STERLING GROUP VENTURES INC
Form 10QSB
October 16, 2006

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-QSB

Quarterly Report Pursuant to Section 13 Or 15(d) Of The Securities Act Of 1934

For the quarterly period ended **August 31, 2006**

Commission file number: **000-51775**

## STERLING GROUP VENTURES, INC.

(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| **Nevada** | **72-1535634** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**Suite 900 - 789 West Pender Street, Vancouver, B.C. V6C 1H2**
(Address of principal executive offices)

**(604) 893-8891**
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer’s classes of common equity, as of the last practicable date:

| | |
|---|---|
| **Common Stock, $0.001 par value** | **43,501,490** |
| (Class) | (Outstanding as of October 3, 2006) |

Transitional Small Business Disclosure Format (Check one): Yes ¨ No x

STERLING GROUP VENTURES, INC.
FORM 10-QSB
INDEX

**Part I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**STERLING GROUP VENTURES, INC.**
(An Exploration Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
August 31, 2006 and May 31, 2006
(Stated in US Dollars)
(Unaudited)

| | August 31, 2006 | May 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash and cash equivalents Note 5 | $ 201,827 | $ 349,954 |
| GST receivable | 4,980 | 13,787 |
| Prepaid expenses | 1,207 | 1,196 |
| Advance receivable Note 5 | 33,892 | 36,531 |
| | 241,906 | 401,468 |
| Mineral property deposit Note 3 | - | 124,600 |
| Equipment Note 4 | 2,474 | 2,986 |
| | $ 244,380 | $ 529,054 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities Note 5 | $ 132,046 | $ 77,361 |
| **STOCKHOLDERS EQUITY** | | |
| Capital stock Notes 6 and 7 | | |
| Common stock, $0.001 par value | | |
| 500,000,000 authorized | | |
| 40,277,500 issued and outstanding (May 31, 2006: 40,277,500) | 40,278 | 40,278 |
| Additional paid-in capital | 2,190,611 | 2,190,611 |
| Subscriptions received Note 6(a) | 192,320 | - |
| Warrants | 40,110 | 40,110 |
| Accumulated other comprehensive loss | (583) | (583) |
| Deficit accumulated during the exploration stage | (2,350,402) | (1,818,723) |
| | 112,334 | 451,693 |
| | $ 244,380 | $ 529,054 |

SEE ACCOMPANYING NOTES

3

**STERLING GROUP VENTURES, INC.**
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended August 31, 2006 and 2005 and
for the period from July 27, 1994 (Date of Inception) to August 31, 2006
(Stated in US Dollars)
(Unaudited)

| | Three months ended August 31, 2006 | Three months ended August 31, 2005 | July 27, 1994 (Date of Inception) to August 31, 2006 |
|---|---|---|---|
| Expenses | | | |
| Accounting, audit and legal fees | $ 19,200 | $ 19,680 | $ 205,095 |
| Bank charges | 87 | 99 | 1,030 |
| Consulting fees Note 5 | 31,428 | 32,274 | 361,344 |
| Depreciation | 512 | 452 | 3,675 |
| Filing and transfer agent fees | 1,607 | 2,677 | 31,746 |
| Foreign exchange gain | (4,529) | (123) | (6,865) |
| General and administrative Note 5 | 5,527 | 3,040 | 38,486 |
| Mineral property costs (recovery) Schedule A and Note 5 | 474,821 | 40,042 | 933,319 |
| Printing and mailing | - | - | 16,883 |
| Shareholder information and investor relations | - | 9,947 | 59,700 |
| Stock-based compensation | - | - | 368,641 |
| Travel and entertainment | 3,961 | 3,388 | 107,650 |
| Loss before other item | (532,614) | (111,476) | (2,120,704) |
| Other items | | | |
| Interest income | 935 | 719 | 17,010 |
| Allowance for doubtful collection | - | - | (246,708) |
| | 935 | 719 | (229,698) |
| Net loss for the period | $ (531,679) | $ (110,757) | $ (2,350,402) |
| Basic and diluted loss per share | $ (0.00) | $ (0.00) | |
| Weighted average number of shares outstanding | 40,277,500 | 40,277,500 | |

SEE ACCOMPANYING NOTES

4

**STERLING GROUP VENTURES, INC.**
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended August 31, 2006 and 2005 and
for the period from July 27, 1994 (Date of Inception) to August 31, 2006
(Stated in US Dollars)
(Unaudited)

| | Three months ended August 31, 2006 | Three months ended August 31, 2005 | July 27, 1994 (Date of (Inception) to August 31, 2006 |
|---|---|---|---|
| Cash Flows from Operating Activities | | | |
| Net loss for the period | $ (531,679) | $ (110,757) | $ (2,350,402) |
| Add (deduct) items not affecting cash: | | | |
| Stock compensation expenses | - | - | 368,641 |
| Depreciation | 512 | 452 | 3,675 |
| Permit and engineering studies | - | - | 150,000 |
| Shareholder information and investor relations | - | - | 20,447 |
| Foreign exchange translation adjustment | - | - | (106) |
| Change in non-cash working capital items related to operations: | | | |
| GST receivable | 8,807 | (4,695) | (4,980) |
| Prepaid expenses | (11) | 13,964 | 20,346 |
| Advance receivable | 2,639 | - | (33,892) |
| Accounts payable and accrued liabilities | 54,685 | (4,201) | 132,046 |
| Cash flows used in operating activities | (465,047) | (105,237) | (1,694,225) |
| Cash Flows from Investing Activities | | | |
| Advance on investment | - | - | (150,000) |
| Increase in mineral property deposit | 124,600 | - | - |
| Additions to equipment | - | - | (6,149) |
| Cash flows used in investing activities | 124,600 | - | (156,149) |
| Cash Flows from Financing Activities | | | |
| Common stock | - | - | 1,858,000 |
| Subscriptions received | 192,320 | - | 192,320 |
| Amounts contributed by director | - | - | 1,881 |
| Cash flows provided by financing activities | 192,320 | - | 2,052,201 |

