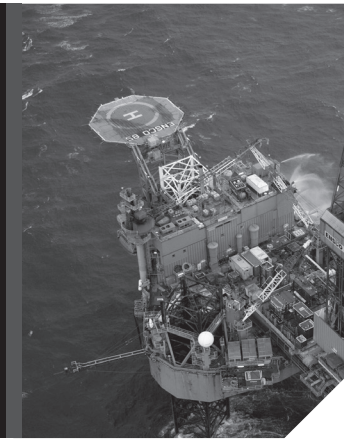


STERLING RESOURCES LTD.

2008 Second Quarter Report



For the six months ended June 30, 2008

Message to Shareholders

Our activity during the second quarter focused primarily upon the commencement of our offshore drilling program, planned for the second half of the year. Site surveys were completed, environmental approvals obtained and three offshore drilling rigs have been secured. Drilling of the first of these wells has been successfully completed in offshore Romania and in mid August the jack-up rig for the offshore UK now under contract has commenced operations. These are exciting programs of appraisal and exploration drilling for Sterling and we are pleased to be back drilling on both of our significant discoveries in the UK and Romania as this report goes to print.

UNITED KINGDOM

Early in the second quarter, we contracted the ENSCO 70 jack-up rig to complete our planned three well program in the Southern North Sea. Originally expected to commence work for Sterling in July, the rig remained with the previous operator until early August due to additional operations. Now on contract to Sterling, the rig began drilling the first well at East Breagh (42/13-4), of which Sterling holds a 45 percent interest, early on August 18. Following completion of the East Breagh well, a high angle/horizontal well is planned for West Breagh (42/13-5) to further evaluate this part of the field. We anticipate that once these two appraisal wells are drilled, the rig will move to Block 42/19 to drill the Airidh prospect, an undrilled shallower structure targeting the Triassic Bunter formation. We have signed a turnkey contract with Applied Drilling Technology International (ADTI), a division of Transocean Inc. who specialize in well management and turnkey operations, to drill the East Breagh well. The contract with ENSCO also has the flexibility to launch a follow-up drilling program in 2009 once the results from the current three well campaign have been evaluated.

The planned infill seismic program across Blocks 42/8 and 42/9 (Sterling 60 percent interest after farm-out) was completed during the quarter and the data is currently in for processing. The survey was planned to assess the economic feasibility of additional drilling in the area immediately north of the Breagh gas discovery. The surveyed area is part of the greater Breagh area, which as previously reported, was recently farmed out to Petro Ventures International Limited.

In the Northern North Sea, the well on the Cladhan prospect in Block 210/29a (Sterling 39.9 percent interest after farm-out) is expected to be drilled in the fourth quarter, using the Sedco 704 rig also under a turnkey contract with ADTI.

We participated in the recent UK Offshore 25th Licencing Round, however our level of success in obtaining additional licenses will not be known until late 2008.

ROMANIA

During early July we announced the contracting of the Prometeu jack-up rig to drill follow-up appraisal wells to the Doina and Ana (formerly Doina Sister) discoveries of which Sterling holds a 65 percent interest after farm-out. On August 14 we announced the successful drilling of the Doina-4 well after having reached a target depth of 1,250 metres approximately 17 days after the well was spudded. The favourable results from the well confirm the extension of the Doina Main Sand reservoir trend northwards. This further enhances the potential of the Doina field, and the overall impact of the well results upon total gas in place will be assessed in coming weeks.

The option to drill a second well with the Prometeu rig has been exercised in order to drill the Ana-2 well. Ana-2 is planned as a 700 metre directional step-out well from the same seabed location as Ana-1. These two wells will be completed with a mud line suspension system to enable re-entry for future production as required.

The Eleventh Amendment to the Exploration and Production Sharing Agreement, which will convert it to a tax royalty agreement, continues to move through the government approval process and is still expected to be converted before year end. In terms of the ongoing border discussions between Romania and Ukraine, we understand that the International Court will enter the next phase of the process in September of this year in order to move the issue closer to resolution.

