2000

Sterling Resources Ltd.

Company 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 larger, lower-cost reserves. High initial working interests are taken where possible, and financial exposure and risk are managed by obtaining industry participations. Current landholdings are focused in the United Kingdom, Romania, Denmark and France. Sterling is actively seeking projects in certain countries in the Middle East and North Africa jointly with other petroleum companies. The common shares of Sterling Resources Ltd. trade on the Canadian Venture Exchange under the symbol SLG.

Annual Meeting

An Annual General and Special Meeting of the Shareholders of Sterling Resources Ltd. will be held on Wednesday, May 30, 2001 at 10:00 a.m. (Calgary time) in the Cardium Room of the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta, Canada. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Computershare Trust Company of Canada at their earliest convenience.

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Message to Shareholders

Highlights

- Addition of new exploration projects
- Maturing of existing projects to drilling stage
- $3.6 million raised through equity financings with Canadian and European investors in 2000 and early 2001

Sterling Resources has had an active and productive year, with the primary focus being the addition of new oil and gas projects and the maturing of existing projects to the drilling stage. Our stated goal is to assemble a portfolio of quality exploration acreage that provides the potential for discoveries of larger, lower-cost oil and gas reserves in areas with attractive fiscal regimes. Today, Sterling has working interests in approximately 4.9 million gross acres (2.6 million net acres) of exploration lands within 14 licenses in four countries. We are also continuing to pursue new opportunities which would be valuable additions to Sterling's growing international portfolio of oil and gas projects.

During 2000, the Company was successful in obtaining interests in five exploration licenses onshore United Kingdom totaling one half million gross acres (240,000 net acres), representing almost 50% of the conventional E&P blocks initially awarded in the 9th Round of Onshore Licensing. The new licenses added significantly to Sterling's existing UK presence and brought Sterling its first positions as an operator in the UK. Sterling now has working interests ranging from 15% to 90% in eight onshore licenses in the UK totaling approximately 690,000 gross acres.

Onshore Romania, Sterling received final Government approval for its Concession Agreement for the South Craiova Block, which covers an area of 1.5 million acres. Reprocessing of existing seismic has commenced and initial results are encouraging. Sterling operates the Concession and holds a 100% working interest.

Sterling also increased its holdings in onshore Denmark. Applications for two licenses were made and both were awarded in early 2001. One is a 333,500-acre exploration license in the Salling area of northern Jutland, which lies within a salt dome area. Sterling operates this license with a 75% working interest. The other is a 900,000-acre license in south Jutland which lies within the Zechstein Basin that produces in neighboring countries. Sterling has a 20% interest in this license.

Over the last year, two existing projects matured to the drilling stage. As Sterling is not the operator of these projects, the final timing of the drilling programs has been dependent on the operators and the availability of drilling rigs within the area. Our first well onshore UK on Wessex Basin license PEDL 048, West Compton – A(1), will test a large structure to the west of the Wytch Farm oilfield. Sterling has 45% equity in this license. A second well is planned for an adjacent license in the latter part of this year.

Offshore Romania, a well will be drilled on the Midia Block to delineate the 1995 Doina gas discovery. Geological and geophysical work carried out since the discovery well was drilled indicates that the structure could contain approximately 200 billion cubic feet of recoverable gas. Site surveys and planning for drilling a second well on the associated Doina trend have also been completed. This well may also be drilled during 2001. Several other prospects and leads have been identified on both the Midia and Pelican Blocks. Sterling has a 20% working interest in the Doina gas discovery and the two offshore blocks, which total approximately 1.1 million gross acres.

Sterling has recently entered into two agreements with larger oil and gas companies to seek exploration and development projects in certain countries in the Middle East and North Africa. Projects in these countries would make valuable additions to Sterling's portfolio.

Sterling's financial position remains strong. The Company has no debt and raised approximately $3.6 million over the past six months through private placement equity financings. Subscribers included investors in both Europe and Canada.

In June, Mr. Stewart Gibson was elected to the Board of Directors of the Company and was appointed to the position of President in addition to his position as Chief Operating Officer.

Building a successful international oil and gas company through exploration takes patience and resolve. We are pleased to be commencing exploration drilling in 2001. The success of this drilling program has the potential to enhance asset value appreciably. Sterling's management is committed to achieving substantial growth and profitability for its shareholders. We wish to thank them for their continued confidence.

