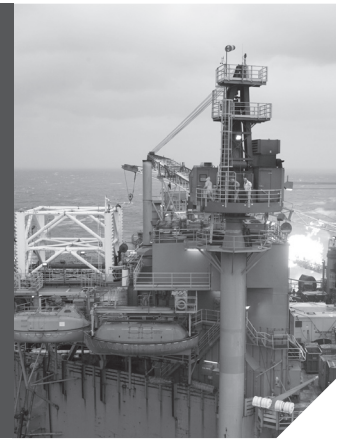


STERLING RESOURCES LTD.

2008 Third Quarter Report



For the nine months ended September 30, 2008

Message to Shareholders

Setting aside the recent developments in the financial sector, Sterling has undoubtedly had its most successful period as operations progressed through the third quarter and into the fourth quarter of 2008. Our two main discoveries (the Breagh and Doina areas) have been progressing with successful appraisal drilling. We were pleased to recently announce that the exploratory well at Cladhan in the Northern North Sea has yielded an oil find.

As with other companies, our focus on the use of future capital has resulted in the delay of certain exploration activity previously planned for 2008, such as the Midia SE well offshore Romania and the Airidh well in the Southern North Sea. Our strategy has always been to acquire assets at maximum working interest, farm down the first well but retain a healthy working interest in the success case to enable further farm down or part sale to partially fund our resulting development commitments as necessary. In the current market, this strategy remains valid and, given the quality of our Breagh and Doina assets, we are confident it can be brought to a logical conclusion as both projects are appraised.

Our last funding, which closed in August (\$27-million net to Sterling) enabled the continuation of our 2008 planned drilling campaign which to date has resulted in:

- Drilling the Doina-4 well, offshore Romania, which established the presence of gas in the northern part of this sizeable structure;
- Drilling of the Ana-2 well (formerly Doina Sister) which confirmed the extension of the excellent reservoir, previously discovered by Ana-1 earlier this year, and confirmed the potential for a larger structure;
- Drilling and testing of the East Breagh well which continues to point to Breagh being one of the most significant recent discoveries in the Southern North Sea;
- Continuation of the appraisal program with West Breagh where operations started in early November, designed to test the rate potential of high angle wells; and
- Recent drilling of the Cladhan exploration well in the Northern North Sea where the presence of a reservoir and hydrocarbons has been confirmed.

In addition to the above, the Company has reached agreement to increase its working interest in the Craiova concession onshore Romania to 100% then immediately farm down to 50% in exchange for a three well carry in a drilling and testing program to evaluate the shallow gas play in the Goshawk area.

Onshore UK, approval was recently received for the development of the small Avington oilfield in which we have a minor interest. In addition, the operator of the Kirkleatham gas discovery continues gas sales negotiations to enable the start of production in 2009.

On November 13, 2008, we announced our success in the recent UK Offshore 25th Licencing Round. The two blocks awarded to Sterling as operator with a 60-percent working interest are Blocks 42/10 and 42/15 and are located to the east of Breagh, immediately adjacent to our existing 42/9 and 42/14 blocks. The two blocks were our top pick in the recent Licencing Round and contain older wells which have tested gas, at significant rates, from three different reservoirs. We see these discoveries as a natural addition to the greater Breagh area which, with the recent success at East Breagh, continues to gain momentum as we work towards the newly developing infrastructure.

The current market environment has created a high level of uncertainty in global markets and is presently challenging to all publicly traded entities including Sterling. Management and your Board of Directors continue to diligently seek out new and innovative forms of capital acquisition in order to fund Sterling's development plans beyond 2008. We wish to thank our employees, contractors, suppliers and most importantly our shareholders for their perseverance during these difficult and challenging times. We remain committed to creating long-term value for our shareholders in spite of current circumstances.

On Behalf of the Board of Directors,

(Signed)

"Stewart G. Gibson"
Chief Executive Officer and Director
November 18, 2008

Management's Discussion and Analysis of Operations and Financial Condition

This management's discussion and analysis of operations and financial condition (MD&A) of Sterling Resources Ltd. (Sterling or the Company) is dated November 18, 2008 and should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto for the three and nine months ended September 30, 2008 and audited consolidated financial statements and accompanying notes for the year ended December 31, 2007.

Our interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2007 except as discussed below under "New Accounting Policies". All financial amounts are expressed in Canadian dollars, except as otherwise indicated.

FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS

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

These statements are only predictions. Actual events or results may differ materially. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources, which sources are not endorsed or adopted by us expressly or impliedly.

Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will prove inaccurate, certain of which are beyond the Company's control, including: the impact of general economic conditions in the areas in which the Company operates, civil unrest, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities. In addition there are risks and uncertainties associated with oil and gas operations. Readers should also carefully consider the matters discussed under the heading "Risk Factors" in the Company's Annual Information Form beginning on page nine.

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

- use of proceeds from financing activities;
- capital expenditure programs, including the success or otherwise, of exploration and appraisal activities;
- commodity prices;
- factors upon which we will decide whether or not to undertake a specific course of action;
- expectations regarding our ability to raise capital or bank debt;
- the sale, farming in, farming out or development of certain exploration properties using third party resources;
- the use of development activity and acquisitions to replace and add to reserves;
- drilling plans;
- our tax horizon;

- oil and natural gas production levels and the quantity of reserves;
- supply and demand for oil and natural gas;
- the performance and characteristics of our oil and natural gas properties;
- our corporate strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the impact of governmental regulation on us relative to other oil and gas issuers of similar size;
- the emergence of accretive growth opportunities;
- realization of the anticipated benefits of acquisitions and dispositions;
- our ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; and
- treatment under government taxation regimes.

