Sterling Resources Ltd.

2005 Annual Report

CORPORATE PROFILE

Sterling Resources Ltd. is a Calgary, Canada based energy company actively engaged in the exploration and development of crude oil and natural gas in selected areas of the world. The Company's strategy for achieving growth is to source and initiate international projects with the potential for larger, lower-cost reserves. High initial working interests are taken where possible, and financial exposure and technical risk are managed by obtaining industry participations. The Company currently has landholdings in three countries, the United Kingdom offshore and onshore, Romania offshore and onshore, and France. The major focus areas, the United Kingdom and Romania, both have established hydrocarbon basins, extensive infrastructure and excellent contractual and fiscal terms. The common shares of Sterling Resources Ltd. trade on the TSX Venture Exchange under the symbol SLG.

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Annual General Meeting

An Annual General Meeting of the Shareholders of Sterling Resources Ltd. will be held on Wednesday, May 31, 2006 at 10:00 a.m. (Calgary time) in the Cardium Room of the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta, Canada. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Computershare Trust Company of Canada at their earliest convenience.

MESSAGE TO SHAREHOLDERS

This is my first letter to our shareholders and I am pleased to report that we have had a very active and successful year. Operationally, we have added significantly to our license position offshore UK, and have participated in four seismic surveys and three onshore wells. We have also progressed our farm-out strategy that we initiated in 2003. Looking to the year ahead, we are excited with the prospect of drilling our first UK offshore well and our multi-well drilling programs in the UK and Romania. On the financial side, we have raised additional equity capital to allow us to move our exploration program forward and lastly, we have put an experienced and enthusiastic management team in place.

Offshore UK, success in the 23rd License Round resulted in the award of seven new blocks, bringing our total position to 17. Several of the new blocks were acquired specifically to strengthen our position in the Central North Sea and the Southern North Sea through the creation of core areas. In addition, two farm-out arrangements were completed, resulting in planned drilling in 2006. Our first offshore license, Block 210/30, was extended beyond its initial “Promote” period and we became a recognized Exploration Operator for the first time. We have also continued our technical evaluation of our licenses which has resulted in improved prospectivity in all areas. Farm-out activity is ongoing in most areas.

Onshore UK, we successfully completed farm-outs on a two-well program in the Cleveland Basin. Preliminary drilling results from these two wells have been encouraging, with early testing confirming the presence of gas.

In Romania, our first well was drilled on our large Craiova concession, onshore. Although unsuccessful, the well found evidence of an active petroleum system and confirmed the significant prospectivity of the remainder of the 1.5 million acres. New seismic acquired late in 2005 has firmed up the prospects located in the south-east part of the block and drilling planning commenced early in 2006. Other areas of interest identified in the central and western parts of the concession are to be further evaluated by our planned 2006 seismic program and drilling prospects will be added sequentially to our planned multi-well drilling program.

In February 2005, we concluded a private placement of 30,000,000 common shares, and raised gross proceeds of $27,000,000. These funds enable us to progress our exploration programs, provide flexibility in farm-out arrangements, consider new opportunities and maintain a strong working capital position.

During the year, our Board of Directors was increased to eight members with the addition of Mr. Paul Maxwell, representing Meridian Capital, one of our major shareholders. Effective January 1, 2006, Mr. Bob Welty, one of our founders, retired from active management as Chief Executive Officer, but we are very pleased that Bob has agreed to stay on as Chairman of our Board. We would like to take this opportunity to thank Bob for his tireless efforts on behalf of our Company. I have assumed the role of Chief Executive Officer.

Other management changes we have made to strengthen our team include the addition of two Vice-Presidents and a Chief Financial Officer. Mr. John Rapach, based in Aberdeen, Scotland, will oversee all of our operational activity worldwide and Mr. Stephen Birrell will be responsible for our business ventures onshore and offshore Romania. Mr. Birrell is based in our new office premises in Bucharest. Mr. Ian Hornby-Smith takes overall responsibility for our financial affairs, and is based in Calgary.

Our strategy continues to work well. We are continually adding new petroleum licenses and new drilling to our portfolio. The process of finding farm-in partners continues with success and many of the prospects to be drilled have the potential to add significantly to our net asset value. We commenced our multi-well onshore UK drilling program late in 2005. This program will continue in 2006 together with active drilling programs planned for all of our areas of interest other than offshore Romania, which we expect to commence in 2007.

Finally, on behalf of the Board, I would like to express our thanks to all our shareholders for their continued interest and support.

On Behalf of the Board of Directors,

(Signed)

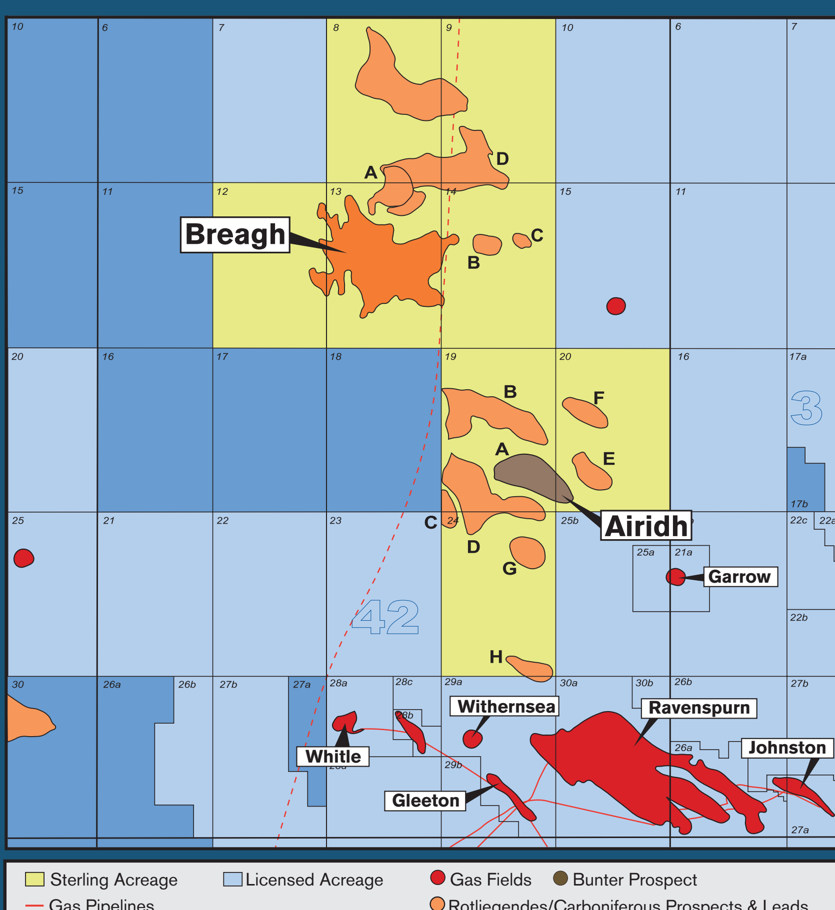
“Stewart G. Gibson”
Chief Executive Officer April 11, 2006

OPERATIONS REVIEW

United Kingdom Offshore

Following on from our success in the UK 22nd Offshore Licensing Round (awarded in early 2005), we consolidated our acreage position in each of the Northern, Central and Southern North Sea producing basins by winning an additional seven blocks in the 23rd Licensing Round, announced late in 2005. As a result of these awards, we now have working interests, ranging from 35-percent to 100-percent in 17 blocks or part blocks in the productive North Sea. Most blocks are covered by modern 3-D seismic and are located within reach of existing infrastructure.