In the Craiova concession onshore Romania (Sterling 60 percent), plans for the drilling of three wells targeting shallow gas have been delayed, largely due to the very wet conditions at one of the planned sites. However, we still intend to have drilling commence before year end 2008.

CORPORATE AND OTHER

During the quarter, we were pleased to add Graeme Phipps to our Board of Directors and to welcome George Kesteven to the role of Investor Relations Manager.

Subsequent to the quarter, we completed an equity financing with an underwriting syndicate led by Wellington West Capital Markets Inc., for net proceeds of approximately \$27-million, including the underwriter's option which was exercised on closing. These funds will be used primarily to complete appraisal drilling planned for offshore Romania and the remainder will be used to acquire additional seismic and provide for contingent expenditures at both Doina and Breagh as well as other North Sea exploration expenditures within our 2008 capital plan.

On Behalf of the Board of Directors,

(Signed)

“Stewart G. Gibson”

Chief Executive Officer and Director

August 19, 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 August 19, 2008 and should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto for the three and six months ended June 30, 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 and the Message to Shareholders accompanying this MD&A are forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", or the negative of these terms or other comparable terminology. In addition, statements relating to reserves or resources are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in the future.

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

- use of proceeds from financing activities;
- capital expenditure programs, including the success or otherwise, of exploration and appraisal activities;
- 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;
- our corporate strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- 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 that we:

- operate in an environment of increasing competition;
- are able to obtain additional financing on satisfactory terms; and
- are able to continue 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, neither the Company, nor any other person, 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 June 30		Six months ended June 30	
	2008	2007	2008	2007
\$ except share and per share information				
Oil and gas revenues, net of royalties	–	–	–	–
Interest	320,565	175,939	534,720	384,652
Expenses	1,322,265	891,384	1,580,524	1,519,809
Net loss	(1,001,700)	(715,445)	(1,045,804)	(1,135,157)
– per common share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Net working capital	53,149,711	17,666,139	53,149,711	17,666,139
Petroleum and natural gas properties and equipment additions	4,107,806	888,594	11,648,048	3,241,020
Dispositions of interests in properties	–	–	(2,240,687)	–
Total assets	131,241,627	69,829,991	131,241,627	69,829,991
Share capital	129,577,560	76,433,602	129,577,560	76,433,602
Common shares outstanding – basic and diluted	119,551,871	95,533,634	119,551,871	95,533,634

For the three months ended June 30, 2008, we recorded a loss of \$1,001,700 (\$0.01 per share – basic and diluted) compared with a loss of \$715,445 (\$0.01 per share – basic and diluted) for the three months ended June 30, 2007. The loss for the quarter increased over the same quarter of the prior year mainly due to increased foreign exchange losses and general and administrative expenses.

For the six months ended June 30, 2008, we recorded a loss of \$1,045,804 (\$0.01 per share – basic and diluted) compared with a loss of \$1,135,157 (\$0.01 per share – basic and diluted) for the six months ended June 30, 2007. The loss for the six month period decreased marginally over the same period of the prior year as foreign exchange gains more than offset other cost increases, primarily general and administrative.

GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	(\$)	(\$)	(\$)	(\$)
Gross general and administrative expenses	1,494,205	958,522	2,910,635	1,781,746
Recoveries from partners	(148,655)	(79,785)	(635,814)	(164,889)
Charged to capital projects	(486,022)	(401,774)	(913,437)	(790,656)
	859,528	476,963	1,361,384	826,201

Gross general and administrative expenses before recoveries and charges to capital projects for the three months ended June 30, 2008 increased over the same period in the prior year due primarily to increased employee and related office costs arising from increased activity following the Breagh and Doina discoveries in late 2007. Amounts recovered from partners and charged internally to capital projects similarly increased for these reasons.

For the six months ended June 30, 2008, gross general and administrative expenses, recoveries from partners and amounts capitalized internally increased for the same reasons as well as Management and employee incentive payments recorded in the first quarter.

STOCK BASED COMPENSATION

Non-cash stock based compensation expense of \$204,788 and \$361,129, respectively, for the three and six month periods ended June 30, 2008 has decreased over the prior year expense of \$273,673 and \$475,303 for the quarter and year to date, respectively. Certain older options are now fully expensed and newer options issued in 2007 and 2008 are lower-cost due to lower volatility in our share price.