/cont d

SEE ACCOMPANYING NOTES

**STERLING GROUP VENTURES, INC.** Continued
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended August 31, 2006 and 2005 and
for the period from July 27, 1994 (Date of Inception) to August 31, 2006
(Stated in US Dollars)
(Unaudited)

| | Three months ended August 31, 2006 | | July 27, 1994 (Date of (Inception) to August 31, 2006 |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Net increase (decrease) in cash and cash equivalents | (148,127) | (105,237) | 201,827 |
| Cash and cash equivalents, beginning of the period | 349,954 | 913,343 | - |
| Cash and cash equivalents, end of the period | $ 201,827 | $ 808,106 | $ 201,827 |
| Cash and cash equivalents consist of: | | | |
| Cash | $ 176,428 | $ 655,039 | $ 176,428 |
| Term deposits | 25,399 | 153,067 | 25,399 |
| | $ 201,827 | $ 808,106 | $ 201,827 |
| Non-cash transactions: | | | |
| Issuance of shares for commission paid to broker for private placement | $ - | $ - | $ 50,750 |
| Issuance of shares for services rendered | $ - | $ - | $ 42,000 |

SEE ACCOMPANYING NOTES

**STERLING GROUP VENTURES, INC.**
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIENCY)
for the period from July 27, 1994 (Date of Inception) to August 31, 2006
(Stated in US Dollars)
(Unaudited )

| | Common shares Number | Par Value | Additional Paid-in Capital | Subscription Received | Warrants | Accumulated Other Comprehensive Loss | Deficit Accumulated During the Exploration Stage | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, July 27, 1994 (Date of Inception) | - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Common stock | 1 | 1 | - | - | - | - | - | 1 |
| Amount contributed by director | - | - | 1,881 | - | - | - | - | 1,881 |
| Net loss for the periods | - | - | - | - | - | - | (7,902) | (7,902) |
| | | | | | | | | |
| Balance, May 31, 2001 | 1 | 1 | 1,881 | - | - | - | (7,902) | (6,020) |
| Net loss for the year | - | - | - | - | - | - | (1,860) | (1,860) |
| | | | | | | | | |
| Balance, May 31, 2002 | 1 | 1 | 1,881 | - | - | - | (9,762) | (7,880) |
| Net loss for the year | - | - | - | - | - | - | (1,360) | (1,360) |
| | | | | | | | | |
| Balance, May 31, 2003 | 1 | 1 | 1,881 | - | - | - | (11,122) | (9,240) |
| Reverse acquisition | (1) | (1) | (1,881) | - | - | - | - | (1,882) |
| Issuance of common shares for reverse | | | | | | | | |
| acquisition | 25,000,000 | 25,000 | (23,119) | - | - | - | - | 1,881 |
| Outstanding common shares of Company | | | | | | | | |
| prior to acquisition | 11,360,000 | 11,360 | (10,883) | - | - | (583) | - | (106) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Issuance of shares for cash pursuant to a private placement - at $0.50 | 1,766,000 | 1,766 | 881,234 | - | - | - | - | 883,000 |
| Stock-based compensation | - | - | 368,641 | - | - | - | - | 368,641 |
| Net loss for the year | - | - | - | - | - | - | (527,446) | (527,446) |
| Balance, May 31, 2004 | 38,126,000 | 38,126 | 1,215,873 | - | - | (583) | (538,568) | 714,848 |

/cont d

SEE ACCOMPANYING NOTES

7

**STERLING GROUP VENTURES, INC.** Continued

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIENCY)

for the period from July 27, 1994 (Date of Inception) to May 31, 2006

(Stated in US Dollars)

(Unaudited)

| | Common Shares Number | Par Value | Additional Paid-in Capital | Subscription Received | Warrants | Accumulated Other Comprehensive Loss | Deficit Accumulated During the Exploration Stage | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, May 31, 2004 | 38,126,000 | 38,126 | 1,215,873 | - | - | (583) | (538,568) | 714,848 |
| Issuance of shares for cash pursuant to a private placement - at $0.50 | 1,950,000 | 1,950 | 973,050 | - | - | - | - | 975,000 |
| Issuance of shares for finder s fee of private placement | 101,500 | 102 | 50,648 | - | - | - | - | 50,750 |
| Finders fees | - | - | (50,750) | - | - | - | - | (50,750) |
| Fair value of share purchase warrants (finders fees) | - | - | (40,110) | - | 40,110 | - | - | - |
| Issuance of shares for services rendered | 100,000 | 100 | 41,900 | - | - | - | - | 42,000 |
| Net loss for the year | - | - | - | - | - | - | (818,954) | (818,954) |
| Balance, May 31, 2005 | 40,277,500 | 40,278 | 2,190,611 | - | 40,110 | (583) | (1,357,522) | 912,894 |
| Net loss for the year ended May | - | - | - | - | - | - | (461,201) | (461,201) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31, 2006 | | | | | | | | |
| | | | | | | | | |
| Balance, May 31, 2006 | 40,277,500 | 40,278 | 2,190,611 | - | 40,110 | (583) | (1,818,723) | 451,693 |
| Subscriptions received | - | - | - | 192,320 | - | - | - | 192,320 |
| Net loss for the three months ended | | | | | | | | |
| August 31, 2006 | - | - | - | - | - | - | (531,679) | (531,679) |
| | | | | | | | | |
| Balance, August 31, 2006 | 40,277,500 $ | 40,278 $ | 2,190,611 $ | 192,320 $ | 40,110 $ | (583) $ | (2,350,402) $ | 112,334 |