In addition, readers are directed to the disclosure contained under the heading Future Plans in this MD&A setting forth management's expectations with respect to the remainder of 2008.

With respect to forward-looking statements in this MD&A, we have made assumptions regarding, among other things that the Company:

- operates in an environment of increasing competition;
- is able to obtain additional financing or farm out additional interests on satisfactory terms;
- is able to obtain necessary approvals from partners for a particular course of action; and
- is able to continue to attract and retain qualified personnel.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, levels of activity, performance, or achievements. Moreover, we do not assume responsibility for the accuracy and completeness of the forward-looking statements.

The Company's actual results and future plans could differ materially from those anticipated in similar forward-looking statements in this MD&A as a result of the risks described above. These statements speak only as of the date of the MD&A. The Company does not intend and does not assume any obligation to update these forward looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statement.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

The business risks for the Company have not changed materially from the disclosure in our MD&A and Annual Information Form for the year ended December 31, 2007, although the probability of certain of these risks may have increased due to current uncertainty in world financial markets.

OVERVIEW AND CORPORATE STRATEGY

We are an international energy company with our corporate head office located in Calgary, Canada, and our operations headquartered in Banchory, near Aberdeen, Scotland. We also maintain an office in Bucharest, Romania.

We are engaged in the exploration for, and development of crude oil and natural gas in selected areas of the world outside Canada.

Our strategy for achieving growth is to source and initiate international projects with the potential for large, low-cost reserves. We concentrate on accumulating, exploring and exploiting licenses and prospects in selected core areas of the world so that we can take advantage of existing infrastructure and economies of scale from joint-development

projects. Our strategy also targets blocks with high initial working interests where possible and we manage financial exposure and technical risk by obtaining partner participation through farm-out and other arrangements. Under such a strategy a portion of our interest is given up in exchange for the partner paying a share of certain of our costs of drilling a well or other programs. Our current activities are focused in the UK and Romania.

DISCUSSION OF FINANCIAL RESULTS AND OPERATIONS

OVERVIEW

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
\$ except share and per share information				
Oil and gas revenues, net of royalties	–	–	–	–
Interest	380,340	178,861	915,060	563,513
Expenses	(614,023)	776,681	966,501	2,296,490
Net income (loss)	994,363	(597,820)	(51,441)	(1,732,977)
– per common share – basic and diluted	0.01	(0.01)	(0.00)	(0.02)
Net working capital	52,160,017	11,452,566	52,160,017	11,452,566
Petroleum and natural gas properties and equipment additions	29,273,700	5,836,177	40,921,748	9,077,197
Dispositions of interests in properties	–	–	(2,240,687)	–
Total assets	170,957,456	73,432,815	170,957,456	73,432,815
Share capital	156,757,153	76,433,602	156,757,153	76,433,602
Common shares outstanding – basic and diluted	130,941,472	95,533,634	130,941,472	95,533,634

For the three months ended September 30, 2008, we recorded net income of \$994,363 (\$0.01 per share – basic and diluted) compared with a loss of \$597,820 (\$0.01 per share – basic and diluted) for the three months ended September 30, 2007. The net income for the quarter improved over the loss for the same quarter of the prior year mainly due to foreign exchange gains and increased interest income as a result of the average higher cash balances in the third quarter of 2008.

For the nine months ended September 30, 2008, we recorded a net loss of \$51,441 (\$0.00 per share – basic and diluted) compared with a net loss of \$1,732,977 (\$0.02 per share – basic and diluted) for the nine months ended September 30, 2007. The loss for the nine month period also decreased over the same period of the prior year due to foreign exchange and increased interest income as a result of the average higher cash balances in the third quarter of 2008.

GENERAL AND ADMINISTRATIVE EXPENSES

The following is a summary of our general and administrative expense for the periods indicated:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	(\$)	(\$)	(\$)	(\$)
Gross general and administrative expenses	970,870	704,975	3,881,505	2,486,721
Recoveries from partners	(320,478)	(48,075)	(956,292)	(212,964)
Charged to capital projects	(251,599)	(274,617)	(1,165,036)	(1,065,273)
	398,793	382,283	1,760,177	1,208,484

Gross general and administrative expenses before recoveries and charges to capital projects for the three months ended September 30, 2008 increased over the same period in the prior year due primarily to increased employee and related office costs arising from increased activity following the Breagh and Doina discoveries in late 2007. Amounts recovered from partners and charged internally to capital projects similarly increased for these reasons.

For the nine months ended September 30, 2008, gross general and administrative expenses, recoveries from partners and amounts capitalized internally increased for the same reasons noted above as well as management and employee incentive payments recorded in the first quarter.

STOCK BASED COMPENSATION

Non-cash stock based compensation expense of \$241,275 and \$602,404, respectively, for the three and nine month periods ended September 30, 2008 has decreased over the prior year expense of \$245,587 and \$720,890 for the quarter and year to date, respectively. Certain older options are now fully expensed and newer options issued in 2007 and 2008 are lower-cost due to lower volatility in our share price at the time the options were issued.

