2007

Annual Report

STERLING RESOURCES LTD.

Corporate Profile

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

Annual General and Special Meeting

May 28, 2008, 10:00 a.m.

Cardium Room, Calgary Petroleum Club, 319 – Fifth Avenue SW, Calgary, Alberta Canada

ABBREVIATIONS AND OTHER OIL AND GAS TERMS

Crude Oil and Natural Gas Volumes

Bcf	billions of cubic feet
Bopd	barrels of oil per day
GIIP	Gas Initially In Place
Mbbls	thousands of barrels
MMbbls	millions of barrels
Mscf/d	thousands of standard cubic feet of gas per day
MMscf/d	millions of standard cubic feet of gas per day
Tcf	trillions of cubic feet

Other Oil and Gas Terms

Quad	A UK offshore area normally comprised of 30 Blocks.

Other terms and definitions are provided in the Company's Form 51-101F1: Statement of Reserves Data and Other Oil and Gas Information.

Photographs of ENSCO 85 Rig [front cover image, pages 11 and 26] **courtesy of:** Peter Stuijk
Photograph of rig on page 3 courtesy of: GSP

…the successful Breagh and Doina Sister wells have had a significant impact on our Company's resource base and our forward strategy has been re-focused to ensure these projects are brought into production in a timely manner.

Stewart G. Gibson
Chief Executive Officer

Message to SHAREHOLDERS

The cover of our 2006 annual report depicted a drill bit with Sterling's name on it. We are pleased to report that the "drill bit" has been put to good use and since the last report, our Company has been involved in the drilling of six wells. One of these wells was dry and has been abandoned, two have been retained for possible side-track based on data obtained, and three resulted in successful testing of hydrocarbons. Two of these wells, Breagh and Doina Sister, were our first as an offshore operator in both the United Kingdom and Romania and we are pleased to report our continuing incident-free record in terms of Health, Safety and Environmental performance.

As discussed further in this report, the successful Breagh and Doina Sister wells have had a significant impact on our Company's resource base and our forward strategy has been re-focused to ensure these projects are brought into production in a timely manner. We are, however, mindful of our original growth strategy and are pleased to report that we are continuing to increase our prospect portfolio, as well as maturing prospects towards drilling status, including the blocks added in last year's UK Offshore 24th Licensing Round awards.

Looking forward, in 2008 we plan wells to further appraise the Breagh and Doina fields and all wells drilled will have the potential to be retained as future producers. We also plan further exploration within the significant acreage we already hold around these discoveries as we continue to hold the view that core area developments can make efficient use of the new infrastructure to be underpinned by both Breagh and Doina. Finally in 2008, we also plan exploration outside of these core areas with wells scheduled for the Northern North Sea, onshore UK and onshore Romania.

Although undrilled in 2007, one of our other major landholdings, the large Craiova concession onshore Romania, has seen the conclusion of several technical studies. The results are very encouraging with respect to a shallow gas play which has similar characteristics as other producing fields nearby. We are planning a three-well program in 2008 to test this play in the "Goshawk" region of Craiova.

During 2007, we continued with our farm-out strategy and successfully farmed out additional interests in Breagh, a well in North Sea Block 210/29, the Burton Agnes well onshore UK and two wells in the Romanian Black Sea, the first of which, Doina Sister has been successfully drilled. We will also be carried for a significant part of the Midia South East well which, depending on semi-submersible rig availability in the Black Sea, may be delayed into 2009.

At year end 2007, we concluded a non-brokered private placement with the Royal Bank of Scotland for proceeds of $14-million, and in the first quarter of 2008, we completed a bought deal financing for gross proceeds of $40-million. This funding enables us to actively progress our aggressive 11-well drilling campaign for 2008.

As a result of our 2007 drilling campaign we now have net Best Estimate (P50) Contingent Resources of 109-Bcf and Best Estimate (P50) Prospective Resources of 154-Bcf for Breagh in the United Kingdom; and 46 and 88-Bcf of Contingent Resources (P50) respectively for Doina and Doina Sister in Romania. The contingency relates only to the need to advance final development plan approvals. Our 2008 drilling plans and ongoing development studies are geared towards removing this contingency by the end of the current year. In addition, we have net Probable Reserves of 1.07-MMbbls of oil from our 2006 Sheryl discovery and Proved Reserves of 0.010-MMbbls and 0.410-Bcf of gas associated with our onshore UK assets.

Mr. David Powell, one of our long-serving directors will not be standing for re-election to the Board this year. Dave has made an invaluable contribution during the early growth phase of the Company for which we are extremely grateful.

Finally, on behalf of the Board, I would like to express thanks to all our shareholders for their continued support and to our small, but dedicated staff, for their effort and achievements during a most successful 2007.

On Behalf of the Board of Directors,

[Signed]

"Stewart G. Gibson"
Chief Executive Officer

April 16, 2008

Operations Review

John Rapach
VP, Operations

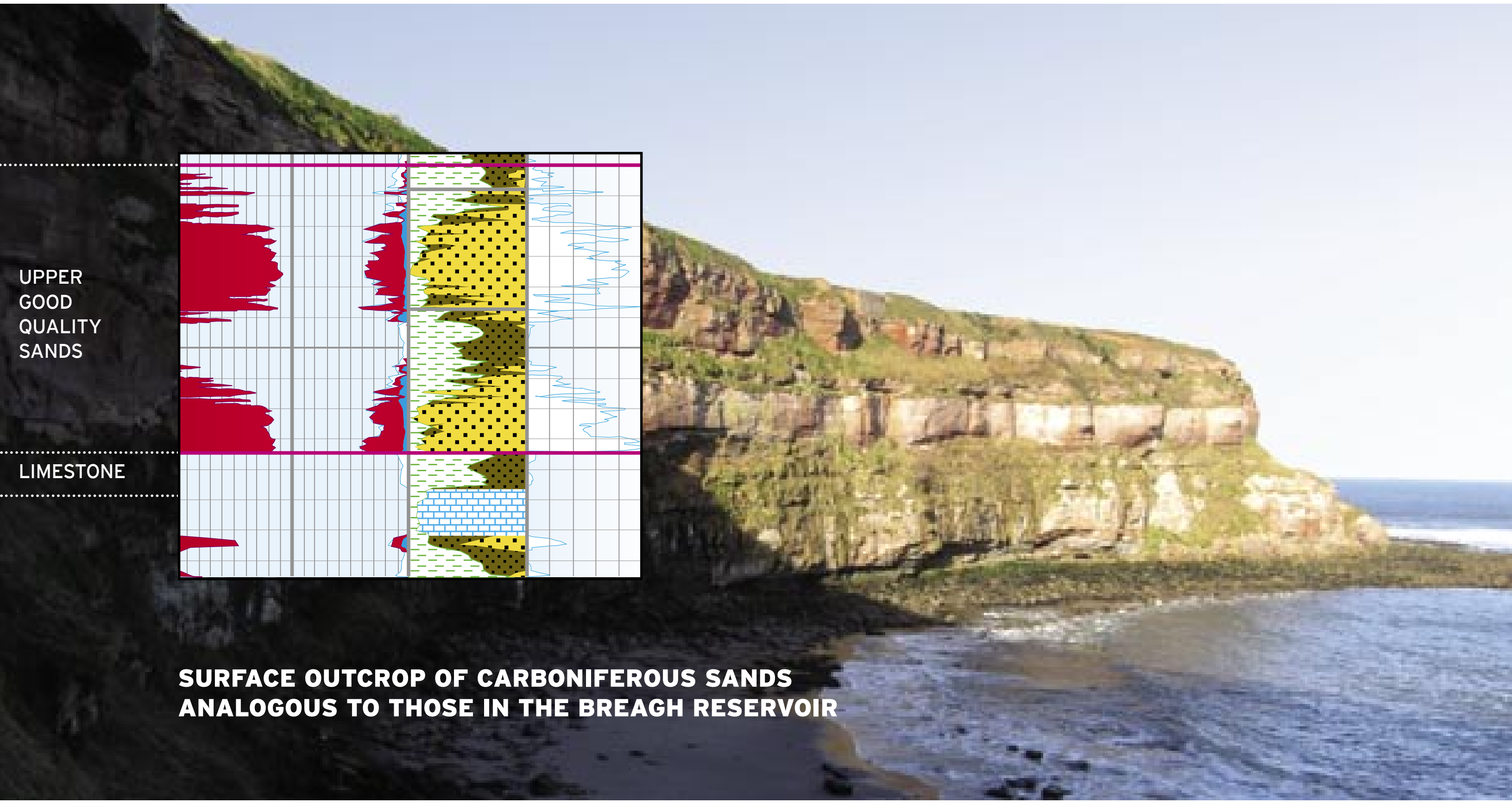
UNITED KINGDOM OFFSHORE

Highlights for our UK offshore licenses for 2007 included the successful drilling of the Breagh 42/13-3 well, conversion of several blocks surrounding Breagh from promote to traditional status, the addition of further new blocks within the Quad 42 core area and the addition of new areas in the Southern North Sea (Quad 48) and the Mid North Sea High (Quads 36 and 37).

