



For the three and nine months ended September 30, 2009

Message to Shareholders

During the third quarter Sterling achieved a major milestone in its history with the sale of one third of the Company's 45 percent interest in the Breagh field and various interests in surrounding blocks, comprising the Greater Breagh Area in the UK North Sea. The sale to RWE Dea, a large German and UK based company, generated proceeds of CAD\$103 million for Sterling before costs of disposition and repurchase of related obligations. With the purchase of a portion of Sterling's interest and the interests of the minority partners, RWE Dea has assumed operatorship and holds a 70 percent interest in Greater Breagh. Sterling retains a 30 percent interest in Greater Breagh.

With the closing of this transaction and the receipt of the cash proceeds in late August, Sterling's strengthened balance sheet positions the Company to move forward with its exploration plans. Discussions have also progressed with the Royal Bank of Scotland to provide funding for the related development program at Breagh and Sterling is well positioned financially to move forward with all exploration and development plans for 2010.

DRILLING PLANS – ROMANIA

In November the first well of a three well program in the Craiova EIII-7 concession onshore Romania will spud. Our partner in this project, TransAtlantic Worldwide Romania SRL ("TransAtlantic") will earn a 50 percent interest by carrying the cost of these three wells. The wells are designed to establish the presence of shallow gas and favorable reservoir characteristics in multiple prospects within the expansive Neogene play.

Planning is also underway to drill an offshore exploration well during 2010 with the likely target being Ioana (formerly Midia South East) which is located just to the south and east of the established gas bearing Doina trend.

DRILLING PLANS – UK

In the UK North Sea two wells are currently planned for the Greater Breagh Area in Quad 42 in which Sterling holds a 30 percent interest. With drilling anticipated to start early in the second quarter of 2010, the Airidh and Macanta wells located to the south and east of the Breagh field respectively, will target the first potential satellite tiebacks to the developing Breagh infrastructure.

The Grian prospect in Quad 48 of the Southern North Sea is also planned to be drilled in 2010 in order to evaluate a Rotliegendes prospect located just to the west of the Hewett gas field. Sterling will operate the well which will be drilled to secure this prospect that was obtained in the 24th Licensing Round process. Prior to commencement of drilling, a partial farm-down of Sterling's working interest may be considered.

A follow up well to the Cladhan discovery in the Northern North Sea is also planned for early in the second quarter of 2010. This new well will be designed to provide additional information regarding the potential significant upside around the exciting discovery well which did not establish the full extent of the oil reservoir. The Cladhan program may involve an additional sidetrack well and testing, with this decision to be made following evaluation of the data from the new well. Sterling is the operator at Cladhan and holds a 39.9 percent working interest.

ROMANIAN UPDATE

Romania is currently in the midst of Presidential elections scheduled to take place November 22 (first round), which most likely will complete on December 6 (second round). In the interim the coalition government (Democratic Liberal Party – PDL and Social Democratic Party – PSD) fell on October 1 following the resignation of the Social Democratic Party. The interim government, comprising PDL members only, fell to a “No Confidence Vote” on October 13. As a result of these events, until a new government is in place, the existing government only has administrative powers.

According to local political commentators, it is expected that the government and its agencies will return to “normal business” at the beginning of 2010, after the Presidential elections, the appointment of a new Prime Minister by the newly elected President and the formation of a new government.

Sterling and our partners are hopeful that assignment approvals relating to the offshore licenses will be granted early next year, once the new government is in place. This is consistent with the positive tone of recent communication with the Romanian National Agency for Mineral Resources (ANRM), the agency that regulates the oil and gas industry in Romania.

While 2009 has been a frustrating year for Sterling in Romania, the recent approvals from ANRM to grant an assignment of interest on our onshore farm out deal and the related drilling approvals for this license are indicative of improving relations with the Romanian government.

This positive tone has been further reinforced by the recent decision of a Romanian administrative court to dismiss a petition by a former Romanian government official. The petition related to the annulment of the original government decision which approved Sterling’s “11th Amendment” to the offshore Petroleum Agreement. Had this petition been successful then the government would have then been in a situation where it would have had to re-start negotiations with Sterling to amend the Agreement. As a result of the dismissal of the case, the 11th Amendment remains a legitimate contract.

Sterling is looking forward to resuming operations on its offshore blocks in 2010 with the stabilization of the Romanian political situation and to progressing the development of the Ana and Doina fields and exploration of the high impact Iona prospect.

Sterling remains committed to the long-term creation of value for its shareholders, through the execution of a growth strategy accomplished by successful exploration. With a newly strengthened balance sheet, an extensive and attractive list of drilling prospects and an experienced and dedicated staff, Sterling is well positioned to successfully execute this strategy. We thank you as shareholders for your continued support.