During the nine month period ended September 30, 2008 a total of 2,610,000 options were granted by the Board of Directors to directors, officers, employees and consultants at an average price of \$2.55 per share pursuant to the Company's stock option plan. Related stock based compensation was estimated using the Black-Scholes method based on the following assumptions:

	2008
Risk-free interest rate	3.2%
Expected hold period to exercise	3.5 Years
Volatility in the price of the Company's shares	49.0%
Dividend yield	0%

FOREIGN EXCHANGE GAINS

The Company has no derivative financial instruments. In order to minimize exposure to foreign exchange fluctuations, non-cash working capital is held only in foreign currencies where it is required for operating activities, and cash is converted into foreign currencies for known or anticipated expenditures within the near term. Foreign currency gains and losses are due to translation into Canadian dollars of monetary assets and liabilities held in foreign currencies, primarily UK Pounds, US Dollars and Romanian Lei.

Foreign exchange gains of \$1,304,277 and \$1,567,401 respectively for the three and nine months ended September 30, 2008, have resulted primarily from the impact of weakening of the Canadian dollar against the US dollar and UK Pound on the translation of foreign currency balances held in escrow accounts into Canadian dollars.

For the corresponding three and nine month periods in 2007 losses of \$112,058 and \$267,352 respectively were recorded on translation of monetary working capital held in UK Pounds, US dollars and Romanian Lei into Canadian dollars.

REVENUE

There are no operating revenues at the present time.

Interest income earned on investment of surplus funds was \$380,340 for the three months ended September 30, 2008 and \$915,060 for the nine months then ended. Interest earned for the corresponding periods in 2007 was \$178,861 and \$563,513, respectively. The increases over the prior year periods are due mainly to higher average cash balances, following the three equity issues completed during the nine months ended September 30, 2008.

INCOME TAXES

The Company does not recognize the tax benefit of losses incurred at this time as the Company has no current production and there is no assurance that the tax benefit will be realized. As at September 30, 2008 the Company has non-capital losses of approximately \$4.1-million available, but subject to expiry over the next twenty years, to reduce future Canadian taxable income, and approximately \$3.1-million of subsidiary UK tax losses which are not subject to expiry. Approximately \$0.4-million of Canadian non-capital loss carry-forwards expire at the end of 2008 if unused.

PETROLEUM AND NATURAL GAS PROPERTY ACTIVITIES AND CAPITAL EXPENDITURES

As at September 30, 2008 and December 31, 2007 the Company's interests in petroleum licenses and contracts were as follows:

	September 30, 2008			December 31, 2007		
	Acres		Capitalized	Acres		Capitalized
	Gross	Net	Costs	Gross	Net	Costs
			(\$)			(\$)
United Kingdom	1,349,243	987,631	53,524,245	1,347,143	989,607	35,912,029
Romania	2,645,000	2,027,000	41,964,353	2,645,000	2,027,000	21,455,178
France	125,280	41,872	2,309,963	151,969	50,792	651,980
Total	4,119,523	3,056,503	97,798,561	4,144,112	3,067,399	58,019,187

CAPITAL EXPENDITURES

During the nine months ended September 30, 2008 capital expenditures on oil and gas properties totalled \$40,921,748 of which \$2,240,687 were funded by third parties in exchange for rights to payments equal to a share of gross production from the Doina trend offshore Romania.

In the UK, expenditures totalling \$16,935,549 included the following major items:

- The drilling of the East Breagh 42/13-4 well in the UK Southern North Sea. This well tested gas at controlled rates of up to 10.2 million standard cubic feet per day (MMscf/d) from the primary zone, and at rates up to 1.6 MMscf/d from a secondary zone;
- Preliminary geological, geophysical, and engineering costs and license fees on Block 42/19;
- License fees, seismic and site survey costs on Blocks 42/8, 42/9, 42/13 and 42/14; and
- Costs relating to the evaluation of Blocks for the UK 25th Offshore Licensing Round.

In France, expenditures totalling \$1,603,319 related to the drilling of the Grenade-3 well on the St. Laurent block. The well failed to encounter hydrocarbons and has been suspended pending further analysis.

In Romania, expenditures totalling \$22,382,880 related mainly to the testing of the Ana-1 (formerly known as Doina Sister) discovery made in late 2007 as well as the drilling costs of the Doina-4 and Ana-2 appraisal wells in the third quarter of 2008.

During the nine months ended September 30, 2007 capital expenditures on oil and gas properties totalled \$9,077,197. Major items on UK offshore blocks included the drilling of the Constance well on Block 21/23a, the purchase of long-lead items for the planned Breagh well on UK offshore Block 42/13, ongoing studies related to the Sheryl discovery on Block 21/23a and licensing fees and seismic costs on Block 42/19, 42/20 and 42/24.

In Romania, major expenditures related to geological and geophysical studies on prospective drilling sites and farm-out activity on both our onshore and offshore properties.

FINANCING, LIQUIDITY AND SOLVENCY

On January 11, 2008 we completed a non-brokered private placement with Royal Bank Project Investment Limited, a subsidiary of The Royal Bank of Scotland, of 7,109,900 common shares at a subscription price of \$2.00 per share. The net proceeds of \$14,178,966 from the issue are to be used primarily towards financing the Company's 2008 appraisal well drilling program.

On March 13, 2008 we completed a bought deal financing of 14,000,000 common shares at \$2.50 per share with a syndicate of underwriters. In addition an option to purchase an additional 2,000,000 shares at \$2.50 was granted to the underwriters and was exercised in full on March 25, 2008. The total gross proceeds from the initial issue and the underwriter's option were \$40,000,000. After underwriter's commissions and expenses of the issue, net proceeds were \$37,387,831, which will be used primarily towards financing the Company's 2008 appraisal well drilling program.