SOUTHERN NORTH SEA (SNS)

Blocks 42/12 and 42/13

We achieved a milestone in the 4th quarter of 2007 with the successful drilling and testing of our operated Breagh well 42/13-3 (Sterling 45-percent after farmout) without a safety or environmental incident. The well was drilled to 2,453-metres and encountered 23-metres of high quality sandstone, and was tested at a maximum rate of 17.6-MMscf/d, over six times the rate achieved on the 42/13-2 well*. Pre-planning of the well paid dividends with appropriate casing design and drilling fluid compatibility testing turning the perception of Breagh from a stranded "tight" discovery to potentially one of the largest undeveloped gas fields in the UK Southern North Sea (SNS).



SURFACE OUTCROP OF CARBONIFEROUS SANDS ANALOGOUS TO THOSE IN THE BREAGH RESERVOIR

* 42/13-2 was drilled by Mobil in 1997. At the time, the Carboniferous gas play was a relatively new concept and exploration wells were all drilled with water based mud. The 42/13-3 well was drilled with oil based mud which limited the extent of formation damage, easily overcome with underbalanced perforating.

In addition to demonstrating undamaged well productivity, a key well objective was to geologically appraise the formation and understand the likely distribution of Gas Initially In Place (GIIP). The well was drilled 1,500-metres northeast of the original 42/13-2 discovery and showed good correlation of the upper higher quality reservoir section.

Our next step in achieving first production by the winter of 2010 is to refine the Field Development Plan, and this is currently underway. The field is split into West Breagh and East Breagh and the plan for 2008 is to drill one or two high-angle wells in West Breagh and a vertical well in the as yet undrilled East Breagh. The wells are designed to prove-up gas reserves in both areas prior to possible project sanction at the end of 2008. The high-angle wells have a secondary objective of demonstrating the productivity of horizontal wells in the upper reservoir which has been estimated to be two to three times that of the vertical well. The performance of these wells will have a significant impact on the final Field Development Plan in terms of well-count.

As at December 31, 2007, our reserve auditors RPS Energy assigned best estimates gross Contingent Resources (P50) to West Breagh of 241-Bcf and gross best estimate Prospective Resources (P50) to East Breagh of 341-Bcf. Our post farm-out share† (45-percent) of these resources is as follows:

	Low Estimate (P90)[1]	Best Estimate (P50)[2]	High Estimate (P10)[3]
	(Bcf)	(Bcf)	(Bcf)
West Breagh Contingent Resources[4]	68	109	168
East Breagh Prospective Resources[5]	88	154	232

(1) Low Estimate is considered to be a conservative estimate of the quantity that will actually be recovered. If probabilistic methods are used, there should be at least a 90 percent probability (P90) that the quantities actually recovered will equal or exceed the estimate.

(2) Best Estimate is considered to be the best estimate of the quantity that will actually be recovered. If probabilistic methods are used, there should be at least a 50 percent probability (P50) that the quantities actually recovered will equal or exceed the estimate.

(3) High Estimate is considered to be an optimistic estimate of the quantity that will actually be recovered. If probabilistic methods are used, there should be at least a 10 percent probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

(4) Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. **There is no certainty that it will be commercially viable to produce any portion of the contingent resources.**

(5) Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. **There is no certainty that any portion of the prospective resources will be discovered or, if discovered, that it will be commercial viable to produce any portion of the resources.**

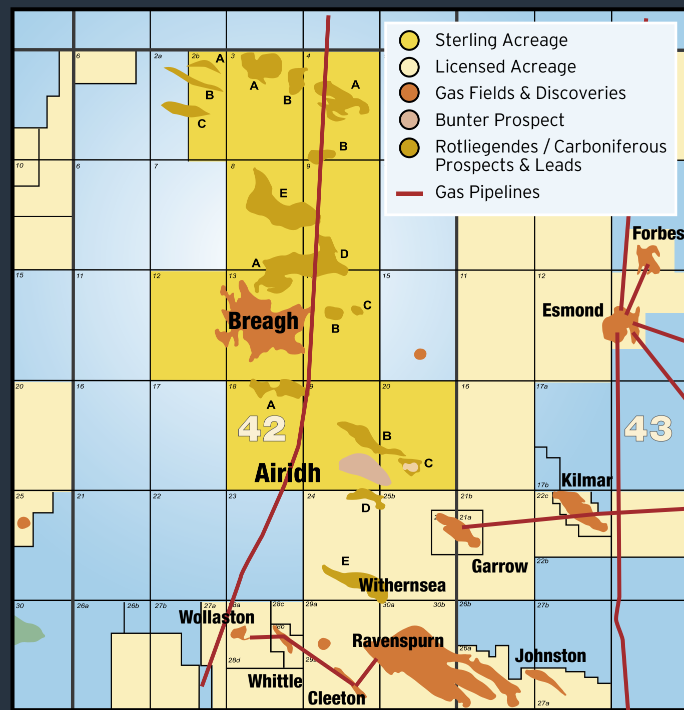
Quad 42 – Developing a Core Area

We hold a dominant position in the Quad 42 area which comprises 12 contiguous blocks surrounding the Breagh discovery. All blocks were added through success in the 22nd, 23rd and 24th Licensing Rounds. In addition to Blocks 42/12 and 42/13, we have also converted two other licenses from promote to traditional status. License

† Under our funding agreement with Gemini Oil & Gas II llp., (Gemini) is also entitled to payments equivalent to a share of production from the field.

CURRENT NORTH SEA ACREAGE

BREAGH FIELD, SURROUNDING CORE AREA & INFRASTRUCTURE



P1231 (Blocks 42/19, 20 and 24) was converted in December 2006 with a commitment to drill a Triassic Bunter prospect and a contingent deepening to a lower Carboniferous target. More recently, we converted license P1327 (Blocks 42/8, 9 and 14) with a commitment to acquire 200-square kilometers of 3-D equivalent seismic and a contingent well to the Carboniferous. Finally, in April 2007, we were awarded two further licenses which in total comprise Blocks 42/18 and 42/2b, 3 and 4.

Quad 48 Area

Also in April 2007, Sterling and partners were awarded three blocks or part blocks in the Quad 48 area. This is a new area for the Company and lies within the heartland of the currently producing SNS. Work to date has already shown promise with our recent evaluation by external consultants indicating significant unrisked GIIP. Prospects in this area are close to infrastructure and subsea tiebacks to nearby platforms tend to be routine and relatively simple. We plan to farm out part of our existing 40-percent working interest during 2008.

MID NORTH SEA HIGH (MNSH)

The MNSH is another new area for Sterling. With the award of five blocks in April 2007, our acreage lies between significant land holdings by Exxon Mobil and Conoco Phillips. Activity around our Blocks has been high with extensive seismic acquisition and a well planned for 2008 on one of the Blocks surrounding our acreage. During 2008 we plan to purchase significant new seismic, complete our technical evaluations and potentially farm-down from our current 100-percent position.

CENTRAL NORTH SEA (CNS)

Past activity in the CNS has centred on Block 21/23a (Sterling 35-percent) with the drilling of the Sheryl discovery in 2006 and the unsuccessful Constance prospect in 2007. The Sheryl discovery tested oil at a maximum rate of 1,915-Bopd of 22° API gravity oil. Independent evaluation indicated the potential for up to 10,000-Bopd from a high-angle or horizontal well with improved sand control practices. RPS Energy independently reported Proved plus Probable reserves of 1.07-MMbbls net to Sterling. The most likely development option for the field is a short tie-in to the Pict and Saxon producing system and this currently awaits capacity in the Pict to Triton pipeline which is expected in 2009 or 2010.

We continue to work the acreage in the CNS but we have relinquished 21/22 at the end of 2007. We also relinquished 21/28b, a 23rd License Round block as a result of little prospectivity.

NORTHERN NORTH SEA (NNS)

In the NNS, we converted the 210/29 and 30 areas into a single traditional license. The reduced area retains the bulk of the prospectivity mapped with the potential for significant oil in place and targets Upper Jurassic sands. During 2007, we farmed a portion of our 60-percent interest to Revus Energy ASA and currently hold 39.9-percent. A well is planned for this area during the second half of 2008. Our technical review of Block 211/11b identified prospectivity in the Magnus and Brent reservoirs, but we were unable to conclude a farm-out for this Block and it was relinquished at the end of 2007.

UNITED KINGDOM ONSHORE

2007 highlights from our UK onshore activity included the long-term production test of the Avington-3z well during the last quarter of the year and progressing of the final gas sales agreement for our Kirkleatham discovery to enable production to start during the 2008/2009 winter period.

CLEVELAND BASIN

In Petroleum Exploration and Development Licence (PEDL) 068, we are progressing gas marketing arrangements from our 2006 Kirkleatham gas discovery (Sterling 47-percent) which tested gas at rates of 5-MMscf/d. These arrangements also incorporate a small gas storage project. Also in PEDL 068, planning for a well on the Ralph Cross prospect continues towards drilling in the fourth quarter of 2008. The timing for this well, which will follow up on an old discovery, is subject to change.

On PEDL 071 (Sterling 20-percent) the Burton Agnes well was drilled and had gas shows in the Zechstein Carbonates section with good development of reservoir in the underlying Rotliegendes section. The well has been suspended with ongoing work looking for a possible up-dip location to drill the main Rotliegendes target above the gas water contact. We were carried for the majority of the costs of this well.

