STERLING RESOURCES

Q3 THIRD QUARTER INTERIM REPORT

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

TSXV: SLG

www.sterling-resources.com

MESSAGE TO SHAREHOLDERS

Third Quarter 2012

While Sterling Resources provides for material growth potential through its high quality asset base and its dedicated staff, our Company is deeply affected by the delay to first gas from the Breagh project. The impact of the delays has been severe and immediate and has led to the recent need to seek additional funding to ensure a prudent cash balance before production revenues are obtained. Subsequent to the quarter end, we embarked on a marketed equity offering of up to $45 million with a process led by RBC Capital Markets. However, with a dramatic drop in share price on announcement it was not possible to agree suitable terms and the offering was terminated. Alternative short-term funding options, already reviewed before the offering, are now being pursued as well as efforts to negotiate revisions to some of the terms of the Breagh reserves-based loan facility or to refinance it entirely.

During October and early November we received updates from RWE Dea UK SNS Ltd., operator of the Breagh field, of the results of a fully risked analysis of the onshore works at Teesside Gas Processing Plant (“TGPP”) required before first gas from the Breagh field. The resulting integrated and detailed risked schedule, which is considered to be a more complete and full assessment, provides an earliest first production date of the end of March 2013 with the chance of slippage to the end of May 2013. The principal reasons for the delay include late design completion, rework of certain systems and late material deliveries. Estimated Breagh Phase 1 development costs now stand at £632 million (100 percent), an increase of 1.4 percent over the cost estimate of £623 million provided in the Company’s second quarter report. These revised costs are attributable to the need for additional rock-dumping on the offshore pipeline, and costs to complete the TGPP modifications and onshore pipeline installation. The planning and implementation of activities at TGPP and the project costs overruns are a source of major concern for Sterling. We will continue to do all that we can as the non-operated partner in the joint venture to ameliorate the unacceptable outcomes on this critical part of the project.

Although the onshore project delays take centre stage as they affect our near term business, it is vitally important to remember that the reserves for the Breagh field are unaffected. Indeed the development drilling results so far have been very encouraging. The third Phase 1 development well (A-03), which is the first to be newly drilled from the Alpha platform, has been drilled to a location at a horizontal displacement of 2,300 metres to the north of the platform. Preliminary analysis of the main reservoir has again exceeded expectations, with approximately 99 feet of vertical net pay in reservoir Zone 1, an increase of 33 percent over the expected thickness. We have previously announced the positive results of the first two wells, A-01 and A-02, both of which encountered a materially thicker than expected gas-bearing reservoir section and also encountered approximately 25 feet of net pay in reservoir Zone 3 which was not encountered in either of the original wells; subject to production testing this could lead to increased reserves in the field. During November and December these three wells will be flow tested and it is anticipated that five wells will be on-stream when production commences during the window mentioned above.

A significant step towards further receipt of funds from asset rationalization, following our divestment of 13.5 percent of the UK Cladhan field earlier this year, was the execution of a sales and purchase agreement with ExxonMobil Exploration and Production Romania (“ExxonMobil”) and OMV Petrom announced in mid-October, for the sale of Sterling’s 65 percent interest in a portion (“Sale Portion”) of Block 15 Midia in the Romanian Black Sea. The Sale Portion is along the south-eastern margin of the block, in deeper waters adjacent to ExxonMobil and OMV Petrom’s deepwater Neptun block containing the Domino-1 gas discovery well some 35 kilometres to the southeast, and covers just 11 percent of the total area of the Midia and Pelican concession.

On completion of the transaction, which is subject to governmental approvals, Sterling will receive the first payment of US$29.25 million. Receipt of the second payment of US$29.25 million is contingent upon the satisfaction of certain conditions relating to any hydrocarbon discovery to be made on the Sale Portion. The third instalment of US$19.5 million is contingent upon the commencement of any commercial production from the Sale Portion.

The carve-out and disposition of this Sale Portion of the Midia block allows Sterling to monetize that section of the block that will require more expensive deep water exploration techniques, beyond the reach of current jack-up rig technology, while allowing the Company to focus on the exploration and development of those fields and prospects in shallower waters. The transaction is indicative of the growing industry interest in the Romanian Black Sea and is most encouraging as we continue in the process to sell down a portion of the 65 percent interest in the Pelican block and in the Midia block (excluding the Sale Portion) and the 50 percent interest in the Luceafarul block.

We resumed our exploration efforts in the Black Sea after a long enforced period of inactivity by drilling the Ioana prospect in the Midia block after the end of the quarter. This well, in the north-western part of the large 150 square kilometre prospect, reached a total measured depth ("MD") of 1,950 metres, 1,513 metres true vertical subsea ("TVDSS") with natural gas shows from drilling mud gas measurements experienced from a depth of 500 MD down to the total depth. The primary objective identified by 2D seismic was encountered as prognosed with gas shows from drilling mud gas measurements over a 70 metre interval between 1,186 to 1,422 metres TVDSS. Shallower sands of 55 metres thickness between 831 and 910 metres TVDSS with gas shows from drilling mud gas measurements were identified prior to setting intermediate casing. We were encouraged by the gas shows in the primary objective; however, the reservoir development is poorer than expected in this up dip area of the prospect and will require further seismic and drilling work to explore and appraise the large Ioana structure further to the east. This large prospect still has significant potential given that we have established the presence of gas. The jack-up drilling rig has now started operations on the Eugenia-1 well in the oil-prone Pelican block. The well is expected to take 30 days to complete and will be the first exploration well to be drilled on the block.

Subject to financing, the company looks forward to progressing on activities including the development planning for the Ana and Doina fields, the approval and commencement of the Cladhan field development and similarly, the approval and advancement of the Breagh Phase 2 development. In addition, we intend to continue with exploration and appraisal activities throughout our international portfolio.

On Behalf of the Board of Directors,

Mike Azancot,
President & Chief Executive Officer
November 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the operating results and financial condition of Sterling Resources Ltd. ("Sterling" or the "Company") for the three and nine month periods ended September 30, 2012 is dated November 21, 2012, and should be read in conjunction with Sterling's unaudited condensed interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2012 ("the financial statements") as well as Sterling's audited consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and International Financial Reporting Standards (IFRS), respectively. Unless otherwise noted, all financial measures are expressed in Canadian dollars and tabular dollar amounts are in thousands.

CORPORATE OVERVIEW AND STRATEGY

Sterling is a publicly-traded, international energy company engaged in the acquisition of petroleum and natural gas rights, and the exploration for, and the development and production of, crude oil and natural gas. The Company operates primarily in the United Kingdom, Romania, the Netherlands and France, and is domiciled in Calgary, Alberta.

The Company's primary strategy for achieving growth is to source and initiate international projects with the potential to yield large, low-cost reserves. It concentrates on accumulating, exploring and exploiting licences and prospects in selected core areas of the world. Sterling's strategy includes targeting blocks with high initial working interests where possible. Financial exposure and technical risk are managed by obtaining partner participation through farm-out and other arrangements. Under these arrangements, a portion of the Company's interest is given up in exchange for the partner paying a share of the costs of exploration, appraisal or development of the licence. A secondary strategy is to acquire interests in discoveries where the Company believes that its technical and operational expertise can accelerate development, especially where there are multiple development candidates or significant exploration prospectivity nearby.

FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS

Certain statements in this MD&A are forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "would", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "intend", 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 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; these sources are not endorsed or adopted by Sterling expressly or implicitly. 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 their nature, forward-looking statements involve 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. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- Capital expenditure programs, including without limitation the timing of, the sources of capital and expenses related to, and the nature of, the development of the Breagh, Cladhan and Ana/Doina fields;
- Development activities in the greater Breagh area, particularly the Phase 2 development of Breagh;
- Expectations regarding the Company's cost structure;
- Factors upon which the Company will decide whether to undertake a specific course of action;
- The quantity and timing of hydrocarbon production from the Company's development projects, including Breagh, Cladhan and Ana/Doina;
- The sale, partial sale, farming-in or farming-out of certain properties, particularly offshore Romania and Cladhan;
- The realization of anticipated benefits of acquisitions and dispositions;
- The possible impact of changes in government policy with respect to onshore and offshore drilling;
- The Company's ability to obtain certain government and regulatory approvals;
- The Company's cash requirements and funding for the next year;
- The Company's expectations regarding its ability to raise additional financing;
- The Company's drilling plans and plans for completion and installation of production platforms or other infrastructure, on any of its licences;
- The Company's tax horizon;
- The Company's strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- The Company's expectations regarding government policies with respect to concerns about climate change and the protection of the environment; and
- The Company's plans and expectations that are described on page 16 under "2012 Plans".

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

- Will, together with its subsidiaries, be able to satisfy the undertakings and conditions under the Breagh loan facility agreement;
- Will produce hydrocarbons and receive cash flows in connection therewith which are consistent with the production and cash flows as estimated in the reserves report prepared by RPS Energy evaluating the reserves of the Breagh field as at December 31, 2011, and subsequent revisions during the year after adjusting for delays to first gas and cost overruns;
- Operates in an environment of political stability;
- Will be able to obtain all necessary regulatory approvals for Its operations on satisfactory terms;
- Operates in an environment of increasing competition;
- Is able to obtain additional financing or farm-out, sell or partially sell licence interests on satisfactory terms;
- Is able to continue to attract and retain qualified personnel; and
- Is able to obtain necessary approvals from partners for a particular course of action.

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

- Recovery and reserves and resources estimates may prove incorrect;
- The finding, determination, evaluation, assessment and measurement of oil and gas deposits or reserves may vary materially from the estimates, plans and assumptions of the Company;
- Exploration and development activities are capital-intensive and involve a high degree of risk; future appraisal of potential oil and natural gas properties may involve unprofitable efforts;
- Oil and natural gas price fluctuations;
- Without the addition of reserves through exploration, acquisition or development activities, the Company's reserves and production will decline over time as reserves are exploited;
- Production operations involve many inherent risks;
- All modes of transportation of hydrocarbons include inherent and significant risks;
- Interruptions in availability of exploration, production or supply infrastructure;
- Third party contractors and providers of capital equipment can be scarce;
- Reliance on other operators and stakeholders limits the Company's control over certain activities;
- Availability of joint venture partners and terms of agreement between them and the Company will depend upon factors beyond the Company's control;
- Permits, approvals, authorizations, consents and licences may be difficult to obtain, sustain or renew;
- Regulatory requirements can be onerous and expensive;
- The Company cannot completely protect itself against title disputes;
- The Company is substantially dependent on its executive management;
- Environmental legislation can have an impact on the Company's operations;
- Additional funding may be required to carry out the Company's business operations and to expand reserves and resources;
- The Company's operations are subject to the risk of litigation;
- Negative operating cash flow could increase the need for additional funding;
- Issuance or arrangement of debt to finance acquisitions would increase the Company's debt levels and further changes in circumstances may lead these debt levels to be beyond the Company's ability to service and repay that debt;
- Significant competition in attracting and retaining skilled personnel;
- Intense competition in the international oil and gas industry could limit the Company's ability to obtain licences and key supplies, such as drilling rigs;
- Future acquisitions may involve many common acquisition risks;
- Managing the Company's expected growth and development costs could be challenging;

- Insurance may not be sufficient to cover the full extent of all liabilities;
- Fluctuations in foreign exchange rates, interest rates and inflation may cause financial harm to the Company;
- Political or governmental changes in legislation or policy in the countries in which the Company operates may have a negative impact on those operations;
- Labour unrest could affect the Company's ability to explore for, produce and market its oil and gas production;
- Risks related to the countries in which the Company operates;
- Uncertainties of legal systems in jurisdictions in which the Company operates;
- Failure to meet contractual agreements may result in the loss of the Company's interests; and
- Failure to follow corporate and regulatory formalities may call into question the validity of the Company, its subsidiaries or its assets.

