

# STERLING RESOURCES LTD.

## 2008 First Quarter Report

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For the three months ended March 31, 2008

## Message to SHAREHOLDERS

Following our discovery of significant gas in the Doina Sister well in January, we have been focused on progressing the development of our two offshore gas projects, Breagh in the UK Southern North Sea (Sterling 45-percent interest after farmout) and the Doina trend in the Romanian Black Sea (Sterling 65-percent interest after farmout). Long lead items have been secured and the necessary site surveys and environmental studies for further drilling have been initiated.

### **UNITED KINGDOM**

We have contracted the ENSCO 70 jack up rig, which is scheduled to commence a well on East Breagh in early July 2008. This will be followed by a high angle step-out well on West Breagh before moving to drill an exploration well in Block 42/19 (Sterling 80-percent interest after farmout), just south of the Breagh area. The ENSCO 70 contract has the flexibility to enable further drilling beyond this minimum program and opportunities to utilize the rig beyond the Quad 42 activity will be pursued in the coming months. We have also entered into an agreement with Aberdeen based North Sea Well Engineering Ltd. (“Norwell”) for the drilling management of the program.

The infill seismic program planned just north of Breagh in Blocks 42/8 and 42/9 (Sterling 60-percent after farmout) started in late April and is a closely spaced 2-D seismic survey which will be processed as 3-D.

After quarter end, we concluded a farm-out with Petro Ventures International Limited on the greater Breagh area and we continue to progress the technical work and possible farmout activity on the remainder of our significant exploration portfolio. We have also completed our evaluation on areas of interest for the forthcoming UK Offshore 25<sup>th</sup> Licensing Round which closes in May.

As previously reported, we have secured the Sedco 704 semi-submersible rig to drill the Cladhan Prospect on Block 210/29a (Sterling 39.9-percent after farmout) in the UK Northern North Sea. The well is scheduled to start in September and will be drilled under a turn-key contract with ADTI, a division of Transocean, specializing in well management and turnkey operations.

### **ROMANIA**

Offshore Romania in the Black Sea, activity planned for 2008 on the Doina trend includes appraisal wells on both Doina and Doina Sister (now renamed as Ana). We still await availability of a semi-submersible rig in the Black Sea to determine the timing of drilling the large Midia SE prospect planned for late 2008 or early 2009. A similar survey to the infill seismic program just north of Breagh is also being planned for the Doina trend later in the year to refine the multiple additional prospects and leads mapped along this trend.

In our onshore Romania Craiova Block, locations for the first three shallow gas targets in the “Goshawk” area have been confirmed and we currently await quotes for the turnkey drilling expected to start in the third quarter.

**CORPORATE AND OTHER**

To accomplish the early development planning of our two offshore gas discoveries, we have secured the services of Asset Development and Improvement Limited (“ADIL”) and VerdErg Connectors Ltd. (“VerdErg”) to complete the project management for Breagh and Doina respectively. In addition we have a full subsurface team of geological and geophysical specialists seconded from our consultants Senergy PGL now located in our recently extended offices in Banchory, near Aberdeen, Scotland.

During the quarter, we completed two equity financings, the first with Royal Bank Project Investment Limited, a subsidiary of The Royal Bank of Scotland, for net proceeds of \$14.2-million and the second with an underwriting syndicate led by Wellington West Capital Markets Inc., for net proceeds of \$37.5-million. The funds will be used towards our planned 2008 appraisal, development and exploration expenditures, primarily focused on the Breagh and Doina areas.

On Behalf of the Board of Directors,

[Signed]

“Stewart G. Gibson”  
Chief Executive Officer  
May 15, 2008

# Management's Discussion and Analysis of Operations and Financial Condition

This management's discussion and analysis of operations and financial condition (MD&A) is dated May 15, 2008 and should be read in conjunction with our unaudited interim consolidated financial statements for the three months ended March 31, 2008 and audited consolidated financial statements and accompanying notes for the year ended December 31, 2007.

