares.

The Fairness Opinion attached as Schedule "A" to this short form prospectus and described herein has been prepared by FirstEnergy. As at the date hereof, to the knowledge of Sterling, neither FirstEnergy nor its officers beneficially own, directly or indirectly, any of the Common Shares.

#### **TRANSFER AGENT AND REGISTRAR**

Computershare Trust Company of Canada at its principal offices in Calgary and Toronto is the registrar and transfer agent of the Common Shares and the Rights.

#### **STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

In an offering of rights, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the prospectus is limited, in certain provincial securities legislation, to the price at which the right is offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon exercise of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal advisor.

**SCHEDULE "A"**  
**FAIRNESS OPINION**



March 9, 2016

The Board of Directors of  
Sterling Resources Ltd.  
1450, 736 - 6th Avenue S.W.  
Calgary, Alberta T2P 3T7

To the Board of Directors of Sterling Resources Ltd.:

We understand that Sterling Resources Ltd. ("Sterling") has entered into an arrangement agreement (the "Arrangement Agreement") with Sterling's bond holders ("Bond Holders") pursuant to which Bond Holders will swap approximately US\$173mm in bonds for common shares of Sterling ("Sterling Shares").

***FirstEnergy's Engagement***

Sterling formally retained FirstEnergy Capital LLP ("FirstEnergy") pursuant to an engagement agreement dated January 25, 2016 to provide the board of directors of Sterling (the "Board") with FirstEnergy's opinion ("Opinion") as to the fairness, from a financial point of view, to Sterling shareholders of the terms of the Arrangement Agreement (the "Engagement"). In consideration for our services, including this Opinion, FirstEnergy is to be paid a fee upon delivery of this Opinion. In addition, FirstEnergy is to be indemnified by Sterling under certain circumstances. We have not been engaged to prepare, and have not prepared, a valuation or appraisal of Sterling's assets or liabilities and the Opinion should not be construed as such.

***Credentials of FirstEnergy***

FirstEnergy is a registered investment dealer focusing on Canadian and international companies participating in oil and gas exploration, production and services, energy transportation, electricity generation and energy technologies. FirstEnergy is one of the leading investment banking firms providing corporate finance, mergers and acquisitions, oil and gas property acquisition and divestiture services, equity sales, research and trading services to companies active in or investing in the energy industry. This Opinion expressed herein is the opinion of FirstEnergy and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture, valuation, and fairness opinion matters.

***Independence of FirstEnergy***

None of FirstEnergy, its affiliates or associates, is an insider, associate or affiliate (as those terms are defined in the *Securities Act (Alberta)*), or a related entity of Sterling or any Bond Holders or any of their respective associates or affiliates. FirstEnergy is not acting as an advisor to Sterling or Bond Holders or any of their respective associates or affiliates in connection with any other matter, other than acting as financial advisor to Sterling as outlined herein.



FirstEnergy acts as a trader and dealer, both as principal and agent, in all major financial markets in Canada and London and, as such, may have had, may have today or in the future may have positions in the securities of Sterling, and from time to time, may have executed or may execute transactions on behalf of Sterling, the Bond Holders or clients for which it received or may receive compensation. In addition, as an investment dealer, FirstEnergy conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on issues and investment matters, including with respect to Sterling.

FirstEnergy may in the future, in the ordinary course of business, perform financial advisory or investment banking related services for Sterling, the Bond Holders or their successors. FirstEnergy does not believe that any of these relationships affect FirstEnergy's independence with respect to this Opinion.

***Scope of Review***

In connection with rendering this Opinion, we have reviewed and relied upon, or carried out, among other things, the following:

- a) the Indicative Term Sheet dated 19 January, 2016;
- b) the Indicative Term Sheet dated 4 March, 2016;
- c) the intended recapitalization agreement as of 8 March, 2016;
- d) Sterling's unaudited financial statements and MD&A for the quarters ended September 30, 2015, 30 June 2015 and March 31, 2015;
- e) Sterling's audited financial statements and MD&A for the years ended December 31, 2014 and December 31, 2013;
- f) Sterling's Annual Information Form for the fiscal year ended December 31, 2014 dated March 25, 2015;
- g) Sterling's independent reserve report for Breagh effective June 30, 2015, prepared by RPS Energy;
- h) certain internal financial information, financial and operational projections of Sterling as provided by Sterling management;
- i) selected relevant reports published by equity research analysts and industry sources regarding Sterling and other comparable companies;
- j) due diligence responses provided by senior management of Sterling Resources;
- k) data with respect to other transactions of a comparable nature considered by FirstEnergy to be relevant; and
- l) other information, analyses and investigations as FirstEnergy considered appropriate in the circumstances.