These factors should not be considered exhaustive. Readers should also carefully consider the matters discussed under the heading "Risk Factors" beginning on page 16 of the Company's Annual Information Form.

The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statement. Subject to applicable securities laws, the Company is under no duty to update any of the forward-looking statements after the date hereof or to confirm such statements to actual results or to changes in the Company's expectations. Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

SIGNIFICANT ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the financial results of the Company. Significant estimates in the financial statements include amounts recorded for the provision for future decommissioning obligations, share-based compensation expense and capital expenditure accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty and the effect on future consolidated financial statements from changes in such estimates could be significant.

OPERATING HIGHLIGHTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
$000s except per share information				
Revenue	**–**	793	**66**	1,122
Expenses	**10,074**	7,998	**24,889**	42,732
Net financing income	**(107)**	(119)	**(167)**	(159)
Net loss	**9,967**	7,086	**24,656**	41,451
Per weighted average common share – basic and diluted	**0.04**	0.03	**0.11**	0.21
PP&E and E&E asset additions	**32,384**	39,397	**75,192**	146,839

As at	**September 30, 2012**	December 31, 2011
$000s except share information and acreage		
Net working capital	**34,067**	35,988
Total assets	**403,589**	370,879
Share capital	**338,221**	337,711
Net licence acreage (000s of acres)	**1,997**	1,807
Common shares outstanding 000s – basic	**222,869**	222,644
Common share options outstanding 000s	**13,372**	14,865

Subsequent to September 30, 2012, and as at November 19, 2012, there was no change to the number of stock options or shares outstanding.

For the three months ended September 30, 2012, the Company recorded a net loss of $9,967,000 ($0.04 per share) compared with a net loss of $7,086,000 ($0.03 per share) for the three month period ended September 30, 2011, mostly due to an increased unrealized loss on the derivative financial instruments and increased pre-licence and other exploration costs, partly offset by reduced net employee expense and general and administration costs.

DRY HOLE EXPENSE

For the nine months ended September 30, 2012, there were no dry hole costs. On April 12, 2012 the Company announced that the South Cladhan exploration well, 210/29c-5, was not believed to have encountered hydrocarbons and was subsequently plugged and abandoned. The well was drilled at no cost to the Company pursuant to farm-out agreements, and accordingly no dry hole costs have been recorded.

For the nine month period ended September 30, 2011, the Company expensed dry hole costs of $9,733,000 relating to the unsuccessful Grian exploration well on Block 48/28b (Sterling 57 percent) in the UK Southern North Sea.

PRE-LICENCE AND OTHER EXPLORATION COSTS

For the third quarter of 2012 pre-licence and other exploration costs of $4,365,000 were higher compared to the $1,988,000 in the same period of the prior year. This was due to seismic acquired on licence P1741 (Lochran prospect) in the UK, Block 27 Muridava in Romania, and over the E3/F1 licences in the Netherlands.

For the nine month period ended September 30, 2012, pre-licence and other exploration costs were $12,416,000, an increase of $3,120,000 over the same period in 2011. Of the $12,416,000 expensed in the nine month period, $4,597,000 (2011 – $3,006,000) related to the Company's interests in its various licences offshore the UK, $5,809,000 related to Romania (2011 – $4,563,000) and $2,010,000 (2011 – $1,727,000) to the Netherlands and other international ventures. Employee expense and general and administrative expenditures charged to exploration licences and expensed as pre-licence costs in the nine month period were $1,079,000 higher in 2012 compared to 2011 due to increased costs and an increase in time spent on exploration assets.

FOREIGN EXCHANGE

The Company's cash balances are largely maintained in the currencies in which they are expected to be utilized. Exchange gains and losses reflected in the income statement are then largely offset by corresponding reductions or increases in underlying capital and other expenditures. A foreign exchange loss of $826,000 for the quarter ended September 30, 2012 substantially made up the loss of $1,018,000 year to date and arose due to the weakening of the US dollar during the period.

Foreign exchange losses of $991,000 for the third quarter of 2011 due to the weakening of the US dollar against the UK pound contributed to the loss of $5,917,000 for the nine months ended September 30, 2011. Prior to the third quarter 2011 losses arose mainly in the first quarter of 2011 largely on translation of US dollar cash balances into the respective functional currencies of the operations holding the funds. During the first quarter of 2011, the US dollar weakened from par with the Canadian dollar to US$1.00=C$0.9725, and from US$1.00=£0.6465 to US$1.00=£0.6237.

EMPLOYEE EXPENSE AND GENERAL AND ADMINISTRATION EXPENSE

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
	$000s	$000s	**$000s**	$000s
Gross employee, and general and administration expense	**6,153**	5,685	**16,046**	15,811
Recovered from third parties	**(1,489)**	(1,246)	**(2,849)**	(3,476)
Capitalized to assets	**(1,333)**	(688)	**(4,181)**	(2,903)
Expensed as pre-licence and other exploration expenditures	**(1,038)**	(88)	**(1,294)**	(215)
	(3,860)	(2,022)	**(8,324)**	(6,594)
Net employee expense	**1,878**	3,090	**6,140**	7,874
Net general and administration expense	**415**	573	**1,582**	1,343

Employee Expense

Employee expense for the third quarter of 2012 has decreased by $1,212,000 over the same period in 2011 due to increased amounts capitalized to assets, recovered from third parties and charged to pre-licence and other exploration expenditures. A large amount of the third quarter 2012 focus was on Romania in both preparation for the drilling campaign and in other corporate activity. There was also a reduced charge to non-cash share-based compensation of $604,000 in the quarter compared to $1,537,000 in the same quarter in 2011.

For the nine month period ended September 30, 2012, net employee expense was $6,140,000, a decrease of $1,734,000 over 2011. Of the total, $3,139,000 relates to non-cash share-based compensation and $3,001,000 relates to wages and salaries. Recoveries from partners, amounts capitalized to assets and amounts expensed to pre-licence were all considerably higher than in the first nine months of 2011 due to the mix of projects being worked on during 2012 compared to 2011.

General and Administration Expense

For the nine month period ended September 30, 2012, net general and administration expense of $1,582,000 was higher by $239,000 charged in the same period in 2011 after recoveries. This is due to increased office costs in the UK partly offset by increased recoveries and amounts capitalized to the assets.

FINANCING COSTS

Financing costs include interest expense and accretion of the discount on decommissioning obligations. Bank fees and costs pertaining to the set-up of the credit facility began to be amortized in the fourth quarter of 2011 after the first drawdown and have then been capitalized to the Breagh asset. These costs will then be depleted along with the capital costs of developing the asset when Breagh enters production.

INCOME TAXES

No deferred tax asset has yet been recognized in relation to the losses incurred because of the uncertainty regarding future taxable profits against which such losses can be offset, given the Company's lack of meaningful current production. However, the situation will be reviewed again as the Company nears large scale production in Breagh.

As at September 30, 2012, the Company had estimated UK tax losses carried forward of approximately $437 million available to be offset against future mainstream ring-fence corporation tax and approximately $432 million available to be offset against future supplementary charge corporation tax. At the end of 2012, the Company expects to have two periods remaining to claim UK ring fence expenditure supplement ("RFES"), which is available as an additional allowance against mainstream ring-fence corporation tax and supplementary charge corporation tax at a rate of 10 percent per annum compounded, and currently intends to claim RFES for 2013 and 2014.

As at September 30, 2012, other principal tax losses and allowances within the Company were tax pools of approximately $48 million and non-capital losses of approximately $32 million available to shield future income taxable in Canada, approximately $45 million of unused cumulative past costs available to shield future taxable income in Romania, and approximately $9 million of tax pools and losses available to shield future taxable income in the Netherlands. The Canadian non-capital losses expire over the next 20 years, the Romanian unused cumulative past costs expire over the next 7 years and the Netherlands losses expire over the next 9 years (for Dutch corporate income tax purposes only, not State Profit Share).

UNREALIZED LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

In 2011, as a requirement of its credit facility, the Company has purchased monthly cash-settled put options to hedge 40 percent of its forecast gas production volumes from proved reserves (P90) for the first phase of Breagh development, for a 24-month period starting on October 1, 2012. The strike price for the options is 55 pence per therm (1 therm equals 100,000 British thermal units) and the total volume hedged is 10.1 billion cubic feet (Bcf). Half of the put options were purchased in the third quarter of 2011 for an upfront cash premium of £2,195,000, ($3,543,000) and the other half were purchased in the fourth quarter of 2011, on a deferred premium basis for a total cost of £2,713,000.

The Company has recognized the up-front premium paid for the put options as a derivative financial asset. The derivatives are then revalued to their fair value at period-ends. For the deferred premium put options the Company has recognized a derivative financial liability for the discounted cost of those premiums offset by their revaluation at period-ends. Any gain or loss arising is recorded through the income statement in the same period in which it arises. For the three month period ended September 30, 2012, the Company has recognized an unrealized loss of $2,492,000 (September 30, 2011 – $1,010,000) in the period, resulting in an unrealized loss of $3,278,000 (September 30, 2011 – $1,010,000) on derivative financial instruments for the nine month period.

As at September 30, 2012 the forward curve for the period covered by the options sits in a range between 59 pence and 73 pence per therm, and as a result the options purchased are currently out-of-the-money.

OVERVIEW AND SUMMARY OF RESULTS FOR THE EIGHT MOST RECENTLY COMPLETED QUARTERS

The Company had only minor commercial production in 2011 and 2012. The following table summarizes the Company's income statements for the eight most recently completed quarters ended September 30, 2012.