On behalf of the Board of Directors,

[Signed]

“Stewart G. Gibson”
Chief Executive Officer

November 17, 2009

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 17, 2009 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes as at and for the three and nine months ended September 30, 2009 and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008. 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 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 these risks 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 for the year ended December 31, 2008 beginning on page 10.

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

- Capital expenditure programs, including the success or otherwise, of exploration and appraisal initiatives.
- 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.

- The impact of governmental regulation or change on us.
- Our corporate strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom.
- 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.
- Treatment under government royalty or taxation regimes.

In addition, readers are directed to the disclosure contained under the heading "Future Plans" on page 9 of this MD&A setting forth management's plans and expectations for the remainder of 2009 and moving into 2010.

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

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

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.

Our actual results and future plans could differ materially from those anticipated in the 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. We do not intend to, nor 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.

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 financial exposure and technical risk are managed by obtaining partner participation through farm-out and other arrangements. Under these arrangements, a portion of our interest is given up in exchange for the partner paying a share of our costs of exploration, appraisal or development of the license. Our current activities are focused in the UK and Romania.

The prevailing uncertainty in international financial markets continues to be a concern, and management is monitoring developments closely. There has been some improvement in recent months, but the situation could still affect our business in a number of different ways which could affect our strategy, the underlying value and risk profile of our assets, our ability to obtain additional financing through equity or debt markets, and ultimately our share price.

Discussion of Financial Results and Operations

Overview

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
\$ except share and per share information				
Oil and gas revenues, net of royalties	-	-	-	-
Gain on property disposition	72,103,206	-	72,103,206	-
Expenses	(2,344,327)	994,363	(5,167,635)	(51,441)
Income taxes	-	-	(137)	-
Net income (loss)	69,758,879	994,363	66,935,434	(51,441)
- per common share				
Basic	0.53	0.01	0.51	(0.00)
Diluted	0.53	0.01	0.51	(0.00)
Net working capital	81,096,315	52,160,017	81,096,315	52,160,017
Petroleum and natural gas properties and equipment additions	3,053,473	29,273,700	19,469,694	40,921,748
Dispositions of interests in properties	89,612,456	-	89,612,456	2,240,687
Total assets	235,942,336	170,957,456	235,942,336	170,957,456
Share capital	156,806,308	156,757,153	156,806,308	156,757,153
Common shares outstanding – basic	131,278,139	130,941,472	131,278,139	130,941,472

For the three months ended September 30, 2009, we recorded net income of \$69,758,879 (\$0.53 per share basic and diluted) compared with net income of \$994,363 (\$0.01 per share – basic and diluted) for the three months ended September 30, 2008. The significant increase in net income for the quarter over the same quarter of the prior year is due to the gain of \$72,103,206 recorded on the disposition of a 15 percent interest in the Breagh gas field, and varying interests in the surrounding blocks comprising the Greater Breagh Area in the UK Southern North Sea.

For the nine months ended September 30, 2009, we recorded net income of \$66,935,434 (per share \$0.51 basic and diluted) compared with a loss of \$51,441 (loss of \$0.00 per share – basic and diluted) for the nine months ended September 30, 2008. The net income for the nine months increased over the loss for the same period of the prior year for the same reasons as the increase in income for the quarter.

Gain on Property Disposition

On August 26, 2009 we announced the closing of the Breagh sales process for gross consideration of approximately \$103 million before costs, in exchange for a 15 percent working interest in the Breagh field and varying interests in the surrounding exploration blocks. Following the sale, we retained a 30 percent interest in the Breagh field and the surrounding blocks which comprise the greater Breagh area.

The net gain on disposition of \$72 million represents the excess of the purchase consideration of \$103 million over the carrying value of the assets disposed of (\$18 million), the costs of disposition (\$1 million) and the repurchase of the pro-rata share of the underlying encumbrance entitling a third party to a share of gross production from the Breagh field (\$12 million).

Under present UK tax law, the gain on the disposition is not subject to UK capital gains tax provided that equivalent proceeds are re-invested in eligible expenditures in the UK North Sea sector within a period of three years.

General and Administrative Expenses

The following is a summary of our general and administrative expense for the three and nine month periods:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Gross general and administrative expenses	1,931,344	970,870	4,612,199	3,881,505
Recoveries from partners	(43,668)	(320,478)	(438,427)	(956,292)
Charged to capital projects	(480,199)	(251,599)	(1,231,591)	(1,165,036)
	1,407,477	398,793	2,942,181	1,760,177

Gross general and administrative expenses before recoveries and charges to capital projects for the nine months ended September 30, 2009 have increased over the prior year mainly due to increased professional fees related to environmental, health and safety systems, farm-out activity, increased costs of the reserves audit for 2008 and to general inflation.