On August 6, 2008 we completed a bought deal financing of 11,274,600 units at a price of \$2.55 per unit, including an underwriter's over allotment option which was exercised in full at closing. Each unit was comprised of one common share of the Company and one-half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$3.25 until 4.30pm EST on August 6, 2009. In addition, the Company has the right to accelerate the exercise of the warrants if the closing price of the Company's shares on the TSX Venture Exchange is at least \$4.00 for any period of not less than 15 consecutive trading days at any time after December 7, 2008. The net proceeds of the issue after expenses and underwriter's commissions were approximately \$27,150,000 of which \$1,409,325 has been assigned to the value of the warrants based on a Black-Scholes calculation. The proceeds will be used primarily towards financing the Company's 2008 appraisal well drilling program.

As at September 30, 2008 our net working capital was \$52,160,017 compared with \$10,858,095 at December 31, 2007. Cash and cash equivalents totalled \$69,601,530 and is comprised only of bank balances or term deposits with banks. Of the total, \$25,415,193 is restricted cash in escrow accounts, which is available only for settlement of expenditures relating to the currently drilling exploration well on Block 210/29a in the UK Northern North Sea and the Breagh drilling program on Block 42/13 in the UK Southern North Sea.

Excluding funds held in escrow, our net working capital at September 30, 2008 was \$26,744,824. This has largely been committed for the testing of the successful East Breagh 42/13-4 well, and the drilling and testing of the West Breagh 42/13-5 well which began operations in early November, as well as smaller seismic programs and contingent cost overruns in the UK drilling program. The significant increase in accounts payable at September 30, 2008 compared to December 31, 2007 relates largely to the East Breagh 42/13-4 well which was drilling over quarter end.

The current climate of the world financial markets is expected to largely preclude the raising of further equity in the near future, and we believe that raising debt financing will also be difficult. We have therefore deferred the Airidh and Midia SE exploration wells until 2009 and this should free up sufficient funding to continue operations through the balance of 2008 and into early 2009. However, we will face significant additional expenditures for long-lead items shortly thereafter if we continue our current plans for start-up of production from Breagh in 2010 and Doina in 2011. Other options we are currently considering include farming-out an additional interest in Breagh or Doina in return for cash and a commitment to fund our share of expenditures and dispositions of non-core assets. If these initiatives are unsuccessful, we could delay the development plans for either or both of Breagh and Doina until market conditions improve.

There were 130,941,472 common shares and 6,693,330 stock options outstanding as at September 30, 2008. At November 18, 2008 there were 130,941,472 common shares and 6,616,663 stock options outstanding. An additional 3,061,668 common shares were reserved for stock options at September 30, 2008 and 3,138,335 at November 18, 2008.

ASSET RETIREMENT OBLIGATIONS

The following is a continuity of asset retirement obligations for the nine months ended September 30, 2008:

	(\$)
Balance, January 1	1,249,585
Additions	791,142
Revisions to estimates	(240,184)
Accretion	92,837
Balance, September 30	1,893,380

Additions relate to the Doina-4 and Ana-2 wells offshore Romania, the East Breagh 42/13-4 well in the UK Southern North Sea and the Grenade-3 well onshore France. Revisions to estimates relate largely to extensions to expected field lives as a result of the 2008 drilling program.

FUTURE PLANS

For the remainder of 2008, we remain focused on our plans as identified in our MD&A for the year ended December 31, 2007 except for the deferral of the drilling of the Midia SE exploration well offshore Romania, the Airidh exploration

well on Block 42/19, and the shallow gas prospects onshore Romania which have been delayed in to 2009. Remaining elements of this program to be completed in the fourth quarter include the following:

- Complete the testing of the East Breagh exploration well as well as the drilling and testing of the West Breagh appraisal well;
- Complete the drilling of the Cladhan exploration well on Block 210/29a in the UK Northern North Sea;
- Continue geological and geophysical work to evaluate our licenses, including the six new licenses awarded in the UK Offshore 24th Licensing Round, and the many other prospects and leads that exist on them. This work will focus on offshore UK and offshore and onshore Romania;
- Continue our strategy of farming out a portion of our licenses in order to reduce costs; and
- Commence preparation of applications for Plan of Development Approvals for Breagh and Doina.

These plans may depend on partner approval, and are subject to the business risks and uncertainties described under “Forward-looking statements and business risks” in this document.

NEW ACCOUNTING POLICIES

The CICA has issued several new accounting standards which became effective January 1, 2008:

Section 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The new requirements are effective for interim and annual financial statements.

Section 1535, Capital Disclosures, requires disclosure of (a) an entity’s objectives, policies and processes for managing capital; (b) data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such non-compliance.

Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation, replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation and revise and enhance financial instruments disclosure requirements and leave unchanged its presentation requirements. These two standards incorporate revisions and enhancements to the existing disclosure requirements of Section 3861 and incorporate existing presentation requirements, placing increased emphasis on discussion of risks inherent in the use of financial instruments and how the Company manages such risk.

The adoption of Section 1400 did not have an impact on the Company’s financial statements. The impact of adopting Sections 1535, 3862 and 3863 is disclosed in note 1 to the unaudited interim consolidated financial statements.

The CICA Accounting Standards Board (AcSB) has adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are to converge with International Financial Reporting Standards (IFRS) by the end of 2011.