		2012			2011			2010
Quarters Ended	**Sept. 30**	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31
$000s except per share information								
Revenues	**–**	–	66	136	793	329	–	–
Net (loss) income:								
Canada	**(1,060)**	(1,450)	(1,932)	(1,946)	(1,945)	(1,784)	(2,955)	914
United Kingdom	**(4,072)**	(3,365)	(4,230)	(8,015)	(4,513)	(9,311)	(12,540)	(6,105)
Romania	**(3,822)**	(1,490)	(695)	(1,165)	(1,608)	(1,732)	(2,945)	(956)
Other International	**(1,013)**	(737)	(790)	(1,246)	980	(530)	(2,568)	(839)
Net loss	**(9,967)**	(7,042)	(7,647)	(12,372)	(7,086)	(13,357)	(21,008)	(6,986)
Net loss per share								
Basic	**(0.04)**	(0.03)	(0.03)	(0.06)	(0.03)	(0.07)	(0.11)	(0.04)
Diluted	**(0.04)**	(0.03)	(0.03)	(0.06)	(0.03)	(0.07)	(0.11)	(0.04)

Note: The net income or loss per common share for each quarter is required to be calculated independently of the calculation for the year. Consequently, due to the issuance of shares in a given year, the aggregate of the four quarters may differ from the year's total.

Under the Company's successful efforts accounting policy for exploration and appraisal activity, the Company's results from quarter to quarter are affected significantly by the level and success of its drilling program.

Key factors relating to the comparison of the net loss for the last eight quarters are as follows:

- In the first quarter of 2011, the Company expensed dry-hole costs of $9,733,000 relating to the unsuccessful Grian exploration well on Block 48/28b (Sterling 57 percent) in the UK Southern North Sea;
- During the second quarter of 2011, the Company wrote-off $6,792,000 relating to overdue amounts receivable from a co-venturer in the unsuccessful Grian well, drilled on Block 48/28b in the UK Southern North Sea in the first quarter of 2011;
- Since the third quarter of 2011 the Company has recognized unrealized losses relating to the derivative financial instrument agreements which it has entered into. The total unrealized loss recognized in the income statement for the third and fourth quarter of 2011 was $2,499,000 and a further $1,716,000 in the first quarter of 2012, partially offset by an unrealized gain of $930,000 in the second quarter of 2012, followed by an unrealized loss of $2,492,000 in the third quarter;
- In the fourth quarter of 2011, the Company recognized an impairment of its producing UK onshore asset Kirkleatham of $2,930,000;
- Over the two-year period ended September 30, 2012, the Company has increased staffing levels significantly, but commensurate with an exploration and production company with a high proportion of operated licences including the Cladhan and Ana/Doina developments. These increases have had a progressive impact over the quarters on employee expense; and
- Foreign exchange gains and losses varied significantly from quarter to quarter based on prevailing foreign exchange rates as well as amounts of monetary assets held by an entity in currencies other than its functional currency.

DEVELOPMENT ACTIVITY

The first phase of development of the Breagh gas field in the UK North Sea continues but development costs have now risen to £632 million (gross), an increase of £147 million or 30 percent over the original estimate provided in the Field Development Program ("FDP") in June 2011 and an increase of 1.4 percent over the cost estimate of £623 million provided in the Company's MD&A for the period ended June 30, 2012. Prior to first gas, the increase in costs is approximately 44 percent. First gas sales are now expected between late March and late May 2013. The increase in the development cost relates principally to offshore pipeline installation (where significant additional rock-dumping costs were incurred), to modifications to the onshore gas terminal (due to late completion of the final design and the resultant effects on construction and commissioning), to onshore pipeline installation (where routing proved to be very challenging) and to drilling costs (owing to the increase in rig rates for later wells where the cost was not fixed). The delay to first gas relates to modifications at the existing onshore Teesside Gas Processing Plant ("TGPP") in order to receive and process Breagh production.

The two previously suspended wells, 42/13-3 and 42/13-5Z, have been re-drilled as production wells A-01 and A-02 respectively, and a new well A-03 has been drilled to a bottom hole location some 2,300 metres to the north of the platform. All three wells encountered materially better than expected reservoir sections. The A-01 well encountered 74 vertical feet of net pay (16 feet more than the original 42/13-3 well), the A-02 well encountered 68 vertical feet of net pay (20 feet more than the original 42/13-5Z well), and the A-03 well encountered 99 vertical feet of net pay (25 feet more than prognosis), according to the Company's evaluation. In addition, the first two wells both encountered approximately 25 feet of net pay in reservoir Zone 3 which was not encountered in either of the original wells; subject to production testing this could lead to increased reserves in the field. All three of the first wells will be production-tested and up to seven further wells will then be drilled for the development program, which may last until 2014. The first five wells are expected to be on-stream at first production.

The Company's 30 percent share of Breagh Phase 1 development costs is £189.7 million. At the end of September 2012, cumulative cash expenditure was £111.2 million with the balance of £78.5 million still to be incurred principally relating to completion of the onshore gas plant modifications, onshore gas compression and the development drilling program. Of this remaining amount, approximately £28 million is projected to be spent from October 2012 until first gas which is expected between late March and late May 2013.

The FDP addendum for Phase 2 of the Breagh development is expected to be completed in the first quarter of 2013 and governmental approval would be expected in the second quarter of 2013.

Work continues on pre-development planning for the Cladhan oil field (Sterling 26.4 percent). A final FDP is expected to be submitted in the fourth quarter of 2012 with approval expected in the first half of 2013. TAQA Bratani Limited (TAQA) assumed operatorship in October 2012.

EXPLORATION AND EVALUATION ACTIVITY

During the nine month period ended September 30, 2012, and up to the date of this report, key operational activity and expenditures included:

- In January, the award of 100 percent of two additional licences in the UK Southern North Sea Gas Basin (covering Blocks 43/15a, 43/20a, 49/18b and 49/19b), and a 50 percent interest in a licence in the Central North Sea (covering Block 16/3d) which contains the Cairngorm discovery, partnered with Stratic Energy Corporation (now Enquest plc);
- In February, the completion of the F17-09 well in Block F17 of the Dutch North Sea at a cost of $6,763,000. The well encountered hydrocarbons, with results suggesting an oil-water contact at approximately 2,000 metres subsea, but no testing was performed;
- In March, the award of the exploration licences E3 and F1 in the Dutch North Sea jointly with Wintershall Noord Zee BV (operator). Each company will have a 50 percent interest. These licences cover an area of 792 square kilometres and were awarded for a period of four years with a commitment to acquire approximately 600 square kilometres of 3D seismic, which was completed subsequent to the end of the quarter;
- Also in March, approval was obtained from the National Agency for Mineral Resources ("NAMR") for a 40 percent interest in the Romanian Black Sea Muridava block. The shallow water block, adjacent to the Company's Pelican block, contains multiple exploration plays, has existing 2D seismic coverage and contains a hydrocarbon discovery, Olimpiyskaya, drilled in 2001;

- In April, the South Cladhan exploration well, 210/29c-5, was plugged and abandoned after no hydrocarbons were encountered. The well was drilled at no cost to the Company pursuant to farm-out agreements;
- In May, the Company exchanged its 50 percent interest in UK Block 16/3d (Cairngorm) for a 10 percent interest in the Netherlands F and L Quad licences held by Enquest plc;
- In July, the Company gained a 50 percent interest in the 1,000 square kilometre Romanian Black Sea Luceafarul block. The Company will be operator, with the current concession owner Petro Ventures Europe BV holding the remaining 50 percent interest; and
- In November, drilling of the Ioana-1 well In the Romanian Black Sea was concluded. We were encouraged by the gas shows in the primary objective, however, reservoir development was poorer than expected. Evaluation is ongoing.

In the first three quarters of 2011 the Company's exploration and evaluation activity included:

- The four well Cladhan drilling program costing $26,968,000;
- The drilling of the non-operated East Breagh appraisal well 42/13a-6 costing $6,626,000; and
- The drilling of the operated Grian 48/28b-2 exploration well, costing a total of $9,733,000.

During the nine month period ended September 30, 2011 the Company relinquished its interest in Blocks 42/2b, 42/3 and 42/4 containing the Darach prospect in the UK Southern North Sea, following the operator's decision not to proceed with future work after the evaluation of seismic data acquired in 2010.

FINANCING ACTIVITIES

The Company has a senior secured credit facility for up to £105 million with BNP Paribas, Commonwealth Bank of Australia, GE Energy Financial Services and Societe Generale to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility"). The Credit Facility comprises a main tranche of £95 million and a cost-overrun tranche of £10 million, with a term of six-and-a-half years.

Development costs, operating expenditures, loan interest, commitment fees, hedging costs, UK taxes and certain other Breagh-related costs (collectively, "Breagh Costs") can be funded out of the two tranches and, after first gas, out of revenues from the field. The remaining net cash flow from the field (being revenues less Breagh Costs less scheduled loan repayment, or "Net Cash Flow") cannot be accessed by the Company until Phase 1 is fully developed ("Project Completion"), including the drilling and production testing of all wells which is currently expected to be completed in the second quarter of 2014. In addition, a cash sweep will operate whereby 75 percent of Net Cash Flow is used to pay down loan balances in addition to scheduled loan repayment obligations from December 31, 2013 onwards. The Credit Facility is anticipated to be repaid from the revenues from the Breagh gas field in accordance with a repayment schedule from December 31, 2013 up to the maturity date of December 31, 2017, although operation of the cash sweep could accelerate the timing of repayments.

The Credit Facility currently has a requirement for the Company to prepare cash flow statements (the "Cash Flow Statements") at the end of every quarter demonstrating a minimum aggregate cash balance within the Company of at least £20 million at the end of each of the following 12 months. For Cash Flow Statements prepared on or after Project Completion, this minimum cash balance is reduced to £7 million. Any cash balance accumulating in the Company's restricted account used to receive and hold Net Cash Flows from the Breagh field does not count towards this minimum cash balance. However, the Company is able to include proceeds from asset sales in the Cash Flow Statements to assist in meeting the minimum aggregate cash balance test, and in the event such proceeds are insufficient it can submit a remedial plan (a "Remedial Plan") capable of remedying any Company cash shortfall within 90 days (subject to the reasonable satisfaction of the Lenders). An amount of £10 million (approximately $16 million) had previously been held in a restricted account and reported as "non-current restricted cash" in the Company's financial statements, but as a result of the size of the cost-overrun, pursuant to the Credit Facility agreement this amount is now available to fund Breagh Costs.

For the next Cash Flow Statements to be prepared at the end of 2012, inclusion of the proceeds of the Sale Portion (see below) and the Offshore Romania Sales Process may not be sufficient to allow the Company to satisfy the minimum Company cash test for the following 12 months under the Credit Facility. In this case, the Company would intend to submit a Remedial Plan which could include proceeds of other asset sales, proceeds from any additional subordinated debt or mezzanine financing, proceeds of an equity issue, or a refinancing of the Credit Facility.

The interest rate on the main tranche of the Credit Facility currently has a margin of 4 percent over LIBOR and the cost overrun tranche has a margin of 4.5 percent over LIBOR. A hedging program has been put in place through the purchase of put options with a strike price of £0.55 per therm for volumes equivalent to 40 percent of the originally expected P90 (proved) production profile from the fourth quarter of 2012 through to the third quarter of 2014.