On behalf of the Board of Directors

Robert G. Welty
Chairman & Chief Executive Officer

Stewart G. Gibson
President & Chief Operating Officer

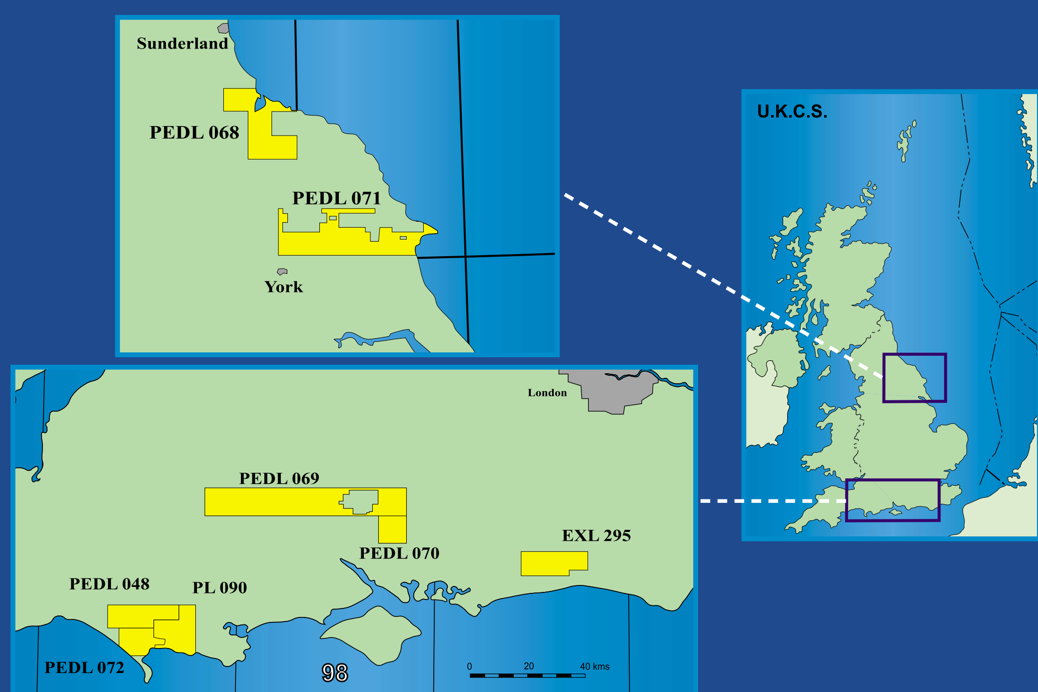
March 5, 2001

Operations Review

United Kingdom

The UK onshore, with its combination of good prospectivity and excellent fiscal terms, remains one of Sterling's main focus countries. Geological and geophysical work has returned positive results and progress towards drilling has been made in both the Wessex and Weald Basins.

