



Second Quarter Report

For the Six Months Ended June 30, 2001

Activities progressed well during the second quarter.

Romania

Offshore Romania, a contract was awarded to Petrom to use their jack up drilling unit Jupiter to drill the appraisal well on Block XV, in the Black Sea. The well is a follow up to the Doina discovery well that had indicated in place gas of approximately 120 billion cubic feet. The well is designed to appraise the main Doina sands tested by the discovery well and, in addition, is located to allow evaluation of an overlying reservoir unit which is mapped as thickening to the west of the original discovery well. Contingent on the results of this well, a second well is planned as either a further Doina appraisal well or a test of the Doina Sister prospect which lies to the south west along the Doina trend on Block XV.

Onshore Romania, the technical evaluation over the eastern part of the South Craiova Block has been completed and all data installed on a workstation environment. Results to date define the major structural elements of the block and the distribution of the various reservoirs. Several leads have been identified, some of which are analogous to the neighbouring producing fields in Romania and Bulgaria. Ongoing work involves the high grading of the leads, the planning for new seismic acquisition and a geochemical survey to firm up potential 2002 drilling locations.

United Kingdom

The drilling of the West Compton-1 well onshore UK on license PEDL 048 was delayed due to the impact of the foot and mouth epidemic, which has restricted land access for a period of time now. Formal approval of the construction of a drill site and access, drilling, and carrying out short term testing has been received and spudding the well is expected during the fourth quarter, following completion of access road improvements and site construction. The West Compton prospect is a fault-closed structure at Sherwood Sandstone level with estimated possible unrisked reserves in excess of 50 million barrels of oil. The prospect lies at the western end of the Central Wessex High, a stable structural trend which was the focus for the migration of oil, and updip of the Wytch Farm oilfield (reserves 460 million barrels of oil). Sterling holds a 45 percent working interest.

Sterling has negotiated a position to complete the planning function for a well in EXL 295 in the Weald basin. In exchange for paying an additional share of these costs, Sterling earns an additional 20 percent working interest in the license. This would result in Sterling increasing its ownership to 35 percent. Sterling will be the contract operator during the planning phase. Sterling also has the option at the end of the planning phase to make further expenditures and earn additional equity in the license. Three exploration prospects have been identified on EXL 295, the largest being the Henfield-Oreham prospect. It is anticipated that a well will be drilled on this prospect in early 2002.

Progress with the technical evaluation of Sterling's other UK licenses has resulted in the identification of several potential drilling locations. These will be firmed up during the third quarter to allow local authority and operational planning to commence, in preparation for a 2002 drilling campaign.

Denmark

The geological and geophysical review of 5/97 was completed and results are being integrated with the geochemical survey results to define future activity.

Data acquisition has progressed and reprocessing of key lines has been initiated on the two new licenses, 1/01 and 2/01.


France

In April 2001 the operator of the Larcis Antin block elected not to renew the exploration permit. Sterling opted not to continue by itself, given the large work commitment on the block.

New Ventures

Sterling is currently investigating exploration and development opportunities in North Africa and South East Asia.

On behalf of the Board of Directors



Robert G. Welty

Chairman & Chief Executive Officer



Stewart G. Gibson

President & Chief Operating Officer

August 27, 2001

Consolidated Balance Sheets

Unaudited

	June 30, 2001	Dec. 31, 2000
ASSETS		
Current		
Cash and short term investments (note 3)	\$ 1,587,105	\$ 98,231
Accounts receivable	540,632	95,500
	2,127,737	193,731
Due from officers	440,000	440,000
Capital assets		
Petroleum and natural gas properties and equipment	5,802,138	5,208,977
Furniture and fixtures	31,430	33,280
	5,833,568	5,242,257
	\$ 8,401,305	\$ 5,875,988
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 135,938	\$ 259,970
Shareholders' equity		
Share capital (note 2)	11,307,246	8,310,328
Contributed surplus	66,479	66,479
Deficit	(3,108,358)	(2,760,789)
	8,265,367	5,616,018
	\$ 8,401,305	\$ 5,875,988

See selected notes to consolidated financial statements.

Consolidated Statements of Operations and Deficit

Unaudited

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
Revenues				
Oil and gas, net of royalties	\$ –	\$ –	\$ –	\$ –
	–	–	–	–
Expenses				
Operating	–	–	–	–
General and administrative	160,035	195,175	339,419	342,056
Project costs (note 2)	35,708	36,969	53,406	70,121
Depletion and depreciation	2,054	2,059	3,983	4,210
	197,797	234,203	396,808	416,387
Other Income				
Interest	22,537	7,629	49,239	23,129
Net loss for the period	(175,260)	(226,574)	(347,569)	(393,258)
Deficit, beginning of period	(2,933,098)	(2,077,804)	(2,760,789)	(1,911,120)
Deficit, end of period	\$ (3,108,358)	\$ (2,304,378)	\$ (3,108,358)	\$ (2,304,378)
Net loss attributable per common share (note 2)				
Basic	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.04)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)
Weighted average number of shares outstanding	14,396,637	8,857,336	11,841,987	8,857,336

See selected notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Unaudited

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
Operating Activities				
Net loss for period	\$ (175,260)	\$ (226,574)	\$ (347,569)	\$ (393,258)
Items not affecting cash				
Depletion, depreciation and amortization	2,054	2,059	3,983	4,210
Cash flow from operations	(173,206)	(224,515)	(343,586)	(389,048)
Change in non-cash working capital	(598,114)	98,635	(569,161)	29,902
Cash used in operating activities	(771,320)	(125,880)	(912,747)	(359,146)
Investing Activities				
Petroleum and natural gas properties and equipment additions	(296,067)	(491,294)	(593,161)	(736,950)
Furniture and fixtures additions	-	(698)	(2,136)	(1,201)
Cash used in investing activities	(296,067)	(491,992)	(595,297)	(738,151)
Financing Activities				
Issue of common shares, net of issue costs	63,000	75,600	2,996,918	75,600
Cash provided by financing activities	63,000	75,600	2,996,918	75,600
Increase (decrease) in cash	(1,004,387)	(542,272)	1,488,874	(1,021,697)
Cash and short term investments, beginning of period	2,591,492	1,033,010	98,231	1,512,435
Cash and short term investments, end of period	\$ 1,587,105	\$ 490,738	\$ 1,587,105	\$ 490,738

See selected notes to consolidated financial statements.

Selected Notes to Consolidated Financial Statements

Six months ended June 30, 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.

The Company has adopted the policy of segregating project costs from general and administrative expenses. Prior period general and administrative costs have been restated for this change.

NOTE 3 - CASH AND SHORT TERM INVESTMENTS

At June 30, 2001, included in cash and short term investments are \$1,483,969 of bankers' acceptances with maturities of less than 90 days, bearing interest between 4.00% and 4.25%.

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 options	166,667	70,000
Share issue costs	-	(128,662)
Balance June 30, 2001	14,471,637	11,307,246

The Company has a stock option plan under which employees, directors and officers are eligible to receive grants. On June 30, 2001, there were 952,500 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	166,667	0.42
Cancelled	-	-
Stock options outstanding at June 30, 2001	952,500	0.59
Exercisable at June 30, 2001	290,000	\$ 0.70