Availability under the two tranches is normally recalculated every six months with reference to the future cash flows expected to be generated by the Breagh gas field and certain cover ratios and other loan parameters. The next such scheduled recalculation is due at the end of December 2012. As a result of the cost increase and production delay that has arisen subsequent to the last recalculation at the end of June 2012, availability under the Credit Facility may decrease. Any such decrease may require a partial repayment of the amounts currently utilized, but the Company intends to seek a renegotiation of some terms of the Credit Facility agreement to reduce or avoid this risk. As of September 30, 2012, the Credit Facility had availability of £77,900,000 ($124,028,000) under the main tranche which was fully drawn and availability of £10 million ($16 million) under the cost overrun tranche, of which approximately £6,721,000 ($10,701,000) remained to be drawn.

The Company believes it was in compliance with the undertakings and obligations under the Credit Facility as at September 30, 2012.

On October 19, 2012, the Company announced that it had entered into the Sale and Purchase Agreement with ExxonMobil Exploration and Production Romania (“ExxonMobil”) and OMV Petrom for the sale of its 65 percent interest (the “Sale Portion”) in a portion of Block 15 Midia in the Romanian Black Sea (the “Carve-out Transaction”). The Sale Portion is on the southeastern margin of the block and covers 125,000 gross acres, or 11 percent of the total area of the Midia and Pelican Concession. The consideration for the transaction payable to Sterling is US$29.25 million upon closing, a contingent payment of US$29.25 million upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the Sale Portion, and a further contingent payment of US$19.5 million upon first commercial production from the Sale Portion. Closing is subject inter alia to governmental approvals.

FINANCING, LIQUIDITY AND SOLVENCY

Net Working Capital

As at	**September 30, 2012**	December 31, 2011
	$000s	$000s
Cash and cash equivalents	**27,207**	49,963
Restricted cash	**24,269**	5,492
Trade and other receivables	**8,794**	8,419
Derivative financial asset	**413**	–
Prepaid expenses	**212**	158
Trade and other payables	**(24,271)**	(26,881)
Derivative financial liability	**(1,382)**	–
Provisions	**(1,175)**	(1,163)
	34,067	35,988

Net working capital of $34,067,000 at September 30, 2012 decreased from year-end 2011 mainly due to the continued operational activity at Breagh, and the drilling campaigns in Romania and Netherlands, but partly offset by the funds received from the partial divestment of Cladhan.

Cash and cash equivalents at September 30, 2012 include term deposits of $5,835,000 (December 31, 2011 – $25,562,000).

Restricted cash of $24,269,000 at September 30, 2012 (December 31, 2011 – $5,492,000) comprised cash held in escrow, chiefly an amount of $3,912,000 relating to the Netherlands F17-09 well and an amount of $20,177,000 to be used for expenditure on Breagh. In accordance with the terms of the Company's Credit Facility, the £10 million ($16 million) previously held in a restricted account and reported as 'non-current restricted cash' in the Company's financial statements is available to fund Breagh cost overruns and is included in current restricted cash at September 30, 2012.

As at September 30, 2012, there is no concentration of receivables with one joint venture partner which represents a material credit risk.

Trade and other payables of $24,271,000 at September 30, 2012 were comprised mainly of accrued expenditures related to the Breagh development project. The level of this figure is indicative of the continued high level of activity in exploration and development assets.

A provision of $1,175,000 at September 30, 2012 was reduced from $1,900,000 at December 31, 2010. This provision was set up in 2010 to provide for an underpayment of employment taxes, associated interest and possible penalties relating to the Company's share option plan for UK employees. In the first quarter of 2011, certain affected individuals were determined to be non-resident and, therefore unaffected by the UK regulations, and the provision was reduced accordingly.

Commitments and Contingencies

Commitments as of September 30, 2012 for the remaining three months of 2012, for the years 2013 through 2016 and thereafter, excluding amounts held in escrow and shown as restricted cash are comprised of the following:

	2012	2013	2014	2015	2016	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	**$000s**
Facilities, oil and gas drilling	31,978	45,267	27,922	–	–	–	**105,167**
Seismic	2,951	6,955	–	–	–	–	**9,906**
Licence fees	830	1,540	1,950	2,652	3,238	–	**10,210**
Credit Facility repayment	–	868	36,859	39,125	45,072	17,998	**139,922**
Other operating	462	2,133	1,745	291	556	946	**6,133**
Office and other leases	326	847	744	599	599	2,995	**6,110**
	36,547	57,610	69,220	42,667	49,465	21,939	**277,448**

The above facilities, oil and natural gas drilling commitment in 2012 relates to the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1 and reflects the cost overruns, and the current two-well drilling program in Romania. Commitments related to the Credit Facility repayment are the minimum currently required and changes in certain conditions may lead to an acceleration of repayments (see financing activities note).

Liquidity and Solvency

As at September 30, 2012, the Company's net working capital totaled $34,067,000. The significant increase in the Phase 1 development cost of Breagh and the extensive delay in the timing of first revenues from the field are expected to result in the Company fully utilizing its Credit Facility and may also result in a deficit of cash to fund the Phase 1 development of Breagh and other corporate costs through to first revenues from Breagh. The Company is seeking to meet such a potential cash shortfall by completing the previously announced sale of a portion of the Midia block offshore Romania to ExxonMobil and OMV Petrom (see below), by completing a sell-down of other licence interests offshore Romania for which a sales process is ongoing, by selling other assets, by renegotiating or refinancing its Credit Facility in a manner that gives rise to additional upfront cash or debt capacity, by raising additional financing subordinated to the Credit Facility or an equity or equity-linked financing, or by a combination of these actions. However, there can be no assurance that the steps management is taking will be successful. Under the Credit Facility a minimum of £20 million is required to be maintained in forward-looking cash flow statements. For such cash flow statements prepared at the end of December 2012 or later, if for any reason it is no longer appropriate to include a portion of the proceeds, the Credit Facility allows for a period of three months for a remedial plan to rectify any shortfall which could include a relaxation of the minimum cash requirement. As a result of the recently announced development cost increase and production delay on Breagh the Company expects it is likely that the Lenders will require further funds to be transferred into a restricted account dedicated to meeting Breagh Costs and possibly the Lenders will further reduce the availability under the Credit Facility leading to a requirement to partially repay sums already drawn (together, the "Credit Facility Adjustment"). The Company estimates that the Credit Facility Adjustment may be up to $30 million. The Company monitors and manages its liquidity through comparisons of working capital with budgets and regular forecasts of cash requirements, and by adjusting discretionary expenditures when appropriate.

During the third quarter, the Company completed the sale of a 13.5 percent interest in the North Cladhan area (Blocks 210/29a and 210/30a) for an initial consideration of US$47 million to be received in three installments: US$22.6 million was received in August 2012; US$4.3 million is expected to be received by December 2012 upon enactment of secondary legislation providing for the application of Small Field Allowance, a tax allowance for UK supplementary corporation tax, as set out in the UK government's budget announcement in March 2012; and the balance as a carry of a portion of the Company's Cladhan development expenditures up to US$53.6 million or a cash payment of US$20.4 million, subsequent to FDP approval.

On October 19, 2012, the Company announced that it had entered into the Sale and Purchase Agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest in a portion of Block 15 Midia in the Romanian Black Sea as discussed under the Financing Activities section.

In the near term, the Company is seeking to raise additional funds via arrangement of subordinated debt or mezzanine financing and is seeking to renegotiate certain terms of the Credit Facility to give the Company greater financial flexibility. The Company expects that it will have completed the Carve-out Transaction and the Offshore Romania Sales Process by early in the first quarter of 2013 and a full refinancing by the end of the first quarter of 2013.

DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at September 30, 2012 to be approximately $16,921,000 which will be incurred between 2015 and 2036. This figure increased during 2012 due to the Breagh drilling campaign, though was partly offset by a reduction in the obligation due to the Company's sale of equity in Cladhan. During 2011 the increase was due to the development of the Breagh facilities. Risk free interest rates based on UK long-term Government bond rates varying from 3.75 percent to 4.75 percent (December 31 2011 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2011 – 2 percent) were used to calculate the decommissioning obligations at September 30, 2012.

	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
	$000s	$000s
At beginning of the period	**7,056**	1,814
Arising during the period	**455**	3,865
Obligation disposal	**(131)**	–
Revisions to estimates	**–**	1,134
Foreign exchange differences	**64**	55
Accretion of discount	**223**	188
Balance, end of the period	**7,667**	7,056

2012 PLANS

The Company outlined its plans for 2012 in its Annual Report for the year ended December 31, 2011. Several of the specific plans have been completed:

- An appraisal well to the existing oil discovery in Block F17 offshore the Netherlands was drilled. This well, designated F17-09, was spudded in late 2011 and completed in the first quarter of 2012; the well was originally planned to have been completed in 2011.
- An exploration well, 210/29c-5, was drilled on the South Cladhan prospect in UK Northern North Sea Block but did not encounter hydrocarbons and was subsequently plugged and abandoned.
- The Company stated in its 2011 Annual Report its plan to sell down the Company's interests in one or more of the Cladhan, Breagh and offshore Romania licences in order to release cash for reinvestment in these or other projects or to meet liquidity requirements under the Credit Facility. In April 2012, the Company signed a sale and purchase agreement ("SPA") with TAQA for the sale of a 13.5 percent interest in the Cladhan area. On October 19, 2012, the Company entered into a SPA with ExxonMobil and OMV Petrom for the sale of its interest in a portion of Block 15 Midia in the Romanian Black Sea. Further sales processes are underway for part of the offshore Romanian licences.
- 3D seismic has been acquired over the E3/F1 blocks offshore the Netherlands.

Other plans in the 2011 Annual Report are substantially unchanged:

- Drill two exploration wells offshore Romania. The Company commenced drilling the Ioana (gas prospect) well in September 2012, finishing drilling and abandoning the well in early November and, progressing to the Eugenia (oil prospect) well immediately afterwards.
- Complete four to five production wells as part of the Breagh Phase 1 development. It is now likely that only three wells will have been completed with the fourth well being drilled at the end of the year.
- Move ahead with the Ana/Doina development offshore Romania, with the intention of achieving development approval in 2013.
- Farm-out 50 percent of the Company's working interest in the Craiova block onshore Romania in order to fund acquisition of seismic and potentially a well to be drilled in 2013. This plan continues from 2011.
- Reach an approval on the optimum development scheme for the Cladhan field by late 2012.