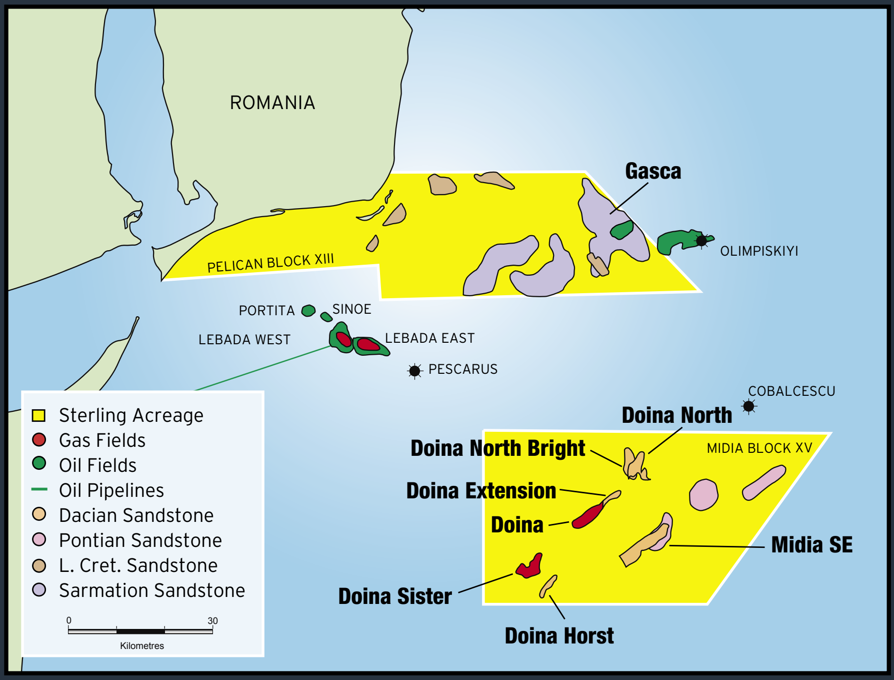
WEALD AND WESSEX BASINS

On PEDL 070 (Weald), the horizontal re-drill well Avington 3z (Sterling 8.3-percent) initially produced oil at gross rates in excess of 500-Bopd during an extended well-test lasting several months. During this test, the production rate was held constant, but the water-cut increased to approximately 40-percent. A development plan has been submitted which will place 3z and the earlier 2z-wells on production in early 2008. On PL90 (Wessex), (Sterling 18.75-percent) the operator is also planning extended testing of the Waddock Cross-2 and 3 wells during 2008 with trial injection of chemicals in an effort to decrease the produced water cut.

FRANCE ONSHORE

On the St Laurent permit (Sterling 33.4-percent) drilling of the Grenade-3 well was completed in early 2008. The reservoir section encountered was lacking in porosity and permeability and the well has been suspended. Ongoing studies will evaluate the geological model to determine a possible re-drill location back towards the original Grenade-1 discovery well together with the remaining in place volumes. Mapping of a large, separate Triassic prospect is also nearing completion.

THE PROVEN DIONA GAS TREND & ADDITIONAL PROSPECTS WITHIN THE MIDIA & PELICAN BLOCKS



Stephen Birrell
VP, Romanian Operations

ROMANIA OFFSHORE

In late 2006, we acquired a 100-percent working interest and operatorship of the large 1.1-million acre Pelican and Midia Blocks located in the Black Sea offshore Romania. This followed a lengthy period as a small working interest partner frustrated by continually changing and inactive operators. Within the past year, we acquired permits to drill three wells, farmed down to a 65-percent working interest based on a two well farm-out, completed the early approval process for changing the terms of the concession agreement and drilled the first successful well.

Subsequent to completion of farm-out agreements to Gas Plus International B.V. and Petro Ventures Ltd., our interest will reduce to 65-percent. In addition to the carry received on the recent Doina Sister well, the farm-in partners will also pay a carry on the Midia South East well which requires a semi-submersible rig. Concurrent with these farm-in arrangements, we entered into an agreement with Gemini Oil and Gas Fund II, L.P. ("Gemini") under which we received US$7-million to fund certain eligible expenditures. In return, Gemini will receive payments equal to a share of gross production from the Doina trend.

Year-end 2007 brought the highlight of the year in Romania with the successful discovery and testing of the Doina Sister well. The well, which has been suspended as a possible future producer, found a thicker reservoir section than expected (46-metres) and tested gas at rates of up to 19.2-MMscf/d. Like the test on the original Doina discovery, this test was restricted by the test equipment and the potential production rates per well are expected to be significantly higher. Based on the 2007 drilling success, we are planning up to three wells on the Doina trend for 2008, one each on Doina and Doina Sister and a further exploration well along the same trend. Commercial and detailed engineering work has also commenced on potential development options for Doina and Doina Sister.

The original Doina gas discovery in the Midia block was drilled in 1995 and was further appraised by the then operator and Sterling in 2001. Seismic reprocessing and inversion work were used to improve imaging along the Doina trend and direct calibration with the Doina field enabled the de-risking of the Doina Sister prospect and redefinition of the area of the Doina field.

Following the success of the Doina Sister discovery, as at December 31, 2007, our reserve auditors RPS Energy assigned gross best estimates Contingent Resources (P50) to Doina Sister of 136-Bcf and updated Doina gross Contingent Resources (P50) to 70-Bcf. Our post farm-out share (65-percent) of these resources is as follows:

	Low Estimate (P90)[1]	Best Estimate (P50)[2]	High Estimate (P10)[3]
	(Bcf)	(Bcf)	(Bcf)
Doina Contingent Resources[4]	21	46	86
Doina Sister Contingent Resources[4]	46	88	133

(1) See Note 1 to the table on Page 5 for an explanation of the determination of the Low Estimate.

(2) See Note 2 to the table on Page 5 for an explanation of the determination of the Best Estimate.

(3) See Note 3 to the table on Page 5 for an explanation of the determination of the High Estimate.

(4) See Note 4 to the table on Page 5 for an explanation of the determination of Contingent Resources. **There is no certainty that it will be commercially viable to produce any portion of the contingent resources.**

Gas prices achievable by producers within Romania have been steadily increasing in recent times and an independent market study shows achievable prices exceeding US$8.00 per thousand cubic feet.

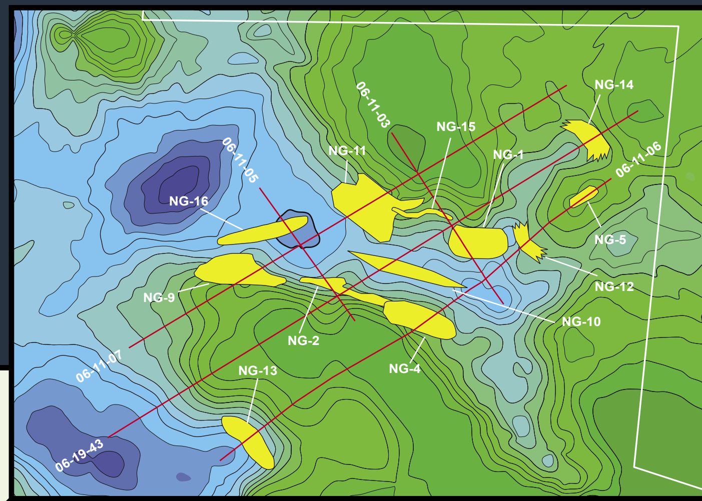
The process of amending the offshore Exploration and Production Sharing Agreement (EPSA) to a tax-royalty concession has made progress after being approved by the National Agency for Mineral Resources (NAMR) in late 2007 prior to being submitted for government ratification which is expected by mid 2008. We also await response from the International Court relating to the border area on the Pelican Block between Ukraine and Romania, but given our focus on the Doina trend for 2008 drilling, the border situation does not impact the short-term program. However the Pelican Block contains multiple prospects including the very large Gasca prospect which remains in our medium-term drilling plans.

ROMANIA ONSHORE

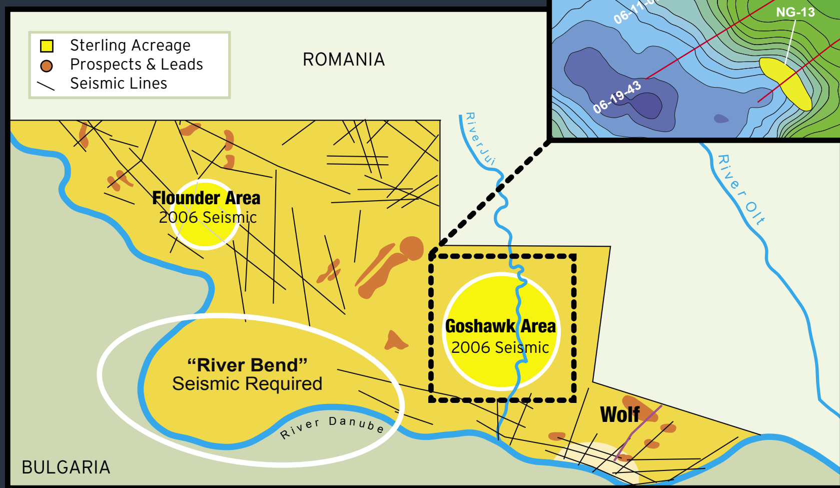
During 2007, exploration efforts on our large Craiova block (Sterling 60-percent) onshore Romania continued with detailed studies aimed at refining and de-risking two principal plays recognized in the block, namely the conventional block-wide Mesozoic play and the shallower Neogene play which is confined to the central canyon region.