Gross general and administrative expenses for the three months ended September 30, 2009 have increased over the same quarter in the prior year due to the reasons referred to above, and to management incentive payments for 2009 which were deferred until the completion of the Breagh disposition whereas in 2008, they were made in the first quarter.

Recoveries from partners have also decreased for the three and nine months ended September 30, 2009 due to lower operational activity in 2009 following the completion of the Breagh and Doina appraisal drilling programs. Internal overhead capitalized, however, has increased largely due to activity being focused on the Breagh disposition.

Stock-based Compensation

Non-cash stock based compensation expense of \$318,404 and \$817,287 for the three and nine month periods ended September 30, 2009 respectively, has increased over the expense for the same periods in the prior year of \$241,275 and \$602,404 respectively, due to the issue of 2,825,000 new options under the Company's stock option plan during the second quarter of 2009. These options were issued at \$1.42 per share, and related stock based compensation expense was estimated using the Black-Scholes method based on the following assumptions:

	2009
Risk-free interest rate	1.96%
Expected hold period to exercise	3.5 years
Volatility in the price of the Company's shares	105.7%
Dividend yield	0%

In addition to the amount expensed, for the three and nine months ended September 30, 2009, a further \$268,687 and \$680,620 respectively (2008 – \$227,943 and \$510,633 respectively) of stock based compensation has been capitalized on a basis consistent with the capitalization of salaries and related benefits.

Foreign Exchange Gains

We have 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

exchange gains and losses are mainly due to translation of monetary assets and liabilities held in foreign currencies, primarily UK Pounds, US Dollars and Romanian Lei into Canadian dollars. As at September 30, 2009 foreign currency denominated net working capital included: US Dollars – 64.1 million, UK Pounds – 3.9 million and Romanian Lei – 1.9 million.

Foreign exchange gains of \$384,234 and \$450,361 for the three and nine months ended September 30, 2009 respectively (three and nine months ended September 30, 2008 – gains of \$1,304,277 and \$1,567,401 respectively), have resulted primarily from the impact of temporary weakening of the Canadian dollar against the US dollar and UK Pound on the translation of foreign currency monetary items into Canadian dollars.

Financing Expenses

The following is a summary of our financing expenses (income) for the periods:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Interest income	(41,378)	(380,340)	(166,705)	(915,060)
Interest expense	443,000	–	825,824	–
Amortization of debt issue costs	534,077	–	957,225	–
	935,699	(380,340)	1,616,344	(915,060)

Interest income consists primarily of interest earned on investment of surplus funds. The decrease over the same periods in 2008 is due to lower average cash balances and lower average interest rates in 2009.

Interest expense represents the interest on the 15 percent secured notes issued on April 20, 2009 and amortization of debt issue costs similarly relates to these notes.

Income Taxes

Under present UK tax law, the gain on the property disposition referred to above is not subject to UK capital gains tax provided that equivalent proceeds are re-invested in eligible expenditures in the UK North Sea sector within a period of three years. We expect that further investment in Breagh alone will meet this requirement.

We do not recognize the tax benefit of losses incurred at this time as we have no significant current production and there is no assurance that the tax benefit will be realized as development consent has not yet been received for its key projects. As at September 30, 2009 we had non-capital losses of approximately \$10 million available to reduce future Canadian taxable income, subject to expiry over the next twenty years, and approximately \$9 million of subsidiary UK tax losses available to reduce future UK taxable income which are not subject to expiry. Approximately \$0.2 million of Canadian non-capital loss carry-forwards expire at the end of 2009 if unused.

Petroleum and Natural Gas Property Activities and Capital Expenditures

As at September 30, 2009 and December 31, 2008 the Company's interests in petroleum licenses and contracts were as follows:

	September 30, 2009			December 31, 2008		
	Acres		Capitalized	Acres		Capitalized
	Gross	Net	Costs	Gross	Net	Costs
			\$			\$
United Kingdom	1,302,892	595,252	85,681,537	1,336,128	867,205	86,686,620
Romania	2,645,000	1,130,000	49,069,389	2,645,000	2,027,000	45,683,548
France	125,280	41,872	2,407,548	125,280	41,872	2,348,311
Total	4,073,172	1,767,124	137,158,474	4,106,408	2,936,077	134,718,479

Our net interest of 1,130,000 in Romania represents our 50 percent interest in the Craiova block onshore Romania and our 32.5 percent interest in the offshore Midia and Pelican Blocks in the Black Sea. This assumes completion of pending farm-out transactions.

