



## First Quarter Report

For the Three Months Ended March 31, 2001

Two exploration wells that had been scheduled to commence drilling during the first quarter were delayed somewhat due to outside factors. The Doina appraisal well, offshore Romania, is now expected to spud in early July when the jack up drilling rig Jupiter becomes available, and the final preparations for the West Compton A-1 well on License PEDL 048 onshore the United Kingdom awaits the end of the foot and mouth epidemic.

### United Kingdom

The foot and mouth epidemic has impacted all activity for a period of time now. Land access has been restricted and district council meetings have been postponed. Given the improving trend in control of the disease, the district council is expected to meet in early July, following which site preparation and rig selection could begin.

Activities on the other licenses are progressing well. A technical review of PEDL 070 has been completed and collection of technical data on PEDL's 068, 069 and 071 is underway.

### Romania

Offshore Romania, the Doina appraisal well will spud as soon as the contracted jack up rig Jupiter completes the work it is currently conducting for another party. The well will be a follow up to appraise the 1995 Doina gas discovery with indicated gas in place of approximately 120 billion cubic feet. Work carried out to date indicates that the Doina structure could contain approximately 290 billion cubic feet of recoverable gas. A second well on the associated Doina trend may also be drilled during 2001. Sterling has a 20% working interest in the Doina gas discovery and the two offshore Blocks.

Onshore Romania, all relevant geological and geophysical data has now been assembled, the key data reprocessed and the technical study over the eastern part of the 1.5 million acre block is nearing completion.

### Denmark

Sterling was awarded two new licenses under the Danish "Open Door" policy in the first quarter. License 1/01, in which Sterling holds a 20% working interest, is located in southern Jutland and covers 900,000 acres. Initial activity will focus on the assimilation and evaluation of existing data on the license including the reprocessing of seismic. The South Jutland area lies along the Zechstein trend, which produces in the UK, Germany and Poland. Despite earlier discovery of hydrocarbons, the area has not had the benefit of modern exploration techniques.

License 2/01 is in the Salling area of Denmark and covers 333,500 acres. Sterling is operator and holds a 75% working interest. The area lies within the Norwegian – Danish Basin in a salt dome province with related structures. A Jurassic source rock (Fjerritslev formation) is present and is believed to be mature in the deep rim synclines that surround the salt features. An oil show was noted in the Mejrup-1 well (drilled by Phillips in 1987), which is located just to the south west of the license area.

The geological & geophysical evaluation of our existing License 5/97 remains on schedule for completion in early July.

### Financial

Sterling's balance sheet was strengthened during the first quarter with the successful completion of a private equity financing of 5,092,964 units, comprising common shares and common share purchase warrants, for total proceeds of \$3,055,580.

On behalf of the Board of Directors

Robert G. Welty  
Chairman & Chief Executive Officer

Stewart G. Gibson  
President & Chief Operating Officer

May 8, 2001

## Consolidated Balance Sheets

Unaudited

	Mar. 31, 2001	Dec. 31, 2000
<b>ASSETS</b>		
<b>Current</b>		
Cash and short term investments (note 3)	\$ 2,591,492	\$ 98,231
Accounts receivable	168,581	95,500
	<b>2,760,073</b>	193,731
<b>Due from officers</b>	<b>440,000</b>	440,000
<b>Capital assets</b>		
Petroleum and natural gas properties and equipment	5,506,072	5,208,977
Furniture and fixtures	33,487	33,280
	<b>5,539,559</b>	5,242,257
	<b>\$ 8,739,632</b>	\$ 5,875,988
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 362,005	\$ 259,970
<b>Shareholders' equity</b>		
Share capital (note 4)	11,244,246	8,310,328
Contributed surplus	66,479	66,479
Deficit	(2,933,098)	(2,760,789)
	<b>8,377,627</b>	5,616,018
	<b>\$ 8,739,632</b>	\$ 5,875,988

See selected notes to consolidated financial statements.