The studies completed during 2007 covered a detailed hydrocarbon sourcing review, seismic reprocessing and inversion and detailed interpretation of the shallow gas play in the "Goshawk" canyon region. The studies demonstrate that this canyon has all the attributes for local gas sourcing and the seismic "bright spots" have the attributes and seismic character associated with hydrocarbon-filled reservoir. The prospect inventory mapped to date in the Goshawk area holds potential for significant gas in place. The work has positioned Sterling and its joint venture partner to progress the drilling of three wells during 2008 to validate the play which produces in fields operated just to the north of the Craiova block boundary. If this is successful, a significant area within the canyon region remains without seismic data and this would be acquired to expand the play, perhaps significantly. The planned wells are relatively shallow and low-cost and together with good initial well rates, gas prices and the in-country fiscal terms, this could potentially provide attractive economics.

INITIAL SHALLOW GAS TARGETS



THE CRAIOVA CONCESSION



RESERVES AND RESOURCES

Our net Proved and Probable Reserves, future net revenues before income taxes, best estimate P50 Contingent Resource Volumes and best estimate P50 Propective Resource Volumes were evaluated by RPS Energy at December 31, 2007 as follows:

			Net Present Value of Future Net Revenue‡ ($CDN – Millions)
	MMbbls	Bcf	Forecast Prices
Proved Reserves			
Oil	0.010	–	0.39
Gas	–	0.410	1.89
Proved Plus Probable Reserves			
Oil	1.090	–	25.48
Gas	–	0.640	3.28
Contingent Resources (P50)			
West Breagh	–	109	
Doina	–	46	
Doina Sister	–	88	
Prospective Resources (P50)			
East Breagh	–	154	

Additional reserve information can be obtained from our Form 51-101F1 containing the Statement of Reserves and Other Oil and Gas Information which can be found on www.sedar.com, or by contacting the Company.

‡ Discounted at 10-percent per year

Ian C. Hornby-Smith
Chief Financial Officer

Sherry L. Cremer
Treasurer & Corporate Secretary

Management's Discussion and Analysis

The following is management's discussion and analysis of operations and financial condition (MD&A) of Sterling Resources Ltd. ("Sterling" or the "Company") for the year ended December 31, 2007, dated April 16, 2008, and should be read in conjunction with Sterling's audited consolidated financial statements and accompanying notes for the years ended December 31, 2007 and 2006.

The MD&A focuses on our long-term vision, strategy and growth opportunities as well as our historic performance for the two years ended December 31, 2007. All financial amounts are expressed in Canadian dollars, except as otherwise indicated.

OUR BUSINESS AND 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 financial exposure and technical risk are managed by obtaining partner participation through farm-out and other arrangements. Under such a strategy these arrangements, 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.

2007 OPERATING HIGHLIGHTS

The following discussion focuses on the operational highlights for the year ended December 31, 2007 only. Further discussion of operations and financial and other transactions are presented elsewhere in this MD&A together with comparisons to prior years.

Selected Annual Financial Information for the three years ended December 31, 2007 are presented below:

Year ended December 31	**2007**	2006	2005
$ except share information			
Oil and gas revenues, net of royalties	**–**	–	–
Interest	**703,812**	1,001,993	745,975
Expenses	**(2,519,571)**	(2,208,001)	(3,169,784)
Net loss	**(1,815,759)**	(1,206,008)	(2,423,809)
– per common share, basic and diluted	**(0.02)**	(0.01)	(0.03)
Net working capital	**10,858,095**	21,133,295	24,026,972
Petroleum and natural gas properties and equipment additions	**17,417,557**	29,907,210	5,504,717
Dispositions of interests in properties	**(7,303,119)**	–	–
Furniture and fixtures additions	**15,081**	175,007	108,463
Total assets	**81,033,587**	73,139,740	41,396,119
Share capital	**76,900,308**	75,719,452	48,108,289
Common shares outstanding – basic and diluted	**95,766,968**	94,403,634	79,746,967

In summary, for 2007, we have spent $10.1-million on capital programs net of dispositions of interests in properties. We have also incurred an additional $1.5-million of other cash expenses, primarily general and administrative in nature, and other non-cash expenditures of $1.0-million of which $0.9-million relates to stock based compensation.

Our key operational achievements in 2007 included:

- The successful Breagh well (Sterling 45-percent after farm-out) on UK offshore Block 42/13 which tested gas at flow-rates of up to 17.6-MMscf/d.
- The successful farm-out and drilling of the Doina Sister well (Sterling 65-percent after farm-out) on the Midia Block offshore Romania. This well was completed and tested after year-end flowing at stabilized rates of up to 19.2-MMscf/d.
- The addition of six new licenses covering 13-Blocks or part-Blocks in the 24th UK Offshore Licensing Round. Several of these Blocks form a natural exploration extension in areas adjacent to the Breagh discovery where appraisal drilling is planned for 2008.

Other operational activities of note during 2007 included:

- The drilling of the Constance well (Sterling 35-percent) on Block 21-23a containing the 2006 Sheryl oil discovery. This well targeted a separate structure to the north and east of Sheryl, but failed to encounter hydrocarbons.
- Onshore UK, we participated in the drilling of the Burton Agnes well (Sterling 20-percent after farm-out) on Petroleum Exploration and Development License (PEDL) 071, which was suspended after encountering some hydrocarbon shows; and the Avington-3z well (Sterling 8.3-percent) which was placed on long term test pending development approval.

ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

It is important to understand our key accounting policies in order to understand our financial results and the extent to which estimates affect them. Our accounting policies as presented in Note 2 to the financial statements are in accordance with Canadian generally accepted accounting principles (GAAP).

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 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.

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

We currently have no commercial production. Any minor pre-commercial production revenues have been netted against related expenses, and the net amount capitalized as test expenditures.

The following table provides a breakdown of our statements of operations for the eight quarters ended December 31, 2007. This table indicates that our financial results in this phase of our operations are not affected by seasonal considerations.

	Dec. 31	Sept. 30	June 30	March 31	**Total**
2007 (Quarter Ended)	($)	($)	($)	($)	**($)**
Expenses					
General and administrative	547,390	382,283	476,963	349,238	**1,755,874**
Foreign exchange (gain) loss	(540,566)	112,058	111,664	43,630	**(273,214)**
Stock based compensation	185,361	245,587	273,673	201,630	**906,251**
Accretion	13,904	15,282	11,872	10,705	**51,763**
Depreciation	16,992	21,471	17,212	23,222	**78,897**
	223,081	776,681	891,384	628,425	**2,519,571**
Interest	140,299	178,861	175,939	208,713	**703,812**
Net loss	(82,782)	(597, 820)	(715,445)	(419,712)	**(1,815,759)**
Net loss per common share – basic and diluted	(0.00)	(0.01)	(0.01)	(0.00)	**(0.02)**

	Dec. 31	Sept. 30	June 30	March 31	Total
2006 (Quarter Ended)	($)	($)	($)	($)	($)
Expenses					
General and administrative	322,154	323,178	450,151	544,346	1,639,829
Foreign exchange (gain) loss	(234,097)	17,472	134,450	(166,206)	(248,381)
Stock based compensation	122,201	225,437	176,468	193,533	717,639
Accretion	14,667	10,532	8,483	2,111	35,793
Depreciation	20,331	17,490	16,748	8,552	63,121
	245,256	594,109	786,300	582,336	2,208,001
Interest	317,283	335,992	180,764	167,954	1,001,993
Net income (loss)	72,027	(258,117)	(605,536)	(414,382)	(1,206,008)
Net income (loss) per common share – basic and diluted	0.00	0.00	(0.01)	(0.01)	(0.01)

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

FOURTH QUARTER 2007 RESULTS

Net loss for the fourth quarter of 2007 compared to the results of the other seven quarters of 2007 and 2006 has been affected by the following:

- Net general and administrative expenses for the fourth quarter are somewhat higher than the trend of the other quarters, particularly 2007. This is due mainly to a one-time accrual for Romanian payroll taxes. Generally, fluctuations between quarters arise from the level of operational activity which impacts both recoveries from partners as well as the amount capitalized internally. In addition, the majority of general and administrative expenses are incurred in currencies other than the Canadian dollar, and are affected by fluctuations in exchange rates when converted into Canadian dollars.
- Foreign exchange gains and losses relate primarily to working capital and other monetary items denominated in UK Pounds, US dollars and Romanian Lei. Fluctuations in foreign exchange gains and losses arise from both changes in the levels of working capital as well as the changes in the prevailing exchange rates. The majority of the gains in the fourth quarter of 2007 resulted from higher than normal levels of US dollar cash in periods when there was some recovery in the US dollar relative to the Canadian dollar.
- Stock based compensation in each quarter reflects the timing of stock option grants and their related vesting periods. Similar to general and administrative expenses, the amount of stock based compensation capitalized is also affected by the level of exploration activity in each quarter.
- Interest and other income for the fourth quarter of 2007 has declined compared to the other quarters of 2007 and 2006 due to the utilization of cash resources in our capital expenditure programs.