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

## **FORWARD-LOOKING STATEMENTS AND BUSINESS RISKS**

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

These statements are only predictions. Actual events or results may differ materially. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- capital expenditure programs, including the success or otherwise, of exploration and appraisal initiatives;
- commodity prices;
- factors upon which we will decide whether or not to undertake a specific course of action;
- expectations regarding our ability to raise capital or bank debt;
- the sale, farming in, farming out or development of certain exploration properties using third party resources;
- the use of development activity and acquisitions to replace and add to reserves;
- drilling plans;
- our tax horizon;
- oil and natural gas production levels and the quantity of reserves;
- supply and demand for oil and natural gas;
- the performance and characteristics of our oil and natural gas properties;
- the impact of governmental regulation on us relative to other oil and gas issuers of similar size;
- the emergence of accretive growth opportunities;

- realization of the anticipated benefits of acquisitions and dispositions;
- our ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; and
- treatment under government taxation regimes.

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

- the impact of increasing competition;
- our ability to obtain additional financing on satisfactory terms; and
- our ability to attract and retain qualified personnel.

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

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

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

The business risks for the Company have not changed materially from the disclosure in our MD&A and Annual Information Form for the year ended December 31, 2007.

## **OVERVIEW AND CORPORATE STRATEGY**

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

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

Our strategy for achieving growth is to source and initiate international projects with the potential for large, low-cost reserves. We concentrate on accumulating, exploring and exploiting licenses and prospects in selected core areas of the world so that we can take advantage of existing infrastructure and economies of scale from joint-development projects. Our strategy also targets blocks with high initial working interests where possible and we manage financial exposure and technical risk by obtaining partner participation through farm-out and other arrangements. Under such a strategy a portion of our interest is given up in exchange for the partner paying a share of certain of our costs of drilling a well or other programs. Our current activities are focused in the UK and Romania.

**DISCUSSION OF FINANCIAL RESULTS AND OPERATIONS****OVERVIEW**

Three months ended March 31	2008	2007
<hr/> \$ except share and per share information		
Oil and gas revenues, net of royalties	-	-
Interest	214,155	208,713
Expenses	258,259	628,425
Net loss	(44,104)	(419,712)
- per common share - basic and diluted	(0.00)	(0.00)
Net working capital	57,791,149	18,661,814
Petroleum and natural gas properties and equipment additions	7,540,238	2,352,426
Dispositions of interests in properties	(2,240,687)	-
Total assets	124,572,906	70,599,076
Share capital	129,099,312	75,814,852
Common shares outstanding - basic and diluted	119,110,203	94,583,634

For the three months ended March 31, 2008, we recorded a loss of \$44,104 (\$0.00 per share - basic and diluted) compared with a loss of \$419,712 (\$0.00 per share - basic and diluted) for the three months ended March 31, 2007. The loss for the quarter decreased over the same quarter of the prior year mainly due to foreign exchange gains partially offset by increased general and administrative expenses.

**GENERAL AND ADMINISTRATIVE EXPENSES**

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

Three months ended March 31	2008	2007
	(\$)	(\$)
Gross general and administrative expenses	1,416,430	823,224
Recoveries from partners	(487,159)	(85,104)
Charged to capital projects	(427,415)	(388,882)
	501,856	349,238

Gross general and administrative expenses before recoveries and charges to capital projects for the three months ended March 31, 2008 increased over the same period in the prior year due primarily to increased employee costs arising from increased activity following the Breagh and Doina discoveries in late 2007, and to Management and employees' performance payments.

Much of this increase has been offset by increased recoveries from partners and internal capitalization which also reflects the increase in activity in 2008.

**STOCK BASED COMPENSATION**

Non-cash stock based compensation expense of \$156,341 for the three months ended March 31, 2008 has decreased over the same quarter of the prior year expense of \$201,630 as certain older options are now fully expensed and newer options issued in 2007 are lower-cost due to lower volatility in our share price. No new options were issued in the three month period ended March 31, 2008, or in the corresponding period in the prior year.

**FOREIGN EXCHANGE GAINS**

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

Foreign exchange gains of \$463,606 for the three months ended March 31, 2008, reflect an improvement over losses of \$43,630 incurred in the same period in 2007, primarily reflecting the translation into Canadian dollars, of US dollars purchased and held in escrow accounts as security for drilling rig contracts.

**REVENUE**

There are no operating revenues at the present time.

Interest income earned on investment of surplus funds was \$214,155 for the three months ended March 31, 2008 compared to \$208,713 for the comparable period in 2007. The small increase compared to the comparable periods in the prior year, is due mainly to higher average cash balances, following the two equity issues during the quarter.