Other plans in the 2011 Annual Report have changed:

- Acquire seismic over the Beverley oil prospect in the UK Central North Sea. This will now be conducted in 2013.
- Acquire seismic over part of the Midia block offshore Romania closest to the Exxon Mobil/Petrom Domino gas discovery made in early 2012. The Company has now entered in to a Sale and Purchase Agreement for this section of the Midia Block and so will not acquire seismic in this area, however the Company is progressing with a 2D seismic program over the rest of the Midia Block.
- Acquire seismic over part of the South Cladhan Blocks 210/29c and 210/30b. Discussion is ongoing in the partnership on the necessity to acquire this seismic at the moment.

These plans remain contingent on partner approval as well as availability of suitable financing and (if appropriate) farm-out partners or purchasers of licence interests.

Corporately, the Company is still considering a listing on the main board of the London Stock Exchange. The timing of the London listing depends on several factors including finalization of appraisal and development plans for Cladhan, progress on exploration and development activities offshore Romania, and wider equity market conditions. Management remains of the view that a London listing is appropriate for the Company. In addition, the Company intends to arrange debt financing for part of the development costs of its Cladhan project (subject to the outcome of the current sale process) by the first quarter of 2013, possibly involving a refinancing of the existing Breagh Credit Facility.

ADDITIONAL INFORMATION

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

CONSOLIDATED BALANCE SHEETS

As at	**September 30, 2012**	December 31, 2011
(Unaudited)	**$000s**	$000s
ASSETS (note 11)		
Current assets		
Cash and cash equivalents (note 4)	**27,207**	49,963
Restricted cash (note 5)	**24,269**	5,492
Trade and other receivables (note 6)	**8,794**	8,419
Prepaid expenses	**212**	158
Derivative financial asset (note 9)	**413**	–
	60,895	64,032
Non-current assets		
Restricted cash (note 5)	**–**	15,763
Exploration and evaluation assets (note 7)	**108,557**	121,152
Property, plant and equipment (note 8)	**233,565**	167,346
Derivative financial asset (note 9)	**572**	2,586
	342,694	306,847
	403,589	370,879
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**24,271**	26,881
Provisions (note 10)	**1,175**	1,163
Derivative financial liability (note 9)	**1,382**	–
	26,828	28,044
Non-current liabilities		
Derivative financial liability (note 9)	**1,786**	1,624
Decommissioning obligations (note 10)	**7,667**	7,056
Long-term debt (note 11)	**125,769**	72,818
	135,222	81,498
Commitments and contingencies (note 12)		
Equity		
Share capital (note 13)	**338,221**	337,711
Contributed surplus	**16,829**	13,857
Accumulated other comprehensive loss	**(25,594)**	(26,970)
Deficit	**(87,917)**	(63,261)
	241,539	261,337
	403,589	370,879

The accompanying notes are an integral part of the condensed interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2012 ("the Financial Statements").

CONSOLIDATED INCOME STATEMENTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
(Unaudited)	**$000s except per share**	$000s except per share	$000s except per share	$000s except per share
Revenue	**–**	793	**66**	1,122
Expenses				
Operating expense	**–**	74	**138**	74
Pre-licence and other exploration expenditures	**4,365**	1,988	**12,416**	9,296
Dry-hole expense (note 7)	**–**	–	**–**	9,733
Depletion, depreciation and amortization (note 8)	**98**	272	**317**	693
Unrealized (gain)/loss on derivative financial instruments (note 9)	**2,492**	1,010	**3,278**	1,010
Bad debt expense (note 6)	**–**	–	**–**	6,792
Employee expense (note 15)	**1,878**	3,090	**6,140**	7,874
General and administration	**415**	573	**1,582**	1,343
Foreign exchange (gain)/loss	**826**	991	**1,018**	5,917
Total expenses	**10,074**	7,998	**24,889**	42,732
Financing income	**(181)**	(27)	**(390)**	(227)
Financing costs (note 16)	**74**	(92)	**223**	68
Net loss for the period	**9,967**	7,086	**24,656**	41,451
Net loss per common share (note 17)				
Basic	**0.04**	0.03	**0.11**	0.21
Diluted	**0.04**	0.03	**0.11**	0.21

The accompanying notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (INCOME)

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
(Unaudited)	**$000s**	$000s	**$000s**	$000s
Net loss for the period	**9,967**	7,086	**24,656**	41,451
Foreign currency translation adjustment	**2,309**	(15,737)	**(1,376)**	(12,412)
Comprehensive loss (income)	**12,276**	(8,651)	**23,280**	29,039

The accompanying notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
(Unaudited)	$000s	$000s	$000s	$000s	$000s
Balance at January 1, 2011	290,444	9,283	(33,489)	(9,438)	256,800
Exercise of stock options (note 13)	3,408	–	–	–	3,408
Public equity issuances (net of costs) (note 13)	42,520	–	–	–	42,520
Transferred from contributed surplus on exercise of options	1,339	(1,339)	–	–	–
Share-based compensation (note 15)	–	4,409	–	–	4,409
Foreign currency translation into presentation currency	–	–	12,412	–	12,412
Loss for the period	–	–	–	(41,451)	(41,451)
Balance at September 30, 2011	337,711	12,353	(21,077)	(50,889)	278,098
Balance at January 1, 2012	**337,711**	**13,857**	**(26,970)**	**(63,261)**	**261,337**
Exercise of stock options (note 13)	**343**	**–**	**–**	**–**	**343**
Transferred from contributed surplus on exercise of options	**167**	**(167)**	**–**	**–**	**–**
Share-based compensation (note 15)	**–**	**3,139**	**–**	**–**	**3,139**
Foreign currency translation into presentation currency	**–**	**–**	**1,376**	**–**	**1,376**
Loss for the period	**–**	**–**	**–**	**(24,656)**	**(24,656)**
Balance at September 30, 2012	**338,221**	**16,829**	**(25,594)**	**(87,917)**	**241,539**

The accompanying notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
	$000s	$000s	**$000s**	$000s
Cash flows from operating activities				
Loss for the period	**(9,967)**	(7,086)	**(24,656)**	(41,451)
Adjustments to add (deduct) non-cash items				
Unrealized foreign exchange (gain) loss	**122**	(843)	**296**	(147)
Unrealized loss on derivative financial instruments	**2,492**	1,010	**3,278**	1,010
Share-based compensation (note 15)	**604**	1,537	**3,139**	4,409
Accretion (note 16)	**74**	(92)	**223**	68
Depletion, depreciation and amortization (note 8)	**98**	272	**317**	693
Change in non-cash working capital	**(747)**	(528)	**(1,098)**	(1,516)
Cash flows (used in) operating activities	**(7,324)**	(5,730)	**(18,501)**	(36,934)
Cash flows from investing activities				
Increase in restricted cash (note 5)	**(19,601)**	(13,564)	**(18,777)**	(21,305)
Exploration and evaluation asset additions (note 7)	**(3,651)**	(34,199)	**(11,157)**	(140,962)
Property, plant and equipment additions (note 8)	**(28,733)**	(5,198)	**(64,035)**	(5,877)
Proceeds from sale of assets	**22,647**	–	**22,647**	–
Change in non-cash working capital	**1,836**	(28,896)	**(1,928)**	11,945
Cash flows (used in) investing activities	**(27,502)**	(81,857)	**(73,250)**	(156,199)
Cash flows from financing activities				
Premium paid on derivative financial instruments (note 9)	**–**	(3,543)	**–**	(3,543)
Proceeds from public equity issue (note 13)	**–**	42,520	**–**	42,520
Proceeds from loan funds (note 11)	**13,749**	58,245	**52,574**	58,245
Decrease in restricted cash (note 5)	**16,039**	–	**15,763**	–
Increase in transaction costs on debt (note 11)	**(97)**	–	**(208)**	–
Proceeds from exercise of share options (note 13)	**–**	74	**343**	3,408
Change in non-cash working capital	**901**	–	**969**	–
Cash flows provided by financial activities	**30,592**	97,296	**69,441**	100,630
Effect of translation on foreign currency cash and cash equivalents	**194**	8,531	**(446)**	7,918
Decrease in cash and cash equivalents during the period	**(4,040)**	18,240	**(22,756)**	(84,585)
Cash and cash equivalents, beginning of the period	**31,247**	39,799	**49,963**	142,624
Cash and cash equivalents, end of the period	**27,207**	58,039	**27,207**	58,039

The accompanying notes are an integral part of the Financial Statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As at and for the Three and Nine Months Ended September 30, 2012

1. CORPORATE INFORMATION

Sterling Resources Ltd. (the “Company”) is a publicly traded energy company incorporated and domiciled in Canada. The Company is engaged in the exploration, appraisal and development of crude oil and natural gas in the United Kingdom, Romania, the Netherlands and France. The registered office is located at Suite 1450, 736 Sixth Avenue S.W., Calgary, Alberta, Canada.

The Company’s Financial Statements comprise the financial statements of the Company and the wholly owned group of companies: Sterling Resources (UK) Ltd., Sterling Resources Netherlands B.V., and Midia Resources SRL.

These unaudited condensed interim consolidated financial statements (“the Financial Statements”) were approved for issue at a meeting of the Audit Committee on November 21, 2012.

2. GOING CONCERN

Since its inception, the efforts of the Company have been devoted to the pursuit of petroleum exploration licences, seismic acquisition and drilling at the exploration and appraisal stage, and development and pre-development activities. To date, the Company has not earned significant revenue from these operations and is considered to be in the development stage. The ability to reach the production stage is dependent upon the ability of the Company to obtain sufficient financing to fulfill its obligations relating to its petroleum exploration and production licences and its credit facility. At September 30, 2012, the Company had working capital surplus of $34,067,000, a deficit of ($87,917,000) and a net loss for the three and nine months ended September 30, 2011 of $9,967,000 and $24,656,000, respectively.

The significant increase in the Phase 1 development cost of Breagh and the extensive delay in the timing of first revenues from the field are expected to result in the Company fully utilizing its credit facility and may also result in a deficit of cash to fund the Phase 1 development of Breagh and other corporate costs through to first revenues from Breagh. The Company is seeking to meet such a potential cash shortfall by completing the previously announced sale of a portion of the Midia block offshore Romania to ExxonMobil Exploration and Production Romania (“ExxonMobil”) and OMV Petrom, by completing a sell-down of other licence interests offshore Romania for which a sales process is ongoing, by selling other assets, by renegotiating or refinancing its credit facility in a manner that gives rise to additional upfront cash or debt capacity, by raising additional financing subordinated to the credit facility or an equity or equity-linked financing, or by a combination of these actions. However, there can be no assurance that the steps management is taking will be successful. Without receipt of proceeds from asset sales, from additional financing or a renegotiation or refinancing of its credit facility leading to an ability to bring the Breagh development on-stream, there is some doubt as to the Company’s ability to continue as a going concern.

These condensed interim consolidated financial statements have been prepared by management in accordance with accounting principles applicable to a going concern which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The recoverability of the costs incurred to date is uncertain and dependent upon achieving commercial production or sale, and the ability of the Company to obtain sufficient financing. The condensed interim consolidated financial statements do not reflect adjustments in the carrying values of assets and liabilities, revenue or expenses and the classification used on the balance sheet that would be necessary if the going concern assumption was not appropriate. Such adjustments would be material.