During the three month period ended June 30, 2008 a total of 2,610,000 options were granted by the Board of Directors to directors, officers, employees and consultants at an average price of \$2.55 pursuant to the Company's stock option plan. Related stock based compensation was estimated using the Black-Scholes method based on the following assumptions:

	2008
Risk-free interest rate	3.2%
Expected hold period to exercise	3.5 Years
Volatility in the price of the Company's shares	49.0%
Dividend yield	0%

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 only in foreign currencies 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 losses of \$200,482 for the three months ended June 30, 2008, have resulted primarily from the impact of minor strengthening of the Canadian dollar against the US dollar on the translation of US dollars purchased and held in escrow accounts into Canadian dollars. These losses have partially offset gains recorded in the first quarter when the Canadian dollar weakened against the US dollar, resulting in an overall net gain for the six month period of \$263,124.

For the corresponding three and six month periods in 2007 losses of \$111,664 and \$155,294, respectively, were recorded on translation of monetary working capital held in UK Pounds, US dollars and Romanian Lei into Canadian dollars.

REVENUE

There are no operating revenues at the present time.

Interest income earned on investment of surplus funds was \$320,565 for the three months ended June 30, 2008 and \$534,720 for the six months then ended. Interest earned for the corresponding periods in 2007 was \$175,939 and \$384,652, respectively. The increases over the prior year periods is due mainly to higher average cash balances, following the two equity issues during the first quarter of 2008.

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 June 30, 2008 the Company has non-capital losses of approximately \$4.5-million available, but subject to expiry over the next twenty years, to reduce future Canadian taxable income, and approximately \$3.9-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 June 30, 2008 and December 31, 2007 the Company's interests in petroleum licenses and contracts were as follows:

	June 30, 2008			December 31, 2007		
	Acres		Capitalized	Acres		Capitalized
	Gross	Net	Costs	Gross	Net	Costs
			(\$)			(\$)
United Kingdom	1,322,433	982,604	40,697,056	1,347,143	989,607	35,912,029
Romania	2,645,000	2,027,000	24,687,202	2,645,000	2,027,000	21,455,178
France	151,969	50,792	2,379,644	151,969	50,792	651,980
Total	4,119,402	3,060,396	67,763,902	4,144,112	3,067,399	58,019,187

CAPITAL EXPENDITURES

During the six months ended June 30, 2008 capital expenditures on oil and gas properties totalled \$11,648,048 of which \$2,240,687 were funded by third parties in exchange for rights to payments equal to a share of gross production from the Doina trend offshore Romania.

Major items on UK offshore blocks included:

- Preliminary geological, geophysical and engineering costs and license fees on Block 42/19;
- License fees, seismic and site survey costs on Blocks 42/8, 42/9, 42/13 and 42/14; and
- Costs relating to the evaluation of Blocks for the UK 25th Offshore Licensing Round.

In France, expenditures totalling \$1,727,864 related to the drilling of the Grenade-3 well on the St. Laurent block. The well failed to encounter hydrocarbons and has been suspending pending further analysis.

In Romania, expenditures totalling \$3,177,360 related mainly to the testing of the Doina Sister discovery made in late 2007 and preliminary costs relating to the offshore drilling program which commenced in the second quarter of 2008.

During the six months ended June 30, 2007 capital expenditures on oil and gas properties totalled \$3,241,020. Major items on UK offshore blocks included the purchase of long-lead items for the planned Breagh well on UK offshore Block 42/13; ongoing studies related to the Sheryl discovery on Block 21/23a; licensing fees and seismic costs on Block 42/19, 42/20 and 42/24. In Romania, major expenditures related to geological and geophysical studies on prospective drilling sites and farm-out activity on both our onshore and 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 in full 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 \$37,387,831 and will also be used primarily towards financing the Company's 2008 appraisal well drilling program.