## Consolidated Statements of Operations and Deficit

Unaudited

	Three months ended Mar. 31, 2001	Three months ended Mar. 31, 2000
<b>Revenues</b>		
Oil and gas, net of royalties	\$ -	\$ -
	-	-
<b>Expenses</b>		
Operating	-	-
General and administrative	197,082	180,033
Depletion and depreciation	1,929	2,151
	199,011	182,184
<b>Other Income</b>		
Interest	26,702	15,500
Net loss for the period	(199,011)	(182,184)
Deficit, beginning of period	(2,760,789)	(1,911,120)
Deficit, end of period	\$ (2,959,800)	\$ (2,093,304)
Net loss attributable per common share (note 4)		
Basic	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding	11,766,987	7,807,728

See selected notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Unaudited

	Three months ended Mar. 31, 2001	Three months ended Mar. 31, 2000
<b>Operating Activities</b>		
Net loss for period	\$ (172,309)	\$ (166,684)
Items not affecting cash		
Depletion, depreciation and amortization	1,929	2,151
Cash flow from operations	(170,380)	(164,533)
Change in non-cash working capital	28,953	(68,733)
Cash used in operating activities	(141,427)	(233,266)
<b>Investing Activities</b>		
Petroleum and natural gas properties and equipment additions	(297,094)	(245,656)
Furniture and fixtures additions	(2,136)	(503)
Cash used in investing activities	(299,230)	(246,159)
<b>Financing Activities</b>		
Issue of common shares, net of issue costs	2,933,918	-
Cash provided by financing activities	2,933,918	-
Increase (decrease) in cash	2,493,261	(479,425)
Cash and short term investments, beginning of period	98,231	1,512,435
Cash and short term investments, end of period	\$ 2,591,492	\$ 1,033,010

See selected notes to consolidated financial statements.

## Selected Notes to Consolidated Financial Statements

Three months ended March 31, 2001

(Unaudited)

### NOTE 1 - BASIS OF PRESENTATION

The interim consolidated financial statements of Sterling Resources Ltd. have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2000. The disclosures included below are incremental to those included with annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2000.

### NOTE 2 - CHANGES IN ACCOUNTING POLICIES

In 2001, the Company retroactively adopted the new Canadian Institute of Chartered Accountants earnings per share standard. The new standard relates to the computation, presentation and disclosure of earnings per share. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments.

Prior period diluted net income attributable per common share has been restated for this change. If the imputed earnings method had been used to calculate these amounts, there would not be a material dilutive effect on net income attributable per common share.

### NOTE 3 - CASH AND SHORT TERM INVESTMENTS

At March 31, 2001, included in cash and short term investments are \$2,291,412 of bankers' acceptances with maturities of less than 90 days, bearing interest between 4.40% and 4.60%.

### NOTE 4 - SHARE CAPITAL

a) Authorized

Unlimited common shares without nominal or par value

b) Issued and outstanding

	Number of Shares	Amount \$
Common shares		
Balance, December 31, 2000	9,212,336	8,310,328
Private placement	5,092,634	3,055,580
Exercise of stock option	16,667	7,000
Share issue costs	-	(128,662)
<b>Balance March 31, 2001</b>	<b>14,321,637</b>	<b>11,244,246</b>

The Company has a stock option plan under which employees, directors and officers are eligible to receive grants. On March 31, 2001, there were 1,102,500 common shares reserved for issuance under the plan with exercise prices between \$0.375 and \$0.90. Options granted under the plan are generally fully exercisable after three years and expire in five years after the grant date.

	Number of Options	Weighted Average Exercise Price
Stock options outstanding at December 31, 2000	659,167	\$ 0.54
Granted	460,000	0.60
Exercised	16,667	0.42
Cancelled	-	-
Stock options outstanding at March 31, 2001	1,102,500	0.57
Exercisable at March 31, 2001	440,000	\$ 0.60