GENERAL AND ADMINISTRATIVE EXPENSES

The following table provides a breakdown of general and administrative expenses for 2007 and 2006:

	2007	2006
	($)	($)
Employee costs	**1,944,927**	1,683,712
Office rent and expenses	**640,841**	548,960
Professional and other fees	**875,133**	652,220
Travel	**184,357**	316,886
Other	**249,297**	189,457
Gross general and administrative expenses	**3,894,555**	3,391,235
Recoveries from partners	**(678,531)**	(576,126)
Charged to capital projects	**(1,460,150)**	(1,175,280)
	1,755,874	1,639,829

General and administrative expenses before recoveries from partners and internal capitalization for 2007 have increased over 2006 levels. The majority of general and administrative expenses are incurred in currencies other than Canadian dollars, and have benefited from the significant rise in the Canadian dollar compared to most other currencies during 2007. However, increased activity levels have more than offset this benefit.

FOREIGN EXCHANGE

We do not hold any derivative financial instruments. 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. Cash is converted into foreign currencies for known or anticipated expenditures within the near term, and at year-end 2007 foreign currency cash was at higher levels than normal due to anticipated expenditures relating to the Doina Sister and Breagh wells.

Foreign exchange gains and losses relate primarily to working capital and other monetary items denominated in UK Pounds, US dollars and Romanian Lei. Fluctuations in foreign exchange gains and losses arise from both changes in the levels of working capital as well as changes in the prevailing exchange rates. The majority of foreign exchange gains of $273,214 for 2007 occurred in the fourth quarter of 2007 when the levels of US dollar cash were relatively high, and in addition there was some temporary recovery in the US dollar relative to the Canadian dollar. In 2006, the Canadian dollar weakened somewhat against most other currencies resulting in gains of $248,381 on translation of working capital denominated in foreign currencies.

STOCK BASED COMPENSATION

It is our policy that a significant proportion of employee and director remuneration should be geared to the success of our Company, but also should not result in significant depletion of our cash resources. To the extent that a portion of employee costs is capitalized against projects, a similar proportion of stock based compensation is also capitalized.

Stock based compensation expense of $906,251 in 2007 increased from $717,639 in 2006 due to the issue of stock options to directors, officers, employees, and consultants during both 2006 and 2007. Stock based compensation capitalized was $473,448 in 2007 (2006 – $362,417).

In 2007, a total of 1,700,000 options were issued to directors, officers, employees and consultants. Because these options were issued part-way through the year, the full-year impact of the related stock based compensation expense was not completely reflected in the financial statements for 2007.

For 2006, a total of 1,595,000 options were issued to directors, officers, employees and consultants under the plan.

OTHER INCOME

Other income consists exclusively of interest income from the investment of surplus funds. For 2007, interest income of $703,812 has decreased compared to $1,001,993 in 2006 due primarily to the level of unutilized cash balances available for investment.

INCOME TAXES

The Company does not recognize the tax benefit of losses incurred at this time as no reserves have been classified as proved, and there is no assurance that the tax benefit will be realized. As at December 31, 2007, the Company has non-capital losses in Canada of approximately $4.0-million available, but subject to expiry over the next twenty years, to reduce future taxable income, and approximately $3.8-million of subsidiary U.K. tax losses which are not subject to expiry. In addition, at December 31, 2007, the Company had approximately $61.2-million of deductions available to be claimed against future income taxes, of which approximately $59.2-million are not subject to expiry, and approximately $2-million will expire in 20-years.

NET LOSS

The net loss of $1,815,759 for 2007 compares to a net loss of $1,206,008 for 2006. This represents a net loss of $0.02 per common share, basic and diluted for 2007 (2006 – net loss of $0.01 per share). The increase in the net loss for the year compared to 2006 is due primarily to a reduction in interest income and increased general and administrative and stock based compensation expense.

PETROLEUM AND NATURAL GAS PROPERTY ACTIVITIES AND CAPITAL EXPENDITURES

Capital expenditures are categorized as petroleum and natural gas properties and capitalized in country-by-country cost-centres. The following is a summary of net capital expenditure additions by cost-centre for the years ended December 31, 2007 and 2006:

Years ended December 31	**2007**	2006
	($)	($)
United Kingdom	**8,451,485**	18,963,578
Romania	**1,289,012**	10,893,977
Other International	**373,941**	49,655
Net petroleum and natural gas expenditures	**10,114,438**	29,907,210
Furniture and fixtures	**15,081**	175,007
	10,129,519	30,082,217

In the UK, net petroleum and natural gas (P&NG) expenditures of $8,451,485 for 2007 included the following major items:

- Approximately $4.7-million relating to the successful drilling and testing of the Breagh appraisal well (Sterling 45-percent) on Block 42/13 in the UK Southern North Sea. We were carried by our partners on the majority of the initial drilling costs of the well, and the costs incurred by us related primarily to the testing program. On test, the well flowed at maximum rates of 17.6-MMscf/d. Offsetting this, are proceeds of US$3.0-million from the sale of a property interest in the block. This interest entitles the holder only to a share of gross production from the fields.
- Approximately $4.5-milion relating to the drilling of the Constance exploration well (Sterling 35-percent) on Block 21/23a in the UK Central North Sea. This well targeted a separate prospect in the north east of the Block which also contains the 2006 Sheryl oil discovery. This well failed to encounter hydrocarbons and has been abandoned.

In addition to these items, UK capital expenditures were incurred completing additional seismic on onshore PEDL 068 containing the 2006 Kirkleatham-4 discovery (Sterling 47-percent); on PEDL 070 containing the Avington-3z discovery (Sterling 8.3-percent) which initially produced oil at 500-Bopd (gross) but subsequently the water-cut increased to approximately 40-percent by the conclusion of the test; and costs associated with maintaining existing licenses in good standing as well as making applications for new licenses in the UK 24th Offshore Licensing Round. We were awarded 13 new Blocks or part-Blocks in the 24th Licensing Round including several in the area immediately surrounding the Breagh gas discovery.

Offshore Romania in the Black Sea, expenditures for 2007 relating to drilling operations on the Doina Sister well (Sterling 65-percent after farm-out) on the Midia Block totalled approximately $5.8-million. Subsequent to December 31, 2007, the well tested gas at rates of up to 19.2-MMscf/d. Offsetting these expenditures, are proceeds of US$4.7-million from the sale of a property interest in the Block. An additional US$2.3-million was received in respect of costs which were incurred after December 31, 2007 and was recorded as an accrued liability. This interest entitles the holder only to a share of gross production from the fields.

Onshore Romania, on the 1.5-million acre Craiova concession (Sterling 60-percent), expenditures totaling $0.7-million were incurred related to continued analysis of seismic acquired in late 2006. This analysis has identified a number of shallow gas prospects in the Goshawk area in the central part of the concession. Our plans are to drill three wells on these prospects in 2008.

Other international expenditures of $0.4-million related to preliminary work on the proposed follow-up well on the St Laurent Block (Sterling 33.4-percent) onshore France which was drilled in 2008. The well has been suspended, but alternate drilling locations and prospects remain to be drilled.

For 2006, total capital expenditures of $30,082,817 included:

- $14.5-million of drilling and appraisal costs of the Sheryl oil discovery on Block 21/23a in the UK Central North Sea. After several sidetracks, the final location was tested at a restricted rate of 1,915-Bopd.
- $0.7-million relating to a preliminary site survey and other costs relating to proposed drilling of the Breagh appraisal well in 2007 on Block 42/13 in the UK Southern North Sea.
- $2.0-million of costs for the Kirkleatham-4 onshore UK well on Petroleum Exploration and Development License (PEDL) 068 in the Cleveland Basin. The well tested gas at gross rates up to 5-MMscfd.
- $7.8-million of costs of the Piscu Sadovei well on the 1.5-million acre Craiova concession onshore Romania and extensive seismic acquisition activity. The well failed to encounter hydrocarbons and was abandoned.
- $2.8-million for the acquisition of the remaining 80-percent interest in the Pelican and Midia Blocks offshore Romania, bringing our interest to 100-percent of these blocks.

Acres	Gross	Net
United Kingdom	1,347,143	989,607
Romania	2,645,000	2,027,000
Other International	151,969	50,792
Total	4,144,112	3,067,399

Geological and geophysical work on the properties to date has resulted in many prospects and leads other than those specifically referred to above. Several of these prospects have been brought to the drillable stage, and we continue to pursue our farm-out strategy of bringing in industry partners to manage technical and financial risk.