On August 6, 2008 we completed a bought deal financing of 11,274,600 units, including an underwriter's option which was exercised in full at closing. Each unit comprises one common share of the Company and one half-warrant at a price of \$2.55 per unit. Each full warrant entitles the holder to purchase one common share at a price of \$3.25

until 4.30 pm EST on August 6, 2009. In addition, the Company has the right to accelerate the exercise of the warrants if the closing price of the Company's shares on the TSX Venture Exchange is at least \$4.00 for any period of not less than 15 consecutive trading days at any time after December 7, 2008. The net proceeds of the issue after expenses and underwriter's commissions were approximately \$27,150,000 and will be used primarily towards financing the Company's 2008 appraisal well drilling program.

As at June 30, 2008 our net working capital was \$53,149,711 compared with \$10,858,095 at December 31, 2007. Cash and cash equivalents totalled \$55,101,741 of which \$8,255,755 is restricted cash in escrow accounts which is available only for settlement of expenditures relating to the proposed exploration well on Blocks 210/29a in the UK Northern North Sea.

Through our working capital of \$53,149,711 and the \$27,150,000 of net proceeds from the equity issue completed subsequent to quarter-end, we expect to have sufficient funds to meet our current well commitments totaling approximately \$56-million, and to fund ongoing license obligations and operations for the next year. However, success in our current drilling program may result in additional related expenditures and further equity or debt financings, dispositions or farm-outs may be required. Planned financings and farm-outs are also 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 119,551,871 common shares and 7,158,331 stock options outstanding as at June 30, 2008 and August 19, 2008. An additional 2,841,669 common shares were reserved for stock options. 2,610,000 stock options were issued in the second quarter.

ASSET RETIREMENT OBLIGATIONS

The following is a continuity of asset retirement obligations for the six months ended June 30, 2008:

	(\$)
Balance, January 1	1,249,585
Additions	54,664
Revisions to estimates	39,436
Accretion	63,589
Balance, June 30	1,407,274

Additions above 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 Ana (formerly 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 two more Breagh appraisal wells on Block 42/13 in the UK Southern North Sea. As with the 2007 Breagh well, we expect that these wells are expected to be potential future producers;
- Drill one exploration well on Block 210/29a in the UK Northern North Sea and one exploration well on Block 42/19 in the Southern North Sea;
- Drill two appraisal wells on the Doina trend in the Midia Block offshore Romania;
- 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 24th 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.
- Continue our strategy of farming out a portion of our licenses in order to reduce costs.

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, Capital Disclosures, 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, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation, 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 interim consolidated 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, however the key impact on the Company’s financial statements will be that under present IFRS standards there is no equivalent of the full cost method of accounting for petroleum and natural gas properties permitted under Canadian GAAP, and currently followed by the Company. Restatement of the financials to reflect this may have a substantial impact.

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.

STERLING RESOURCES LTD.

Second Quarter Report

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.

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	
	June 30	March 31	Dec. 31	Sept. 30
	(\$)	(\$)	(\$)	(\$)
Expenses				
General and administrative	859,528	501,856	547,390	382,283
Foreign exchange loss (gain)	200,482	(463,606)	(540,566)	112,058
Stock based compensation	204,788	156,341	185,361	245,587
Accretion	31,793	31,796	13,904	15,282
Depreciation	25,674	31,872	16,992	21,471
	1,322,265	258,259	223,081	776,681
Interest	320,565	214,155	140,299	178,861
Net loss and comprehensive loss	(1,001,700)	(44,104)	(82,782)	(597,820)
Net loss per common share – basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)
2007				
2006				
Three months ended	June 30	March 31	Dec. 31	Sept. 30
	(\$)	(\$)	(\$)	(\$)
Expenses				
General and administrative	476,963	349,238	322,154	323,178
Foreign exchange loss (gain)	111,664	43,630	(234,097)	17,472
Stock based compensation	273,673	201,630	122,201	225,437
Accretion	11,872	10,705	14,667	10,532
Depreciation	17,212	23,222	20,331	17,490
	891,384	628,425	245,256	594,109
Interest	175,939	208,713	317,283	335,992
Net (loss) income and comprehensive (loss) income	(715,445)	(419,712)	72,027	(258,117)
Net (loss) income per common share – basic and diluted	(0.01)	(0.00)	0.00	(0.00)