**INCOME TAXES**

The Company does not recognize the tax benefit of losses incurred at this time as the Company has no current production, and there is no assurance that the tax benefit will be realized. As at March 31, 2008 the Company has non-capital losses of approximately \$4.7-million available, but subject to expiry over the next twenty years, to reduce future Canadian taxable income, and approximately \$3.2-million of subsidiary UK tax losses which are not subject to expiry. Approximately \$0.4-million of Canadian non-capital loss carry-forwards expire at the end of 2008.

**PETROLEUM AND NATURAL GAS PROPERTY ACTIVITIES AND CAPITAL EXPENDITURES**

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

	March 31, 2008			December 31, 2007		
	Gross Acres	Net Acres	Capitalized Costs (\$)	Gross Acres	Net Acres	Capitalized Costs (\$)
United Kingdom	1,322,433	982,604	37,435,745	1,347,143	989,607	35,912,029
Romania	2,645,000	2,027,000	23,767,740	2,645,000	2,027,000	21,455,178
France	151,969	50,792	2,286,060	151,969	50,792	651,980
Total	4,119,402	3,060,396	63,489,545	4,144,112	3,067,399	58,019,187

**CAPITAL EXPENDITURES**

During the three months ended March 31, 2008 capital expenditures on oil and gas properties totalled \$7,540,238 of which \$2,240,687 were funded by third parties in exchange for rights to payments of a share of gross production from the Doina trend offshore Romania.

Major items on UK offshore blocks included costs relating to the Breagh appraisal well on Block 42/13, and preliminary site survey costs relating to the proposed well on Block 42/19.

In Romania, expenditures totalling \$2,312,561 related mainly to the testing of the Doina Sister discovery made in late 2007 and preliminary costs relating to the onshore drilling program planned for later in 2008.

For the three months ended March 31, 2007, expenditures on oil and gas properties totalling \$2,352,426 included the purchase of long-lead items for the Breagh well drilled later in 2007, as well as studies related to the 2006 Sheryl well on Block 21/23a. In Romania, expenditures related mainly to farm-out activity on the offshore properties.

#### **FINANCING, LIQUIDITY AND SOLVENCY**

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

On March 13, 2008 the Company completed a bought deal financing of 14,000,000 common shares at \$2.50 per share with a syndicate of underwriters. In addition an "Over-Allotment Option" to purchase an additional 2,000,000 shares at \$2.50 was granted to the underwriters and was exercised on March 25, 2008. The total gross proceeds from the initial issue and the Over-Allotment Option were \$40,000,000. After underwriter's commissions and expenses of the issue, net proceeds were \$37,464,127 and will also be used primarily towards financing the Company's 2008 appraisal well drilling program.

As at March 31, 2008 our net working capital was \$57,791,149 compared with \$10,858,095 at December 31, 2007. Cash and cash equivalents totalled \$55,927,745 of which \$17,053,818 is restricted cash in escrow accounts which is available only for settlement of expenditures relating to the proposed exploration well on Blocks 210/29a or 210/30a in the UK Northern North Sea. Of this amount approximately \$11-million has been contributed on behalf of partners and may be released from escrow following completion of certain formalities.

Through our working capital of \$57,791,149 and debt financing currently being negotiated, we expect to have sufficient funds to meet our current license obligations and commitments and to fund ongoing operations for the next year. However, planned financings and farm-outs are subject to prevailing market conditions, and plans may change.

As is typical of companies in Sterling's stage of growth, future exploration and development activities may 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. Successful completion of financings and farm-outs of partial interests are required for us to carry out our activities until such time as we establish production and cash flow. We may also raise capital from time to time by monetization of certain of our existing assets.

There were 119,110,203 common shares and 4,989,999 stock options outstanding as at March 31, 2008. An additional 2,010,001 common shares were reserved for stock options. As at May 15, 2008 there were 119,285,203 common shares and 5,164,999 stock options outstanding and a further 1,835,001 common shares were reserved for stock options. There were no options granted during the three months ended March 31, 2008 or 2007.