We have not, to the best of our knowledge, been denied access by Sterling to any information requested by us.

This Opinion has been prepared in accordance with the Disclosure Standards for Fairness Opinions of the Investment Industry Regulatory Organization of Canada but that organization was not involved in the preparation of the Opinion.

***Assumptions and Limitations***

We have relied upon, and have assumed the completeness, accuracy and fair representation of all financial and other information, data, advice, opinions and representations obtained by us from public sources, including information relating to Sterling, or provided to us by Sterling and their affiliates or advisors or otherwise pursuant to our Engagement and this Opinion is conditional upon such completeness, accuracy and fairness. Subject to the exercise of professional judgement and except as expressly described herein, we have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. Senior officers of Sterling have represented to us, in a certificate delivered as at the date hereof, amongst other things, that the historical and current information, data, opinions and other materials (the "Information") provided to us on behalf of Sterling are, to the best of their knowledge and taken as a whole, complete and correct at the date the Information was prepared and that since the date of the Information, there has been no material change, financial or otherwise, in the position of Sterling, or in its assets, liabilities (contingent or otherwise), business or operations and there has been no change in any material fact which is of a nature as to render the Information, taken as a whole, untrue or misleading in any material respect.

This Opinion is rendered on the basis of securities markets, economic and general business and financial conditions prevailing as at the date hereof, and the condition and prospects, financial and otherwise, of Sterling as they were reflected in the information and documents reviewed by us and as they were represented to us in our discussions with management of Sterling. In addition, we considered the financial condition of as it is reflected in the information and documents reviewed by us. In rendering this Opinion, we have assumed that there are no undisclosed material facts relating to Sterling and/or their businesses, operations or capital. Any changes therein may affect this Opinion and, although we reserve the right to change or withdraw our Opinion in such event, we disclaim any obligation to advise any person of any change that may come to our attention or to update this Opinion after the date hereof.

In our analyses and in connection with the preparation of this Opinion, we made numerous assumptions which we believe to be reasonable with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Arrangement. We have also assumed that all of the representations and warranties contained in the Arrangement Agreement are correct as of the date hereof in all material reports and that the Arrangement will be completed substantially in accordance with its terms and all applicable laws.

We believe that the analyses and factors considered in arriving at our Opinion must be considered as a whole and are not necessarily amenable to partial analysis or summary description. Selecting portions of the analyses and the factors we considered, without considering all factors and analyses together, could



create a misleading view of the process underlying this Opinion that we employed and the conclusions we reached in this Opinion.

We are not legal, tax or accounting experts and we express no opinion concerning any legal, tax or accounting matters concerning the Arrangement or the sufficiency of this letter for your purposes.

**Conclusion**

Based upon and subject to the foregoing, it is our opinion that the terms of the Arrangement Agreement are fair, from a financial point of view, to the Sterling shareholders.

This Opinion may be relied upon by the Board for the purposes of considering the Arrangement Agreement and its recommendation to Sterling shareholders with respect thereto, but may not be used or relied upon by any other person without our express prior written consent, except as otherwise provided herein.

Yours very truly,

*FirstEnergy Capital LLP*  
**FirstEnergy Capital LLP**

**CERTIFICATE OF THE ISSUER**

Dated: April 20, 2016

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada (excluding Québec).

**STERLING RESOURCES LTD.**

By: (Signed) "*Jacob S. Ulrich*"  
Chief Executive Officer

By: (Signed) "*David Blewden*"  
Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS**

By: (Signed) "*James H. Coleman*"  
Director

By: (Signed) "*Robert B. Carter*"  
Director