Consolidated Balance Sheets

	June 30 2008	December 31 2007
Unaudited	(\$)	(\$)
ASSETS		
Current		
Cash and cash equivalents [note 2]	46,845,986	10,308,364
Restricted cash [note 2]	8,255,755	5,617,260
Accounts receivable	8,060,750	6,845,525
Prepaid expenses	73,339	70,467
	63,235,830	22,841,616
Property, Plant and equipment		
Petroleum and natural gas properties and equipment	67,763,902	58,019,187
Furniture and fixtures	241,895	172,784
	68,005,797	58,191,971
	131,241,627	81,033,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	10,086,119	11,983,521
Asset retirement obligations [note 3]	1,407,274	1,249,585
Commitments [note 4]		
Shareholders' equity		
Share capital [notes 5 and 8]	129,577,560	76,900,308
Contributed surplus [note 6]	2,747,455	2,431,150
Deficit	(12,576,781)	(11,530,977)
	119,748,234	67,800,481
	131,241,627	81,033,587

See accompanying notes

Consolidated Statements of Operations and Deficit

Unaudited	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	(\$)	(\$)	(\$)	(\$)
EXPENSES				
General and administrative	859,528	476,963	1,361,384	826,201
Foreign exchange loss (gain)	200,482	111,664	(263,124)	155,294
Stock based compensation [note 5]	204,788	273,673	361,129	475,303
Accretion [note 3]	31,793	11,872	63,589	22,577
Depreciation	25,674	17,212	57,546	40,434
	1,322,265	891,384	1,580,524	1,519,809
OTHER INCOME				
Interest	320,565	175,939	534,720	384,652
Net loss and comprehensive loss for the period	(1,001,700)	(715,445)	(1,045,804)	(1,135,157)
Deficit, beginning of period	(11,575,081)	(10,134,930)	(11,530,977)	(9,715,218)
Deficit, end of period	(12,576,781)	(10,850,375)	(12,576,781)	(10,850,375)
Net loss per common share – basic and diluted [note 5]	(0.01)	(0.01)	(0.01)	(0.01)

See accompanying notes

Consolidated Statements of Cash Flow

Unaudited	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	(\$)	(\$)	(\$)	(\$)
OPERATING ACTIVITIES				
Net loss for the period	(1,001,700)	(715,445)	(1,045,804)	(1,135,157)
Items not affecting cash used in operating activities				
Unrealized foreign exchange (gain) loss	(547,447)	11,869	(434,558)	66,495
Stock based compensation [note 5]	204,788	273,673	361,129	475,303
Accretion [note 3]	31,793	11,872	63,589	22,577
Depreciation	25,674	17,212	57,546	40,434
	(1,286,892)	(400,819)	(998,098)	(530,348)
Change in non-cash working capital	(144,400)	(164,417)	(193,479)	(280,021)
Cash used in operating activities	(1,431,292)	(565,236)	(1,191,577)	(810,369)
INVESTING ACTIVITIES				
Decrease (increase) in restricted cash	8,798,063	–	(2,638,495)	–
Petroleum and natural gas properties and equipment additions	(4,107,806)	(888,594)	(11,648,048)	(3,241,020)
Disposition of interests in properties	–	–	2,240,687	–
Furniture and fixtures additions	(98,412)	(12,643)	(126,657)	(12,643)
Change in non-cash working capital	4,532,784	(51,385)	(2,349,066)	(2,182,676)
Cash provided by (used in) investing activities	9,124,629	(952,622)	(14,521,579)	(5,436,339)
FINANCING ACTIVITIES				
Issue of common shares, net of share issue costs	320,142	318,250	52,349,738	383,350
Cash provided by financing activities	320,142	318,250	52,349,738	383,350
Effect of translation on foreign currency cash	(41,420)	(11,869)	(98,960)	(66,495)
Increase (decrease) in cash and cash equivalents during the period	7,972,059	(1,211,477)	36,537,622	(5,929,853)
Cash and cash equivalents, beginning of period	38,873,927	19,083,485	10,308,364	23,801,861
Cash and cash equivalents, end of period	46,845,986	17,872,008	46,845,986	17,872,008