**ASSET RETIREMENT OBLIGATIONS**

The following is a continuity of asset retirement obligations for the three months ended March 31, 2008:

Three months ended March 31, 2008	(\$)
Balance, January 1	1,249,585
Additions	54,664
Revisions to estimates	55,348
Accretion	31,796
Balance, March 31	1,391,393

Additions relate to the Grenade-3 well onshore France which has been suspended pending further analysis.

**FUTURE PLANS**

For the remainder of 2008, we remain focused on our plans as identified in our MD&A for the year ended December 31, 2007. Our key focus will be on delineation and appraisal of the Breagh prospect in the UK Southern North Sea, and the Doina and Doina Sister discoveries offshore Romania in the Black Sea. These and other plans are subject to financing constraints and partner approval, but currently include the following:

- Drill up to three more Breagh appraisal wells on Block 42/13 in the UK Southern North Sea. As with the 2007 Breagh well, these wells will be potential future producers;
- Drill one exploration well on Block 210/29a or 210/30a in the UK Northern North Sea and one exploration well on Block 42/19 in the Southern North Sea;
- Drill one exploration on PEDL 068 onshore UK;
- Drill two appraisal wells on the Doina trend in the Midia Block offshore Romania;
- Drill one exploration well on the Midia Block offshore Romania in late 2008 or 2009;
- Drill up to three shallow gas prospects onshore Romania in the central part of the Craiova concession known as Goshawk;
- Continue geological and geophysical work to evaluate our licenses, including the six new licenses awarded in the UK Offshore 24<sup>th</sup> Licensing Round, and the many other prospects and leads that exist on them. This work will focus on offshore UK and offshore and onshore Romania; and
- Continue our strategy of farming out a portion of our licenses in order to reduce costs.

The success of the Breagh and Doina Sister wells in 2007, and the resulting increase in appraisal activity in 2008 will also require the addition of technical staff in our offices in the UK and Romania.

These plans depend on rig availability, farm-out terms and conditions and partner approval, and are subject to the business risks and uncertainties described under “Forward-looking statements and business risks” in this document.

**NEW ACCOUNTING POLICIES**

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

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

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

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

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

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

**CRITICAL ACCOUNTING ESTIMATES**

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

**DISCLOSURE CONTROLS AND PROCEDURES**

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

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

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

Additional information about Sterling Resources Ltd. and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**SELECTED QUARTERLY INFORMATION**

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

Three months ended	2008		2007	
	March 31	Dec. 31	Sept. 30	June 30
	(\$)	(\$)	(\$)	(\$)
Expenses				
General and administrative	501,856	547,390	382,283	476,963
Foreign exchange (gain) loss	(463,606)	(540,566)	112,058	111,664
Stock based compensation	156,341	185,361	245,587	273,673
Accretion	31,796	13,904	15,282	11,872
Depreciation	31,872	16,992	21,471	17,212
	258,259	223,081	776,681	891,384
Interest	214,155	140,299	178,861	175,939
Net loss	(44,104)	(82,782)	(597,820)	(715,445)
Net loss per common share – basic and diluted	(0.00)	(0.00)	(0.01)	(0.01)
Three months ended	2007		2006	
	March 31	Dec. 31	Sept. 30	June 30
	(\$)	(\$)	(\$)	(\$)
Expenses				
General and administrative	349,238	322,154	323,178	450,151
Foreign exchange (gain) loss	43,630	(234,097)	17,472	134,450
Stock based compensation	201,630	122,201	225,437	176,468
Accretion	10,705	14,667	10,532	8,483
Depreciation	23,222	20,331	17,490	16,748
	628,425	245,256	594,109	786,300
Interest	208,713	317,283	335,992	180,764
Net (loss) income	(419,712)	72,027	(258,117)	(605,536)
Net (loss) income per common share – basic and diluted	(0.00)	0.00	(0.00)	(0.01)