During 2005, one of our original 21st Round licenses was converted from Promote status which necessitated acquiring Exploration Operator status. Two farm-outs were completed on Blocks 21/23a and 42/13 which have associated drilling activity scheduled for 2006. By year end we had finalized the technical work on all but the recent 23rd Round blocks and farm-out discussions covering the 22nd Round acreage are actively ongoing during the first quarter of 2006. Despite the recent changes announced to the tax structure, the UK Fiscal regime remains attractive. The Promote License concept, which was introduced by the UK Department of Energy to encourage smaller companies, together with current product prices, has led to a significant increase in exploration



Southern North Sea Core Area

activity in the region. Access to offshore drilling units and the continual rise in prices present the main challenges to achieving drilling targets planned for 2006 and 2007.

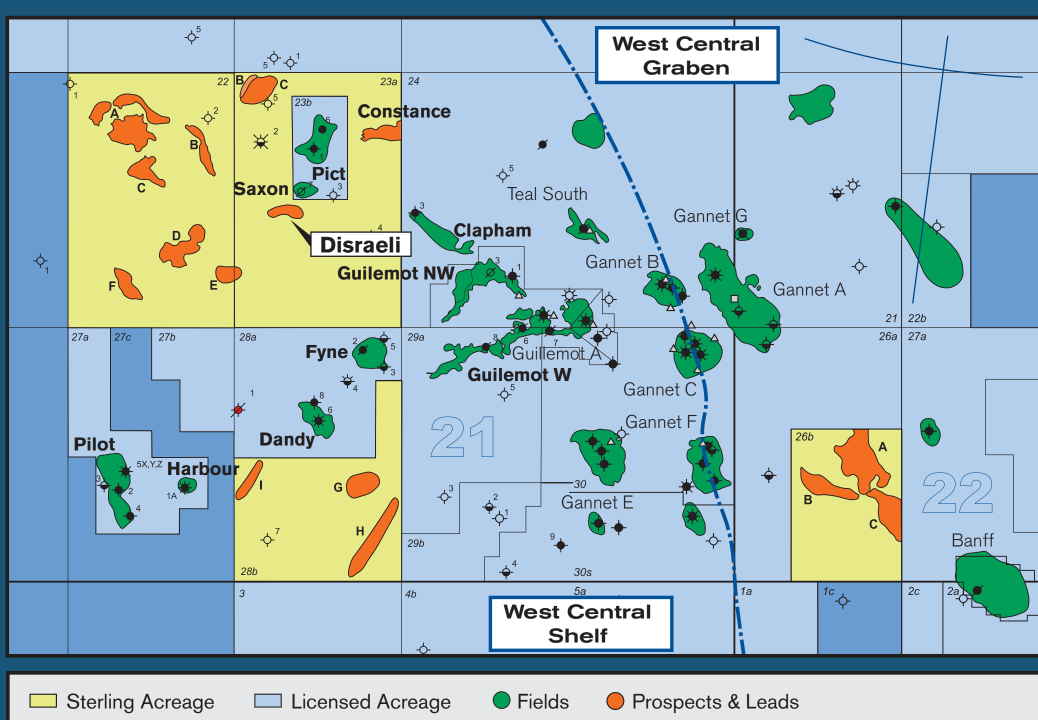
The benefits from core area development in the North Sea are well known and during our block selection process in the 23rd Round, we were pleased to be able to form a significant core area in the Southern North Sea Gas Basin.

We now hold interests ranging from 75-percent to 100-percent in eight contiguous blocks located just to the north of the large Ravenspurn producing fields. These blocks contain a range of prospect types, sizes and related risk profiles. The most advanced of these is the Breagh (Gaelic for 'Beautiful') prospect on Block 42/13 which has been evaluated by consultants to hold significant gas in place. The prospect has a discovery well drilled in 1997 which tested gas from a 120-meter gross gas column. Several independent studies have shown the well to have been significantly damaged and conclude that an undamaged well would have had the potential for rates in excess of 20-million cubic feet per day. Additional data reprocessing has aided in the selection of the next well location and a site survey is approved and scheduled for the first quarter of 2006. A 25-percent interest has been farmed out with the farmee paying 50-percent of the well cost. Several additional farm-in partners have expressed interest and negotiations are expected to be completed during the second quarter of 2006.

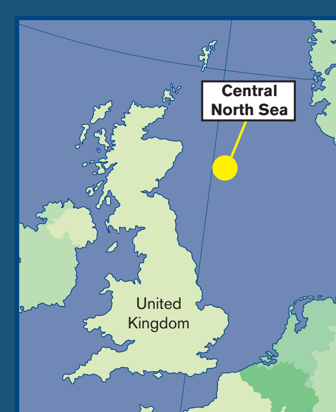
The four blocks acquired during the 23rd Round contain sizeable structures with targets analogous to the Breagh discovery. The prospects in the five northern most blocks target reservoirs in the Scremerston Carboniferous horizon. Although older than the more conventional Southern North Sea reservoirs, they are located on the Dogger Shelf, are relatively shallow and have good reservoir characteristics.

The three southern blocks contain a shallow Bunter reservoir target (Airidh) and multiple deeper targets at the Rotliegendes, Carboniferous horizons. Older wells have found gas in the tighter Carboniferous sections which to date have not had the benefit of effective stimulation or current drilling and completion techniques.

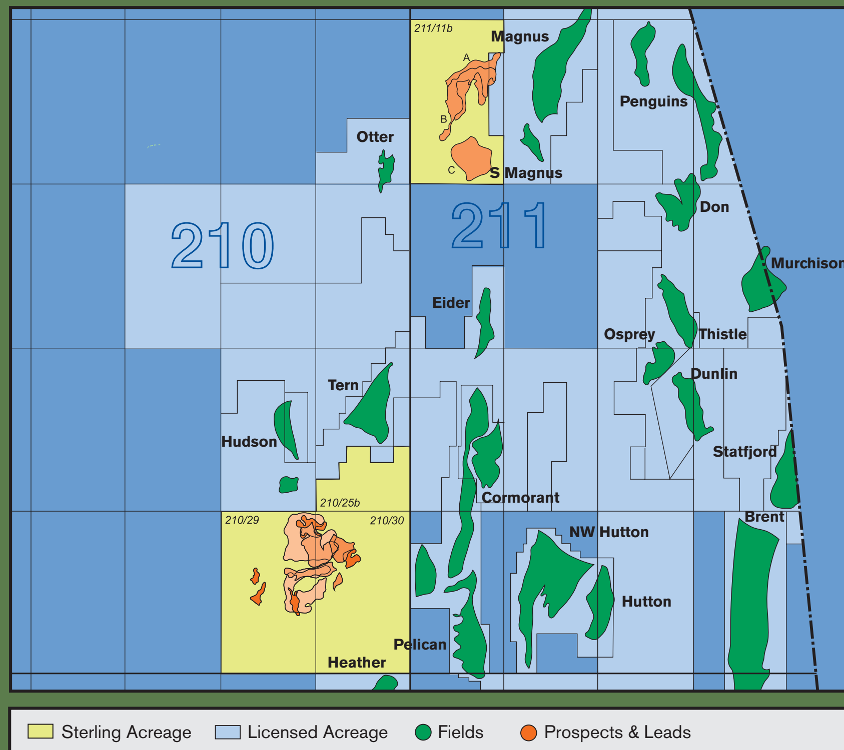
In the Central North Sea, we have built an acreage position which now covers the Eocene channel sands and fan systems which surround and form part of the multiple discoveries and producing fields in the adjoining blocks. Our working interest in these blocks ranges from 35-percent (after farm-out) to 100-percent. One of the blocks, 21/23a, was farmed out during 2005 and a prospect named Disraeli is scheduled to be drilled in 2006. Mapping to date has identified targets at Eocene, Palaeocene and Jurassic levels and again the creation of this core area provides a range of target types, sizes and related exploration risk.