SEE ACCOMPANYING NOTES

**STERLING GROUP VENTURES, INC.** Schedule A
(An Exploration Stage Company)
INTERIM SCHEDULE OF MINERAL PROPERTY COSTS
for the three months ended August 31, 2006 and 2005 and
for the period from July 27, 1994 (Date of Inception) to August 31, 2006
(Stated in US Dollars)
(Unaudited)

| | DXC Salt Lake Property | Jiajika Spodumene Property | DX Polymetallic Property | Total |
|---|---|---|---|---|
| Three months ended August 31, 2006 | | | | |
| Administrative | $ 1,746 | $ - | $ - | $ 1,746 |
| Consulting fees | 17,441 | - | - | 17,441 |
| Engineering studies | 31,177 | - | - | 31,177 |
| Mining permit | 377,100 | - | - | 377,100 |
| Topography measurement | 15,001 | - | - | 15,001 |
| Travel | 13,125 | 488 | - | 13,613 |
| Wages and benefits | 18,743 | - | - | 18,743 |
| Balance, August 31, 2006 | $ 414,333 | $ 488 | $ - | $ 474,821 |
| Three months ended August 31, 2005 | | | | |
| Administrative | $ 103 | $ 2,305 | $ 578 | $ 2,986 |
| Consulting fees | 2,977 | 8,451 | 9,688 | 21,116 |
| Travel | 306 | 6,086 | 2,046 | 8,438 |
| | $ 3,386 | $ 16,842 | $ 12,312 | $ 32,540 |
| From Date of Inception (July 27, 1994) to August 31, 2006 | | | | |
| Balance, May 31, 2003 | $ - | $ - | $ - | $ - |
| Administrative | - | 471 | - | 471 |
| Consulting fees | - | 9,263 | - | 9,263 |
| Travel | - | 2,763 | - | 2,763 |
| Balance, May 31, 2004 | - | 12,497 | - | 12,497 |
| Administrative | - | 6,598 | 843 | 7,441 |
| Consulting fees | - | 33,799 | 6,552 | 40,351 |
| Feasibility study | - | 157,769 | - | 157,769 |
| Exploration costs | - | - | 30,266 | 30,266 |
| Permit costs | - | 150,000 | - | 150,000 |
| Travel | - | 15,085 | 1,785 | 16,870 |
| Balance, May 31, 2005 | - | 375,748 | 39,446 | 415,194 |

/cont d

SEE ACCOMPANYING NOTES

9

**STERLING GROUP VENTURES, INC.** Schedule A (cont d)
(An Exploration Stage Company)
INTERIM SCHEDULE OF MINERAL PROPERTY COSTS
for the three months ended August 31, 2006 and 2005 and
for the period from July 27, 1994 (Date of Inception) to August 31, 2006
(Stated in US Dollars)
(Unaudited)

| | DXC Salt Lake Property | Jiajika Spodumene Property | DX Polymetallic Property | Total |
|---|---|---|---|---|
| Balance, May 31, 2005 | - | 375,748 | 39,446 | 415,194 |
| Administrative | 5,560 | 2,100 | 577 | 8,237 |
| Consulting fees | 46,629 | 12,062 | 9,688 | 68,379 |
| Engineering studies | 26,933 | - | - | 26,933 |
| Feasibility stud | 29,080 | - | - | 29,080 |
| Geophysical study | 31,114 | - | - | 31,114 |
| Legal fees | 623 | - | - | 623 |
| Topography measurement | 32,266 | - | - | 32,266 |
| Travel | 30,953 | 8,009 | 2,046 | 41,008 |
| Wages and benefits | 33,601 | - | - | 33,601 |
| Cost recovery | - | (309,058) | - | (309,058) |
| | | | | |
| Balance, May 31, 2006 | 236,759 | 88,861 | 51,757 | 377,377 |
| Administrative | 1,746 | - | - | 1,746 |
| Consulting fees Note 6 | 17,441 | - | - | 17,441 |
| Engineering studies | 31,177 | - | - | 31,177 |
| Mining permit | 377,100 | - | - | 377,100 |
| Topography measurement | 15,001 | - | - | 15,001 |
| Travel | 13,125 | 488 | - | 13,613 |
| Wages and benefits | 18,743 | - | - | 18,743 |
| | | | | |
| Balance, August 31, 2006 | $ 711,092 | $ 89,349 | $ 51,757 | $ 852,198 |

SEE ACCOMPANYING NOTES

**STERLING GROUP VENTURES, INC.**
(An Exploration Stage Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006
(Stated in US Dollars)
(Unaudited)

Note 1 Interim Reporting and Continuance of Operations

While the information presented in the accompanying interim three month consolidated financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, result of operations and cash flows for the interim periods presented. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements be read in conjunction with the Company s May 31, 2006 annual consolidated financial statements.