The Company continues to monitor and assess the convergence of Canadian GAAP and IFRS, and has prepared a preliminary plan for conversion within the time frame permitted. The key impact on the Company’s financial statements will be that under present IFRS standards there is no equivalent of the full cost method of accounting for petroleum and natural gas properties permitted under Canadian GAAP, and currently followed by the Company. Restatement of the financials to reflect this may be substantial. In addition, implementation of IFRS may require changes to the basis on which the Company translates assets and liabilities denominated in foreign currencies.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. Significant estimates in the financial statements include assessments of the fair value of petroleum and natural gas properties and equipment as well as amounts recorded for the provision for future asset retirement obligations, stock based compensation expense and capital expenditure accruals. By their nature, these estimates are subject to measurement uncertainty and the effect on future consolidated financial statements from changes in such estimates could be significant.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management.

There have been no changes in internal controls during the period that have materially affected, or are reasonably likely to affect, the design of the Company's internal controls over financial reporting.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures and have concluded that they are adequate and effective to ensure accurate and complete disclosure.

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

SELECTED QUARTERLY INFORMATION

The following is a summary of selected unaudited quarterly consolidated financial information for the eight most recently completed quarters. This table indicates that our financial results are not affected by seasonal considerations.

Three months ended	2008			2007
	Sept. 30	June 30	March 31	Dec. 31
	(\$)	(\$)	(\$)	(\$)
Expenses				
General and administrative	398,793	859,528	501,856	547,390
Foreign exchange (gain) loss	(1,304,277)	200,482	(463,606)	(540,566)
Stock based compensation	241,275	204,788	156,341	185,361
Accretion	29,248	31,793	31,796	13,904
Depreciation	20,938	25,674	31,872	16,992
	(614,023)	1,322,265	258,259	223,081
Interest	380,340	320,565	214,155	140,299
Net income (loss) and comprehensive income (loss)	994,363	(1,001,700)	(44,104)	(82,782)
Net income (loss) per common share – basic and diluted	0.01	(0.01)	(0.00)	(0.00)

Three months ended	2007			2006
	Sept. 30	June 30	March 31	Dec. 31
	(\$)	(\$)	(\$)	(\$)
Expenses				
General and administrative	382,283	476,963	349,238	322,154
Foreign exchange loss (gain)	112,058	111,664	43,630	(234,097)
Stock based compensation	245,587	273,673	201,630	122,201
Accretion	15,282	11,872	10,705	14,667
Depreciation	21,471	17,212	23,222	20,331
	776,681	891,384	628,425	245,256
Interest	178,861	175,939	208,713	317,283
Net (loss) income and comprehensive (loss) income	(597,820)	(715,445)	(419,712)	72,027
Net (loss) income per common share – basic and diluted	(0.01)	(0.01)	(0.00)	0.00

Consolidated Balance Sheets

	September 30 2008	December 31 2007
Unaudited	(\$)	(\$)
ASSETS		
Current		
Cash and cash equivalents [note 2]	44,186,337	10,308,364
Restricted cash [note 2]	25,415,193	5,617,260
Accounts receivable	3,252,465	6,845,525
Prepaid expenses	49,092	70,467
	72,903,087	22,841,616
Property, Plant and equipment		
Petroleum and natural gas properties and equipment	97,798,561	58,019,187
Furniture and fixtures	255,808	172,784
	98,054,369	58,191,971
	170,957,456	81,033,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	20,743,070	11,983,521
Asset retirement obligations [note 3]	1,893,380	1,249,585
Commitments [note 4]		
Shareholders' equity		
Share capital [note 5]	156,757,153	76,900,308
Contributed surplus [note 6]	3,146,271	2,431,150
Deficit	(11,582,418)	(11,530,977)
	148,321,006	67,800,481
	170,957,456	81,033,587

See accompanying notes

Consolidated Statements of Operations and Deficit

Unaudited	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	(\$)	(\$)	(\$)	(\$)
EXPENSES				
General and administrative	398,793	382,283	1,760,177	1,208,484
Foreign exchange (gain) loss	(1,304,277)	112,058	(1,567,401)	267,352
Stock based compensation [note 5]	241,275	245,587	602,404	720,890
Accretion [note 3]	29,248	15,282	92,837	37,859
Depreciation	20,938	21,471	78,484	61,905
	(614,023)	776,681	966,501	2,296,490
OTHER INCOME				
Interest	380,340	178,861	915,060	563,513
Net income (loss) and comprehensive income (loss) for the period	994,363	(597,820)	(51,441)	(1,732,977)
Deficit, beginning of period	(12,576,781)	(10,850,375)	(11,530,977)	(9,715,218)
Deficit, end of period	(11,582,418)	(11,448,195)	(11,582,418)	(11,448,195)
Net income (loss) per common share – basic and diluted [note 5]	0.01	(0.01)	(0.00)	(0.02)