FINANCING, LIQUIDITY AND SOLVENCY

NET WORKING CAPITAL

The following is a summary of net working capital as at December 31, 2007 and 2006:

	2007	2006
	($)	($)
Cash and cash equivalents	**15,925,624**	23,801,861
Other non-cash working capital		
Accounts receivable and prepaid expenses	**6,915,992**	2,297,187
Accounts payable and accrued liabilities	**(11,983,521)**	(4,965,753)
Net working capital	**10,858,095**	21,133,295

Cash and cash equivalents of $15,925,624 includes $5,617,260 of restricted cash in escrow accounts which was only available for settlement of expenditures relating to the drilling of the Breagh and Doina Sister wells. These expenditures are included in accounts payable and accrued liabilities.

At the end of 2007 cash and cash equivalents are at lower levels than the end of 2006, due mainly to the capital expenditure programs completed late in the year. Included in the total are term deposits of $2,200,000 (2006 – $18,867,000) with maturities greater than 30-days. These deposits have cashable options and are therefore considered cash equivalents by Management.

FINANCING AND FARM-OUTS

Managing financial exposure by obtaining partner participation through farm-out and other arrangements is an integral part of our strategy. Under these arrangements, a portion of our interest is given up in exchange for the partner paying a promoted share of certain of our costs of drilling a well or other programs. Specific terms of each partner's obligations varies. During 2007 we completed farm-out arrangements on the following blocks:

- UK Southern North Sea Blocks 42/12 and 42/13. In addition to farm-out arrangements completed in 2006, a further 20-percent was farmed out to RegEnersys Ltd. (RegEnersys) and PetroVentures Ltd. (PetroVentures), leaving Sterling with a residual 45-percent interest. In return, Sterling was carried for the majority of the dry-hole costs of the Breagh appraisal well, but was still required to pay its share of the testing costs. Both RegEnersys and PetroVentures may earn additional interests in Sterling's Quad 42 Blocks.
- UK Northern North Sea Blocks 210/29a and 210/30a. A 33.5-percent interest was farmed to Revus Energy ASA (Revus) leaving Sterling with a residual 39.9-percent interest in the Block. In return, Revus will pay 50-percent of the costs of the proposed 2008 well up to £10-million and 33.5-percent thereafter.
- Offshore Romania in the Black Sea. A total of 35-percent of the Midia and Pelican Blocks was farmed to Gas Plus International BV and PetroVentures Ltd. Under these agreements, the partners will pay a promoted share of a two-well program in return for their interest. This program includes the current Doina Sister well.

In addition to these farm-out arrangements, in the fourth quarter of 2007, we raised a total of US$10.0-million through dispositions of property interests on Block 42/13 in the UK Southern North Sea, and the Doina trend on the Midia Block in the Black Sea offshore Romania as discussed above. The terms of this financing were considered more favourable to the Company than farming out additional interest in the wells.

In December 2007, we reached agreement on the terms of a non-brokered private placement of 7.1-million common shares at $2.00 each with the Royal Bank of Scotland (RBS). The transaction closed on January 11, 2008, and net proceeds were approximately $14.2-million. We believe that the addition of RBS into our shareholder group will bring all the benefits that come from an association with a large and well-respected global bank which understands the UK North Sea in particular. In addition, it will diversify our shareholders internationally, and provide a natural avenue for future debt financing as we move into the appraisal and development phase of our strategy. The proceeds from the issue are to be used primarily towards financing the Company's 2008 appraisal well drilling program.

On March 13, 2008 we 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 closed on March 25, 2008. The total gross proceeds from the initial issue and the exercise of the Over-Allotment were $40,000,000. After underwriter's commissions and expenses of the issue, net proceeds were $37,450,000. The proceeds from the issue are to be used primarily towards financing the Company's 2008 appraisal well drilling program.

On July 27, 2006 we completed a bought deal financing of 12,000,000 common shares at $2.10 per share with a syndicate of underwriters. In addition, an "Over-Allotment Option" to purchase an additional 1,800,000 shares at $2.10 was granted to the underwriters, and on August 3, 2006, the underwriters exercised this option for additional proceeds of $3,780,000. The total gross proceeds from the initial issue and the exercise of the Over-Allotment Option were $28,980,000. After underwriter's commissions and expenses of the issue of $1,882,237, net proceeds were $27,097,763.

As at December 31, 2007 there were 95,766,968 (2006 – 94,403,634) common shares outstanding and 5,223,334 (2006 – 5,145,000) options issued under our stock option plan. As at April 16, 2008 there were 119,285,203 common shares and 4,814,999 options outstanding.

COMMITMENTS AND OBLIGATIONS

Our commitments and obligations under the terms of our exploration licenses totalled $17.3-million at December 31, 2007. These commitments are expected to be fulfilled over the next two years. Amounts relate to commitment wells or seismic which are subject to farm-out negotiations, and may be substantially reduced or eliminated upon conclusion of negotiations.

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

	($)
2008	245,579
2009	57,384
2010	37,136
	340,099

LIQUIDITY AND SOLVENCY

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

Together with our current cash reserves at December 31, 2007, the net proceeds of $14.2-million from the January 11, 2008 private placement of 7.1-million shares; the net proceeds of $37.5-million from the March 2008 bought-deal financing of 16-million common shares and bank financing currently being negotiated, we expect to have sufficient funds to meet our existing exploration license obligations and commitments and to fund ongoing operations for the next year.

FUTURE PLANS

For 2008 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 UK Southern North Sea.

- Drill one exploration well 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.
- 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 change.

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 support in our offices in the UK and Romania.

We plan to continue our strategy of farming-out a portion of our licenses to outside partners. This strategy has been successful for us over the last several years, allowing us to increase our holdings of exploration lands, and increase their prospectivity through geological and geophysical work prior to farm-out. The majority of exploration prospects brought to the drillable stage have been successfully farmed out on a promoted basis.

Capital expenditures and general and administrative expenditures for 2008 are expected to be in the range of $50.0-million to $75.0-million, based on planned farm-outs on certain properties. This includes the 2008 portion of the $17.3-million of license commitments and obligations referred to above. We have some flexibility over most of our capital expenditures and as to the percentage of our working interests farmed out, and the timing of expenditures on blocks that we operate.

RISKS AND UNCERTAINTIES

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

OPERATIONAL RISKS

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

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

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

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

FINANCIAL RISKS

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

- Anticipated future cash flows;
- The fair value of our oil and gas reserves and assets;
- The availability and cost of financing for our projects;
- The economics underlying our project decisions; and
- The underlying value of the business on which our share price is based.

POLITICAL OR GOVERNMENT RISKS

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

- The risk of changes in government policy, regulation or fiscal terms;
- The risk of changes in conditions under which exploration licenses are awarded, including related work commitments;
- The risks of required government approvals being delayed or withheld;
- Risks associated with the fiscal terms prevailing in the jurisdictions in which we operate; and
- Risks relating to any known or future international border disputes in jurisdictions where we are active.

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

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

Further discussion of the risks and uncertainties facing our Company and our business is contained in the Company's Annual Information Form for the year ended December 31, 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants (CICA) has issued new standards for Accounting Changes (CICA 1506), Comprehensive Income (CICA 1530), Equity (3251), Financial Instruments – Recognition and Measurement (CICA 3855), Financial Instruments – Disclosure and Presentation (CICA 3861) and Hedges (CICA 3865), which are effective for the Company for periods ending after December 31, 2006. These new standards do not affect the Company at present and consequently no statement of other comprehensive income is required to be included with the consolidated financial statements.

Section 1506 requires additional disclosures for changes in accounting policies, accounting estimates and accounting errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or impracticable to determine. In addition, voluntary changes in accounting policy are permitted only when required by a primary source of GAAP, or if the change results in more relevant or reliable information. Section 1530 introduces the concept of comprehensive income, which includes net income and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from such items as unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale investments, and changes in the fair value of the effective portion of cash flow hedging instruments. The application of this new standard did not result in comprehensive income being different from net income for the periods presented.

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. All financial instruments must be classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Initial and subsequent recognition and measurement of changes in the value of financial instruments depends on their initial classification:

- Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in OCI until the asset is removed from the balance sheet.
- Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization.
- Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

The application of Section 3855 did not have an impact on Sterling's consolidated financial statements.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes, and specifies how hedge accounting is applied and what disclosures are necessary when it is applied. The application of Section 3865 did not have an impact on Sterling's consolidated financial statements as there are no transactions which have been designated as hedges for accounting purposes.

FUTURE ACCOUNTING CHANGES

On December 1, 2006, the CICA issued three new accounting standards, Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863 – Financial Instruments – Presentation. These new standards will be effective for the Company on January 1, 2008.

- 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.
- For the year ended December 31, 2007, the Company's capital consisted only of common shares, contributed surplus and deficit, and was subject to no restrictions or covenants.
- Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. 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.

For the year ended December 31, 2007, 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.

FORWARD-LOOKING STATEMENTS

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 can not 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 Corporation'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 in above. These statements speak only as of the date of the MD&A. The Corporation 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.

Notwithstanding this, in our MD&A for the year ended December 31, 2006, we made certain statements with respect to future drilling plans for one exploration well in the western section of the Craiova Block onshore Romania. This well has been deferred until 2009 due to activity offshore Romania. Aside from this, activity in 2007 unfolded substantially as indicated.