Operating results for the three months ended August 31, 2006 are not necessarily indicative of the results that can be expected for the year ending May 31, 2007.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At August 31, 2006, the Company had not yet achieved profitable operations, has accumulated losses of $2,350,402 since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company s ability to continue as a going concern. The Company s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has no formal plan in place to address this concern but considers that the Company will be able to obtain additional funds by equity financing and/or related party advances, however there is no assurance of additional funding being available.

Note 2 Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly- owned subsidiaries, Micro Express Holdings Inc., Micro Express Ltd., Huyana Ventures Limited., Makaelo Holdings Inc. and Makaelo Limited. All inter-company transactions and account balances have been eliminated.

Note 3 Mineral Properties

a) Dangxiongcuo Salt Lake Project

On September 16, 2005, the Company, through its wholly owned subsidiary, Micro Express Holdings Inc. ( Micro ), signed an agreement (the Agreement ) for the development of Dangxiongcuo salt lake property ( DXC Salt Lake ) in Nima county of Naqu district in Tibet, China. The Agreement follows a Letter of Intent signed between the parties on July 11, 2005.

Pursuant to the Agreement, the parties have agreed to set up a Cooperative Company, (the Cooperative ) to develop the DXC Salt Lake. The objective of the Cooperative is to use the funds provided by the Company and the skills and technology provided by the other party to produce lithium carbonate and borate from brine. The Company, through Micro, will own 65% of the Cooperative. It is anticipated that the total investment in the Cooperative will be approximately RMB240,000,000 (approximately $30,168,000).

As of August 31, 2006, the Company has advanced RMB3,000,000 ($377,100) to the joint venture partner in China as a project deposit which has been used as part of the transfer fee for the mining permit. The Company has incurred a total of $711,092 in mineral property costs.

b) Jiajika Spodumene Property

On April 5, 2005, the Company, through its wholly-owned subsidiary Micro Express Ltd. ( MEL ), signed a joint venture contract with a Chinese partner for the establishment of a joint venture company, Jihai Lithium Ltd. and the development of the Jiajika lithium deposit in Kangding District, Sichuan Province, China. On March 3, 2006, both parties agreed to terminate the joint venture and the Chinese partner will pay back RMB2,480,000 ($311,736) incurred by MEL on the project. The Chinese partner shall pay RMB1,200,000 ($150,840) and RMB1,280,000 ($160,896) before April 15, 2006 and March 30, 2007, respectively. If the Chinese partner does not pay the RMB1,280,000, the amount will be converted into an interest in the Jiajika project based on the percentage of MEL s investment as to the total investment in the Jiajika project. As at August 31, 2006, the Company had received RMB500,000 ($62,350) and a receivable of RMB1,980,000 ($246,708) was recorded. As the Chinese partner has not paid the remaining RMB700,000 ($87,170) and the recoverability of the RMB1,280,000 ($159,538) is uncertain, the Company has recorded an allowance for doubtful collection totalling $246,708 for the year ended May 31, 2006.

As at August 31, 2006, the Company had incurred $398,407 in the Jiajika Spodumene Property.

Sterling Group Ventures, Inc.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
August 31, 2006
(Stated in US Dollars)
(Unaudited) Page 13

Note 3 Mineral Properties (cont d)

c) DX Polymetallic Project

On March 2, 2005, the Company, through its wholly-owned subsidiary, Makaelo Limited, entered into a joint venture agreement with a Chinese citizen who holds two exploration permits for a copper project ( the Project ) in Inner Mongolia, China.

The Project is comprised of two exploration permits, Donggou and Xiaoxigou, covering an area of about 52 square kilometers. The Project is located in Inner Mongolia. The Company has the right to earn 52% of a cooperative joint venture company by spending RMB 5,200,000 ($653,640) for the exploration in the permit areas over three years with the first year contributing not less than RMB2,000,000 ($251,400). The Company did not complete the required expenditures within the first year and was attempting to renegotiate this agreement.

As at August 31, 2006, the Company had incurred $51,757 in the DX Polymetallic Property and during the three months ended August 31, 2006 had abandoned the property.

Note 4 Equipment

| | | | August 31, 2006 | |
|---|---|---|---|---|
| | Cost | | Accumulated Amortization | Net |
| Computer equipment | $ | 6,149 | $ 3,675 | $ 2,474 |

| | | | May 31, 2006 | |
|---|---|---|---|---|
| | Cost | | Accumulated Amortization | Net |
| Computer equipment | $ | 6,149 | $ 3,163 | $ 2,986 |

The equipment is located in Canada.

Note 5 Related Party Transactions

The Company was charged consulting fees during the three months ended August 31, 2006 totalling $31,202 (2005: $30,428) by companies controlled by two directors of the Company.

The Company was charged rental fees included in General and Administrative during the three months ended August 31, 2006 totalling $2,622 (2005: $2,453) by a company controlled by a director of the Company.

Note 5 Related Party Transactions (cont d)

The Company was charged mineral property costs - consulting during the three months ended August 31, 2006 in the amount of $11,276 (2005: $10,420) by a company controlled by a director of the Company.

