



Sterling Resources Ltd.

First Quarter Report

For the Three Months Ended March 31, 2003

Message to Shareholders

Sterling's activities during the first quarter were concentrated on bringing several prospects to the drilling stage.

In the Weald Basin, onshore UK, a drilling location is presently being constructed for a well on the Avington prospect. The well will be drilled directionally in the crest of the prospect, which is targeting the Middle Jurassic, Great Oolite reservoir that produces in the nearby Stockbridge oilfield. A discovery could utilize existing available facilities at Stockbridge, only some four kilometres from the Avington location.

In the Cleveland Basin, applications are in progress for planning approvals for both the Kirkleatham and Westerdale prospects located in PEDL 068. These prospects will target the gas-bearing Zechstein reservoir that produces south of the license and in the nearby offshore Southern Gas Basin. Each of the wells will be following up on older wells that had gas shows or actually tested gas. Contingent on planning approval, at least one well is planned for the latter part of the year.

In the Wessex Basin, the operator has proposed a well for the fourth quarter to test the Jurassic Bridport formation at a location in PL 090, close to the Wytch Farm oilfield. This well location is the first one in a plan to step out from Wytch Farm on a well-by-well basis to follow the Bridport and the Triassic Sherwood reservoirs west along the Wessex High. The Wessex High rises to the west and work to date has mapped several prospects and leads, updip from existing production and within Sterling's acreage.

Onshore Romania, following the positive results from the recent surface geochemical survey and its correlation to older seismic, which Sterling has reprocessed, a 258-kilometre 2D seismic program has been set out to firm up drilling locations. Necessary permits have been obtained and acquisition of the first portion is set to commence shortly. Based on the results of the seismic, the first well could spud later this year.

In line with its strategy of managing risk, Sterling is discussing several potential farm outs.

Subsequent to the end of the quarter, Sterling announced it was issuing by way of a private placement of up to 6,000,000 units at \$0.25 per unit. Each unit consists of one common share and one common share purchase warrant. The warrants are exercisable for a period of two years at a price of \$0.30 for the first year and \$0.35 for the second year. Proceeds of the issue will be used to fund Sterling's ongoing work programs and to augment working capital.

On behalf of the Board of Directors,

(signed) "Robert G. Welty"

(signed) "Stewart G. Gibson"

Robert G. Welty
Chairman & Chief Executive Officer
May 26, 2003

Stewart G. Gibson
President & Chief Operating Officer

	Mar. 31, 2003 <i>(Unaudited)</i>	Dec. 31, 2002 <i>(Audited)</i>
ASSETS		
Current		
Cash	\$ 244,818	\$ 284,674
Accounts receivable	45,151	49,075
Due from officers	115,000	115,000
	<u>404,969</u>	<u>448,749</u>
Capital assets		
Petroleum and natural gas properties and equipment additions	8,634,369	8,398,166
Furniture and fixtures	23,570	24,746
	<u>8,657,939</u>	<u>8,422,912</u>
	<u>\$ 9,062,908</u>	<u>\$ 8,871,661</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 474,614	\$ 490,222
Due to related party (note 3)	100,000	-
Deposits (note 4)	200,000	-
	<u>774,614</u>	<u>490,222</u>
Shareholders' equity		
Share capital (note 2)	12,382,189	12,382,568
Contributed surplus	66,479	66,479
Deficit	(4,160,374)	(4,067,608)
	<u>8,288,294</u>	<u>8,381,439</u>
	<u>\$ 9,062,908</u>	<u>\$ 8,871,661</u>

See accompanying notes

Consolidated Statements of Operations and Deficit

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Unaudited

Three Months Ended March 31	2003	2002
EXPENSES		
General and administrative corporate	\$ 92,000	\$ 134,088
exploration projects	–	14,262
Depreciation	1,177	1,672
	93,177	150,022
OTHER INCOME		
Interest	411	1,089
Net loss for the period	92,766	148,933
Deficit, beginning of period	4,067,608	3,398,967
Deficit, end of period	\$ 4,160,374	\$ 3,547,900
Net loss attributable per common share		
Basic	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01
Weighted average number of shares outstanding	16,675,967	14,981,967