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 applicable securities laws and that information required to be disclosed is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Sterling's Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision. Such controls are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has assessed the design of controls over financial reporting, and has identified the following key weaknesses in controls:

- Due to Sterling's limited number of permanent staff, it is not feasible to achieve optimum segregation of incompatible duties; and
- Sterling's information systems are subject to general control deficiencies including the lack of effective controls over system access, spreadsheets, and other documentation.

These weaknesses in internal controls over financial reporting result in the possibility that a material misstatement may not be detected or prevented. Management works to mitigate the risks of material misstatement through close scrutiny of all related activities, and the Company's Chief Executive Officer and Chief Financial Officer have concluded the internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of the Company's financial reporting.

ADDITIONAL INFORMATION

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

Financial Information

Management's Report

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

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

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

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

[Signed]

"Stewart G. Gibson"
Chief Executive Officer

[Signed]

"Ian Hornby-Smith"
Chief Financial Officer

April 16, 2008

Auditors' Report

To the Shareholders of Sterling Resources Ltd.

We have audited the consolidated balance sheets of Sterling Resources Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Signed]

"Ernst & Young LLP"
Chartered Accountants

Calgary, Canada
April 16, 2008

Consolidated Balance Sheets

As at December 31	2007	2006
	($)	($)
ASSETS		
Current		
Cash and cash equivalents [note 3]	**15,925,624**	23,801,861
Accounts receivable	**6,845,525**	2,268,998
Prepaid expenses	**70,467**	28,189
	22,841,616	26,099,048
Property and equipment [note 4]		
Petroleum and natural gas properties and equipment	**58,019,187**	46,804,092
Furniture and fixtures	**172,784**	236,600
	58,191,971	47,040,692
	81,033,587	73,139,740
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities [note 4]	**11,983,521**	4,965,753
Asset retirement obligations [note 5]	**1,249,585**	656,798
Commitments [note 6]		
Shareholders' equity		
Share capital [note 7]	**76,900,308**	75,719,452
Contributed surplus [note 8]	**2,431,150**	1,512,955
Deficit	**(11,530,977)**	(9,715,218)
	67,800,481	67,517,189
	81,033,587	73,139,740

See accompanying notes

On behalf of the Board:

[Signed]

"Walter Deboni"
Director

[Signed]

"Robert B. Carter"
Director

Consolidated Statements of Operations and Deficit

For the years ended December 31	**2007**	2006
	($)	($)
EXPENSES		
General and administrative	**1,755,874**	1,639,829
Foreign exchange gain	**(273,214)**	(248,381)
Stock based compensation [notes 7, 8]	**906,251**	717,639
Accretion [note 5]	**51,763**	35,793
Depreciation	**78,897**	63,121
	2,519,571	2,208,001
OTHER INCOME		
Interest	**703,812**	1,001,993
Net loss and comprehensive loss for the year	**(1,815,759)**	(1,206,008)
Deficit, beginning of year	**(9,715,218)**	(8,509,210)
Deficit, end of year	**(11,530,977)**	(9,715,218)
Net loss per common share – basic and diluted [note 9]	**(0.02)**	(0.01)

See accompanying notes

Consolidated Statements of Cash Flow

For the years ended December 31	**2007**	2006
	($)	($)
OPERATING ACTIVITIES		
Net loss for the year	**(1,815,759)**	(1,206,008)
Add (deduct) items not affecting cash used in operating activities		
Foreign exchange gain	**(329,085)**	(363,162)
Stock based compensation [notes 7, 8]	**906,251**	717,639
Accretion [note 5]	**51,763**	35,793
Depreciation	**78,897**	63,121
	(1,107,933)	(752,617)
Net change in non-cash working capital [note 11]	**288,573**	(202,636)
Cash used in operating activities	**(819,360)**	(955,253)
INVESTING ACTIVITIES		
Petroleum and natural gas properties and equipment additions [note 4]	**(17,417,557)**	(29,907,210)
Disposition of interests in petroleum and natural gas properties [note 4]	**7,303,119**	–
Furniture and fixtures additions	**(15,081)**	(175,007)
Net change in non-cash working capital [note 11]	**2,110,390**	3,359,798
Cash used in investing activities	**(8,019,129)**	(26,722,419)
FINANCING ACTIVITIES		
Issue of common shares, net of share issue costs	**719,352**	27,507,463
Cash provided by financing activities	**719,352**	27,507,463
Effect of translation on foreign currency cash and cash equivalents	**242,900**	433,694
Net increase (decrease) in cash during the year	**(7,876,237)**	263,485
Cash and cash equivalents, beginning of year	**23,801,861**	23,538,376
Cash and cash equivalents, end of year	**15,925,624**	23,801,861

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

1. DESCRIPTION OF BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

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

REVENUE RECOGNITION

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

PER SHARE AMOUNTS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include term deposits, guaranteed investment certificates and operating bank accounts with maturities, if applicable, of 30-days or less or have cashable options and are therefore considered cash equivalents by management.

INVENTORIES

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

PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

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

FURNITURE AND FIXTURES

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

ASSET RETIREMENT OBLIGATIONS

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

JOINT OPERATIONS

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

FOREIGN CURRENCY TRANSLATION

Operations in foreign countries have been accounted for as integrated foreign operations and are translated using the temporal method. Foreign currency denominated monetary assets and liabilities and asset retirement obligations are translated at exchange rates in effect at the consolidated balance sheet dates, and non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses are included in the consolidated statements of operations and deficit.

INCOME TAXES

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

STOCK BASED COMPENSATION

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

MEASUREMENT UNCERTAINTY

The amounts recorded for asset retirement obligations, stock based compensation and capital expenditure accruals and the assumptions used in the determination of potential asset impairments are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of changes in such estimates in future periods could be material.

RECENT ACCOUNTING PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants (CICA) has issued new standards for Accounting Changes (CICA 1506), Comprehensive Income (CICA 1530), Equity (3251), Financial Instruments – Recognition and Measurement (CICA 3855), Financial Instruments – Disclosure and Presentation (CICA 3861) and Hedges (CICA 3865), which are effective for the Company for periods commencing January 1, 2007. These new standards do not affect the Company at present and consequently no separate statement of other comprehensive income is required to be included with the consolidated financial statements.

Section 1506 requires additional disclosures for changes in accounting policies, accounting estimates and accounting errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or impracticable to determine. In addition, voluntary changes in accounting policy are permitted only when required by a primary source of GAAP, or if the change results in more relevant or reliable information.

Section 1530 introduces the concept of comprehensive income, which includes net income and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from such items as unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale investments, and changes in the fair value of the effective portion of cash flow hedging instruments. The application of this new standard did not result in comprehensive income being different from net income for the periods presented.

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. All financial instruments must be classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Initial and subsequent recognition and measurement of changes in the value of financial instruments depends on their initial classification:

- Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in OCI until the asset is removed from the balance sheet.
- Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization.
- Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

The application of Section 3855 did not have an impact on the Company's consolidated financial statements.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes, and specifies how hedge accounting is applied and what disclosures are necessary when it is applied. The application of Section 3865 did not have an impact on the Company's consolidated financial statements as there are no transactions which have been designated as hedges for accounting purposes.

FUTURE ACCOUNTING CHANGES

On December 1, 2006, the CICA issued three new accounting standards, Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863 – Financial Instruments – Presentation. These new standards will be effective for the Company on January 1, 2008.

- 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.
- For the year ended December 31, 2007, the Company's capital consisted only of common shares, contributed surplus and deficit, and was subject to no restrictions or covenants.
- Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. 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.

For the year ended December 31, 2007, 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.

3. CASH AND CASH EQUIVALENTS

As at December 31, 2007, cash and cash equivalents included cash of $13,725,624 (2006 – $3,880,980) and cash equivalents of $2,200,000 (2006 – $19,920,881) bearing interest at 4-percent (2006 – rates between 3.7-percent and 4.0-percent). As at December 31, 2007 and 2006, these funds were held in the following currencies:

	2007	2006
	($)	($)
Canadian Dollars	2,253,093	19,931,050
US Dollars	10,074,011	2,821,347
UK Pounds Sterling	3,336,417	653,245
Romanian Lei	262,103	396,219
	15,925,624	23,801,861

Included in the total of cash and cash equivalents is $5,617,260 of restricted cash in escrow accounts which was available only for settlement of expenditures relating to the drilling of the Breagh and Doina Sister wells. The related liabilities are included in accounts payable and accrued liabilities.

4. PROPERTY AND EQUIPMENT

The Company's investments in property and equipment are as follows:

(A) PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

	2007	2006
	($)	($)
United Kingdom	35,912,029	26,818,749
Romania	21,455,178	19,707,310
Other International	651,980	278,033
	58,019,187	46,804,092

During 2007, the Company sold interests in certain of its properties offshore the UK and offshore Romania for net proceeds of US$3,000,000 and US$7,000,000 respectively. These interests entitle the owner to payments equal to a share of gross production from the fields. Of the proceeds of $9,543,806, $7,303,119 has been recorded as a reduction of the carrying value of petroleum and natural gas properties and equipment, and the balance of $2,240,687 in accounts payable and accrued liabilities.