Cash and cash equivalents at August 31, 2006 include $79,099 (May 31, 2006: $290,194) held in trust by a director of the Company.

Included in advance receivable is $33,892 (May 31, 2006: $33,595) advanced to the Vice- President of Micro.

Included in accounts payable is $71,890 (May 31, 2006: $23,814) which is due to companies controlled by the directors of the Company for their services provided.

Note 6 Capital Stock Note 7

Commitments:

a) Capital Stock

The Company had arranged a private placement of up to 5,000,000 units at $0.50 per unit for total proceeds of $2,500,000 and as at May 31, 2006, the Company had received total subscriptions of $1,858,000 for 3,716,000 units, which were issued. The private placement was closed without issuing the remaining 1,284,000 units. Each unit consists of one common share and one share purchase warrant entitling the holder the right to purchase one common share at $0.75 per share, expiring on February 16, 2006 (Note 6(c)). Upon exercise of the share purchase warrant, an additional share purchase warrant would be granted at $1.00 per share, expiring February 16, 2007. Finder's fee of 101,500 units with the aforementioned terms were issued.

The Company has arranged a private placement of 5,000,000 units at $0.15 per unit for total proceeds of $750,000. Each unit consists of one common share and one share purchase warrant entitling the holder the right to purchase one common share at $0.18 per share expiring on December 29, 2006. A 7% finder s fee will be paid in relation to the private placement. As of August 31, 2006, the Company had received subscriptions of $192,320 for this private placement.

On September 20, 2006, the Company issued 2,873,990 units under this private placement, of which 2,750,300 units were issued for gross proceeds of $412,545 ($192,320 received at August 31, 2006) and 123,690 units were issued as the 7% finder s fees.

Note 6 Capital Stock Note 7 (cont d)

Commitments: (cont d)

b) Stock Options

On February 3, 2004, the Board of Directors of the Company has approved the 2004 Stock Option Plan which allows the Company to grant up to 3,636,000 stock options as an incentive to directors, officers, employees and consultants.

During the quarter ended August 31, 2006, no stock options were granted, exercised or cancelled.

As at August 31, 2006, there were a total of 3,636,000 stock options outstanding to directors and officers of the Company exercisable at $0.50 per share, expiring on February 3, 2009.

c) Share Purchase Warrants

During the three months ended August 31, 2006, there were no warrants issued, exercised or cancelled.

As at August 31, 2006, the Company has a total of 3,817,500 Series A share purchase warrants outstanding. Each warrant entitled the holder thereof the right to purchase one common share at $0.75 per share expiring on February 16, 2006. Upon exercising of the warrant, an additional share purchase warrant will be granted at $1.00 per share expiring on February 16, 2007.

On February 14, 2006, the Company reduced the exercise price of the 3,817,500 Series A Share Purchase Warrants from $0.75 to $0.50 each and extended the terms of Series A Share Purchase Warrants for two years to the earlier of:

i) February 16, 2008; and

ii) The 90th day after the day on which the weighted average trading price of the Company s shares exceed $0.85 per share for 30 consecutive trading days.

Upon exercise of the Series A Share Purchase Warrant at $0.50 each, the holder will receive one Common Share of the Company and a Series B Share Purchase Warrant exercisable at $1.00 expiring one year after the occurrence of either (i) or (ii) as described above.

Sterling Group Ventures, Inc.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
August 31, 2006
(Stated in US Dollars)
(Unaudited) Page 16

Note 7 Subsequent Events Note 6

By resolution dated September 27, 2006, the Company issued 350,000 common shares at $0.14 per share to settle accounts payable of $49,000 ($33,000 was included in accounts payable at August 31, 2006).

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

Safe Harbor Statement under the United States Private Securities Litigation Reform Act of 1995: Except for the statements of historical fact contained herein, the information constitutes "forward-looking statements" within the meaning of the Private Securities Litigation reform Act of 1995. Such forward looking statements, including but not limited to those with respect to the price of lithium, lithium carbonate, other metals and chemicals, the timing and amount of estimated production, costs of production, reserve determination and reserve conversion rates, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such factors include, among others, risks relating to the integration of the acquisition, risks that the company may not be able to raise the necessary capital, risks relating to international operations, risks relating to joint venture operations, the actual results of current exploration activities, the actual results of current reclamation activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future prices of lithium, beryllium, niobium, tantalum, and other metals, as well as those factors affecting the mineral industry. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

INTRODUCTION

The information presented here should be read in conjunction with Sterling Group Ventures, Inc.'s (the "Company") financial statements and other information included in this Form 10-QSB. The Company has presented its quarterly financial statements, which should be read in conjunction with its annual financial statements and the notes thereto for the fiscal year ended May 31, 2006.

As used in this quarterly report, the terms "we", "us", "our", "our company", "Company" and Sterling mean Sterling Group Ventures, Inc. and its subsidiaries , unless otherwise indicated.

When used in this Form 10-QSB, the words "expects", "anticipates", "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties, including those set forth below under "Risks and Uncertainties," that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date hereof. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

PLAN OF OPERATIONS

Sterling is an exploration stage company and there is no assurance a commercially viable mineral deposit exists on any of the properties. Further exploration will be required before final evaluation as to the economic and legal feasibility is determined.