Capital Expenditures

During the nine months ended September 30, 2009, capital expenditures on oil and gas properties totalled \$19,469,694 including \$3,723,320 of 2009 expenditures incurred and recovered from the purchaser of the Breagh interest. Major items included the following:

- \$13 million relating to the completion and testing of the Breagh 42/13-5 and 5z wells in the UK Southern North Sea, and the completion of a required pipeline study for the proposed route from the Breagh platforms to shore. The horizontal 5z well tested gas at rates of up to 26 million standard cubic feet per day (MMscf/d) and has been suspended as a future producer; and
- In Romania, expenditures totalling \$3.1 million were comprised mainly of costs related to the acquisition of high resolution seismic over the Doina trend and Ioana (formerly Midia SE) prospect.

Financing, Liquidity and Solvency

The following is a summary of our net working capital as at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
	\$	\$
Cash and cash equivalents	95,987,410	15,769,514
Restricted cash	-	11,270,280
Accounts receivable and prepaid expenses	2,603,920	5,229,141
Accounts payable and accrued liabilities	(6,105,345)	(18,301,465)
15% secured notes	(11,389,670)	-
Net working capital	81,096,315	13,967,470

In order to ensure we had sufficient funds to continue operations until the completion of the part-disposition of Breagh, the Company completed a US\$11.2 million bridge financing facility at an interest rate of 15 percent and commissions of 6 percent payable to the underwriters. Each note of US\$100,000 is repayable in three equal installments 6, 9 and 12 months from closing which took place on April 20, 2009. Each unit also includes one common share warrant entitling the holder to acquire 20,000 common shares of the Company at \$0.84 per share. The warrants expire on April 19, 2012. In addition, following full repayment of the notes, the Company may force conversion of the warrants in the event the Company's closing share price exceeds \$2.00 for 10 consecutive trading days.

On August 26, 2009 we announced the closing of the previously announced Breagh sales process for consideration of approximately \$103 million before costs of disposition (\$1 million) and repurchase of related obligations (\$12 million) in exchange for a 15 percent working interest in the Breagh field and varying interests in the surrounding exploration blocks. Following the sale, we retained a 30 percent interest in the Breagh field and the surrounding blocks which comprise the greater Breagh area.

The funds from the Breagh sale should ensure that we are well financed for the next year depending on the timing required for certain of the long-lead expenditures related to the Breagh platforms and pipelines. Beyond this, additional funding will be required to bring Breagh to first production in early 2012. In order to ensure that sufficient funding is in place, we have commenced negotiations for a senior debt facility with the Royal Bank of Scotland (RBS). A draft term sheet has been tabled and negotiations are progressing with the intent that the facility will be fully in place by the time development consent is received from the UK Department of Energy and Climate Change (DECC). This is currently anticipated for the second quarter of 2010. The recently announced selection of RBS, a domestic UK lender with global operations, as lead is consistent with recent UK government initiatives encouraging the financing of oil and gas projects designed to further expand domestic UK petroleum supplies.

In addition to the senior debt facility, we are also considering other contingent financing options including possible sale or construction of the Breagh pipeline by a third party, disposition of non-core assets and further farm-out arrangements. Equity is not considered an attractive option at the current level of the Company's share price.

In Romania, the completion of the Melrose farm-out is experiencing delays due to the license transfer to the farm-in parties requiring government approval. The Company remains confident that its legal entitlements are well supported in the underlying agreements and that there has been no material breach of any regulations through its past operations, and that all necessary approvals will be obtained in due course.

The recent fall of the coalition government in Romania will require an election before the end of 2009, and it is anticipated that an agreement will be reached with the incumbent government thereafter which will allow the development of the Ana/Doina field to proceed.

There were 131,278,139 common shares, 2,200,000 warrants and 8,703,327 stock options outstanding as at September 30, 2009 and 131,318,139 common shares, 2,160,000 warrants and 8,703,327 stock options outstanding as at November 17, 2009.

Asset Retirement Obligations

The following is a continuity of asset retirement obligations for the nine months ended September 30, 2009:

	\$
Balance, beginning of period	2,419,735
Foreign exchange	(158,957)
Accretion	174,492
Asset dispositions	(201,066)
Balance, September 30, 2009	2,234,204

Future Plans

For the remainder of 2009 and into 2010 our plans are as follows:

Romania

Following the approval by the Romanian National Agency For Mineral Resources (ANRM), the first well of a three-well program will spud in November 2009. These wells are designed to establish the presence of shallow gas and good reservoir in multiple prospects. Should these wells be successful, we may pursue a number of further prospects and leads that have been identified on the block.

In addition to this onshore drilling activity in Romania, planning is underway to drill an offshore well on the Ioana (formerly named Midia SE) prospect which is located just to the south and east of the established gas bearing Doina trend.

United Kingdom

Drilling is planned to start early in the second quarter of 2010 for the Airidh and Macanta wells (Sterling 30%), located to the south and east of the Breagh field respectively, in the UK Southern North Sea. These wells will target the first potential satellite tiebacks to the developing Breagh infrastructure. We had originally scheduled the Airidh well for 2009, but it was delayed due to the Breagh sale process and the change in operator.