Central North Sea Core Area



Northern North Sea Licensed Areas



In addition to the Quad 21 and 22 blocks, we also have a100-percent interest in block 19/5b which is located in the Moray Firth area. Mapping, based on 3-D seismic, has been completed and identifies a large prospect in the Upper Jurassic section which is analogous to the neighbouring Buzzard Field. Discussions to farm out this block commenced in early 2006.

Evaluation of the 210/30 area of the Northern North Sea was completed following the purchase and evaluation of additional 3-D seismic. The end product is an extension of the Jurassic play as previously mapped into Block 210/29, showing clear indications of the channel feeder systems and refined definition of the target sand lobes. Now that the license area associated with 210/30 has been extended beyond the Promote period, the Company is actively farming this opportunity.

Sterling recently acquired in the 23rd Licensing Round a 100-percent interest in Block 211/11b which is located between the Magnus and Otter fields. This 23rd Round block has targets mapped within the Upper Jurassic, Brent and Triassic intervals.

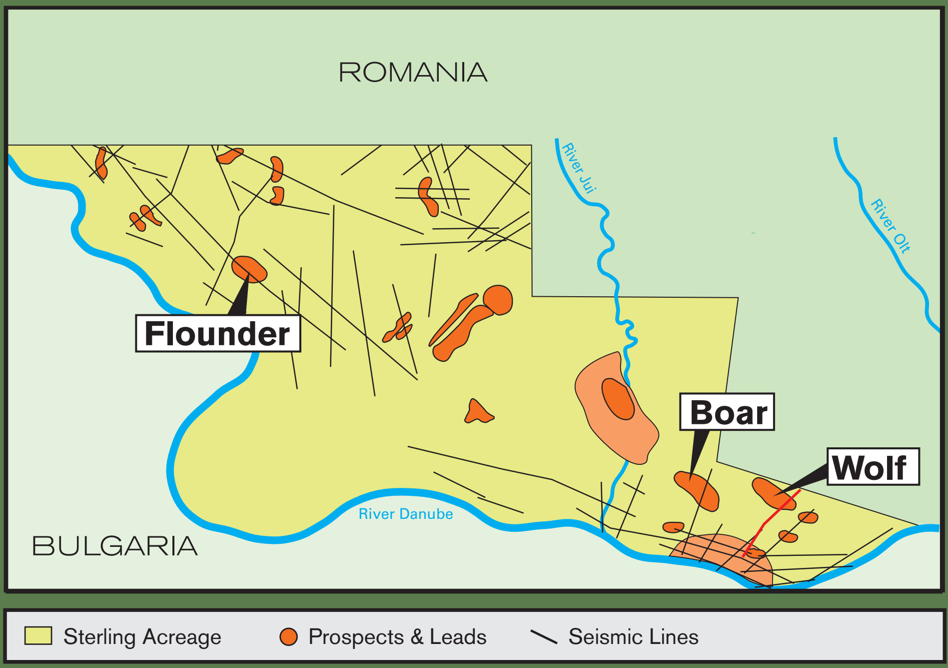
United Kingdom Onshore

During 2005, seismic surveys were completed over the Waddock Cross discovery in PL 90 in the Wessex Basin, and the two larger prospects in License PEDL 071 in the Cleveland Basin. Towards the end of the year we embarked on a four well drilling program. By year end, a horizontal well at Waddock Cross had been drilled, completed and prepared for high rate, higher water cut production testing early in 2006. The first of the Cleveland Basin PEDL 068 wells, the Kirkleatham prospect, was drilling at year end and subsequently was cased to allow testing of a log defined gas bearing interval in the Cadeby formation. Testing confirmed the presence of gas in a 19-meter column in the Cadeby formation at Kirkleatham and the well, which tested up to 5-million cubic feet per day, has been completed for potential future production. Early in 2006, an exploration well was drilled on the Westerdale prospect in PEDL 068, a follow up to the old Ralph Cross discovery. A short unstimulated test of the Brotherton formation confirmed gas to surface at rates up to 130,000-cubic feet per day. A post acid stimulation test is being planned as normal for this type of reservoir. An appraisal well was drilled on the Avington discovery on PEDL 070 in the Weald Basin and awaits testing.

Prior to drilling the two PEDL 068 wells, we completed multiple farm-outs and our interest was carried for the majority of our costs on both wells, whilst retaining a 47-percent working interest.

Onshore Romania

Onshore Romania, we drilled our first well in the large Craiova concession during 2005. Drilled in the northeast of the concession on the western flank of the Bailesti Depression, the Cetatuia well found an active petroleum system within the Tertiary and Cretaceous sections but no trap. Drilling to the deeper targets expected within the Middle Triassic section failed to encounter reservoir quality formations.



Craiova Concession

Following the conclusion of the well, the Company acquired 185-kilometers of new 2-D seismic over the Dabuleni area in the southeast corner of the concession. This area lies just north of the Bulgarian fields and to the south of the large Malu Mare oil and gas field. The area had some coverage of earlier seismic and the new program was designed to infill and define further drilling locations. The evaluation based on the new program shows two undrilled regional structural closures with targets at several levels (Boar and Wolf). A further play associated with a large pinch-out closure was also noted. Plans are to drill three to five wells in 2006. Within the Dabuleni area which is readily accessible, the well location and planning process commenced early in 2006 and rig selection is underway.

Evaluation of existing data across the rest of the Craiova concession has identified several areas of prospectivity, some of which, for example Flounder, require additional seismic to firm up drilling locations. A phased seismic program is planned for 2006 to provide the final locations in the central and western areas. This will enable drilling in these areas to follow on from the initial drilling in Dabuleni. The seismic program is part of a 300-kilometer commitment associated with Phase 1 of the newly extended four year exploration period.

Offshore Romania

We hold a 20-percent working interest in the Pelican and Midia offshore blocks in the Black Sea. In total the blocks, operated under a Production Sharing Contract, cover an area of 1.1-million acres. Towards year end 2005, the previous operator was the subject of an acquisition and activity planned for 2006 is currently under review. During 2005, new seismic was acquired across the Midia SE prospect and has aided the interpretation over this large structure. Drilling of Midia requires a semi submersible or larger jack up rig and availability is being assessed.

The continued growth of the gas market in Romania and the related firming prices led to plans put in place by the previous operator to drill the Doina Sister prospect in late 2006 or early 2007. Success at Doina Sister would add to the gas already discovered in the Doina structure and bring development potential closer to realization. Discussions between Romania and Ukraine concerning the border definition near to the Pelican block are progressing.