See accompanying notes

Selected Notes to Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 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, Capital Disclosures, 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, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation, 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; and

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 June 30, 2008, a one percent fluctuation in the US dollar, UK Pound or Romanian Lei against the Canadian dollar would impact net income by approximately \$180,000, \$115,000, and \$20,000 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 at June 30, 2008, a one percent change in average interest rates would increase or decrease net income by approximately \$550,000 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 payable. 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. As at June 30, 2008 approximately \$300,000 of outstanding receivables were overdue, but no provision has been made for impairment as all amounts have been subsequently collected or are adequately secured by partner's interests.

During the six months ended June 30, 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, however the key impact on the Company's financial statements will be that under present IFRS standards there is no equivalent of the full cost method of accounting for petroleum and natural gas properties permitted under Canadian GAAP, and currently followed by the Company. Restatement of the financials to reflect this may have a substantial impact.

2. CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

At June 30, 2008, cash and cash equivalents consisted of cash of \$1,251,859 (December 31, 2007 – \$8,108,364) and cash equivalents of \$45,594,127 (December 31, 2007 – \$2,200,000).

Restricted cash of \$8,255,755 at June 30, 2008 (December 31, 2007 – \$5,617,260) is comprised of cash in escrow accounts which is available only for settlement of expenditures relating to the proposed exploration wells on Blocks 210/29a, or Block 42/13 in the UK North Sea.

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 ten percent and an inflation rate of four percent were used to calculate the net present value of asset retirement obligations as at June 30, 2008.

The following is a continuity of asset retirement obligations for the six months ended June 30, 2008:

	(\$)
Balance, January 1	1,249,585
Additions	54,664
Revisions to estimates	39,436
Accretion	63,589
Balance, June 30	1,407,274

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. In addition, subsequent to June 30, 2008, the Company commenced drilling an appraisal well on the Doina trend offshore Romania in the Black Sea, and has exercised its option to drill a second well following the completion of the well.

Total committed expenditures are approximately \$56-million. Additional expenditures may be incurred for well testing should it be deemed necessary.

5. SHARE CAPITAL

(A) AUTHORIZED

Unlimited common shares without nominal or par value.

(B) ISSUED AND OUTSTANDING – COMMON SHARES

	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	675,003	782,940
Share issue costs	–	(2,653,002)
Transferred from contributed surplus on exercise of options	–	327,514
Balance, June 30, 2008	119,551,871	129,577,560

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 in full 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 \$37,387,831 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 June 30, 2008 there were 10,000,000 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. Under this plan, the Board issued 2,610,000 new options at an average price of \$2.55 during the three months ended June 30, 2008.

The following is a continuity of outstanding stock options for the six months ended June 30, 2008:

	Number of Options	Weighted Average Exercise Price
		(\$)
Outstanding, December 31, 2007	5,223,334	1.70
Granted during the period	2,610,000	2.55
Exercised during the period	(675,003)	1.16
Outstanding, June 30, 2008	7,158,331	2.06
Exercisable, June 30, 2008	2,396,676	1.82

The weighted average remaining contractual life of options outstanding at June 30, 2008 was 1,003 days.

For the three and six months ended June 30, 2008, \$204,788 and \$361,129 respectively was recognized as stock based compensation expense in respect of stock options granted. A further \$166,546 and \$282,690 respectively was capitalized. For the same periods in 2007, \$273,673 and \$475,303 was recognized as stock based compensation expense and \$124,455 and \$232,140 was capitalized.

The Company uses the fair value method of accounting for all stock options granted to directors, officers, employees and consultants using the Black-Scholes option pricing model. For the options issued during the six months ended June 30, 2008, the following assumptions were used:

	2008
Risk-free interest rate	3.2%
Expected hold period to exercise	3.5 Years
Volatility in the price of the Company's shares	49.0%
Dividend yield	0%

(D) WEIGHTED AVERAGE SHARES OUTSTANDING

The weighted average shares outstanding for the three and six months ended June 30, 2008 were 119,346,577 and 112,188,231, respectively. For the three and six months ended June 30, 2007 the weighted average shares outstanding were 94,737,480 and 94,586,245, respectively. The effect of all options outstanding would not be dilutive.

