



Sterling Resources Ltd.

Second Quarter Report

For the Six Months Ended June 30, 2003

Message to Shareholders

During the second fiscal quarter ended June 30th, Sterling closed a successful private placement to provide funding for its ongoing activities, successfully farmed out substantially all of its cost for the Avington exploration well and made its first application for licenses in the UK offshore.

Sterling successfully raised \$1,800,000 through the issue of 7,200,000 units at \$0.25 per unit by private placements. Each unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share for a period of 24 months at a price of \$0.30 per common share during the first twelve months after the closing date of the private placement or at a price of \$0.35 per common share during the second twelve month period. The issue, originally planned at 6,000,000 units, was oversubscribed and subsequently increased to 7,200,000 units. Commissions in the amount of \$100,000 cash and 165,500 units, on the same terms and conditions as the placement to subscribers, were paid to finders in connection with the placement of certain units. The proceeds will be used to fund ongoing work programs and to augment working capital.

In June, Sterling concluded farmout agreements covering part of its interest in PEDL 070 in the Weald Basin onshore UK. In exchange for an 8.333% interest in the license, Sterling's major share of the Avington well costs, including past costs, are being funded. Sterling will retain an 8.333% interest in the license. These farmouts are in line with Sterling's stated strategy of bringing in industry partners to share technical and financial risks of exploration.

The exploration well Avington-2 on license PEDL 070 spudded July 16, 2003. The well will be drilled directionally into the crest of the prospect, which is targeting the Middle Jurassic, Great Oolite reservoir that produces in the nearby Stockbridge oilfield. Based on positive results, a horizontal section will be drilled to optimize completion and in total, the well is expected to take 25 to 30 days.

In the Wessex Basin onshore UK, plans are proceeding for a well for the fourth quarter of 2003 in the eastern portion of PL 090, close to the Wytch Farm oilfield. The well will be the first in a series to follow the Bridport/Sherwood reservoirs west along the Wessex High.

In the Cleveland Basin onshore UK, applications are still in progress for Planning approvals to drill two gas prospects, Kirkleatham and Westerdale, located within PEDL 068.

Onshore Romania, initial work on the infill seismic program has commenced with the actual shooting to begin in the third quarter of 2003. The program will initially cover a 110-kilometer grid in the northeast portion of the South Craiova block, in close proximity to two large producing fields. Based on the results of the seismic, the first well could commence later this year.

Sterling continues to manage its portfolio by adding new acreage and relinquishing acreage that does not meet our risk reward threshold. The Company decided to exit Denmark license 1/01 this quarter after review of the results of the recent geological work program. As this was Sterling's last license in Denmark, all Denmark costs have been written off.

In May Sterling made its first application for offshore licenses in the UK North Sea. Along with joint venture partners Sterling applied for two "Promote Licenses" in the 21st Offshore Licensing Round. This type of license is being offered for the first time. It will provide opportunities for smaller companies to enter the prolific offshore basins and assess and promote the prospectivity of the licensed acreage without the stringent requirements of traditional licenses. Sterling's existing UK onshore activities and the extensive experience of its management in the UK offshore sector, make the potential entry into the offshore a logical and strategic expansion of its UK core area. License awards are expected to be announced in August.

On behalf of the Board of Directors,

(signed) "Robert G. Welty"

(signed) "Stewart G. Gibson"

Robert G. Welty
Chairman & Chief Executive Officer
August 6, 2003

Stewart G. Gibson
President & Chief Operating Officer

Consolidated Balance Sheets

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	June 30, 2003 (Unaudited)	Dec. 31, 2002 (Audited)
ASSETS		
Current		
Cash and short term investments	\$ 699,468	\$ 284,674
Accounts receivable	543,311	49,075
Due from officers	115,000	115,000
	<u>1,357,779</u>	<u>448,749</u>
Capital assets		
Petroleum and natural gas properties and equipment	8,163,710	8,398,166
Furniture and fixtures	22,393	24,746
	<u>8,186,103</u>	<u>8,422,912</u>
	<u>\$ 9,543,882</u>	<u>\$ 8,871,661</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 287,486	\$ 490,222
Shareholders' equity		
Share capital (note 2)	14,053,605	12,382,568
Contributed surplus	66,479	66,479
Deficit	(4,863,688)	(4,067,608)
	<u>9,256,396</u>	<u>8,381,439</u>
	<u>\$ 9,543,882</u>	<u>\$ 8,871,661</u>

See accompanying notes

Consolidated Statements of Operations and Deficit

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Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
EXPENSES				
General and administrative				
Corporate	\$ 147,108	\$ 170,732	\$ 239,108	\$ 304,820
Exploration projects	–	5,306	–	19,568
Depreciation	1,177	1,692	2,354	3,364
Exploration licenses relinquished – Denmark	555,871	–	555,871	–
	704,156	177,730	797,333	327,752
OTHER INCOME				
Interest	842	477	1,253	1,566
Net loss for the period	703,314	177,253	796,080	326,186
Deficit, beginning of period	4,160,374	3,547,900	4,067,608	3,398,967
Deficit, end of period	\$ 4,863,688	\$ 3,725,153	\$ 4,863,688	\$ 3,725,153
Net loss attributable per common share				
Basic	\$ (0.04)	\$ (0.01)	\$ (0.05)	\$ (0.02)
Diluted	\$ (0.04)	\$ (0.01)	\$ (0.05)	\$ (0.02)
Weighted average number of shares outstanding	18,228,513	14,981,967	17,472,879	14,981,967