Onshore France

A full study to review the potential for developing the Grenade heavy oil discovery, completed by a farmee, gave sufficient encouragement for the partner group to renew the exploration permit over the St Laurent license. The agreed way forward is to drill a high-angle well to assess the related improvement in productivity, followed by evaluation of the various completion techniques covered in the study. As a first step a swath of new seismic was obtained across the intended well path. The seismic was acquired at the end of 2005 and drilling is being planned for mid 2006. We retain a 33.4-percent working interest in the St Laurent license which contains the Grenade discovery plus several exploration targets.

MANAGEMENT'S DISCUSSION & ANALYSIS

This management's discussion and analysis of operations and financial condition (MD&A) is dated March 8, 2006 and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the years ended December 31, 2005 and 2004.

The MD&A focuses on our long-term vision, strategy and growth opportunities as well as our historic performance for the two years ended December 31, 2005. These financial statements and the underlying financial data included in them have been prepared in accordance with Canadian generally accepted accounting principles. All financial amounts are expressed in Canadian dollars, except as otherwise indicated.

Our business and strategy

Sterling Resources Ltd. is an international energy company based in Calgary, Canada. We are engaged in the exploration for, and development of crude oil and natural gas in selected areas of the world outside Canada. Prior to 2005, the majority of our efforts and expenditures had been focused on assessing prospects, obtaining exploration rights and gathering and interpreting geological and geophysical data.

Our strategy for achieving growth is to source and initiate international projects with the potential for larger reserves. In the UK, we are accumulating licenses and prospects in selected core areas of the North Sea so that potential discoveries may take advantage of existing infrastructure and economies of scale from joint-development projects. Our strategy also targets blocks with high initial working interests where possible and financial exposure and technical risk are managed by obtaining partner participation through farm-out arrangements. Under these arrangements, a portion of our interest is given up in exchange for the partner paying our share of certain costs of drilling a well or other programs. Our current activities are focused offshore the UK and in Romania.

Accounting policies and significant estimates

Understanding our financial results requires an understanding of the key accounting policies and estimates included therein. Our accounting policies as presented in Note 2 to the financial statements are in accordance with Canadian generally accepted accounting principles. However, Management is required to make judgments, assumptions and estimates in the application of these policies. These estimates can have a significant impact on our financial results.

Significant estimates in the financial statements include amounts recorded for the provision for future asset retirement obligations and stock based compensation expense. By their nature, these estimates are subject to measurement uncertainty and the effect on future consolidated financial statements from changes in such estimates could be significant.

No new accounting policies have been adopted during the year-ended December 31, 2005. Effective January 1, 2004 the Company adopted the Canadian Institute of Chartered Accountant's Handbook Section 3110, "Asset Retirement Obligations" and Accounting Guideline, AcG–16 "Oil and Gas Accounting – Full Cost".

Our financial results

Consolidated financial highlights for the three years ended December 31, 2005 are presented below. This information should be read in conjunction with the consolidated financial statements.

Years ended December 31	2005	2004	2003
Revenues, net of royalties	$ –	$ –	$ –
Interest and other income	745,975	38,176	4,964
Expenses	3,169,784	888,431	1,162,703
Net loss	$ 2,423,809	$ 850,255	$ 1,157,739
– per share, basic and diluted	$ 0.03	$ 0.02	$ 0.06
Net working capital	$ 24,026,972	$ 3,295,157	$ (323,834)
Capital expenditures	$ 5,613,180	$ 1,272,806	$ 1,382,532
Total assets	$ 41,396,119	$ 14,228,723	$ 9,359,237
Share capital	$ 48,108,289	$ 19,691,149	$ 14,052,083
Common shares outstanding – basic	79,746,967	43,448,042	$ 24,041,467

Overview

We are primarily an exploration company at this stage and consequently have no commercial production. Any minor pre-commercial production revenues are netted against related expenses, and the net amount capitalized as test expenditures.

The following table of selected quarterly information provides additional analysis of income statement items for the eight quarters ended December 31, 2005. This table indicates that our financial results in this phase of our operations are not driven by seasonal considerations to any significant extent.

2005 (Quarter ended)	December 31 $	September 30 $	June 30 $	March 31 $	Total $
Expenses					
General and administrative	207,956	329,290	381,883	211,421	1,130,550
Foreign exchange loss	316,593	922,319	423,676	9,590	1,672,178
Stock based compensation	196,052	92,753	29,457	31,881	350,143
Accretion expense	414	300	300	300	1,314
Depreciation	7,704	4,552	1,673	1,670	15,599
	728,719	1,349,214	836,989	254,862	3,169,784
Interest and other income	185,638	218,323	247,594	94,420	745,975
Net loss	543,081	1,130,891	589,395	160,442	2,423,809
Net loss per common share	0.01	0.01	0.01	–	0.03

2004 (Quarter ended)	December 31 $	September 30 $	June 30 $	March 31 $	Total $
Expenses					
General and administrative	209,119	160,108	236,496	185,397	761,880
Foreign exchange loss (gain)	1,657	248	7,040	(14,620)	23,565
Stock based compensation	31,431	34,488	15,428	14,513	95,860
Accretion expense	300	300	300	300	1,200
Depreciation	2,748	1,204	987	987	5,926
	245,255	196,348	260,251	186,577	888,431
Interest and other income	20,607	17,148	205	216	38,176
Net loss	224,648	179,200	260,046	186,361	850,255
Net loss per common share	0.01	0.01	0.01	0.01	0.02

The net loss per common share for each quarter is required to be calculated independently of the calculation for the year. Consequently the aggregate of the four quarters may differ from the total for each year due to rounding.

Fourth quarter 2005 results

Our net loss for the fourth quarter of 2005 has been affected by the following:

- General and administrative expenses increased over prior quarters and the prior year due to the addition of senior personnel in our UK and Calgary offices, but this has been partially offset by charges to partners and capitalization of salaries directly related to projects;
- Foreign exchange losses for the quarter relate primarily to conversion of deposits held in UK Pounds Sterling and US dollars. The Canadian dollar continued to appreciate against both these currencies during the quarter, resulting in additional losses. In the fourth quarter of 2004, there were no significant balances in foreign currencies;
- Stock based compensation for the fourth quarter has increased over the prior quarter and prior year due primarily to recognition of a full quarter's expense relating to options issued in August of 2005; and
- Interest and other income for the fourth quarter has declined slightly compared to the previous quarter due to the utilization of cash resources in our capital expenditure programs. Cash resources resulted from the 2005 share issues, and in 2004, there were no significant investment balances generating interest income.

General and administrative expenses

The following table provides a breakdown of general and administrative expenses for 2005 and 2004:

	2005	2004
	$	$
Employee costs	801,161	361,127
Office rent and expenses	102,304	87,619
Professional and other fees	389,064	282,881
Travel	152,354	96,656
Other	161,743	71,728
	1,606,626	900,011
Recoveries from partners	(145,059)	(138,131)
Charged to capital projects	(331,017)	–
	1,130,550	761,880

General and administrative expenses have increased over 2004 levels due primarily to increased activity levels. Our successful license applications in the 22nd and 23rd Licensing Rounds in the UK North Sea, and increased activity related to monitoring our Romanian operations has necessitated the establishment of a permanent office in Aberdeen, Scotland.