# Consolidated Balance Sheets

Unaudited	March 31 2008	December 31 2007
	(\$)	(\$)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	38,873,927	10,308,364
Restricted cash [note 2]	17,053,818	5,617,260
Accounts receivable	4,917,700	6,845,525
Prepaid expenses	68,759	70,467
	<b>60,914,204</b>	<b>22,841,616</b>
<b>Property and equipment</b>		
Petroleum and natural gas properties and equipment	63,489,545	58,019,187
Furniture and fixtures	169,157	172,784
	<b>63,658,702</b>	<b>58,191,971</b>
	<b>124,572,906</b>	<b>81,033,587</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	3,123,055	11,983,521
Asset retirement obligations [note 3]	1,391,393	1,249,585
Commitments [note 4]		
<b>Shareholders' equity</b>		
Share capital [note 5]	129,099,312	76,900,308
Contributed surplus [note 6]	2,534,227	2,431,150
Deficit	(11,575,081)	(11,530,977)
	<b>120,058,458</b>	<b>67,800,481</b>
	<b>124,572,906</b>	<b>81,033,587</b>

See accompanying notes

# Consolidated Statements of Operations and Deficit

For the three months ended March 31 – unaudited	<b>2008</b>	2007
	(\$)	(\$)
<b>EXPENSES</b>		
General and administrative	501,856	349,238
Foreign exchange (gain) loss	(463,606)	43,630
Stock based compensation [note 5]	156,341	201,630
Accretion [note 3]	31,796	10,705
Depreciation	31,872	23,222
	<b>258,259</b>	<b>628,425</b>
<b>OTHER INCOME</b>		
Interest	214,155	208,713
Net loss and comprehensive loss for the period	<b>(44,104)</b>	<b>(419,712)</b>
Deficit, beginning of period	<b>(11,530,977)</b>	<b>(9,715,218)</b>
Deficit, end of period	<b>(11,575,081)</b>	<b>(10,134,930)</b>
Net loss per common share – basic and diluted [note 5]	<b>(0.00)</b>	<b>(0.00)</b>

See accompanying notes

# Consolidated Statements of Cash Flow

For the three months ended March 31 – unaudited	<b>2008</b>	<b>2007</b>
	(\$)	(\$)
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(44,104)	(419,712)
Items not affecting cash used in operating activities		
Foreign exchange loss	112,889	54,626
Stock based compensation [note 5]	156,341	201,630
Accretion [note 3]	31,796	10,705
Depreciation	31,872	23,222
	<b>288,794</b>	<b>(129,529)</b>
Change in non-cash working capital	(49,079)	(115,604)
<b>Cash provided by (used in) operating activities</b>	<b>239,715</b>	<b>(245,133)</b>
<b>INVESTING ACTIVITIES</b>		
Petroleum and natural gas properties and equipment additions	(7,540,238)	(2,352,426)
Disposition of interests in properties	2,240,687	–
Furniture and fixtures additions	(28,245)	–
Change in non-cash working capital	(6,881,854)	(2,131,291)
<b>Cash used in investing activities</b>	<b>(12,209,650)</b>	<b>(4,483,717)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in restricted cash	(11,436,558)	–
Issue of common shares, net of share issue costs	52,029,596	65,100
<b>Cash provided by financing activities</b>	<b>40,593,038</b>	<b>65,100</b>
Effect of translation on foreign currency cash	(57,540)	(54,626)
Increase (decrease) in cash and cash equivalents during the period	28,565,563	(4,718,376)
Cash and cash equivalents, beginning of period	10,308,364	23,801,861
<b>Cash and cash equivalents, end of period</b>	<b>38,873,927</b>	<b>19,083,485</b>

See accompanying notes

# Selected Notes to Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2008

## 1. BASIS OF PRESENTATION AND NEW ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

Cash and cash equivalents – held-for-trading

Accounts receivable – loans and receivables

Accounts payable – other financial liabilities

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

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

#### **(A) FOREIGN EXCHANGE RATE RISK**

The Company reports in Canadian dollars, and foreign exchange gains and losses can occur as a result of translating working capital and other monetary items denominated in UK Pounds, US dollars and Romanian Lei into Canadian dollars. In order to minimize exposure to foreign exchange fluctuations, non-cash working capital is only held in foreign currencies where it arises out of operating activities or requirements and cash is converted into foreign currencies for known or anticipated expenditures within the near term. Based on net foreign currency monetary items at March 31, 2008, a 1 percent fluctuation in the US dollar, UK Pound or Romanian Lei against the Canadian dollar would impact net income by approximately \$178,000, \$24,000 and \$17,000 respectively.