See accompanying notes

Consolidated Statements of Cash Flow

Unaudited	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	(\$)	(\$)	(\$)	(\$)
OPERATING ACTIVITIES				
Net income (loss) for the period	994,363	(597,820)	(51,441)	(1,732,977)
Items not affecting cash used in operating activities				
Unrealized foreign exchange (gain) loss	(688,993)	113,668	(1,123,551)	180,163
Stock based compensation [note 5]	241,275	245,587	602,404	720,890
Accretion [note 3]	29,248	15,282	92,837	37,859
Depreciation	20,938	21,471	78,484	61,905
	596,831	(201,812)	(401,267)	(732,160)
Change in non-cash working capital	805	458,950	(192,674)	178,929
Cash provided by (used in) operating activities	597,636	257,138	(593,941)	(553,231)
INVESTING ACTIVITIES				
Increase in restricted cash	(17,159,438)	-	(19,797,933)	-
Petroleum and natural gas properties and equipment additions	(29,273,700)	(5,836,177)	(40,921,748)	(9,077,197)
Disposition of interests in properties	-	-	2,240,687	-
Furniture and fixtures additions	(34,851)	(2,436)	(161,508)	(15,079)
Change in non-cash working capital	16,448,640	3,863,564	14,099,574	1,680,888
Cash used in investing activities	(30,019,349)	(1,975,049)	(44,540,928)	(7,411,388)
FINANCING ACTIVITIES				
Issue of common shares, net of share issue costs	27,109,191	-	79,458,929	383,350
Cash provided by financing activities	27,109,191	-	79,458,929	383,350
Effect of translation on foreign currency cash	(347,127)	(173,148)	(446,087)	(239,643)
Increase (decrease) in cash and cash equivalents during the period	(2,659,649)	(1,891,059)	33,877,973	(7,820,912)
Cash and cash equivalents, beginning of period	46,845,986	17,872,008	10,308,364	23,801,861
Cash and cash equivalents, end of period	44,186,337	15,980,949	44,186,337	15,980,949

See accompanying notes

Selected Notes to Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2008

1. BASIS OF PRESENTATION AND NEW ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Sterling Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles and following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2007, except as noted below. The disclosures included below are incremental to those included with the annual consolidated financial statements. The unaudited interim consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2007.

The CICA has issued several new accounting standards which became effective January 1, 2008.

- CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements.

The adoption of this standard did not have an impact on the Company's financial statements.

- Section 1535, Capital Disclosures, requires disclosure of (a) an entity's objectives, policies and processes for managing capital; (b) data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such non-compliance.

The Company defines capital as debt and shareholders' equity, comprised of retained earnings and share capital. At present the Company does not carry any debt and its primary capital management objective is to maintain a strong balance sheet to give the financial flexibility to balance growth through exploration, appraisal and development as well as continued access to capital markets. Until such time as the Company generates cash flows from production its capital structure will remain primarily comprised of equity, although a limited amount of interim debt may be considered if market conditions are not conducive to raising equity. The Company currently manages its capital structure by adjusting capital spending, issuing new shares or by farming out interests in properties. At present the Company is entirely funded by equity and consequently does not maintain financial ratios to monitor and manage its capital structure.

- Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments, Presentation, replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation and revise and enhance financial instruments disclosure requirements and leave unchanged its presentation requirements. The objective of section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the Company is managing those risks. The purpose of section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows.

The fair market values of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable, approximate their carrying values. Financial instruments have been categorized as follows:

Cash and cash equivalents and restricted cash – held-for-trading;

Accounts receivable – loans and receivables; and

Accounts payable – other financial liabilities.

The Company is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to foreign exchange rate fluctuations and interest rate risk, as well as liquidity risk and credit risk.

- Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include foreign exchange rate and interest rate risks. Until such time as the Company commences production, it is not directly exposed to commodity price risk.

(A) FOREIGN EXCHANGE RATE RISK

The Company reports in Canadian dollars, and foreign exchange gains and losses can occur as a result of translating working capital and other monetary items denominated in UK Pounds, US dollars and Romanian Lei into Canadian dollars. In order to minimize exposure to foreign exchange fluctuations, non-cash working capital is only held in foreign currencies where it is required for operating activities and cash is converted into foreign currencies for known or anticipated expenditures within the near term. Based on net foreign currency monetary items at September 30, 2008, a one percent fluctuation in the US dollar, UK Pound or Romanian Lei against the Canadian dollar would impact net income by approximately \$55,000, \$240,000, and \$25,000 respectively.

(B) INTEREST RATE RISK

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows. From time to time the Company may have significant cash or cash equivalent balances invested at prevailing short-term interest rates. Accordingly cash flows are sensitive to changes in interest rates on these investments. Based on total cash, cash equivalents and restricted cash at September 30, 2008, a one percent change in average interest rates would increase or decrease net income by approximately \$695,000 over a full year.

- Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. At present the Company does not have any debt, and has sufficient cash to settle its accounts payable and meet its immediate commitments. However, the current climate of the world financial markets is expected to largely preclude the raising of further equity in the near future, and raising debt financing may also be difficult. This may require the Company to delay projects or dispose of assets or parts thereof in order to continue operations.
- Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Company's accounts receivable are primarily with joint venture partners in the oil and gas industry and are secured by the partner's interest in the underlying oil and gas properties. This risk is therefore not considered significant. As at September 30, 2008 approximately \$250,000 of outstanding receivables were overdue, but no provision has been made for impairment as all amounts have been subsequently collected or are adequately secured by partner's interests.

During the nine months ended September 30, 2008, the Company had no derivative financial instruments, and other financial instruments have been disclosed in accordance with the standards.

The CICA Accounting Standards Board (AcSB) has adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are to converge with International Financial Reporting Standards (IFRS) by the end of 2011.

The Company continues to monitor and assess the convergence of Canadian GAAP and IFRS, and has prepared a preliminary plan for conversion within the time frame permitted. The key impact on the Company's financial statements will be that under present IFRS standards there is no equivalent of the full cost method of accounting for petroleum and natural gas properties permitted under Canadian GAAP, and currently followed by the Company. Restatement of the financials to reflect this may have a substantial impact. In addition, implementation of IFRS will require changes to the basis on which the Company translates assets and liabilities denominated in foreign currencies.

2. CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

At September 30, 2008, cash and cash equivalents consisted of cash of \$11,675,789 (December 31, 2007 – \$8,108,364) and cash equivalents of \$32,510,548 (December 31, 2007 – \$2,200,000). Cash equivalents include term deposits of which \$30,500,000 (December 31, 2007 – \$2,200,000) have maturities of greater than 30 days. These deposits have cashable options and are therefore considered cash equivalents by management.

Restricted cash of \$25,415,193 at September 30, 2008 (December 31, 2007 – \$5,617,260) is comprised of cash in escrow accounts which is available only for settlement of expenditures relating to the drilling of the exploration or appraisal wells on Blocks 210/29a, or Block 42/13 in the UK North Sea.

The effective interest rate earned on cash, cash equivalents and restricted cash for the nine months ended September 30, 2008 was 2.6 percent (nine months ended September 30, 2007 – 4.0 percent).

3. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas exploratory and appraisal stage activity. The Company estimates the total undiscounted amounts of cash flows required to settle its asset retirement obligations to be approximately \$6,500,000 which will be incurred between 2010 and 2023. A credit adjusted risk-free interest rate of 10 percent and an inflation rate of 4 percent were used to calculate the net present value of asset retirement obligations at September 30, 2008.

The following is a continuity of asset retirement obligations for the nine months ended September 30, 2008:

	(\$)
Balance, January 1	1,249,585
Additions	791,142
Revisions to estimates	(240,184)
Accretion	92,837
Balance, September 30	1,893,380

4. COMMITMENTS

In addition to operating commitments disclosed in the consolidated financial statements for the year ended December 31, 2007, the Company has entered into a contract in order to secure an offshore drilling rig to complete its planned 2008 drilling operations in the UK Southern North Sea. The contract covers a multi-well program over a minimum period of 160 days.

At September 30, 2008, the East Breagh 42/13-4 well was in progress and upon completion the rig was moved to the West Breagh 42/13-5 location. The Cladhan well on Block 210-29a commenced on October 14, 2008 and reached final depth on 12th November. Total remaining committed expenditures for these three wells is approximately \$23-million in addition to the accrued expenditures of \$20.7-million and the \$25.5-million held in escrow accounts at September 30, 2008.

The Company's commitment to drill the Airidh well on UK offshore Block 42/19 has been deferred to 2009.

5. SHARE CAPITAL**(A) AUTHORIZED**

Unlimited common shares without nominal or par value.

(B) ISSUED AND OUTSTANDING

Common Shares	Number of Shares	Amount
		(\$)
Balance, December 31, 2007	95,766,968	76,900,308
Issued for cash		
– private placement issue	7,109,900	14,219,800
– public equity issues	27,274,600	67,340,905
– exercise of stock options	790,004	948,542
Share issue costs	–	(4,459,643)
Transferred from contributed surplus on exercise of options	–	397,916
Balance, September 30, 2008	130,941,472	155,347,828

Warrants	Number of Warrants	Amount
		(\$)
Balance, December 31, 2007	–	–
Issued for cash – public equity issue	5,637,300	1,409,325
Balance, September 30, 2008	5,637,300	1,409,325

On January 11, 2008 the Company completed a non-brokered private placement with Royal Bank Project Investment Limited, a subsidiary of The Royal Bank of Scotland, of 7,109,900 common shares at a subscription price of \$2.00 per share. The net proceeds of \$14,178,966 from the issue are to be used primarily towards financing the Company's 2008 appraisal well drilling program.

On March 13, 2008 the Company completed a bought deal financing of 14,000,000 common shares at \$2.50 per share with a syndicate of underwriters. In addition an option to purchase an additional 2,000,000 shares at \$2.50 was granted to the underwriters and was exercised in full on March 25, 2008. The total gross proceeds from the initial issue and the underwriter's option were \$40,000,000. After underwriter's commissions and expenses of the issue, net proceeds were \$37,387,831, which will be used primarily towards financing the Company's 2008 appraisal well drilling program.

On August 6, 2008 the Company completed a bought deal financing of 11,274,600 units at a price of \$2.55 per unit, including an underwriter's over allotment option which was exercised in full at closing. Each unit was comprised of one common share of the Company and one half-warrant. Each full warrant entitles the holder to purchase one common share at a price of \$3.25 until 4:30pm EST on August 6, 2009. In addition, the Company has the right to accelerate the exercise of the warrants if the closing price of the Company's shares on the TSX Venture Exchange is at least \$4.00 for any period of not less than 15 consecutive trading days at any time after December 7, 2008. The net proceeds of the issue after expenses and underwriter's commissions were approximately \$27,150,000 of which \$1,409,325 has been assigned to the value of the warrants based on a Black-Scholes calculation. The proceeds will be used primarily towards financing the Company's 2008 appraisal well drilling program.

(C) STOCK OPTIONS

The Company has established a stock option plan whereby it may grant options to its directors, officers, employees and consultants. On September 30, 2008 there were 10,000,000 common shares reserved for issuance under the plan. The exercise price of each option equals the market price of the Company's shares on the date of the grant. The option's maximum term is five years and must vest over a period of not less than 18 months. Stock options currently issued vest over the initial three years.