Foreign exchange

Foreign exchange losses in 2005 are primarily related to the impact of the fall in value of the UK Pound Sterling on the translation of Sterling-denominated investments into Canadian dollars. A portion of the proceeds of the $27,000,000 private placement issue in February of 2005 were invested in Pounds Sterling in anticipation of our 2005 and 2006 capital expenditure programs in the UK. In 2004, investments held in foreign currencies and associated currency gains and losses were minimal.

Stock based compensation

Stock based compensation expense in 2005 has increased substantially over 2004 due to the issue of 2,305,000 stock options to directors, officers, and employees during the year. It is our policy that a significant proportion of employee and director remuneration should not only be geared to the success of our Company, but also not result in significant depletion of our cash resources.

Other income

Other income consists exclusively of interest income from the investment of surplus funds. For 2005, interest income has increased significantly over 2004 due primarily to the investment of unused proceeds from the $27,000,000 private placement issue in February of 2005.

Net loss

The net loss for 2005 of $2,423,809 compares to $850,255 in 2004. This represents a loss of $0.03 per common share basic and diluted for 2005 (2004 – $0.02 per share).

Petroleum properties activities and capital expenditures

Capital expenditures are categorized as petroleum and natural gas properties and capitalized in country-by-country cost centres. The following is a summary of capital expenditures by cost-centre for the years ended December 31, 2005 and 2004:

Years ended December 31	**2005**	2004
	$	$
Petroleum and natural gas expenditures		
Romania	2,494,920	423,018
United Kingdom	2,825,262	831,462
France and other	184,535	705
	5,504,717	1,255,185
Furniture and fixtures	108,463	17,621
	5,613,180	1,272,806

Romanian expenditures in 2005 relate primarily to our share of expenditures on the Cetatuia-1 well, and the completion of a 185-kilometer seismic program over the remainder of the Craiova block. The Cetatuia-1 well encountered encouraging, but non-commercial hydrocarbon shows in one of the target zones and was subsequently abandoned. The subsequent seismic program has identified a number of promising leads which are currently in the process of being evaluated for drilling commencing in 2006.

In the UK, expenditures in 2005 relate primarily to our share of the costs of the Waddock Cross-3 and Kirkleatham-4 onshore wells, geological and geophysical costs for evaluating and working up drilling prospects on offshore blocks awarded in the UK 22nd Licensing Round in 2004, and in making application for additional blocks in the 23rd Licensing Round held in June 2005. In all, we were successful in obtaining seven new blocks in the 23rd Round.

In France, expenditures relate primarily to the acquistion of seismic to futher evaluate the potential of the St. Laurent block.

Capital expenditures for 2004 were primarily comprised of geological and geophysical work on the offshore UK licenses, and appraisal of the two onshore UK oil discoveries. Expenditures in Romania in 2004 were primarily related to geological and geophysical work and well preparation on the South Craiova concession onshore Romania.

We have now invested a total of $16,068,685 in our oil and gas properties to December 31, 2005, compared with $10,492,650 as at December 31, 2004. As at December 31, 2005 we had interests in petroleum licenses and contracts as follows:

	Gross acres	Net acres
Romania	2,645,000	1,147,000
United Kingdom	1,234,665	762,026
France	151,969	50,793
Total	4,031,634	1,959,819

Geological and geophysical work on the properties to date has resulted in many prospects and leads, several of which have been brought to the drillable stage, and we have successfully utilized our farm-out strategy of bringing in industry partners to manage technical and financial risk.

Financing, liquidity and solvency

Net working capital

The following is a summary of net working capital as at December 31, 2005 and 2004:

Years ended December 31	**2005**	2004
	$	$
Cash and cash equivalents	23,538,376	3,522,130
Other non-cash working capital		
Accounts receivable and prepaid expenses	1,493,170	182,093
Inventory	171,174	–
Accounts payable and accrued liabilities	(1,175,748)	(409,066)
	488,596	(226,973)
Net working capital	24,026,972	3,295,157

Cash and cash equivalents have increased substantially over 2004 levels due to the net proceeds of $28,401,748 from the February 2005 private placement issue and the exercise of warrants and stock options. Included in the balance of $23,538,376 at December 31, 2005, are term deposits of $11,112,000 with maturities greater than 30 days. These deposits have cashable options and are therefore considered cash equivalents by Management.

Other non-cash working capital has increased over 2004 due to increased activity in Romania, including associated value added taxes recoverable. This increase has been partially offset by increased and unpaid capital expenditures incurred in respect of onshore UK wells in progress over year-end 2005.

Financing

On February 10, 2005, we raised $27,000,000 ($25,534,424 net of share issue expenses) through the issue of 30,000,000 common shares at a price of $0.90 per common share. Commissions and other cash expenses of $1,465,576 were paid on the issue, and 1,200,000 warrants were issued to the agent. The agent's warrants were exercisable at $0.90 per share for a period of nine months from close of the private placement, and were exercised in full on October 11, 2005 for proceeds of $1,080,000. Other warrants and options exercised during 2005 resulted in proceeds of $1,787,324.

During 2004, we completed a private placement to an international investment fund, consisting of 15,350,000 common shares at a price of $0.32 per share, for gross proceeds of $4,912,000 ($4,329,000 after issue expenses) to fund our ongoing work programs and to augment working capital. Throughout 2004, 2,406,575 warrants were exercised for proceeds of $773,000.

As at December 31, 2005 there were 79,746,967 (2004 – 43,448,042) common shares outstanding and 4,610,000 (2004 – 2,445,000) options issued under our stock option plan. As at March 8, 2006 there were 80,096,967 common shares and 4,300,000 options outstanding.

Related party transactions

During 2004, a company controlled by a director made non-interest bearing advances to the Company totaling $280,000. The advances were repaid in full on June 30, 2004.

Commitments and obligations

As at December 31, 2005, our share of estimated commitments under our license obligations and outstanding work programs aggregated approximately $2,500,000. This total is comprised mainly of seismic work under license commitments in the UK and Romania and the anticipated costs of testing the recent onshore discoveries in the UK. To the extent we are able to arrange farm-outs of our interest in selected blocks, these commitments will be reduced.

In addition, we had commitments under operating leases for office premises and storage facilities as follows:

	$
2006	165,520
2007	59,707
2008	48,248
2009	49,392
2010	28,812
	351,679

Liquidity and solvency

As is typical of companies at our stage of development, future exploration and development activities will require substantial amounts of additional capital which we may raise through debt or equity financing and by farming out of partial interests in certain properties. Financings and farm-outs are subject to prevailing market conditions at the time, but will be necessary for us to carry out all activities on each of our projects until such time as we establish production and cash flow. We may also consider raising capital from time to time by monetization of certain of our existing non-core assets.

We consider our current cash reserves to be sufficient to meet our license obligations and commitments and to fund ongoing operations.