In the Southern North Sea the Grian prospect in Quad 48 is expected to be drilled early in 2010 in order to evaluate a Rotliegendes prospect located just to the west of the Hewett gas field. Sterling will operate this well for which a farm-down prior to drilling will be considered.

A follow up well to the Cladhan discovery in the Northern North Sea is also planned for early in the second quarter of 2010 and is designed to provide additional information as to the potential significant upside of the Cladhan discovery made in late 2008. The Cladhan program may involve an additional sidetrack and testing, with

a decision to be made following evaluation of the data from this follow up well. Sterling operates Cladhan with a 39.9% working interest.

In addition to these plans, we will continue our strategy of farming out a portion of our licenses in order to reduce costs and will continue geological and geophysical work to evaluate our licenses, including the new licenses awarded in the UK 24th and 25th Offshore Licensing Rounds, and the many other prospects and leads that exist on them. This work will focus on offshore UK and offshore and onshore Romania.

These plans are contingent on partner and regulatory approval and, more importantly upon availability of suitable financing and farm-out partners.

New Accounting Pronouncements

The Canadian Institute of Chartered Accountants (CICA) have issued the following new accounting standards which became effective for the Company for 2009 reporting:

CICA 3064 – Goodwill and Intangible Assets, contains recommendations relating to the recognition, measurement and disclosure of goodwill and intangible assets. These recommendations have no impact on our consolidated financial statements.

In 2008, the CICA confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles (Canadian GAAP) for interim and annual reporting effective January 1, 2011.

We continue to monitor and assess the convergence of Canadian GAAP and IFRS, and have prepared a preliminary plan for conversion within the time frame permitted. The key impact on our 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 as is 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 we translate assets and liabilities denominated in foreign currencies into Canadian dollars.

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 our financial results. 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.

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

Selected Quarterly Information

Selected information from the eight most recently completed quarters is presented below. We currently have no material production. Until such time as we generate substantial production income, our results from operations are not affected by seasonal considerations. From time to time we may hold significant amounts of cash and other working capital in foreign currencies, and fluctuations between the denominated exchange rates of these items and the Canadian dollar can cause significant fluctuations in the net income or loss for each quarter.

Quarter ended	2009			2008
	Sep. 30	Jun. 30	Mar. 31	Dec. 31
	\$	\$	\$	\$
Gain on property disposition	72,103,206	-	-	-
Expenses				
General and administrative	1,407,477	738,303	796,401	234,901
Foreign exchange (gain) loss	(384,234)	(139,447)	73,320	1,914,603
Stock based compensation	318,404	257,064	241,819	244,102
Accretion	54,371	60,221	59,900	55,152
Depreciation	12,610	30,806	24,276	23,646
Financing expenses (income)	935,699	722,561	(41,916)	(244,986)
	2,344,327	1,669,508	1,153,800	2,227,418
Net income (loss) before income taxes	69,758,879	(1,669,508)	(1,153,800)	(2,227,418)
Income taxes	-	-	137	34,877
Net income (loss) and comprehensive income (loss)	69,758,879	(1,669,508)	(1,153,937)	(2,262,295)
Net income (loss) per common share				
- basic	0.53	(0.01)	(0.01)	(0.02)
- diluted	0.53	(0.01)	(0.01)	(0.02)
Quarter ended	2008			2007
	Sep. 30	Jun. 30	Mar. 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
Financing expenses (income)	(380,340)	(320,565)	(214,155)	(140,299)
	(994,363)	1,001,700	44,104	82,782
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)

Consolidated Balance Sheets

Unaudited

	September 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current		
Cash and cash equivalents [note 4]	95,987,410	15,769,514
Restricted cash [note 4]	–	11,270,280
Accounts receivable	2,403,112	5,192,297
Prepaid expenses		
– Interest	138,597	–
– Other	62,211	36,844
	98,591,330	32,268,935
Property plant and equipment		
Petroleum and natural gas properties and equipment	137,158,474	121,948,262
Furniture and fixtures	192,532	262,132
	137,351,006	122,210,394
Assets held for sale [note 5]	–	12,770,217
	235,942,336	167,249,546
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	6,105,345	18,301,465
Secured notes [note 6]	11,389,670	–
	17,495,015	18,301,465
Asset retirement obligations [note 7]	2,234,204	2,419,735
Shareholders' equity		
Share capital [note 8]	156,806,308	156,773,276
Contributed surplus [note 9]	6,316,088	3,599,783
Retained earnings (deficit)	53,090,721	(13,844,713)
	216,213,117	146,528,346
	235,942,336	167,249,546