Location of Sterling's U.K. Assets

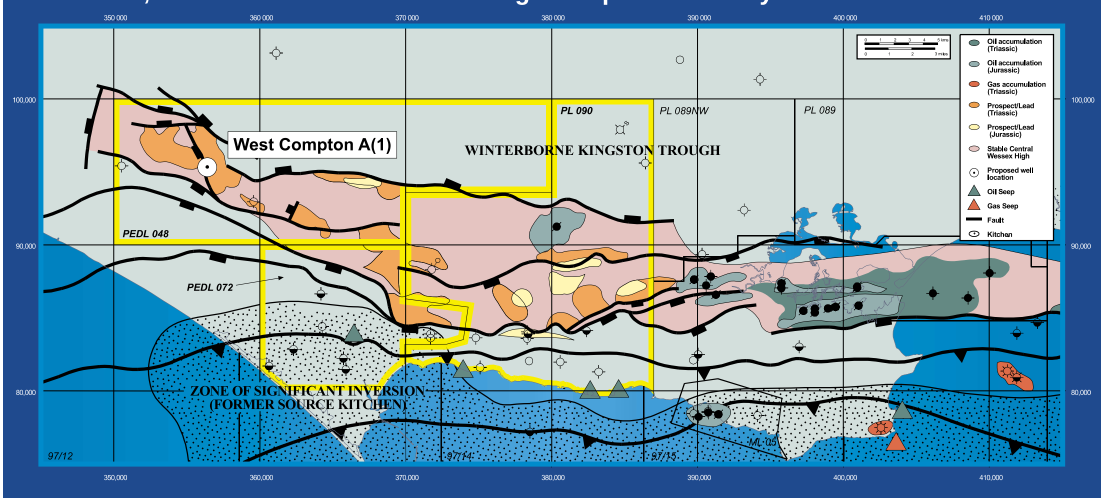


In line with its strategy to add high quality acreage at low cost, Sterling successfully participated in the 9th Round License application, with awards in September 2000. In all but one of the licenses awarded, Sterling's working interest is high and as part of the new awards, Sterling acquired operator status for two of the licenses. The new license awards enabled the Company to strengthen its position in the Wessex and Weald Basins and to gain a significant position in the Cleveland Basin in the north east of England. Sterling now holds interests in 690,000 gross acres (300,000 net acres) in three established producing basins onshore UK. Of particular interest, the new licenses contain discoveries, prospects and leads which are sufficiently advanced to present several drilling opportunities for 2002.

The Wessex Basin

Mapping of the prospects and leads within the PEDL 048 and PL 090 licenses, along the Wessex High, updip from the Wytch Farm oilfield, indicated the extension of some large structures into open acreage to the south and west. This acreage was secured during the 9th License Round bidding. It is known as PEDL 072.

PEDL 048, PEDL 072 & PL 090 - Wessex High Prospect Inventory



A surface geochemical survey was completed over the West Compton prospect on PEDL 048 and indications of hydrocarbon presence were registered. This adds encouragement to the many studies completed, since the award of the licenses, to demonstrate the presence of source and migration pathways necessary to fill the Wessex High structures.

Options for surface locations for drilling the first well along the Wessex High were evaluated and, in conjunction with the planning authorities and landowners, a site was selected. Planning application for this well located on PEDL 048, and to be known as West Compton – A(1), has been submitted and will be heard by the District and County Councils during the Spring of 2001. Subsequent construction activity and rig availability should result in a well spud late in the second quarter or early in the third quarter.

The first well is targeting a structure with potential recoverable reserve size of approximately 50 million barrels. There are several other structures of similar size, however, and the 20 mapped prospects and leads identified to date in the Wessex license areas yield a combined potential unrisked reserve target of 297 million barrels gross or 122 million barrels net to Sterling. These volumes, in addition to the 450 million barrels at Wytch Farm, are well within the generating capacity of the "kitchen" or oil source area which lies to the south of the licenses.

During 2001, in addition to the West Compton – A(1) well, the group will complete additional geochemical surveys and the planning for a second well in either the PL 090 or PEDL 072 areas, following integration of the results of the first well.

The Weald Basin

During 2000, all existing seismic over the main area of interest within license EXL 295 was acquired and interpreted. The results indicate a drillable structure in the Henfield – Oreham area and a program is being put in place to allow drilling in 2002.

In September Sterling obtained two new licenses in the Weald Basin in the UK 9th Round Onshore Licensing. The licenses are located around the Stockbridge oilfield. One license, PEDL 070, is operated by Pentex and contains two wells with oil columns and large in-place potential. The expertise developed by Pentex, as operator of the Stockbridge area, can be applied directly to these discoveries.

License PEDL 069, to the west and updip from Stockbridge, extends along the Wiltshire – Hampshire High. There are several hydrocarbon indicators in the western area and a significant lead has been identified. The lead is currently being refined by integrating the results of several existing seismic surveys. Plans are to shoot some infill seismic across this area, with a view to firming up a drilling target. The potential for large in-place volumes has resulted in the initiation and trial of several alternative methods available to improve the identification of sweet spots with a view to improving recovery and performance from the Great Oolite reservoir, the main producer in this basin.

The Cleveland Basin

Sterling also acquired in the 9th Round two new licenses, PEDL 068 and PEDL 071, located in the Cleveland Basin. The plays located on these licenses are likely to be natural gas prospects. The area to the south, PEDL 071, targets the Rotliegendes Sandstone, the principal reservoir for the Offshore Southern Gas production in the UK and Holland. The license area surrounds and abuts existing gas fields which produce from both the Rotliegendes and Zechstein Carbonates and contains several leads over which seismic acquisition will be completed with a view to drilling in 2002. The license contains the thickest development of the Rotliegendes Sandstone onshore. Sterling has a 35% working interest.

The second license, PEDL 068, is operated by Sterling with a 90% working interest. The license contains several old wells with hydrocarbon tests and shows, mainly in the Zechstein Carbonate sequence. The Kirkleatham prospect will be refined with a small seismic acquisition program.