The following is a continuity of outstanding stock options for the nine months ended September 30, 2008:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, December 31, 2007	5,223,334	1.70
Granted during the period	2,610,000	2.55
Exercised during the period	(790,004)	1.20
Cancelled during the period	(154,999)	1.86
Expired during the period	(195,001)	1.44
Outstanding, September 30, 2008	6,693,330	2.09
Exercisable, September 30, 2008	2,471,670	1.80

The weighted average remaining contractual life of options outstanding at September 30, 2008 was 955 days.

For the three and nine months ended September 30, 2008, \$241,275 and \$602,404 respectively was recognized as stock based compensation expense in respect of stock options granted. A further \$227,943 and \$510,633 respectively was capitalized. For the same periods in 2007, \$245,587 and \$720,890 was recognized as stock based compensation expense and \$124,238 and \$356,378 was capitalized.

The Company uses the fair value method of accounting for all stock options granted to directors, officers, employees and consultants using the Black-Scholes option pricing model. For the options issued during the nine months ended September 30, 2008, the following assumptions were used:

	2008
Risk-free interest rate	3.2%
Expected hold period to exercise	3.5 Years
Volatility in the price of the Company's shares	49.0%
Dividend yield	0%

(D) WEIGHTED AVERAGE SHARES OUTSTANDING

The weighted average shares outstanding for the three and nine months ended September 30, 2008 were 126,239,329 and 116,940,395, respectively. For the three and nine months ended September 30, 2007 the weighted average shares outstanding were 95,533,634 and 94,906,685 respectively. The effect of all options outstanding would not be dilutive.

6. CONTRIBUTED SURPLUS

The following is a continuity of contributed surplus for the nine months ended September 30, 2008:

	(\$)
Balance, January 1	2,431,150
Stock based compensation expense for the period	602,404
Stock based compensation capitalized	510,633
Transferred to share capital on exercise of options	(397,916)
Balance, September 30	3,146,271

7. SEGMENTED DISCLOSURES

The Company's activities are conducted in one operating segment and four geographic segments: Corporate, the United Kingdom, Romania and other international locations which include operations in France.

Unaudited	Corporate	United Kingdom	Romania	Other Int'l	Total
For the three months ended September 30, 2008	(\$)	(\$)	(\$)	(\$)	(\$)
Net income	195,658	798,705	-	-	994,363
Petroleum and natural gas property additions	-	10,192,525	19,205,520	(124,345)	29,273,700
Total assets	34,452,669	87,050,177	47,143,386	2,311,224	170,957,456

For the three months ended September 30, 2007

Net loss	(197,108)	(400,712)	-	-	(597,820)
Petroleum and natural gas property additions	-	4,825,038	901,520	109,619	5,836,177
Total assets	13,839,800	36,348,634	22,805,744	438,637	73,432,815

Unaudited	Corporate	United Kingdom	Romania	Other Int'l	Total
For the nine months ended September 30, 2008	(\$)	(\$)	(\$)	(\$)	(\$)
Net (loss) income	(739,160)	687,719	-	-	(51,441)
Petroleum and natural gas property additions	-	16,935,549	22,382,880	1,603,319	40,921,748
Total assets	34,452,669	87,050,177	47,143,386	2,311,224	170,957,456

For the nine months ended September 30, 2007

Net loss	(804,149)	(928,828)	-	-	(1,732,977)
Petroleum and natural gas property additions	-	6,861,451	2,055,142	160,604	9,077,197
Total assets	13,839,800	36,348,634	22,805,744	438,637	73,432,815

Corporate Information

STERLING RESOURCES LTD.

DIRECTORS

WALTER DEBONI ^{(1) (5) (6)}
Chairman
Calgary, Canada

RAJ K. AGRAWAL ^{(1) (2) (5)}
Calgary, Canada

ROBERT B. CARTER ^{(3) (4) (5)}
Calgary, Canada

STEWART G. GIBSON
Aboyne, Scotland

TECK SOON KONG ⁽³⁾
London, England

GRAEME G. PHIPPS ^{(1) (3)}
Eton, England

- (1) Reserves Committee
- (2) Chairman Reserves Committee
- (3) Audit Committee
- (4) Chairman Audit Committee
- (5) Governance and Compensation Committee
- (6) Chairman Governance and Compensation Committee

OFFICERS

STEWART G. GIBSON
Chief Executive Officer

DAVID A. FINDLATER
Vice President Exploration

JOHN RAPACH
Vice President Operations

STEPHEN BIRRELL
Vice President Romanian Operations

IAN C. HORNBY-SMITH
Chief Financial Officer

SHERRY L. CREMER
Treasurer & Corporate Secretary

CORPORATE HEADQUARTERS

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BANKER

THE ROYAL BANK OF CANADA

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REGISTRAR & TRANSFER AGENT

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STOCK EXCHANGE LISTING

The TSX Venture
Stock Exchange Trading Symbol: **SLG**

STERLING RESOURCES (UK) LTD. (WHOLLY OWNED)

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Chairman
Calgary, Canada

STEWART G. GIBSON
Aboyne, Scotland

TECK SOON KONG
London, England

DAVID MILLER
London, England

OFFICERS

STEWART G. GIBSON
Managing Director &
Company Secretary

DAVID A. FINDLATER
Vice President Exploration &
Business Development

PATRICK WHITLEY
Vice President Exploration
(International)

JOHN RAPACH
Vice President Operations

STEPHEN BIRRELL
Vice President Romanian Operations

IAN C. HORNBY-SMITH
Vice President Finance

CHRISTINE SHINNIE
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SHERRY L. CREMER
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