On January 20, 2004, the Company completed the acquisition of all of the issued and outstanding shares of Micro Express Ltd., a British Virgin Islands corporation ( Micro ) pursuant to an Acquisition Agreement, filed as an exhibit to a Form 8-K on January 29, 2004. Pursuant to the transaction, the Company issued an aggregate of 25,000,000 shares of common stock to the stockholders of Micro in exchange for 100% of the shares of Micro common stock. Micro Express Ltd. is a subsidiary of Micro Express Holdings Inc., which is a wholly owned subsidiary of Sterling.

Micro is a party to an agreement with Sichuan Province Mining Ltd, which is 40% held by the Bureau of Sichuan Geology and Resources of Sichuan Government. Under the terms of the agreement, Micro has the right to acquire at least 75% of the shares of a co-operative joint-venture company which will hold the necessary mining licenses. The business of the joint-venture company is to develop the Jiajika spodumene property for the extraction of lithium, lithium salts, and other minerals. The total investment required is estimated at 88.51 million Chinese Yuan. The initial registered capital is 56 million Chinese Yuan (US$6.8 million). Sichuan Province Mining Ltd. will contribute 14 million Chinese Yuan (about US$1.7 million) including the mining permits and previous works to hold 25% of the JV company. Micro will contribute 42 million Chinese Yuan (about US$5.1 million) to hold 75% of the JV company. An initial contribution of $150,000 has been made by the Company as part of the contribution to obtain the mining permit pursuant to the contract signed between our Chinese partner and Sichuan Bureau of Land and Resource.

On March 3, 2006, the Company, through its wholly owned subsidiary, Micro Express Ltd. ( Micro ), signed an agreement (the Agreement ) with Sichuan Province Mining Ltd. ( SPM ) to terminate the joint venture and SPM will pay back RMB2,480,000 incurred by Micro on the project.

Pursuant to the Agreement, the parties have confirmed that Micro s early investment of 2.48 million Yuan (RMB) to the Sichuan Jiajika Spodumene project shall be paid back 1.2 million Yuan (RMB) before April 15, 2006 and 1.28 million Yuan (RMB) before March 30, 2007. Payments shall be made directly to Micro by SPM. If SPM does not make the payment of 1.28 million to Micro before March 30, 2007, then 1.28 million yuan will be converted into Micro s interest in Jiajika project of SPM using the formula: 1.28 million Yuan divided by registered capital contribution in Jiajika project by SPM, multiplied by 100%. Neither party shall have any other liabilities to the other party and the Agreement shall replace all previous signed agreements, contracts and MOU between Micro and SPM.

On March 2, 2005, the Company through its subsidiary, Makaelo Limited ( Makaelo ), a BVI company, had entered into a Joint Venture Agreement with Aifeng Li, an individual residing in Anyang, Henan Province of China. Pursuant to the Agreement, the parties will set up a Joint Venture company in Inner Mongolia for the exploration and development of copper and silver in the areas of Donggou and Xiaoxigou (DX). Aifeng Li will contribute all the necessary exploration licenses, achievements and geological data to the Joint Venture in exchange for 48% of the Joint Venture company, while the Company will finance the cost of exploration in return for 52% of the Joint Venture company. The Company expects the cost of exploration to be approximately $650,000 to be contributed over the three years. As a joint venture contract with the property owner could not be completed on acceptable terms, the Company made the decision during the present quarter to abandon the project.

On September 16, 2005, the Company through its wholly owned subsidiary, Micro Express Holdings Inc. ( MEH ), signed an agreement with Beijing Mianping Salt Lake Research Institute ( Mianping ) for the development of Dangxiongcuo salt lake property in Nima county of Naqu district in Tibet, China. The Agreement follows a Letter of Intent signed between the parties on July 11, 2005.

Pursuant to the Agreement, the parties have agreed to set up a Cooperative Company, Tibet Saline Lake Mining High-Science & Technology Co. Ltd. (the Cooperative ) to develop DXC Salt Lake. The objective of the Cooperative is to use the funds provided by Sterling through MEH and the skills and technology provided by Mianping to produce lithium carbonate (Li2CO3) and borate from brine. MEH is to own 65% and Mianping 35% of the Cooperative.

It is anticipated that the total investment in the Cooperative will be approximately 240 million RMB Yuan (or approximately US$30 million) and will result in production of 5,000 tonnes per year of lithium carbonate and by products (sodium borate). Mianping guarantees the production cost of lithium carbonate will be less than 11,000 RMB yuan per tonne (or approximately US $1,356 per tonne).

As of August 31, 2006, the Company has advanced RMB3,000,000 ($377,100) to the joint venture partner in China as a project deposit which has been used as part of the transfer fee for the mining permit. The Company has incurred a total of $711,092 in the DXC Salt Lake property costs.

OUTLOOK

During the quarter ended August 31, 2006, the Company continued to undergo feasibility studies for the development of DXC salt lake property in Tibet.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended May 31, 2006; and should further be read in conjunction with the financial statements included in this report. Comparisons made between reporting periods herein are for the three months ended August 31, 2006, as compared to the three months ended August 31, 2005.

The Company had interest income of $935 for the quarter ended August 31, 2006 as compared to $719 for the quarter ended August 31, 2005.

The operating loss increased to $531,679 for the quarter ended August 31, 2006, as compared to $110,757 for the quarter ended August 31, 2005.