#### **(B) INTEREST RATE RISK**

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows. From time to time the Company may have significant cash or cash equivalent balances invested at prevailing short-term interest rates. Accordingly cash flows are sensitive to changes in interest rates on these investments. Based on total cash, cash equivalents and restricted cash as at March 31, 2008, a 1 percent change in average interest rates would increase or decrease net income by approximately \$560,000 over a full year.

- Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. At present the Company does not have any debt, and has sufficient cash to settle its accounts payables. Consequently there is no significant exposure to this 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. The Company's accounts receivable are primarily with joint venture partners in the oil and gas industry and are secured by the partner's interest in the underlying oil and gas properties. This risk is therefore not considered significant. No provision has been made for impaired receivables as of March 31, 2008 as all substantive receivables were current or have been subsequently collected.

During the three months ended March 31, 2008, the Company had no derivative financial instruments, and other financial instruments have been disclosed in accordance with the standards.

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

**2. RESTRICTED CASH**

Restricted cash of \$17,053,818 at March 31, 2008 is comprised of cash in escrow accounts which is available only for settlement of expenditures relating to the proposed exploration well on Blocks 210/29a or 210/30a in the UK Northern North Sea. Of this amount approximately \$11-million has been contributed on behalf of partners and may be released from escrow following completion of certain formalities.

**3. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas exploratory and appraisal stage activity. The Company estimates the total undiscounted amounts of cash flows required to settle its asset retirement obligations to be approximately \$2,800,000 which will be incurred between 2010 and 2018. A credit adjusted risk-free interest rate of 10-percent and an inflation rate of 4-percent were used to calculate the fair value of asset retirement obligations.

The following is a continuity of asset retirement obligations for the three months ended March 31, 2008:

Three months ended March 31, 2008	(\$)
Balance, January 1	1,249,585
Additions	54,664
Revisions to estimates	55,348
Accretion	31,796
Balance, March 31	1,391,393

**4. COMMITMENTS**

In addition to operating commitments disclosed in the consolidated financial statements for the year ended December 31, 2007, the Company has entered into a contract in order to secure an offshore drilling rig to complete its planned 2008 drilling operations in the UK Southern North Sea. The contract covers a multi-well program to include at least three wells, and the Company's share of this commitment is approximately \$17-million.

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

Unlimited common shares without nominal or par value.

**(B) ISSUED AND OUTSTANDING**

	Number of Shares	Amount
		(\$)
Balance, December 31, 2007	95,766,968	76,900,308
Issued for cash		
– private placement issue	7,109,900	14,219,800
– public equity issue	16,000,000	40,000,000
– exercise of stock options	233,335	386,503
Share issue costs	–	(2,576,707)
Transferred from contributed surplus on exercise of options	–	169,408
Balance, March 31, 2008	119,110,203	129,099,312

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

On March 13, 2008 the Company completed a bought deal financing of 14,000,000 common shares at \$2.50 per share with a syndicate of underwriters. In addition an "Over-Allotment Option" to purchase an additional 2,000,000 shares at \$2.50 was granted to the underwriters and was exercised on March 25, 2008. The total gross proceeds from the initial issue and the Over-Allotment Option were \$40,000,000. After underwriter's commissions and expenses of the issue, net proceeds were \$37,464,127 and will also be used primarily towards financing the Company's 2008 appraisal well drilling program.

**(C) STOCK OPTIONS**

The Company has established a stock option plan whereby it may grant options to its directors, officers, employees and consultants. On March 31, 2008 there were 7,000,000 common shares reserved for issuance under the plan. The exercise price of each option equals the market price of the Company's shares on the date of the grant. The option's maximum term is five years and must vest over a period of not less than 18 months. Stock options currently issued vest over the initial three years.

The following is a continuity of outstanding stock options for the three months ended March 31, 2008:

	Number of Options	Weighted Average Exercise Price
		(\$)
Outstanding, December 31, 2007	5,223,334	1.70
Exercised during the period	(233,335)	1.66
Outstanding, March 31, 2008	4,989,999	1.70
Exercisable, March 31, 2008	1,803,339	1.51

The weighted average remaining contractual life of options outstanding at March 31, 2008 was 793 days.

For the three months ended March 31, 2008, \$156,341 was recognized as stock based compensation expense in respect of stock options granted, and a further \$116,144 was capitalized. For the same period in 2007, \$201,630 was recognized as stock based compensation expense and \$107,686, was capitalized.