Future plans

Over the past five years, our strategy for growth and financing has been successful. During this time we have increased our holdings of exploration lands, and geological and geophysical work has enhanced the prospectivity of many of our properties. The majority of exploration prospects brought to the drillable stage have been successfully farmed out on a promoted basis. For 2006, we plan to continue this strategy and more specifically expect to:

- Drill six additional exploration wells on key prospects in the UK North Sea and onshore Romania;
- Continue geological and geophysical work to evaluate new blocks acquired in 2005 and the many other prospects and leads that exist on our current UK licenses and onshore Romanian concession. This work will focus on offshore UK and onshore Romania, where we believe significant potential exists;
- Complete the testing of the Waddock Cross-3, Kirkleatham-4 and Westerdale-1 onshore UK wells completed in 2005 and early 2006; and
- Acquire more blocks through “Promote” applications in the UK North Sea and consider the acquisition of “Fallow Blocks” and “Fallow Discoveries”. Generally, these Fallow Blocks are UK areas that have been so designated by the Department of Trade and Industry where the initial term of the UK license has expired and there has been no drilling or dedicated seismic or other significant activity for four years.

Capital expenditures and general and administrative expenditures for 2006 are expected to be in the range of $12,000,000 to $15,000,000 based on planned farm-outs on certain properties. This includes the $2,500,000 of license commitments and obligations referred to above. We have some flexibility over most of our capital expenditures and as to the percentage of our working interests farmed out.

Forward-looking statements

Certain statements contained in the MD&A are forward-looking statements. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties as described below. These risks can cause actual results to differ materially from those anticipated by Management.

Forward-looking statements are based on the estimates and opinions of Management at the time the statements are made. We assume no obligation to update forward-looking statements should circumstances or our estimates or opinions change.

Risks and uncertainties

The following is a summary of the principal risks facing our business, and the strategies we take to mitigate these risks. It should not be assumed that this list is exhaustive or that material loss could not materialize as a result of other unforeseen risks.

Operational risks

The international oil and gas industry is exposed to a variety of business risks, including, but not limited to:

- The finding, determination, evaluation and assessment of oil and gas deposits or reserves;
- Developing those reserves and finding markets for them;
- Potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Availability of equipment such as drilling rigs;
- The availability and performance of joint venture partners with whom we conduct our business;
- The performance of contractors and consultants that we engage; and
- Competition from others in obtaining exploration licenses or access to drilling equipment.

We also have a growing exploration portfolio and several undrilled prospects. Our ability to grow profitably will depend on our ability to drill successfully and develop these properties, as well as to obtain additional prospects.

We work to mitigate these risks by employing highly skilled personnel, focusing exploration efforts in areas where we have existing knowledge and expertise and access to such expertise, using current technology to enhance methods and control costs. We also maintain a corporate insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts and other operating accidents and disruptions.

Financial risks

Financial risks include the impact of fluctuations in commodity prices, foreign exchange rates, interest rates and inflation over which we have limited control. These factors also affect:

- The availability and cost of financing for our projects;
- The economics underlying our project decisions; and
- The underlying value of the business on which our share price is based.

Political or government risk

We explore for oil and gas in various international jurisdictions with varying degrees of political or governmental risk including:

- The risk of changes in government policy or regulation; and
- The risks of required government approvals being delayed or withheld.

We are also subject to extensive and varying environmental regulations imposed by governments related to the protection of the environment. We are committed to operate safely in an environmentally sensitive manner and to safeguard the health and welfare of our employees, contractors, suppliers and the public, in every area of operation.

In order to balance our exposure to risk and reward in these areas, we conduct our activities in a number of jurisdictions that we consider to range from low to medium risk.

Disclosure controls and procedures

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

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

Additional information

Additional information about Sterling Resources Ltd. and its business activities is available on SEDAR at www.sedar.com.

The accompanying consolidated financial statements and all information in the annual report are the responsibility of Management. The consolidated financial statements have been prepared by Management in accordance with generally accepted accounting principles outlined in the notes to the consolidated financial statements. Other financial information appearing throughout the report is presented on a basis consistent with the consolidated financial statements.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the presentation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Accountants, has been engaged, as approved by the shareholders, to examine the consolidated financial statements in accordance with auditing standards generally accepted in Canada and to provide an independent professional opinion.

The Audit Committee and the Board of Directors have reviewed the consolidated financial statements with Management and with Ernst & Young LLP. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

(Signed)
"Stewart G. Gibson"
Chief Executive Officer

(Signed)
"Ian Hornby-Smith"
Chief Financial Officer

March 8, 2006

AUDITORS' REPORT

To the Shareholders of Sterling Resources Ltd.

We have audited the consolidated balance sheets of Sterling Resources Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

Calgary, Canada
March 7, 2006

"Ernst & Young LLP"
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31	**2005** **$**	2004 $
ASSETS		
Current		
Cash and cash equivalents [note 4]	23,538,376	3,522,130
Accounts receivable	1,455,456	165,813
Inventory – at cost	171,174	–
Prepaid expenses	37,714	16,280
	25,202,720	3,704,223
Capital assets [note 6]		
Petroleum and natural gas properties and equipment	16,068,685	10,492,650
Furniture and fixtures	124,714	31,850
	16,193,399	10,524,500
	41,396,119	14,228,723
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,175,748	409,066
Asset retirement obligations [note 9]	84,693	12,061
Commitments [note 11]		
Shareholders' equity		
Share capital [note 10]	48,108,289	19,691,149
Contributed surplus	536,599	201,848
Deficit	(8,509,210)	(6,085,401)
	40,135,678	13,807,596
	41,396,119	14,228,723

See accompanying notes

On behalf of the Board

(Signed)

"Robert G. Welty"

Director

(Signed)

"Robert B Carter"

Director

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

For the years ended December 31	**2005** **$**	2004 $
EXPENSES		
General and administrative	1,130,550	761,880
Foreign exchange loss	1,672,178	23,565
Stock based compensation [note 10]	350,143	95,860
Accretion expense [note 9]	1,314	1,200
Depreciation	15,599	5,926
	3,169,784	888,431
OTHER INCOME		
Interest	745,975	38,176
Net loss for the year	2,423,809	850,255
Deficit, beginning of year	6,085,401	5,235,146
Deficit, end of year	8,509,210	6,085,401
Net loss per common share – basic and diluted [note 3]	0.03	0.02

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31	2005 $	2004 $
OPERATING ACTIVITIES		
Net loss for the year	(2,423,809)	(850,255)
Add items not affecting cash		
Foreign exchange loss on foreign currency cash	1,697,358	30,709
Stock based compensation expense	350,143	95,860
Accretion expense	1,314	1,200
Depreciation	15,599	5,926
	(359,395)	(716,560)
Change in non-cash working capital [note 7]	(77,074)	(75,291)
Cash used in operating activities	(436,469)	(791,851)
INVESTING ACTIVITIES		
Petroleum and natural gas properties and equipment additions	(5,504,717)	(1,255,185)
Furniture and fixtures additions	(108,463)	(17,621)
Change in non-cash working capital [note 7]	(638,495)	36,203
Cash used in investing activities	(6,251,675)	(1,236,603)
FINANCING ACTIVITIES		
Issue of common shares, net of share issue costs	28,401,748	5,639,066
Bank indebtedness	–	(75,000)
Cash provided by financing activities	28,401,748	5,564,066
Effect of translation on foreign currency cash	(1,697,358)	(30,709)
Increase in cash, during the year	20,016,246	3,504,903
Cash and cash equivalents, beginning of year	3,522,130	17,227
Cash and cash equivalents, end of year	23,538,376	3,522,130

See accompanying notes

1. *Description of business*

Sterling Resources Ltd. (the "Company") is a publicly traded energy company engaged in the exploration, development and production of crude oil and natural gas in selected areas of the world.