See accompanying notes

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
GAIN ON PROPERTY DISPOSITION [note 5]	72,103,206	–	72,103,206	–
EXPENSES				
General and administrative	1,407,477	398,793	2,942,181	1,760,177
Foreign exchange gain	(384,234)	(1,304,277)	(450,361)	(1,567,401)
Stock based compensation [note 8]	318,404	241,275	817,287	602,404
Accretion [note 6]	54,371	29,248	174,492	92,837
Depreciation	12,610	20,938	67,692	78,484
Financing expenses (income)	935,699	(380,340)	1,616,344	(915,060)
	2,344,327	(994,363)	5,167,635	51,441
Income before income taxes	69,758,879	994,363	66,935,571	(51,441)
Current income taxes	–	–	137	–
Net income (loss) and comprehensive income (loss) for the period	69,758,879	994,363	66,935,434	(51,441)
Deficit, beginning of period	(16,668,158)	(12,576,781)	(13,844,713)	(11,530,977)
Retained earnings (deficit), end of period	53,090,721	(11,582,418)	53,090,721	(11,582,418)
Net income (loss) per common share [note 8]				
Basic	0.53	0.01	0.51	0.00
Diluted	0.53	0.01	0.51	0.00

See accompanying notes

Consolidated Statements of Cash Flows

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss) for the period	69,758,879	994,363	66,935,434	(51,441)
Items not affecting cash used in operating activities				
Gain on property disposition	(72,103,206)	–	(72,103,206)	–
Unrealized foreign exchange loss (gain)	(27,957)	(688,993)	(555,561)	(1,123,551)
Stock based compensation [note 8]	318,404	241,275	817,287	602,404
Accretion [note 6]	54,371	29,248	174,492	92,837
Depreciation	12,610	20,938	67,692	78,484
Amortization of debt issue expense	534,077	–	957,225	–
	(1,452,822)	596,831	(3,706,637)	(401,267)
Change in non-cash working capital	2,562,129	805	4,620,534	(192,674)
Cash provided by (used in) operating activities	1,109,307	597,636	913,897	(593,941)
INVESTING ACTIVITIES				
(Increase) decrease in restricted cash	–	(17,159,438)	11,270,280	(19,797,933)
Petroleum and natural gas properties and equipment additions	(3,100,439)	(29,273,700)	(15,746,374)	(40,921,748)
– additions on property held for sale	46,966	–	(3,723,320)	–
Proceeds of disposition of interests in properties	89,612,456	–	89,612,456	2,240,687
Furniture and fixtures recoveries	664	(34,851)	1,908	(161,508)
Change in non-cash working capital	(3,704,720)	16,448,640	(13,689,458)	14,099,574
Cash provided by (used in) investing activities	82,854,927	(30,019,349)	67,725,492	(44,540,928)
FINANCING ACTIVITIES				
Issue of secured notes	–	–	11,603,047	–
Issue of common shares, net of share issue costs	394,433	27,109,191	411,955	79,458,929
Cash provided by financing activities	394,433	27,109,191	12,015,002	79,458,929
Effect of translation on foreign currency cash	(480,153)	(347,127)	(436,495)	(446,087)
Increase (decrease) in cash and cash equivalents during the period	83,878,514	(2,659,649)	80,217,896	33,877,973
Cash and cash equivalents, beginning of period	12,108,896	46,845,986	15,769,514	10,308,364
Cash and cash equivalents, end of period	95,987,410	44,186,337	95,987,410	44,186,337

See accompanying notes

Selected Notes to Consolidated Financial Statements

(Unaudited)

For the nine months ended September 30, 2009

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 (Canadian GAAP) and following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2008, 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, 2008.

2. Financial and Liquidity Risks

The Company has no derivative financial instruments, and the fair market values of the Company's other financial instruments, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable, approximate their carrying values. The secured notes are classified as other liabilities and are recorded at cost.

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.

(A) FOREIGN EXCHANGE RATE RISK

Based on net foreign currency monetary items at September 30, 2009, a one percent fluctuation in the US dollar, UK Pound or Romanian Lei against the Canadian dollar would impact net income by approximately \$640,000, \$117,000, and \$18,000, respectively.

(B) INTEREST RATE RISK

Based on total cash, cash equivalents and restricted cash at September 30, 2009 a one percent change in average interest rates would increase or decrease pre-tax income by approximately \$960,000 over a full year.

Interest expense on short term borrowings is not sensitive to changes in interest rates due to the interest rate being fixed.

(C) LIQUIDITY RISK

Liquidity is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. At September 30, 2009 the Company had sufficient cash to settle its accounts payable and continue operations. The proceeds from the sale of a part-interest in the Breagh field should enable the Company to meet all its commitments and obligations for at least the next year. Beyond this, further significant financing is required to complete the development of the Company's projects, and the Company expects to fund this largely through a senior debt facility currently being negotiated.