For the three months ended August 31, 2006 relative to the same period in 2005, consulting services decreased by $846.

Accounting, audit and legal fees decreased by $480 for the three months ended August 31, 2006 when compared to the same period in 2005.

Mineral property costs increased by $434,779 for the three months ended August 31, 2006 when compared to the same period in 2005.

Travel expenses increased by $573 for the three months ended August 31, 2006 when compared to the same period in 2005.

The Company expects the trend of losses to continue at an increasing rate until we can achieve commercial production on some of the mineral properties, of which there can be no assurance.

LIQUIDITY AND WORKING CAPITAL

As of August 31, 2006, the Company had total current assets of $ 241,906 and total liabilities of $132,046. The Company has a working capital surplus of $ 109,860 as a result of proceeds of $192,320 from a private placement commenced in August 2006.

*Stock Options*

During the three months ended August 31, 2006, no stock options were granted, exercised or cancelled.

As of August 31, 2006, there were 3,636,000 stock options outstanding exercisable at $0.50 per share, expiring on February 3, 2009.

*Share Purchase Warrants*

During the three months period ended August 31, 2006, there were no warrants issued, exercised or cancelled.

On February 14, 2006, the Company has reduced the exercise price of the 3,817,500 Series “A” Share Purchase Warrants from $0.75 to $0.50 each and extended the terms of the Series “A” Share Purchase Warrants for two years to the earlier of:

(a) February 16, 2008; and

(b) The 90th day after the day on which the weighted average trading price of the Company's shares exceed $0.85 per share for 30 consecutive trading days.

Upon exercise of the Series "A" Share Purchase Warrant at $0.50 each, the holder will receive one Common Share of the Company and a Series "B" Share Purchase Warrant exercisable at $1.00 expiring one year after the occurrence of either (a) or (b) as described above.

As at August 31, 2006, the Company has a total of 3,817,500 Series "A" Share Purchase Warrants outstanding.

The Company has no other capital resources other than the ability to use its common stock to raise additional capital or raise capital through the exercise of the options or the warrants by the unit holders.

RISK FACTORS

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock. We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

*Lack of Technical Training of Management*

The Management of our Company has academic and scientific experience related to mining issues but lacks technical training and experience exploring for, commissioning and operating a mine. With no direct training or experience in these areas, management may not be fully aware of many of the specific requirements related to working within this industry. The decisions and choices may not take into account standard engineering or managerial approaches mineral exploration companies commonly use. Consequently, operations, earnings and the ultimate financial success of the Company could suffer irreparable harm due to management s lack of experience in this industry.

*Exploration Risk*

Development of mineral properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate.

There is no assurance that commercial quantities of ore will be discovered on any of the Company s exploration properties. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of the Company.

The exploration process is conducted in phases. When each phase of a project is completed, and upon analysis of the results of that phase, the Company will make a decision whether to proceed with each successive phase of the exploration program. There is no assurance that projects will be carried to completion.

*Limited Management Resource Development Experience*

The Company does not have a track record of exploration and mining operation history. The Company's management has limited experience in mineral resource development and exploitation, and has relied on and may continue to rely upon consultants and others for development and operation expertise.

*Limited Operating History; Anticipated Losses; Uncertainty of Future Results*

Sterling is an exploration stage company and there is no assurance a commercially viable mineral deposit exists on any of the properties. Further exploration will be required before final evaluation as to the economic and legal feasibility is determined.

Sterling Group Ventures, Inc. has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be evaluated with a view to the risks encountered by a company in an early stage of development, particularly in light of the uncertainties relating to the new and evolving distribution methods with which the Company intends to operate and the acceptance of the Company's business model. To the extent that such expenses are not subsequently followed by commensurate revenues, the Company's business, results of operations and financial condition will be materially adversely affected. There can be no assurance that the Company will be able to generate sufficient revenues from the sale of its products. If cash generated by operations is insufficient to satisfy the Company's liquidity requirements, the Company may be required to sell additional equity or debt securities. The sale of additional equity or convertible debt securities would result in additional dilution to the Company's stockholders.

*Limited Financial Resources*

Furthermore, the Company has limited financial resources with no assurance that sufficient funding will be available to it for future exploration and development or to fulfill its obligations under current agreements. There is no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects.

*Limited Public Market, Possible Volatility of Share Price*

The Company's Common Stock is currently quoted on the NASD OTC Bulletin Board under the ticker symbol SGGV. As of October 3, 2006, there were approximately 43,501,490 shares of Common Stock outstanding. There can be no assurance that a trading market will be sustained in the future.

*Potential Fluctuations in Quarterly Results*

Significant variations in our quarterly operating results may adversely affect the market price of our common stock. Our operating results have varied on a quarterly basis during our limited operating history, and we expect to experience significant fluctuations in future quarterly operating results. These fluctuations have been and may in the future be caused by numerous factors, many of which are outside of our control. We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and that you should not rely upon them as an indication of future performance. Also, it is likely that our operating results could be below the expectations of public market analysts and investors. This could adversely affect the market price of our common stock.

*Dependence on Executive Officers and Technical Personnel*

The success of our business plan depends on attracting qualified personnel, and failure to retain the necessary personnel could adversely affect our business. Competition for qualified personnel is intense, and we may need to pay premium wages to attract and retain personnel. Attracting and retaining qualified personnel is critical to our business. Inability to attract and retain the qualified personnel necessary would limit our ability to implement our business plan successfully.