3. BASIS OF PREPARATION

Statement of Compliance

These Financial Statements were prepared in accordance with IAS 34, Interim Financial Reporting under the historical cost convention. They do not contain all disclosures required by IFRS for annual financial statements and, accordingly, should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2011.

The presentation currency of these Financial Statements is the Canadian dollar.

These Financial Statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2011.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

As at	**September 30, 2012**	December 31, 2011
	$000s	$000s
Cash	**21,372**	24,401
Cash equivalents	**5,835**	25,562
	27,207	49,963
Balances held in:		
Canadian dollars	**2,897**	3,914
US dollars	**17,763**	3,744
UK pounds	**4,772**	37,306
Other	**1,775**	4,999
Cash and cash equivalents	**27,207**	49,963

As at September 30, 2012, cash equivalents carried interest rates between 0.03 percent and 1.75 percent (December 31, 2011 – between 0.03 percent and 1.75 percent).

5. RESTRICTED CASH

Restricted cash of $24,269,000 at September 30, 2012 (December 31, 2011 – $5,492,000) comprised cash held in escrow, chiefly an amount of $3,912,000 relating to the Netherlands F-17-09 well and an amount of $20,177,000 to be used for expenditure on Breagh. In accordance with the terms of the Company's credit facility, the £10 million ($16 million) previously held in a restricted account and reported as 'non-current restricted cash' in the Company's financial statements is available to fund Breagh cost overruns and is included in current restricted cash at September 30, 2012.

6. FINANCIAL INSTRUMENTS

The Company is exposed to various financial risks arising from normal-course business exposure as well as its use of financial instruments. These risks include market risks relating to foreign exchange rate fluctuations and interest rate risk, as well as liquidity risk, commodity price risk and credit risk as described below.

Foreign Exchange Rate Risk

The Company's functional currencies for the UK and Netherlands, Canadian and Romanian operations are the UK pound, Canadian dollar and US dollar, respectively. Foreign exchange gains or losses can occur on translation of working capital denominated in currencies other than the functional currency of the jurisdiction which holds the working capital item. Excluding the impact of changes in the cross-rates, a 1 percent fluctuation in translation rates would have the following impact on net income or loss, based on foreign currency balances held at September 30, 2012.

	$000s
Canadian dollar vs. UK pound	(16)
Canadian dollar vs. US dollar	7
UK pound vs. Euro	17
UK pound vs. US dollar	256

Interest Rate Risk

The interest rate charged under the credit facility is LIBOR plus a margin that varies at different stages of the life of the loan. Based on the balance at September 30, 2012, a 1 percentage point change over a nine month period in the average LIBOR interest rate on the loan amount would increase or decrease net income or loss by approximately $975,000.

In addition, from time to time the Company may have significant cash or cash-equivalent balances invested at prevailing short-term interest rates. Accordingly, cash flows are sensitive to changes in interest rates on these investments. Based on total cash and cash equivalents and restricted cash at September 30, 2012, a 1 percentage point change in average interest rates over a nine month period would increase or decrease net income or loss by approximately $386,000.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The significant increase in the Phase 1 development cost of Breagh and the extensive delay in the timing of first revenues from the field are expected to result in the Company fully utilizing its credit facility and may also result in a deficit of cash to fund the Phase 1 development of Breagh and other corporate costs through to first revenues from Breagh. The Company is seeking to meet such a potential cash shortfall by completing the previously announced sale of a portion of the Midia block offshore Romania to ExxonMobil and OMV Petrom (see below), by completing a sell-down of other licence interests offshore Romania for which a sales process is ongoing, by selling other assets, by renegotiating or refinancing its credit facility in a manner that gives rise to additional upfront cash or debt capacity, by raising additional financing subordinated to the credit facility or an equity or equity-linked financing, or by a combination of these actions. However, there can be no assurance that the steps management is taking will be successful. Under the credit facility a minimum of £20 million is required to be maintained in forward-looking cash flow statements. For such cash flow statements prepared at the end of December 2012 or later, if for any reason it is no longer appropriate to include a portion of the proceeds, the credit facility allows for a period of three months for a remedial plan to rectify any shortfall which could include a relaxation of the minimum cash requirement. As a result of the recently announced development cost increase and production delay on Breagh the Company expects it is likely that the Lenders will require further funds to be transferred into a restricted account dedicated to meeting Breagh Costs and possibly the Lenders will further reduce the availability under the credit facility leading to a requirement to partially repay sums already drawn (together, the “Credit Facility Adjustment”). The Company estimates that the Credit Facility Adjustment may be up to $30 million. The Company monitors and manages its liquidity through comparisons of working capital with budgets and regular forecasts of cash requirements, and by adjusting discretionary expenditures when appropriate.

During the third quarter, the Company completed the sale of a 13.5 percent interest in the North Cladhan area (Blocks 210/29a and 210/30a) for an initial consideration of US$47 million to be received in three installments: US$22.6 million was received in August 2012; US$4.3 million is expected to be received by December 2012 upon enactment of secondary legislation providing for the application of Small Field Allowance, a tax allowance for UK supplementary corporation tax, as set out in the UK government’s budget announcement in March 2012; and the balance as a carry of a portion of the Company’s Cladhan development expenditures up to US$53.6 million or a cash payment of US$20.4 million, subsequent to Field Development Plan (“FDP”) approval.

On October 19, 2012, the Company announced that it had entered into the Sale and Purchase Agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest (the “Sale Portion”) in a portion of Block 15 Midia in the Romanian Black Sea (the “Carve-out Transaction”). The Sale Portion is on the southeastern margin of the block and covers 125,000 gross acres, or 11 percent of the total area of the Midia and Pelican Concession. The consideration for the transaction payable to Sterling is US$29.25 million upon closing, a contingent payment of US$29.25 million upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the Sale Portion, and a further contingent payment of US$19.5 million upon first commercial production from the Sale Portion. Completion is subject inter alia to governmental approvals.

The Company expects that it will have completed the Carve-out Transaction, the Offshore Romania Sales Process and a full refinancing by the end of the first quarter of 2013.

Commodity Price Risk

The Company is exposed to the risk of fluctuations in prevailing market commodity prices on natural gas produced. For Breagh, the Company sells gas produced at a price linked to the UK spot market which is a liquid market. The Company's policy is only to manage this risk to the extent required under its credit facility, through the use of derivative commodity contracts. The Company was required under its credit facility to purchase monthly cash-settled put options to hedge 40 percent of its forecast gas production volumes from proved reserves (P90) from the first phase of Breagh development, for a 24-month period starting on October 1, 2012 (see note 9).

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Company. The Company's trade and other receivables are primarily with governments for recoverable amounts of value added taxes ("VAT") or joint venture partners in the oil and natural gas industry. At September 30, 2012 there is no concentration of receivables with one joint venture partner which represents a material credit risk. Impairment to a financial asset is only made when there is objective evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated. Evidence of impairment may include default or delinquency by a debtor or indicators that the debtor may enter bankruptcy. In the second quarter of 2011, $6,792,000 had been written off against a receivable due from a partner. Collection efforts are continuing. Of the amounts past due at September 30, 2012 the majority have been paid subsequent to quarter end.

The Company has entered into derivative financial instruments and deposited its cash, cash equivalents and restricted cash with reputable financial institutions, with which management believes the risk of loss to be remote. The maximum credit exposure associated with financial assets is their carrying values. At September 30, 2012 the cash, cash equivalents and restricted cash were held with six different financial institutions from five different countries. The derivative contracts were held with three of the same financial institutions providing the credit facility thereby further mitigating credit risk.

Capital Management

The primary objective of the Company's capital management is to ensure sufficient funds are available for operational purposes while retaining flexibility to cope with adverse movements in production rates, commodity prices and interest rates. A secondary objective is to have a capital structure broadly comparable with its peer group of international exploration and production companies, to assist in achieving an efficient market valuation. In addition, the Company must comply with the terms of its credit facility which include a cash sweep, a loan repayment schedule and undertakings relating to minimum consolidated group cash levels (refer to note 11).

The Company may amend its capital structure to fit with its corporate objectives by issuing equity or equity-linked instruments and by issuing debt or entering into, or extending, credit facilities with banks. No dividend payment or return of capital to shareholders is contemplated for the foreseeable future.

The Company assesses its capital structure on a forward-looking basis by modeling net cash flows over the next few years and considering the economic conditions and operational factors which could lead to financial stress. A range of measurement tools is used, including gearing (net debt divided by the sum of equity and net debt), net cash flow coverage of net interest payments, and the time to repay net debt from net cash flow. No specific numerical range for each of these parameters is targeted, as the overall assessment reflects a consideration of a wide range of factors.

No changes were made in the objectives, policies or processes during the period ended September 30, 2012.

7. EXPLORATION AND EVALUATION ASSETS

During the nine month period ended September 30, 2012, $3,331,000 of directly attributable general and overhead costs were capitalized to exploration and evaluation assets (September 30, 2011 – $2,669,000).

The exploration and evaluation assets disposed of figure relates to the sale of a 13.5 percent interest In the North Cladhan area (Blocks 210/29a and 210/30a).

The field development program for Phase 1 of the Breagh Gas Field received approval of the UK Department of Energy and Climate Change on July 25, 2011, and consequently the Breagh carrying values were transferred from the exploration and evaluation category to the property, plant and equipment category. The asset was tested for impairment on transfer and none was found.

In accordance with the Company's impairment policy, exploration and evaluation assets were reviewed for indicators of impairment at the reporting dates. Based upon these reviews, management determined that no impairment test was needed.

	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
	$000s	$000s
Balance, beginning of the period	**121,152**	119,991
Additions		
Cash expenditures	**11,157**	170,693
Non cash decommissioning costs	**–**	1,216
Dry hole expense	**–**	(9,733)
Exploration assets disposed/relinquished	**(22,567)**	(5,715)
Transfers to producing oil and gas properties	**–**	(156,786)
Foreign exchange	**(1,185)**	1,486
Balance, end of the period	**108,557**	121,152

8. PROPERTY, PLANT AND EQUIPMENT

Within the development oil and gas properties category is the amount transferred from exploration and evaluation assets for Breagh. This is not subject to depletion as it is not ready for its intended use. During the nine month period ended September 30, 2012, $349,000 directly attributable general and overhead costs were capitalized to development oil and gas properties (2011 – $234,000).