(D) CREDIT RISK

As at September 30, 2009 there were no significant overdue receivables requiring provision.

3. New Accounting Pronouncements

The Canadian Institute of Chartered Accountants (CICA) have issued the following new accounting standards which became effective for the Company for 2009 reporting:

CICA 3064 – Goodwill and Intangible Assets, contains recommendations relating to the recognition, measurement and disclosure of goodwill and intangible assets. These recommendations have no impact on the Company's consolidated financial statements.

In 2008, the CICA confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting effective January 1, 2011. The Company continues to monitor and assess the convergence of Canadian GAAP and IFRS, but at this time the impact on our financial position and results of operations is not fully determinable or estimable.

The Company commenced its IFRS conversion project in 2008. The Chief Financial Officer has assumed direct responsibility for the project and reports periodically to the Audit Committee of the Board on its progress. The project consists of three phases: diagnostic, design and planning and implementation and training.

The Company has completed the diagnostic phase, and has now entered into the design and planning phase. During the diagnostic phase it was identified that 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.

In parallel with the conversion project, the Company will assess the impact of IFRS on its public disclosure requirements and certain other areas of internal control.

4. Cash and Cash Equivalents

At September 30, 2009, cash and cash equivalents consisted of cash of \$5,027,169 (December 31, 2008 – \$9,969,514) and cash equivalents of \$90,960,241 (December 31, 2008 – \$5,800,000). Cash equivalents currently earn between 0.05 and 0.9 percent interest (December 31, 2008 – 1.5 percent) and may include term deposits which have maturities of greater than 30 days but which have cashable options and are therefore considered cash equivalents by management.

Restricted cash of \$11,270,280 as at December 31, 2008 was cash held in escrow and was required as security for amounts payable under rig contracts. The related drilling program is now complete and no further amounts are required to be held in escrow.

5. Gain on Property Disposition

On August 26, 2009 the Company announced the closing of the previously announced Breagh sales process for consideration of approximately \$103 million in exchange for a 15 percent working interest in the Breagh field and varying interests in the surrounding exploration blocks. Following the sale, the Company retained a 30 percent interest in the Breagh field and the surrounding blocks which comprise the greater Breagh area.

The net gain on disposition of \$72 million represents the excess of the purchase consideration of \$103 million over the carrying value of the assets disposed of (\$18 million), the costs of disposition (\$1 million) and the repurchase of the pro-rata share of the underlying encumbrance entitling a third party to a share of gross production from the Breagh field (\$12 million).

Under present UK tax law, the gain on the disposition is not subject to UK capital gains tax provided that equivalent proceeds are re-invested in eligible expenditures in the UK North Sea sector within a period of three years.

6. Secured Notes

On April 20, 2009 the Company completed a US\$11,200,000 bridge financing facility at an interest rate of 15 percent and commissions of 6 percent payable to the underwriters. Each unit of US\$100,000 is repayable in three equal installments 6, 9 and 12 months from closing. Each note also includes one common share warrant

entitling the holder to acquire 20,000 common shares of the Company at \$0.84 per share. The warrants expire on April 19, 2012. In addition, following full repayment of the notes, the Company may force conversion of the warrants in the event the Company's closing share price exceeds \$2.00 for 10 consecutive trading days.

September 30, 2009	
\$	
Principal amount of notes	12,159,375
Debt issue expenses	
Cash expenses	(887,455)
Fair value of warrants	(839,475)
	(1,726,930)
Amortization of debt issue expenses	957,225
Balance, September 30, 2009	11,389,670

The fair value of the warrants included in debt issue expenses was determined using the Black-Scholes option pricing model. Debt issue expenses are amortized over the term of the notes such that the notes will accrete to the full principal amount at redemption.

7. 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 \$7 million which will be incurred between 2010 and 2022. 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, 2009.

The following is a continuity of asset retirement obligations for the nine months ended September 30, 2009:

\$	
Balance, beginning of period	2,419,735
Foreign exchange	(158,957)
Accretion	174,492
Asset dispositions	(201,066)
Balance, September 30, 2009	2,234,204

8. Share Capital

A) AUTHORIZED SHARE CAPITAL

Unlimited common shares without nominal or par value.