2. *Significant accounting policies*

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in Management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Revenue recognition

The Company does not recognize revenues from petroleum and natural gas assets until such time as a project becomes commercially viable. Prior to this stage any production is considered test production and is capitalized net of related costs.

Per share amounts

The Company follows the treasury stock method for the computation of fully diluted per share amounts. Under this method, the diluted weighted average number of common shares is calculated assuming the proceeds from the exercise of dilutive securities are used to purchase common shares at the average market price.

Inventory

Inventories of supplies are carried at the lower of actual cost and net realizable value.

Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to the acquisition of, exploration for, and development of, petroleum and natural gas properties and equipment are capitalized in cost centres on a country-by-country basis. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals, and costs of drilling and equipping productive and non-productive wells.

All cost centres are in the exploration or "pre-development" stage and as such the costs in each centre are not subject to depletion. An assessment is performed at every reporting date to determine whether the aggregate net costs in each pre-development stage cost centre are recoverable. Costs which are unlikely to be recovered are written off. The recovery of the costs incurred to date is ultimately dependent upon discovering commercial quantities of hydrocarbons. The likelihood of such a discovery is not determinable at this time.

Furniture and fixtures

Furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at an annual rate of 30%.

Asset retirement obligations

The Company recognizes the fair value of an asset retirement obligation (ARO) in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value is determined through a review of engineering studies, industry guidelines and Management's estimate on a site by site basis. The fair value is recorded as a liability with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount is expensed in the period. Actual costs incurred upon the settlement of the ARO are charged against the liability.

Joint operations

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Foreign currency translation

Operations in foreign countries are translated using the temporal method. Foreign currency denominated monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses are included in the consolidated statement of operations.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. Future income taxes are measured using income tax rates expected to apply in the years in which differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. Future income tax assets are calculated and if realization is not considered to be "more likely than not", a valuation allowance is provided.

Stock based compensation

Under the Company's stock option plan, options to purchase common shares are granted to directors, officers and employees at current market prices. Options issued by the Company are accounted for in accordance with the fair value method of accounting for stock based compensation, and as such the cost of the options is charged to operations over the vesting period, with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value of the options at the grant date determined using a Black-Scholes options pricing model.

Measurement uncertainty

The amounts recorded for asset retirement obligations, stock based compensation and depreciation of furniture and fixtures are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of changes in such estimates in future periods could be material.

3. Net loss per common share

The net loss per share is calculated based on the net loss as the numerator in the calculation and the weighted average number of shares issued and outstanding during the year ended December 31, 2005 of 73,300,153 (2004 – 33,555,307) as the denominator. The effect of the options outstanding using the treasury method would not be dilutive for the years ended December 31, 2005 and 2004.

4. Cash and cash equivalents

Cash and cash equivalents include term deposits, guaranteed investment certificates and operating bank accounts. As at December 31, 2005 and 2004, these funds were maintained in the following currencies:

	2005 **$**	2004 $
Canadian Dollars	13,102,817	3,279,378
US Dollars	1,040,608	80,419
UK Pounds Sterling	9,394,951	162,333
	23,538,376	3,522,130

As at December 31, 2005, cash and cash equivalents included cash of $1,343,373 (2004 – $282,130) and cash equivalents of $22,195,003 (2004 – $3,240,000) bearing interest at rates between 2.25 percent and 4.21 percent (2004 – 2.17 percent). These deposits have maturity dates of less than 30 days or cashable options and are therefore considered cash equivalents by Management.

5. Related party transactions

During the year ended December 31, 2005, the Company conducted no transactions with related parties.

During 2004, a company controlled by a director made advances to the Company totaling $280,000. The advances were repaid in full on June 30, 2004.

6. Capital assets

The Company's investments in capital assets are as follows:

(a) Petroleum and natural gas properties and equipment

	2005 $	2004 $
Romania	8,813,332	6,318,412
United Kingdom	7,026,975	4,130,395
Other	228,378	43,843
	16,068,685	10,492,650

In order for the Company to maintain its working interests in its oil and gas properties in the pre-development stage, the Company has commitments to complete various seismic, geological, geophysical and other exploration work programs, none of which are of a material amount except those disclosed in note 11. The continuation of this work is dependent upon the ability of the Company to obtain continued financing or farm out any of its existing working interests. During the year ended December 31, 2005 the Company capitalized salaries and related benefits of $331,017 (2004 $-Nil).

(b) Furniture and fixtures

	2005 $	2004 $
Furniture, fixtures and equipment	198,732	90,269
Less accumulated depreciation	(74,018)	(58,419)
	124,714	31,850

7. Change in non-cash working capital

Changes in non-cash working capital for the years ended December 31, 2005 and 2004 are summarized as follows:

	2005 $	2004 $
Operating activities		
Accounts receivable	(69,546)	(90,553)
Prepaid expenses	(21,434)	(3,343)
Accounts payable and accrued liabilities	13,906	18,605
	(77,074)	(75,291)
Investing activities		
Receivables	(1,220,097)	(3,807)
Inventory	(171,174)	–
Accounts payable and accruals	752,776	40,010
	(638,495)	36,203

8. *Income taxes*

Income taxes differ from the amounts that would be obtained by applying the Canadian statutory income tax rate to the loss before income taxes as follows:

	2005 $	2004 $
Net loss for the year	2,423,809	850,255
Canadian statutory income tax rate	37.62%	38.87%
Computed income taxes (recovery) at the statutory rate	(911,837)	(330,494)
Tax rate differential on foreign operations	40,728	2,295
Permanent differences	2,031	–
Stock based compensation	131,724	37,260
Resource allowance and other	(38,142)	–
Tax benefit of losses not recognized in financial statements	775,496	290,939
Income tax expense per financial statements	–	–

At December 31, 2005, the Company has the following approximate balances available to be claimed against future income for tax purposes:

	$
Undepreciated capital cost	477,000
Canadian exploration expenditures	228,000
Canadian development expenditures	500,000
Canadian oil and gas property expenditures	269,000
United Kingdom deductible expenditures	12,217,000
Foreign exploration and development expenditures	4,016,000
Undeducted share issue costs	1,606,000

In addition, at December 31, 2005, the Company had approximate non-capital losses available to reduce future Canadian taxable income expiring as follows:

	$
2006	129,000
2007	770,000
2008	392,000
2009	237,000
2010	205,000
2014	524,000
2015	2,107,000
	4,364,000

The Company also has subsidiary UK tax losses carried forward of approximately $1,907,000 (2004 – $1,681,000) which are not subject to expiry. The benefit of these losses has not been recognized in these financial statements.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. As at December 31, 2005 and 2004, the Company has recognized a full valuation allowance against a future income tax asset arising from tax pools in excess of the net book value of capital assets, share issue costs and non-capital losses as follows:

	2005 $	2004 $
Tax pools in excess of net book value of capital assets	501,356	549,805
Share issue costs	539,969	216,570
Domestic and foreign non-capital losses	2,039,410	1,454,229
	3,080,735	2,220,604
Less valuation allowance	(3,080,735)	(2,220,604)
Future tax asset	–	–

9. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas exploratory stage activity. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $189,000 which will be incurred between 2010 and 2015. A credit adjusted risk-free rate of 10% and an inflation rate of 4% were used to calculate the fair value of asset retirement obligations.