6. CONTRIBUTED SURPLUS

The following is a continuity of contributed surplus for the six months ended June 30, 2008:

	(\$)
Balance, January 1	2,431,150
Stock based compensation expense for the period	361,129
Stock based compensation capitalized	282,690
Transferred to share capital on exercise of options	(327,514)
Balance, June 30	2,747,455

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 three months ended June 30, 2008	(\$)	(\$)	(\$)	(\$)	(\$)
Net income (loss)	336,541	(1,338,241)	-	-	(1,001,700)
Petroleum and natural gas property additions	-	3,149,423	864,799	93,584	4,107,806
Total assets	29,427,910	67,418,055	32,014,757	2,380,905	131,241,627

For the three months ended June 30, 2007

Net income (loss)	83,702	(799,147)	-	-	(715,445)
Petroleum and natural gas property additions	-	34,394	825,145	29,055	888,594
Total assets	16,527,395	30,437,838	22,535,740	329,018	69,829,991

For the six months ended June 30, 2008

Net loss	(934,818)	(110,986)	-	-	(1,045,804)
Petroleum and natural gas property additions	-	6,743,024	3,177,360	1,727,664	11,648,048
Total assets	29,427,910	67,418,055	32,014,757	2,380,905	131,241,627

For the six months ended June 30, 2007

Net loss	(607,041)	(528,116)	-	-	(1,135,157)
Petroleum and natural gas property additions	-	2,036,413	1,153,622	50,985	3,241,020
Total assets	16,527,395	30,437,838	22,535,740	329,018	69,829,991

8. SUBSEQUENT EVENTS

On August 6, 2008 the Company completed a bought deal financing of 11,274,600 units, including an underwriter's option which was exercised in full at closing. Each unit comprises one common share of the Company and one half warrant at a price of \$2.55 per unit. Each full warrant entitles the holder to purchase one common share at a price of \$3.25 until 4.30 pm EST on August 6, 2009. In addition, the Company has the right to accelerate the exercise of the warrants if the closing price of the Company's shares on the TSX Venture Exchange is at least \$4.00 for any period of not less than 15 consecutive trading days at any time after December 7, 2008. The net proceeds of the issue after expenses and underwriter's commissions were approximately \$27,150,000 and will be used primarily to complete appraisal drilling planned for offshore Romania and the remainder will be used to acquire additional seismic and provide for contingent expenditures at both Doina and Breagh as well as other North Sea exploration expenditures within the Company's 2008 capital plan.

Corporate Information

STERLING RESOURCES LTD.

DIRECTORS

WALTER DEBONI ^{(1) (5) (6)}
Chairman
Calgary, Canada

RAJ K. AGRAWAL ^{(1) (2) (5)}
Calgary, Canada

ROBERT B. CARTER ^{(3) (4) (5)}
Calgary, Canada

STEWART G. GIBSON
Aboyne, Scotland

TECK SOON KONG ⁽³⁾
London, England

GRAEME G. PHIPPS ^{(1) (3)}
Eton, England

(1) Reserves Committee

(2) Chairman Reserves Committee

(3) Audit Committee

(4) Chairman Audit Committee

(5) Governance and
Compensation Committee

(6) Chairman Governance and
Compensation Committee

OFFICERS

STEWART G. GIBSON
Chief Executive Officer

DAVID A. FINDLATER
Vice President Exploration

JOHN RAPACH
Vice President Operations

STEPHEN BIRRELL
Vice President Romanian Operations

IAN C. HORNBY-SMITH
Chief Financial Officer

SHERRY L. CREMER
Treasurer & Corporate Secretary

CORPORATE HEADQUARTERS

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BANKER

THE ROYAL BANK OF CANADA

LEGAL COUNSEL

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REGISTRAR & 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)

DIRECTORS

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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
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SHERRY L. CREMER
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