B) SHARE CAPITAL ISSUED AND OUTSTANDING:

(i) Common shares	Number of Shares	Amount
		\$
Balance, December 31, 2008	130,941,472	155,363,951
Issued for cash – exercise of stock options	296,667	376,833
Issued for cash – exercise of warrants	40,000	33,600
Share issue costs	–	1,522
Transferred from contributed surplus on exercise of options and warrants	–	205,918
Balance, September 30, 2009	131,278,139	155,981,824

(ii) Common share warrants	Number of Warrants	Amount
		\$
Balance, December 31, 2008	5,637,300	1,409,325
Issued – 15% secured notes	2,240,000	839,475
Exercised	(40,000)	(14,991)
Expired	(5,637,300)	–
Transferred to common shares on expiry of warrants	–	(1,409,325)
Balance, September 30, 2009	2,200,000	824,484
Share capital – December 31, 2008		156,773,276
Share capital – September 30, 2009		156,806,308

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, 2009 there were 13,099,147 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 maximum term of each option is five years and each option must vest over a period of not less than 18 months. Stock options currently issued vest over the initial three years.

The Company uses the fair value method of accounting for all stock options issued under the plan using the Black-Scholes option pricing model. On June 2, 2009, 2,825,000 options exercisable at a price of \$1.42 were issued to directors, officers, employees and consultants under the plan. The fair value of these options was calculated using the following weighted average assumptions:

	2009
Risk-free interest rate	1.96%
Expected hold period to exercise	3.5 years
Volatility in the price of the Company's shares	105.7%
Dividend yield	0%

No options were issued under the plan during the three months ended September 30, 2009.

The following is a continuity of outstanding stock options for the nine months ended September 30, 2009:

	Number of Options	Weighted Average Exercise Price
		\$
Outstanding, January 1	6,616,663	2.10
Granted during the period	2,825,000	1.42
Exercised during the period	(296,667)	1.27
Expired during the period	(441,669)	2.41
Outstanding, September 30	8,703,327	1.89
Exercisable, September 30	3,596,671	2.00

Outstanding options are exercisable at prices ranging from \$1.42 to \$2.56 per share. The weighted average remaining contractual life of options outstanding at September 30, 2009 was 829 days.

For the three and nine months ended September 30, 2009, \$318,404 and \$817,287 respectively was recognized as stock based compensation expense in respect of stock options granted. A further \$268,687 and \$680,620 was capitalized. For the same periods in 2008, \$241,275 and \$602,404 respectively was expensed and \$227,943 and \$510,633 respectively was capitalized.

D) WEIGHTED AVERAGE SHARES OUTSTANDING

The weighted average shares outstanding for the three and nine months ended September 30, 2009 were 131,119,154 and 131,018,200 respectively. For the three and nine months ended September 30, 2008 the weighted average shares outstanding were 126,239,329 and 116,940,395 respectively.

9. Contributed Surplus

The following is a continuity of contributed surplus for the nine months ended September 30, 2009:

	\$
Balance, January 1	3,599,783
Stock based compensation expense for the period	817,287
Stock based compensation capitalized during the period	680,620
Transferred on expiry of warrants	1,409,325
Transferred to share capital on exercise of options	(190,927)
Balance, September 30	6,316,088

10. 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.

	Corporate	United Kingdom	Romania	France	Total
	\$	\$	\$	\$	\$
For the three months ended September 30, 2009					
Net (loss) income	(437,785)	70,773,134	(580,986)	4,516	69,758,879
Petroleum and natural gas property additions	-	2,007,240	1,012,203	34,030	3,053,473
Dispositions of interests in properties	-	89,612,456	-	-	89,612,456
Total assets	20,225,212	164,099,687	49,209,537	2,407,900	235,942,336
For the three months ended September 30, 2008					
Net income (loss)	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 nine months ended September 30, 2009					
Net (loss) income	(2,143,503)	70,066,315	(984,656)	(2,722)	66,935,434
Petroleum and natural gas property additions	-	16,024,616	3,385,841	59,237	19,469,694
Dispositions of interests in properties	-	89,612,456	-	-	89,612,456
Total assets	20,225,212	164,099,687	49,209,537	2,407,900	235,942,336
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
Dispositions of interests in properties	-	-	(2,240,687)	-	(2,240,687)
Total assets	34,452,669	87,050,177	47,143,386	2,311,224	170,957,456

CORPORATE INFORMATION

STERLING RESOURCES LTD.

DIRECTORS

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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)}
St. Helier, Jersey

(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

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RPS ENERGY
Henley-on-Thames, UK

REGISTRAR & TRANSFER AGENT

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STOCK EXCHANGE LISTING

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

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Calgary, Canada

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Aboyne, Scotland

TECK SOON KONG
London, England

DAVID MILLER
London, England

OFFICERS

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Managing Director &
Company Secretary

DAVID A. FINDLATER
Vice President Exploration &
Business Development

PATRICK WHITLEY
Vice President Exploration (International)

JOHN RAPACH
Vice President Operations

IAN C. HORNBY-SMITH
Vice President Finance

CHRISTINE SHINNIE
Controller

SHERRY L. CREMER
Assistant Company Secretary

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