The following is a continuity schedule of asset retirement obligations:

	2005 $	2004 $
Balance January 1	12,061	10,861
Additions	63,598	–
Revisions to estimates	7,720	–
Accretion expense	1,314	1,200
Balance December 31	84,693	12,061

10. Share capital

(a) Authorized

Unlimited common shares without nominal or par value

(b) Issued and outstanding

	Number of Shares	Amount $
Common Shares		
Balance, December 31, 2003	24,041,467	14,052,083
Issued for cash – private placement	19,406,575	6,221,722
Share issue costs	–	(582,656)
Balance, December 31, 2004	43,448,042	19,691,149
Issued for cash		
– private placement	30,000,000	27,000,000
– exercise of stock options	140,000	67,092
– exercise of warrants	6,158,925	2,815,624
Share issue costs	–	(1,465,576)
Balance, December 31, 2005	79,746,967	48,108,289

During the year, the Company raised a total of $27,000,000 through the issue of 30,000,000 common shares at a price of $0.90 per common share. Commissions in the amount of $1,350,000 and 1,200,000 agent's warrants were paid on the issue. The agent's warrants were exercisable at $0.90 per share for a period of nine months from close of the private placement, and were exercised in full on October 11, 2005. Also included in share issue costs of $1,465,576 are legal fees and other miscellaneous costs related to the issue.

(c) Stock options

The Company has established a stock option plan whereby it may grant options to its directors, officers, employees and consultants. On December 31, 2005 there were 7,000,000 (2004 – 3,000,000) common shares reserved for issuance under the plan. The exercise price of each option equals the market price of the Company's shares on the date of the grant less any applicable discount approved by the Board of Directors and the TSX Venture Exchange. The option's maximum term is five years, with the minimum vesting period to be 18 months. Stock options currently issued vest over the initial three years. The following is a continuity of outstanding stock options:

	2005		2004	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at January 1	2,445,000	0.38	1,642,500	0.43
Granted during the year	2,305,000	1.44	1,210,000	0.33
Exercised, cancelled or expired during the year	(140,000)	0.37	(407,500)	0.42
Outstanding at December 31	4,610,000	0.91	2,445,000	0.38

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2005:

Expiry Date	Exercise Price $	Number Outstanding	Number Exercisable
March 30, 2009	0.32	50,000	50,000
July 1, 2007	0.33	1,110,000	370,002
June 23, 2008	0.36	615,000	615,000
February 5, 2007	0.37	130,000	130,000
January 1, 2009	0.43	50,000	50,000
January 23, 2006	0.60	350,000	350,000
August 25, 2010	1.44	2,075,000	–
November 13, 2010	1.46	230,000	–
		4,610,000	1,565,002

The Company has adopted the fair value method of accounting for all stock options granted to directors, officers, and employees using the Black-Scholes option pricing model using the following assumptions:

	2005	2004
Risk-free interest rate	3.50%	3.50%
Expected hold period to exercise	3 Years	3 Years
Volatility in the price of the Company's shares	93%	86%
Dividend yield	0%	0%

(d) Warrants

As at December 31, 2005, all warrants issued in connection with private placements of shares had been exercised.

11. Commitments

The Company has commitments and obligations totaling $2,500,000 under the terms of its exploration licenses which are expected to be incurred over the next two years.

In connection with these obligations, the Company has issued an irrevocable letter of guarantee to the National Agency for Mineral Resources (NAMR) in Romania totaling US$720,000 on behalf of its subsidiary Sterling Resources (UK) Ltd. This amount represents the subsidiary's total anticipated costs of the first two years of the extension of the Exploration Program pursuant to a concession agreement between the subsidiary and the NAMR. The term of this extension is from December 24, 2005 to December 24, 2007. Costs must be incurred during this time period or any extension thereof.

In addition, the Company has commitments under operating leases for office premises and storage facilities as follows:

	$
2006	165,520
2007	59,707
2008	48,248
2009	49,392
2010	28,812
	351,679

12. Financial instruments

The fair market values of the Company's financial instruments, including cash and short term investments, accounts receivable and accounts payable approximate their carrying values.

13. Segmented information

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

December 31, 2005	Corporate $	United Kingdom $	Romania $	Other International $	**Total $**
Expenses	2,621,121	423,906	124,757	–	3,169,784
Other income	(736,647)	(9,265)	(63)	–	(745,975)
Net loss	1,884,474	414,641	124,694	–	2,423,809
Capital expenditures	97,775	2,825,854	2,505,016	184,535	5,613,180
Total assets	22,431,015	8,666,132	10,070,594	228,378	41,396,119

December 31, 2004	Corporate $	United Kingdom $	Romania $	Other International $	Total $
Expenses	557,405	331,026	–	–	888,431
Other income	(36,021)	(2,155)	–	–	(38,176)
Net loss	521,384	328,871	–	–	850,255
Capital expenditures	13,592	835,492	423,018	704	1,272,806
Total assets	3,347,249	4,519,219	6,318,412	43,843	14,228,723

CORPORATE INFORMATION

STERLING RESOURCES LTD.

Directors

Raj K. Agrawal (3) (4) (5)
President
NRG Engineering Ltd.

Robert B. Carter (1) (2) (5) (6)
Independent Businessman

Ian Connor (7)
Managing Director
Meridian Capital

Stewart G. Gibson
Chief Executive Officer
Sterling Resources Ltd.

Teck Soon Kong (1)
Independent Businessman

Paul W. Maxwell (1) (3) (7)
General Manager
Meridian Securities (UK) Limited

David E. Powell (3)
Independent Businessman

Robert G. Welty
Chairman
Sterling Resources Ltd.

(1) Audit Committee
(2) Chairman Audit Committee
(3) Governance and Compensation Committee
(4) Chairman Governance and Compensation Committee
(5) Independent Nominating Committee
(6) Chairman Independent Nominating Committee
(7) Meridian Nominating Committee

Officers

Robert G. Welty
Chairman

Stewart G. Gibson
Chief Executive Officer

David A. Findlater
Vice President Exploration

Ian C. Hornby-Smith
Chief Financial Officer

Sherry L. Cremer
Treasurer & Corporate Secretary

Corporate Headquarters

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Ernst & Young LLP

Banker

The Royal Bank of Canada

Legal Counsel

Stikeman Elliott LLP
Calgary, Canada

Registrar and Transfer Agent

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

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Stock Exchange Listing

The TSX Venture Stock Exchange Trading Symbol: SLG

STERLING RESOURCES (UK) LTD.
(WHOLLY OWNED)

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Aboyne, Scotland

Teck Soon Kong
London, England

David Miller
London, England

Robert G. Welty
Calgary, Canada

Officers

Robert G. Welty
Chairman

Stewart G. Gibson
Managing Director & Corporate Secretary

David A. Findlater
Vice President Exploration & Business Development

John Rapach
Vice President Operations

Stephen Birrell
Vice President Romanian Operations

Ian C. Hornby-Smith
Vice President Finance and Controller

Sherry L. Cremer
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