	Nine Months Ended September 30, 2012			Year Ended December 31, 2011		
	Development Oil & Gas Properties	**Corporate and Other**	**Total**	Development Oil & Gas Properties	Corporate and Other	Total
	$000s	**$000s**	**$000s**	$000s	$000s	$000s
Cost						
Balance, beginning of the period	**170,790**	**1,118**	**171,908**	–	615	615
Additions						
– Cash expenditures	**63,502**	**533**	**64,035**	9,922	496	10,418
– Non-cash decommissioning costs	**455**	**–**	**455**	3,783	–	3,783
Transfers from exploration and evaluation	**–**	**–**	**–**	156,786	–	156,786
Foreign exchange differences	**2,055**	**6**	**2,061**	299	7	306
Balance, end of the period	**236,802**	**1,657**	**238,459**	170,790	1,118	171,908
Accumulated depreciation and depletion						
Balance, beginning of the period	**(4,002)**	**(560)**	**(4,562)**	–	(402)	(402)
Depreciation and depletion	**(40)**	**(277)**	**(317)**	(1,053)	(153)	(1,206)
Impairment of oil and gas properties	**–**	**–**	**–**	(2,930)	–	(2,930)
Foreign exchange differences	**(9)**	**(6)**	**(15)**	(19)	(5)	(24)
Balance, end of the period	**(4,051)**	**(843)**	**(4,894)**	(4,002)	(560)	(4,562)
Net Book Value						
Balance, beginning of the period	**166,788**	**558**	**167,346**	–	213	213
Balance, end of the period	**232,751**	**814**	**233,565**	166,788	558	167,346

9. DERIVATIVE FINANCIAL INSTRUMENTS

As a requirement of the credit facility, described below, the Company has purchased monthly cash-settled put options to hedge 40 percent of its forecast gas production volumes from proved reserves (P90) from the first phase of Breagh development, for a 24-month period starting on October 1, 2012. The strike price for the options is 55 pence per therm (100,000 British thermal units) and the total volume hedged is 10.1 billion cubic feet (Bcf). Half of the put options were purchased for an upfront cash premium of £2,195,000, ($3,543,000) and the other half on a deferred premium basis for a total cost of £2,713,000, to be settled on a monthly basis during the option exercise period.

The Company has recognized the up-front premium paid for the put options as a derivative financial asset. The derivatives are then revalued to their fair value at period-ends. For the deferred premium put options the Company has recognized a derivative financial liability for the discounted cost of those premiums offset by their revaluation at period-ends. Any gain or loss arising is recorded through the income statement in the same period in which it arises. For the three month period ended September 30, 2012, the Company has recognized an unrealized loss of $2,492,000 (September 30, 2011 – $1,010,000) in the period, resulting in an unrealized loss of $3,278,000 (September 30, 2011 – $1,010,000) on derivative financial instruments for the nine months.

As at September 30, 2012 the forward curve for the period covered by the options sits in a range between 59 pence and 73 pence per therm, and as a result the options purchased are currently out-of-the-money.

10. PROVISIONS

The following is a continuity of provisions:

	Nine Months Ended September 30, 2012			Year Ended December 31, 2011		
	Decommissioning	**Other**	**Total**	Decommissioning	Other	Total
	$000s	**$000s**	**$000s**	$000s	$000s	$000s
Balance, beginning of the period	**7,056**	**1,163**	**8,219**	1,814	1,900	3,714
Arising during the period	**455**	**–**	**455**	3,865	–	3,865
Obligation disposal	**(131)**	**–**	**(131)**	–	–	–
Revisions to estimates	**–**	**–**	**–**	1,134	(653)	481
Foreign exchange differences	**64**	**12**	**76**	55	(84)	(29)
Accretion of discount	**223**	**–**	**223**	188	–	188
Balance, end of the period	**7,667**	**1,175**	**8,842**	7,056	1,163	8,219

Decommissioning Obligations

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas interests in which there has been exploration, appraisal and development activity. The provision is the discounted present value of the estimated cost, using existing technology at current prices. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at September 30, 2012 to be approximately $16,921,000 which will be incurred between 2015 and 2036. This figure increased during 2012 due to the Breagh drilling campaign, partly offset by a reduction in the obligation due to the Company's sale of equity in Cladhan. Risk free interest rates based on UK long-term Government bond rates varying from 3.75 percent to 4.75 percent (December 31 2011 – 3.75 to 4.75 percent) and an inflation rate of 2 percent (December 31, 2011 – 2 percent) were used to calculate the decommissioning obligations at September 30, 2012.

Other Provisions

Provisions of $1,175,000 at September 30, 2012 have been reduced from $1,900,000 at December 31, 2010. This provision was set up in 2010 to provide for an underpayment of employment taxes, associated interest and possible penalties relating to the Company's share option plan for UK employees. In the first quarter of 2011, certain affected individuals were determined to be non-resident and, therefore unaffected by the UK regulations, and the provision was reduced accordingly. The Company believes that resolution with the relevant parties will be reached in 2012.

11. LONG-TERM DEBT

The Company has a senior secured credit facility for up to £105 million with BNP Paribas, Commonwealth Bank of Australia, GE Energy Financial Services and Societe Generale to fund the Phase 1 development of the Breagh gas field (Sterling 30 percent) and related costs (the "Credit Facility"). The Credit Facility comprises a main tranche of £95 million and a cost-overrun tranche of £10 million, with a term of six-and-a-half years. The interest rate on the main tranche currently has a margin of 4 percent over LIBOR, which will drop to 3.5 percent over LIBOR in the period following project completion, and for the cost-overrun tranche the margin is 4.5 percent over LIBOR. Availability under the two tranches is normally recalculated every six months with reference to the future cash flows expected to be generated by the Breagh gas field and certain cover ratios and other loan parameters.

Development costs, operating expenditures, loan interest, commitment fees, hedging costs, UK taxes and certain other Breagh-related costs (collectively, "Breagh Costs") can be funded out of the two tranches and, after first gas, out of revenues from the field. The remaining net cash flow from the field (being revenues less Breagh Costs less scheduled loan repayment, or "Net Cash Flow") cannot be accessed by the Company until Phase 1 is fully developed ("Project Completion"), including the drilling and production testing of all wells which is currently expected to be completed in the second quarter of 2014. In addition, a cash sweep will operate whereby 75 percent of Net Cash Flow is used to pay down loan balances in addition to scheduled loan repayment obligations from December 31, 2013 onwards. The Credit Facility is anticipated to be repaid from the revenues from the Breagh gas field in accordance with a repayment schedule from December 31, 2013 up to the maturity date of December 31, 2017, although operation of the cash sweep could accelerate the timing of repayments.

The Credit Facility currently has a requirement for the Company to prepare cash flow statements (the "Cash Flow Statements") at the end of every quarter demonstrating a minimum aggregate cash balance within the Company of at least £20 million at the end of each of the following 12 months. For Cash Flow Statements prepared on or after Project Completion, this minimum cash balance is reduced to £7 million. Any cash balance accumulating in the Company's restricted account used to receive and hold Net Cash Flows from the Breagh field does not count towards this minimum cash balance. However, the Company is able to include proceeds from asset sales in the Cash Flow Statements to assist in meeting the minimum aggregate cash balance test, and in the event such proceeds are insufficient it can submit a remedial plan (a "Remedial Plan") capable of remedying any Company cash shortfall within 90 days (subject to the reasonable satisfaction of the Lenders). An amount of £10 million (approximately $16 million) had previously been held in a restricted account and reported as "non-current restricted cash" in the Company's financial statements, but as a result of the size of the cost-overrun, pursuant to the Credit Facility agreement this amount is now available to fund Breagh Costs.

For the next Cash Flow Statements to be prepared at the end of 2012, inclusion of the proceeds of the Sale Portion (see note 6) and the Offshore Romania Sales Process may not be sufficient to allow the Company to satisfy the minimum Company cash test for the following 12 months under the Credit Facility. In this case, the Company would intend to submit a Remedial Plan which could include proceeds of other asset sales, proceeds from any additional subordinated debt or mezzanine financing, proceeds of an equity issue, or a refinancing of the Credit Facility.

The next such scheduled recalculation is due at the end of December 2012. As a result of the cost increase and production delay that has arisen subsequent to the last recalculation at the end of June 2012, availability under the Credit Facility may decrease. Any such decrease may require a partial repayment of the amounts currently utilized, but the Company intends to seek a renegotiation of some terms of the Credit Facility agreement to reduce or avoid this risk. Pursuant to the previous loan availability recalculation at the end of June 2012, the Lenders assumed a three-month delay in first gas from the previously expected date of December 2012 to March 2013 and may now assume a further delay from March 2013 and a further cost increase.

As of September 30, 2012, the Credit Facility had availability of £77,900,000 ($124,028,000) under the main tranche which was fully drawn and availability of £10 million ($16 million) under the cost overrun tranche of which approximately £6,721,000 ($10,701,000) remains to be drawn.

The Company believes it was in compliance with the undertakings and obligations under the Credit Facility as at September 30, 2012.

$000s	**Nine Months Ended September 30, 2012**	Year Ended December 31, 2011
Balance, beginning of period	**72,818**	–
Proceeds from loan funds	**52,574**	77,392
Transaction costs	**(208)**	(4,766)
Amortization of transaction costs	**596**	192
Foreign exchange differences	**(11)**	–
Balance, end of period	**125,769**	72,818

12. COMMITMENTS AND CONTINGENCIES

Commitments as of September 30, 2012 for the remaining three months of 2012, for the years 2013 through 2016 and thereafter, excluding amounts held in escrow and shown as restricted cash are comprised of the following:

	2012	2013	2014	2015	2016	Thereafter	**Total**
	$000s	$000s	$000s	$000s	$000s	$000s	**$000s**
Facilities, oil and gas drilling	31,978	45,267	27,922	–	–	–	**105,167**
Seismic	2,951	6,955	–	–	–	–	**9,906**
Licence fees	830	1,540	1,950	2,652	3,238	–	**10,210**
Credit Facility repayment	–	868	36,859	39,125	45,072	17,998	**139,922**
Other operating	462	2,133	1,745	291	556	946	**6,133**
Office and other leases	326	847	744	599	599	2,995	**6,110**
	36,547	57,610	69,220	42,667	49,465	21,939	**277,448**

The above facilities, oil and natural gas drilling commitment in 2012 relates to the current two-well drilling program in Romania and the firm development wells contracted to be drilled and the additional facilities required as part of the Breagh Phase 1 and reflects the cost overruns. Commitments related to the Credit Facility repayment are the minimum currently required and changes in certain conditions may lead to an acceleration of repayments (see note 11).

13. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value. The holders of common shares are entitled to one vote per share and are entitled to receive dividends as recommended by the Board of Directors. Share capital issued and outstanding is as follows:

	Nine Months Ended September 30, 2012		Year Ended December 31, 2011	
	Shares	**Amount**	Shares	Amount
Continuity of Common Shares	**$000s**	**$000s**	$000s	$000s
Balance, beginning of the period	**222,644**	**337,711**	188,944	290,444
Issued for cash:				
– public equity issuances	**–**	**–**	32,143	45,000
– exercise of stock options	**225**	**343**	1,557	3,408
Share issue costs	**–**	**–**	–	(2,480)
Transferred from contributed surplus on exercise of options	**–**	**167**	–	1,339
Balance, end of the period	**222,869**	**338,221**	222,644	337,711

On August 16, 2011 the Company completed a bought-deal financing arrangement with a syndicate of underwriters for the issuance of 32,143,000 common shares at a price of $1.40 per common share for net proceeds of $42,520,000, after fees and expenses.