**(D) WEIGHTED AVERAGE SHARES OUTSTANDING**

The weighted average shares outstanding for the three months ended March 31, 2008 were 103,977,500. For the three months ended March 31, 2007 the weighted average shares outstanding were 94,431,612. The effect of all options outstanding would not be dilutive.

## 6. CONTRIBUTED SURPLUS

The following is a continuity of contributed surplus for the three months ended March 31, 2008:

Three months ended March 31, 2008	(\$)
Balance, January 1	2,431,150
Stock based compensation expense for the period	156,341
Stock based compensation capitalized	116,144
Transferred to share capital on exercise of options	(169,408)
Balance, March 31	2,534,227

## 7. SEGMENTED DISCLOSURES

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

Unaudited	Corporate	United Kingdom	Romania	Other International	Total
For the period ended March 31, 2008	(\$)	(\$)	(\$)	(\$)	(\$)
Net Income (loss)	(583,198)	539,094	-	-	(44,104)
Petroleum and natural gas property additions	-	3,593,597	2,312,561	1,634,080	7,540,238
Total assets	36,986,112	57,632,926	27,667,808	2,286,060	124,572,906
<b>For the period ended March 31, 2007</b>					
Net Income (loss)	(690,743)	271,031	-	-	(419,712)
Petroleum and natural gas property additions	-	2,002,019	328,477	21,930	2,352,426
Total assets	17,214,257	31,958,610	21,126,246	299,963	70,599,076

# Corporate Information

## STERLING RESOURCES LTD.

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### DIRECTORS

**WALTER DEBONI** <sup>(1) (5) (6)</sup>  
Chairman  
Calgary, Canada

**RAJ K. AGRAWAL** <sup>(1) (2) (5)</sup>  
Calgary, Canada

**ROBERT B. CARTER** <sup>(3) (4) (5)</sup>  
Calgary, Canada

**STEWART G. GIBSON**  
Aboyne, Scotland

**TECK SOON KONG** <sup>(3)</sup>  
London, England

**DAVID E. POWELL** <sup>(1) (3)</sup>  
Panama City, Panama

(1) Reserves Committee

(2) Chairman Reserves Committee

(3) Audit Committee

(4) Chairman Audit Committee

(5) Governance and  
Compensation Committee

(6) Chairman Governance and  
Compensation Committee

### OFFICERS

**STEWART G. GIBSON**  
Chief Executive Officer

**DAVID A. FINDLATER**  
Vice President Exploration

**JOHN RAPACH**  
Vice President Operations

**IAN C. HORNBY-SMITH**  
Chief Financial Officer

**SHERRY L. CREMER**  
Treasurer & Corporate Secretary

### CORPORATE HEADQUARTERS

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Calgary, Alberta, Canada T2P 3T7  
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E-Mail: info@sterling-resources.com  
Website: www.sterling-resources.com

### AUDITORS

ERNST & YOUNG LLP

### BANKER

THE ROYAL BANK OF CANADA

### LEGAL COUNSEL

STIKEMAN ELLIOTT LLP  
Calgary, Canada

### REGISTRAR & 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  
Stock Exchange Trading Symbol: **SLG**

## STERLING RESOURCES (UK) LTD. (WHOLLY OWNED)

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### DIRECTORS

**WALTER DEBONI**  
Chairman  
Calgary, Canada

**STEWART G. GIBSON**  
Aboyne, Scotland

**TECK SOON KONG**  
London, England

**DAVID MILLER**  
London, England

### OFFICERS

**STEWART G. GIBSON**  
Managing Director &  
Company Secretary

**DAVID A. FINDLATER**  
Vice President Exploration &  
Business Development

**PATRICK WHITLEY**  
Vice President Exploration  
(International)

**JOHN RAPACH**  
Vice President Operations

**STEPHEN BIRRELL**  
Vice President Romanian Operations

**IAN C. HORNBY-SMITH**  
Vice President Finance

**CHRISTINE SHINNIE**  
Controller

**SHERRY L. CREMER**  
Assistant Company Secretary

### UNITED KINGDOM OFFICE

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### BANKER

BANK OF SCOTLAND

### LEGAL COUNSEL

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Aberdeen, Scotland  
PROINVEST CONSULT SRL  
Bucharest, Romania