See accompanying notes

Consolidated Statements of Cash Flows

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Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
OPERATING ACTIVITIES				
Net loss for period	\$ (703,314)	\$ (177,253)	\$ (796,080)	\$ (326,186)
Items not affecting cash				
Depreciation	1,177	1,692	2,345	3,364
Exploration licenses relinquished – Denmark	555,871	–	555,871	–
Cash loss from operations	(146,266)	(175,561)	(237,855)	(322,822)
Change in non-cash working capital	(985,287)	309,838	(696,972)	83,523
Cash provided by (used in) operating activities	(1,131,553)	134,277	(934,827)	(239,299)
INVESTING ACTIVITIES				
Petroleum and natural gas properties and equipment additions	(85,213)	(155,445)	(321,416)	(148,387)
Furniture and fixtures additions	–	(1,950)	–	(2,280)
Cash used in investing activities	(85,213)	(157,395)	(321,416)	(150,667)
FINANCING ACTIVITIES				
Issue of common shares, net of issue costs	1,671,416	–	1,671,037	–
Cash provided by financing activities	1,671,416	–	1,671,037	–
Increase (decrease) in cash	454,650	(23,118)	414,794	(389,966)
Cash and short term investments, beginning of period	244,818	267,704	284,674	634,552
Cash and short term investments, end of period	\$ 699,468	\$ 244,586	\$ 699,468	\$ 244,586

See accompanying notes

Selected Notes to Consolidated Financial Statements

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Six months ended June 30, 2003
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The interim consolidated financial statements of Sterling Resources Ltd. have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2002. The disclosures included below are incremental to those included with annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2002.

NOTE 2. SHARE CAPITAL

a) Authorized

Unlimited common shares without nominal or par value

b) Issued and outstanding

	June 30, 2003		June 30, 2002	
	Number of Shares	Amount (\$)	Number of Shares	Amount (\$)
Common shares				
Balance, beginning of year	16,675,967	12,382,568	14,981,967	11,612,046
Issued during period	7,365,500	1,841,375	-	-
Share issue costs	-	(170,338)	-	-
Balance, end of period	24,041,467	14,053,605	14,981,967	11,612,046

In June of 2003 the Company issued 7,200,000 units at \$0.25 per unit for an aggregate cash consideration of \$1,800,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of 24 months at a price of \$0.30 per common share during the first twelve months after the closing date of the private placement or at a price of \$0.35 per common share during the second twelve month period. Commissions in the amount of \$100,000 cash and 165,500 units, on the same terms and conditions as the placement to subscribers, were paid to finders in connections with the placement of certain units.

c) Stock options

The Company has a stock option plan under which employees, directors, officers and consultants are eligible to receive grants. On June 30, 2003 there were 1,662,500 common shares reserved for issuance under the plan with exercise prices between \$0.30 and \$0.60. Options granted under the plan are generally fully exercisable after three years and expire five years after the grant date.

	June 30, 2003		June 30, 2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,007,500	\$ 0.47	932,500	\$ 0.59
Granted	655,000	\$ 0.36	320,000	\$ 0.37
Outstanding at end of period	1,662,500	\$ 0.43	1,252,500	\$ 0.51
Exercisable at end of period	657,503	\$ 0.48	372,500	\$ 0.63

As the Company is following the intrinsic value method of accounting for employee options, no compensation expense has been recorded with respect to employee options. The following table provides pro forma measures of net loss and net loss per share, had compensation expense been recognized based on the estimated fair value of the employees options on the grant date in accordance with the fair value method of accounting for stock-based compensation.

	Six months ended	
	June 30, 2003	June 30, 2002
Reported net loss	\$ 796,080	\$ 326,184
Compensation expense	\$ 7,623	\$ 5,167
Pro forma net loss	\$ 803,703	\$ 331,353
Reported basic and diluted net loss per share	\$ 0.05	\$ 0.02
Pro forma basic and diluted net loss per share	\$ 0.05	\$ 0.02

655,000 options were granted during the second quarter of 2003; 320,000 options were granted during the second quarter of 2002. The estimated fair value of stock options issued during 2003 and 2002 was determined using Black-Scholes model using the following weighted average assumptions, resulting in a weighted average fair value of \$0.17 per option for 2003 and \$0.11 per option for 2002.

	Six months ended	
	June 30, 2003	June 30, 2002
Risk-free interest rate	3.33%	3.55%
Expected hold period to exercise	3 years	3 years
Volatility factor of the Company's shares	0.640	0.596
Dividend yield	0%	0%

d) Warrants Outstanding

Expiry Dates	June 30, 2003		June 30, 2002	
	Number of Warrants	Exercise Price	Number of Warrants	Exercise Price
July 17, 2003	1,703,812	\$ 0.75	1,703,812	\$ 0.75
July 26, 2003	333,372	\$ 0.75	333,372	\$ 0.75
January 17, 2003	-	\$ -	103,956	\$ 0.90
July 31, 2004	1,694,000	\$ 0.60	-	\$ -
June 6, 2005	4,115,000	\$ 0.30/0.35	-	\$ -
June 16, 2005	3,250,500	\$ 0.30/0.35	-	\$ -
	11,096,684		2,141,140	