*Need for Additional Financing*

The Company believes it has sufficient capital to meet its short-term cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. However, if losses continue it may have to seek loans or equity placements to cover longer term cash needs to continue operations and expansion.

No commitments to provide additional funds have been made by management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to the Company to allow it to cover operation expenses.

If future operations are unprofitable, it will be forced to develop another line of business, or to finance its operations through the sale of assets it has, or enter into the sale of stock for additional capital, none of which may be feasible when needed. The Company has no specific management ability or financial resources or plans to enter any other business as of this date.

*Political Risks*

The market in China is monitored by the government, which could impose taxes or restrictions at any time which would make operations unprofitable and infeasible and cause a write-off of investment in the mineral properties. Other factors include political policy on foreign ownership, political policy to open the doors to foreign investors, and political policy on mineral claims and metal prices.

*Market Risk*

The Company does not hold any derivatives or other investments that are subject to market risk. The carrying values of any financial instruments, approximate fair value as of those dates because of the relatively short-term maturity of these instruments which eliminates any potential market risk associated with such instruments.

*Other Risks and Uncertainties*

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production. At present, none of the Company s properties has a known body of commercial mineral deposit. Other risks facing the Company include competition, reliance on third parties and joint venture partners, environmental and insurance risks, political and environmental instability, statutory and regulatory requirements, fluctuations in mineral prices and foreign currency, share price volatility, title risks, and uncertainty of additional financing.

The Company has sought to identify what it believes to be the most significant risks to its business, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurances that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to the Company's stock.

## ITEM 3. CONTROLS AND PROCEDURES

The management of the company has evaluated the effectiveness of the issuer's disclosure controls and procedures as of August 31, 2006, and has concluded that the disclosure controls and procedures are adequate and effective based upon their evaluation as of the evaluation date.

There were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation of such, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

None

22

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Capital Stock

In February 2004, the Company commenced a private placement of up to 5,000,000 units at $0.50 per unit for total proceeds of $2,500,000. Each unit consists of one common share and one non-transferable share purchase warrant entitling the holder to purchase one common share for two years, at $0.50 per share in the first year or $0.75 in the second year ( A warrant), with a expire date on February 16, 2006. Upon exercising an A warrant, the holder of each unit will have one additional non-transferable share purchase warrant at $1.00 ( B warrant) for another year, with an expire date on February 16, 2007. As at May 31, 2006, the Company had received total subscriptions of $1,858,000 for 3,716,000 units , which were issued. A finder's fee of 101,500 units was issued under the same abovementioned terms. The private placement was closed without issuing the remaining 1,284,000 units.

In August 2006, the Company commenced a private placement of up to 5,000,000 units at $0.15 per unit for total proceeds of $750,000. Each unit consists of one common share and one non-transferable share purchase warrant( C warrant). Each C warrant will be exercisable to acquire one additional common share expiring on December 29, 2006 at a price of $0.18 per share. The proceeds from this private placement will be used for general working capital.

As of August 31, 2006, the Company has received total subscriptions of $192,320 for the private placement.

On September 20, 2006, the Company issued 2,873,990 units for $0.15 per unit under the private placement, of which 2,750,300 units were issued for a gross proceed of $412,545 and 123,690 units were issued as a 7% finder’s fees. Each unit consists of one common share and one non-transferable share purchase warrant( C warrant). Each C warrant will be exercisable to acquire one additional common share expiring on December 29, 2006 at a price of $0.18 per share.

On October 3, 2006, the Company issued 350,000 common shares at $0.14 per share to settle accounts payable of $49,000 ($33,000 was included in accounts payable at August 31, 2006) with Braun & Co., the Company's legal counsel.

*Stock Options*

During the three months ended August 31, 2006, no stock options were granted, exercised or cancelled.

As of August 31, 2006, there were 3,636,000 stock options outstanding exercisable at $0.50 per share, expiring on February 3, 2009.

*Share Purchase Warrants*

During the three months period ended August 31, 2006, there were no warrants issued, exercised or cancelled.

On February 14, 2006, the Company has reduced the exercise price of the 3,817,500 Series “A” Share Purchase Warrants from $0.75 to $0.50 each and extended the terms of the Series “A” Share Purchase Warrants for two years to the earlier of:

(a) February 16, 2008; or

(b) The 90th day after the day on which the weighted average trading price of the Company’s shares exceed $0.85 per share for 30 consecutive trading days.

Upon exercise of the Series “A” Share Purchase Warrant at $0.50 each, the holder will receive one Common Share of the Company and a Series “B” Share Purchase Warrant exercisable at $1.00 expiring one year after the occurrence of either (a) or (b) as described above.

As at August 31, 2006, the Company has a total of 3,817,500 Series "A" Share Purchase Warrants outstanding.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

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|---|---|
| 31.1 | Section 302 Sarbanes-Oxley Certification of Chief Executive Officer |
| 31.2 | Section 302 Sarbanes-Oxley Certification of Chief Financial Officer |
| 32.1 | Section 906 Sarbanes-Oxley Certification of Chief Executive Officer |
| 32.2 | Section 906 Sarbanes-Oxley Certification of Chief Financial Officer |

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 13, 2006

STERLING GROUP VENTURES, INC.
/s/ Raoul Tsakok
Raoul Tsakok, Chairman & CEO