In order for the Company to maintain its working interests in its oil and gas properties in the pre-development stage, the Company has commitments to complete various seismic, geological, geophysical and other exploration drilling and work programs, none of which are of a material amount except those disclosed in note 6. The continuation of this work is dependent upon the ability of the Company to obtain continued financing or farm out any of its existing working interests. During the year ended December 31, 2007, the Company capitalized salaries and related benefits, including stock based compensation, of $1,933,598 (2006 – $1,537,697).

(B) FURNITURE AND FIXTURES

	2007	2006
	($)	($)
Furniture and fixtures	386,381	373,738
Less: accumulated depreciation	(213,597)	(137,138)
	172,784	236,600

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas exploration stage activity. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $2,700,000 which will be incurred between 2010 and 2018. A credit adjusted risk-free discount rate of 10-percent and an inflation rate of 4-percent were used to calculate the fair value of asset retirement obligations.

	2007	2006
	($)	($)
Balance, January 1	**656,798**	84,693
Additions	**690,530**	536,312
Revisions to estimates	**(149,506)**	–
Accretion	**51,763**	35,793
Balance, December 31	**1,249,585**	656,798

6. COMMITMENTS

The Company has commitments and obligations totaling $17.3-million under the terms of its exploration licenses which are expected to be incurred over the next two years. These amounts relate to commitment wells or seismic which are subject to farm-out negotiations, and may be substantially reduced or eliminated upon conclusion of negotiations.

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

	($)
2008	245,579
2009	57,384
2010	37,136
	340,099

7. 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, 2005	79,746,967	48,108,289
Issued for cash		
– public issue	13,800,000	28,980,000
– exercise of stock options	856,667	409,700
Share issue costs	–	(1,882,237)
Transferred from contributed surplus on exercise of options	–	103,700
Balance, December 31, 2006	94,403,634	75,719,452
Issued for cash – exercise of stock options	1,363,334	719,352
Transferred from contributed surplus on exercise of options	–	461,504
Balance, December 31, 2007	95,766,968	76,900,308

During 2006 the Company completed a bought deal financing of 13,800,000 common shares at $2.10 per share with a syndicate of underwriters. The total gross proceeds from the issue were $28,980,000. After underwriter's commissions and expenses of the issue totaling $1,882,237, net proceeds were $27,097,763.

(C) STOCK OPTIONS

The Company has established a stock option plan whereby it may grant options to its directors, officers, employees and consultants. On December 31, 2007 there were 7,000,000 (2006 – 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, with the minimum vesting period to be 18 months. Stock options currently issued vest over the initial three years. The following is a continuity of outstanding stock options:

	2007		2006	
	Number of Options	**Weighted Average Exercise Price ($)**	Number of Options	Weighted Average Exercise Price ($)
Outstanding, January 1	**5,145,000**	**1.43**	4,610,000	0.91
Granted during the year	**1,700,000**	**1.57**	1,595,000	2.43
Exercised during the year	**(1,363,334)**	**0.53**	(856,667)	0.48
Cancelled during the year	**(258,332)**	**1.70**	(203,333)	1.51
Outstanding, December 31	**5,223,334**	**1.70**	5,145,000	1.43

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2007:

Grant date	Exercise Price	Number Outstanding	Number Exercisable	Weighted Average Remaining Contract Life (Days)
March 31, 2004	0.32	50,000	50,000	455
June 24, 2003	0.36	255,000	255,000	175
August 26, 2005	1.44	1,510,000	1,050,003	615
November 14, 2005	1.46	230,000	153,334	682
May 23, 2007	1.57	1,700,000	–	1,238
March 8, 2006	1.68	40,000	13,334	918
May 31, 2006	2.45	1,438,334	501,670	873
	1.70	5,223,334	2,023,341	871

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

	2007	2006
Risk-free interest rate	**4.43%**	3.73%
Expected hold period to exercise	**2–3 Years**	3 Years
Volatility in the price of the Company's shares	**45.0%**	82%
Dividend yield	**0%**	0%

The risk-free interest rate represents the yield on 3-year Government of Canada bonds at the time the underlying options are awarded. Volatility in the price of the Company's shares is calculated based on the weekly average price for the 30-week period prior to the award of the options.

The weighted average fair value of options granted during the year ended December 31, 2007 was $0.59 (2006 – $1.05).

8. CONTRIBUTED SURPLUS

The following is a continuity of the Company's contributed surplus:

	2007	2006
	($)	($)
Balance, January 1	**1,512,955**	536,599
Stock based compensation expense for the year	**906,251**	717,639
Stock based compensation capitalized	**473,448**	362,417
Transferred to share capital on exercise of options	**(461,504)**	(103,700)
Balance, December 31	**2,431,150**	1,512,955

9. NET LOSS PER COMMON SHARE

The basic net loss per common share is calculated based on net loss as the numerator in the calculation and the weighted average number of common shares issued and outstanding during the year ended December 31, 2007 of 95,076,500 (2006 – 86,165,460) as the denominator.

The Company follows the treasury stock method for the computation of diluted per share amounts. Under this method, the diluted weighted average number of common shares is calculated assuming the proceeds from the exercise of dilutive securities are used to purchase common shares at the average market price. The effect of the options outstanding using the treasury method would not be dilutive for the years ended December 31, 2007 and 2006.

10. INCOME TAXES

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

	2007	2006
	($)	($)
Net loss for the year	**(1,815,759)**	(1,206,008)
Canadian statutory income tax rate	**32.12%**	32.49%
Computed income tax recovery at the statutory income tax rate	**583,222**	391,832
Tax rate differential on foreign operations	**(33,917)**	(24,603)
Permanent differences	**(3,577)**	(2,373)
Stock based compensation	**(291,088)**	(233,161)
Tax losses expired	**(223,419)**	(41,581)
Other	**58,331**	(81,740)
Change in valuation allowance tax	**(89,552)**	(8,374)
Income tax recovery per financial statements	**–**	–

At December 31, 2007, the Company had the following approximate balances available to be claimed against future year's income for tax purposes:

	($)
Undepreciated capital cost	481,000
Canadian exploration expenditures	228,000
Canadian development expenditures	500,000
Canadian oil and gas property expenditures	269,000
United Kingdom deductible expenditures	50,291,000
Foreign exploration and development expenditures	6,743,000
Undeducted share issue costs	2,653,000
	61,165,000

In addition, at December 31, 2007, the Company had approximate non-capital losses available to reduce future Canadian taxable income expiring as follows:

	($)
2008	392,000
2009	237,000
2010	247,000
2014	524,000
2015	1,904,000
2026	234,000
2027	423,000
	3,961,000

The Company also has subsidiary UK tax losses carried forward of approximately $3,751,000 (2006 – $2,995,000), which are not subject to expiry.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. As at December 31, 2007 and 2006, the Company has recognized a full valuation allowance against a future income tax asset arising from tax pools in excess of the net book value of property and equipment, share issue costs and non-capital losses as follows:

	2007	2006
	($)	($)
Tax pools in excess of net book value of property and equipment	**368,664**	468,829
Share issue costs	**458,026**	769,245
Domestic and foreign non-capital losses	**2,040,516**	1,874,953
Unrealized foreign exchange loss (gain)	**115,603**	(40,666)
	2,982,809	3,072,361
Less: valuation allowance	**(2,982,809)**	(3,072,361)
Future tax asset	–	–

11. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in the Company's non-cash working capital for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
	($)	($)
OPERATING ACTIVITIES		
Accounts receivable	**291,587**	(176,500)
Prepaid expenses	**(42,278)**	9,525
Accounts payable and accrued liabilities	**39,264**	(35,661)
	288,573	(202,636)
INVESTING ACTIVITIES		
Accounts receivable	**(4,868,114)**	(637,042)
Inventory	**–**	171,174
Accounts payable and accrued liabilities	**6,978,504**	3,825,666
	2,110,390	3,359,798

12. FINANCIAL INSTRUMENTS

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

13. SEGMENTED INFORMATION

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.

	Corporate	United Kingdom	Romania	Other International	**Total**
December 31, 2007	($)	($)	($)	($)	**($)**
Expenses	1,418,810	900,073	200,688	–	**2,519,571**
Other income	(703,812)	–	–	–	**(703,812)**
Net loss	(714,998)	(900,073)	(200,688)	–	**(1,815,759)**
Property and equipment additions	–	8,466,566	1,289,012	373,941	**10,129,519**
Total assets	5,255,098	44,448,641	30,677,868	651,980	**81,033,587**
December 31, 2006					
Expenses	1,215,062	972,259	20,680	–	2,208,001
Other income	(1,001,993)	–	–	–	(1,001,993)
Net loss	(213,069)	(972,259)	(20,680)	–	(1,206,008)
Property and equipment additions	11,442	19,045,037	10,976,083	49,655	30,082,217
Total assets	20,844,653	30,240,631	21,776,423	278,033	73,139,740

14. SUBSEQUENT EVENTS

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 proceeds of $14,219,800 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 $37,450,000.

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

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DAVID E. POWELL (1) (3)
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
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STOCK EXCHANGE LISTING

The TSX Venture
Stock Exchange Trading Symbol: **SLG**

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Managing Director &
Company Secretary

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Vice President Exploration &
Business Development

PATRICK WHITLEY
Vice President Exploration
(International)

JOHN RAPACH
Vice President Operations

STEPHEN BIRRELL
Vice President Romanian Operations

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