See accompanying notes

Unaudited

Three Months Ended March 31	2003	2002
OPERATING ACTIVITIES		
Net loss for period	\$ (92,766)	\$ (148,933)
Items not affecting cash		
Depreciation	1,177	1,672
Cash flow from operations	(91,589)	(147,261)
Change in non-cash working capital	288,315	(226,315)
Cash provided by (used in) operating activities	196,726	(373,576)
INVESTING ACTIVITIES		
Petroleum and natural gas properties and equipment additions	(236,203)	7,058
Furniture and fixtures additions	-	(330)
Cash provided by (used in) investing activities	(236,203)	6,728
FINANCING ACTIVITIES		
Share issue costs	(379)	-
Cash provided by (used in) financing activities	(379)	-
Decrease in cash	(39,856)	(366,848)
Cash and short term investments, beginning of period	284,674	634,552
Cash and short term investments, end of period	\$ 244,818	\$ 267,704

See accompanying notes

Three months ended March 31, 2003
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The interim consolidated financial statements of Sterling Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. 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, 2002. 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, 2002.

NOTE 2. 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, 2002	16,675,967	\$ 12,382,568
Share issue costs	-	(379)
Balance March 31, 2003	16,675,967	\$ 12,382,189

c) Stock options

The Company has a stock option plan under which employees, directors and officers are eligible to receive grants. On March 31, 2003, there were 1,007,500 common shares reserved for issuance under the plan with exercise prices between \$0.30 and \$0.60. Options granted under the plan are generally fully exercisable after three years and expire five years after the grant date.

	Number of Options	Weighted Average Exercise Price
Stock options outstanding at December 31, 2002	1,007,500	\$ 0.47
Stock options outstanding at March 31, 2003	1,007,500	\$ 0.47
Exercisable at March 31, 2003	657,503	\$ 0.46

As the Company is following the intrinsic value method of accounting for employee options, no compensation expense has been recorded with respect to employee options. The following table provides pro forma measures of net loss and net loss per share, had compensation expense been recognized based on the estimated fair value of the employees options on the grant date in accordance with the fair value method of accounting for stock-based compensation.

	Three months ended Mar. 31, 2003	Three months ended Mar. 31, 2002
Reported net loss	\$ 92,766	\$ 148,933
Compensation expense	\$ 3,451	\$ 1,924
Pro forma net loss	\$ 96,217	\$ 150,857
Reported basic and diluted net loss per share	\$ 0.01	\$ 0.01
Pro forma basic and diluted net loss per share	\$ 0.01	\$ 0.01

No options were granted during the first quarter of 2003; 320,000 options were granted during the first quarter of 2002. The estimated fair value of stock options during 2002 was determined using Black-Scholes model using the following weighted average assumptions, resulting in a weighted average fair value of \$0.11 per option.

Risk-free interest rate	3.55%
Expected hold period to exercise	3 years
Volatility in the price of the Company's shares	59.60%
Dividend yield	0%

d) Warrants

As at March 31, 2003 the following common share purchase warrants were outstanding:

Expiry Date	Number of Warrants	Exercise Price
July 17, 2003	1,703,812	\$ 0.75
July 26, 2003	333,372	\$ 0.75
July 31, 2004	1,694,000	\$ 0.60
	3,731,184	

NOTE 3. DUE TO RELATED PARTY

During the first quarter ended March 31, 2003, a company controlled by an officer and director of the Company advanced \$100,000 (2002 – nil) to the Company by way of an interest-free loan. The loan is due on demand.

NOTE 4. SUBSEQUENT EVENT

Subsequent to the end of the quarter, the Company announced it was raising by way of a private placement of up to 6,000,000 units at a price of \$0.25 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share for a period of 24 months at a price of \$0.30 per common share during the first twelve months after the Closing Date or at a price of \$0.35 per common share during the next twelve month period. The proceeds will be used to fund the Company's on-going work programs and to augment working capital. As at March 31, 2003 the Company had received \$200,000 of deposits related to the placement.