14. SEGMENTED INFORMATION

The Company has four geographical reporting segments. Canada is the location of the head office. The United Kingdom, Romania and other international locations are involved in exploration and development operations. Other international comprises operations in France and Netherlands.

Segmented Results	Canada $000s	United Kingdom $000s	Romania $000s	Other International $000s	Consolidated $000s
Three Months Ended September 30, 2012					
Revenues	**–**	**–**	**–**	**–**	**–**
Net loss	**(1,060)**	**(4,072)**	**(3,822)**	**(1,013)**	**(9,967)**
Nine Months Ended September 30, 2012					
Revenues	**–**	**66**	**–**	**–**	**66**
Net loss	**(4,442)**	**(11,666)**	**(6,008)**	**(2,540)**	**(24,656)**
Three Months Ended September 30, 2011					
Revenues	–	793	–	–	793
Net loss	(1,945)	(4,513)	(1,608)	980	(7,086)
Nine Months Ended September 30, 2011					
Revenues	–	1,122	–	–	1,122
Dry hole expense	–	(9,733)	–	–	(9,733)
Net loss	(6,684)	(26,364)	(6,285)	(2,118)	(41,451)

Segmented Results	Canada $000s	United Kingdom $000s	Romania $000s	Other International $000s	Consolidated $000s
As at and for the Nine Month Period Ended September 30, 2012					
Exploration and evaluation assets	**–**	**70,861**	**30,159**	**7,537**	**108,557**
Exploration and evaluation asset additions	**–**	**4,619**	**2,615**	**3,923**	**11,157**
Development properties	**–**	**232,751**	**–**	**–**	**232,751**
Development properties additions	**–**	**63,502**	**–**	**–**	**63,502**
As at and for the Nine Month Period Ended September 30, 2011					
Exploration and evaluation assets	–	79,531	29,198	806	109,535
Exploration and evaluation asset additions (net)	–	138,977	1,179	806	140,962
Development properties	–	161,545	–	–	161,545
Development properties additions	–	5,877	–	–	5,877

15. SHARE-BASED COMPENSATION

The following is a continuity of outstanding stock options:

	Nine Months Ended September 30, 2012		Year Ended December 31, 2011	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Continuity of Common Share Options	**000s**	**$**	000s	$
Balance, beginning of the period	**14,865**	**2.07**	11,949	2.18
Granted during the period	**195**	**1.71**	5,090	1.88
Exercised/Released during the period	**(225)**	**1.52**	(1,557)	2.19
Cancelled/Forfeited during the period	**(161)**	**3.22**	–	–
Expired during the period	**(1,302)**	**1.89**	(617)	2.29
Outstanding, end of the period	**13,372**	**2.08**	14,865	2.07
Exercisable, end of the period	**7,662**	**2.06**	5,070	2.11

The Black-Scholes option pricing model was used to calculate the fair value of the options granted during the period using the following weighted average assumptions:

	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
Weighted average share price	**$1.71**	$1.88
Weighted average exercise price	**$1.71**	$1.88
Risk-free interest rate	**1.12%**	1.97%
Weighted-average forfeiture rate	**1.65%**	1.98%
Expected hold period to exercise	**3.5 years**	3.5 years
Volatility in the price of the Company's shares	**75.4%**	77.3%
Expected annual dividend yield	**0%**	0%

The weighted average fair value of options granted during the nine month period ended September 30, 2012 was $0.90 per share (year ended December 31, 2011 – $1.02 per share). For the third quarter ended September 30, 2012, $604,000 (September 30, 2011 – $1,537,000) of share-based compensation was expensed and was included in the employee expense figure of $1,878,000 (September 30, 2011 – $3,090,000). For the nine month period ended September 30, 2012, $3,139,000 (September 30, 2011 – $4,409,000) of share-based compensation was expensed and was included in the employee expense figure of $6,140,000 (September 30, 2011 – $7,874,000).

The following stock options were outstanding as at September 30, 2012:

Exercise Price		Options Outstanding			Options Exercisable		
From $	To $	Options 000s	Remaining Contract Life (Days)	Weighted Average Exercise Price	Options 000s	Remaining Contract Life (Days)	Weighted Average Exercise Price
1.29	1.49	2,585	632	1.40	2,018	467	1.41
1.50	1.99	4,660	928	1.81	1,710	567	1.83
2.00	2.49	2,440	609	2.03	1,613	421	2.03
2.50	2.99	2,337	455	2.61	1,837	323	2.60
3.00	3.49	1,100	783	3.33	367	419	3.33
3.50	4.25	250	714	4.25	117	304	4.25
1.29	4.25	13,372	714	2.08	7,662	440	2.06

16. FINANCING COSTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
	$000s	$000s	**$000s**	$000s
Interest expense	**1,500**	–	**5,318**	–
Amortization of debt issue expense	**209**	–	**596**	–
Capitalization of interest and amortization of debt issue expense	**(1,709)**	–	**(5,914)**	–
	–	–	**–**	–
Accretion (note 10)	**74**	(92)	**223**	68
Total financing costs	**74**	(92)	**223**	68

17. NET LOSS PER SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
Weighted average shares outstanding (000s)	**222,869**	206,055	**222,782**	195,602
Net loss ($000s)	**9,967**	7,086	**24,656**	41,451
Weighted average net loss per share ($ per share)				
Basic	**0.04**	0.03	**0.11**	0.21
Diluted	**0.04**	0.03	**0.11**	0.21

For the periods ended September 30, 2012 and 2011, the dilutive effect of all the Company's outstanding options was not included in diluted shares outstanding due to the net loss incurred in each period.

18. SUBSEQUENT EVENTS

On October 19, 2012, the Company announced that it had entered into the Sale and Purchase Agreement with ExxonMobil and OMV Petrom for the sale of its 65 percent interest (the "Sale Portion") in a portion of Block 15 Midia in the Romanian Black Sea. The Sale Portion is on the southeastern margin of the block, in deeper waters and covers 125,000 gross acres, or 11 percent of the total area of the Midia and Pelican Concession.

The consideration for the transaction payable to Sterling is US$29.25 million upon closing, a contingent payment of US$29.25 million upon satisfaction of certain conditions relating to any hydrocarbon discovery made on the Sale Portion, and a further contingent payment of US$19.5 million upon first commercial production from the Sale Portion. Closing is subject inter alia to governmental approvals.

The sale does not include any of the discoveries of other prospects in the Midia block and will not be affected by the results of the recently drilled Ioana–1 well. The previously announced process for the partial divestment of Sterling's interest in the Luceafarul, Midia and Pelican blocks continues, excluding the Sale Portion.

On November 7, 2012, the Company announced that drilling of the Ioana-1 well in the Romanian Black Sea was concluded. Gas shows from drilling mud measurement were experienced from 500 metres measured depth ("MD") to total depth of 1,950 metres MD confirming potential trap and gas sourcing into the structure, but reservoir development was poorer than expected. Evaluation is ongoing.

On November 13 the Company announced the appointment of John Collenette to the Board of Sterling Resources Ltd.

On November 13, 2012 the Company announced an offering of common shares in the capital of the Company. Subsequently on November 15, 2012 the Company announced the termination of the offer.

CORPORATE INFORMATION

DIRECTORS

WALTER DEBONI [(1) (5) (6)]
Chair
Calgary, Canada

MICHAEL J. AZANCOT
Farnham, England

ROBERT B. CARTER [(3) (4) (5)]
Calgary, Canada

JOHN COLLENETTE
London, England

STEWART G. GIBSON [(1)]
Aboyne, Scotland

TECK SOON KONG [(3) (5)]
London, England

GRAEME G. PHIPPS [(1) (2) (3)]
St. Helier, Jersey

(1) Reserves Committee
(2) Chair of Reserves Committee
(3) Audit Committee
(4) Chair of Audit Committee
(5) Governance and Compensation Committee
(6) Chair of Governance and Compensation Committee

MANAGEMENT

MICHAEL J. AZANCOT
President and Chief Executive Officer

MARK BEACOM
Vice President and General Manager Romania

DAVID M. BLEWDEN
Chief Financial Officer

STEPHEN BIRRELL
Vice President and General Manager Netherlands and France

SHERRY L. CREMER
Treasurer and Corporate Secretary

DAVID DAVIES
Vice President Business Development

DAVID A. FINDLATER
Vice President Exploration

GRAEME HETHERINGTON
Group Financial Controller

GEORGE KESTEVEN
Manager, Corporate and Investor Relations

JOHN M. RAPACH
Chief Operating Officer

PATRICK WHITLEY
Vice President Exploration International

CORPORATE HEADQUARTERS

STERLING RESOURCES LTD.
Suite 1450, 736 Sixth Avenue S.W.
Calgary, Alberta, Canada T2P 3T7
Tel: 403-237-9256
Fax: 403-215-9279
E-Mail: info@sterling-resources.com
Website: www.sterling-resources.com

INVESTOR RELATIONS

GEORGE KESTEVEN
Tel: 403-215-9265
Fax: 403-215-9279
E-Mail:
george.kesteven@sterling- resources.com

AUDITORS

ERNST & YOUNG LLP

BANKER

THE ROYAL BANK OF CANADA

LEGAL COUNSEL

STIKEMAN ELLIOTT LLP

RESERVES EVALUATORS

RPS ENERGY

REGISTRAR AND TRANSFER AGENT

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

COMPUTERSHARE INVESTOR SERVICES INC.
9th Floor, 100 University Avenue
Toronto, Ontario, Canada M5J 2Y1
Tel: 800-564-6253
Fax: 888-453-0330/416-263-9394
E-Mail: service@computershare.com

STOCK EXCHANGE LISTING

THE TSX VENTURE EXCHANGE
Stock Exchange Trading Symbol: SLG

Sterling Resources (UK) Ltd.
United Kingdom Offices
27 Rubislaw Den North,
Aberdeen, AB15 4AL
Scotland
Tel: 44-1224-806610
Fax: 44-1224-806729

78 Pall Mall
London SW1Y 5ES
England
Tel: 44-20-3008-8485
Fax: 44-20-3170-5909

Midia Resources S.R.L.
Romanian Office
Str Andrei Muresanu
Poet 11-13
Etaj 1, Apt 2
Sector 1
Bucharest 011841
Romania
Tel: 40-212-313256
Fax: 40-212-313312

Sterling Resources Netherlands B.V.
Netherlands Office
Anna van Buerenplein
2595 DA, The Hague
Netherlands
Tel: 31-70-7999163
Fax: 31-70-7999370