Existing seismic demonstrates the ability to drill updip from the older wells and use high angle well technology to maximize well potential. A second structure on the license at Ralph Cross, tested gas in the 1960's. This well also tested from the Zechstein and is a drilling candidate for 2002, following reprocessing of existing seismic data. Additionally, two old wells were reported as producing hydrocarbon, but these areas will probably require additional seismic. Further undrilled potential on the license is also known to exist, the Zechstein/Carboniferous High near Great Busby being one example.

The value of onshore gas reserves has increased markedly in recent years with UK gas deregulation policy and the ability to sell directly to small customers or convert to electricity. Gas storage and peak selling projects now also exist and have added to the value of gas reserves. There is currently a gas storage project using salt cavities for storage and onward sale within the license area.

The 9th Round license additions have been assembled to provide a step change in the drilling activity for the Company during 2002. At this time, Sterling considers that up to five wells may be drilled on the new licenses alone during 2002. In conjunction with follow up activity in the Wessex Basin, this will make 2002 a key year for activity on the onshore UK licenses.

Romania Offshore

Sterling holds a 20% working interest in the Midia (XV) and Pelican (XIII) Blocks offshore Romania. The Midia Block contains the 1995 gas discovery named Doina-2. The Doina discovery is part of the Doina trend which contains structures with potential for 500 billion cubic feet of in-place gas.

Jack-up Rig for Doina Well

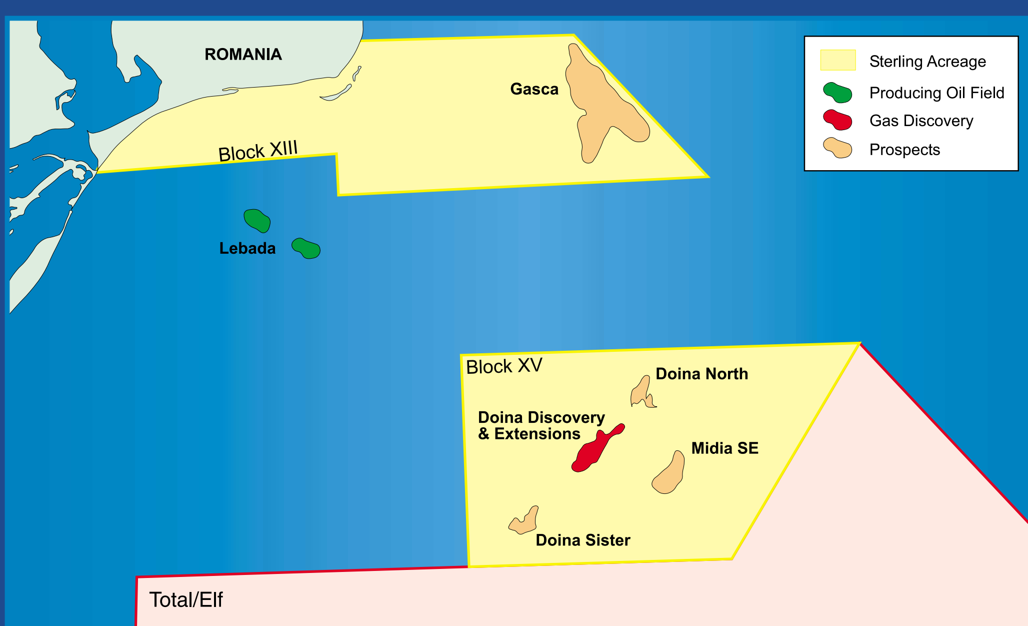
Activity during the year 2000 has resulted in the selection of two drilling locations along the Doina gas-bearing trend with drilling scheduled for 2001. The first of the wells will appraise the existing Doina discovery within the main sand section and evaluate an additional upper sand interval mapped to the west of the original Doina well. It is intended to retain this well for future production. The 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. The site surveys and environmental planning have been completed and the first well will spud when the jack-up rig comes free from its existing drilling program. This is currently expected to be towards the end of the second quarter.

A high-resolution seismic program was undertaken during 2000. Its purpose was to optimize the appraisal well locations discussed above and to further define exploration prospects, which are mapped to the east of the Doina trend on the Midia Block and within the Pelican Block to the north. The results of this survey confirmed a number of high quality prospects on both blocks in Palaeogene and Neogene clastic sediments. These prospects are part of a newly extended oil play with the potential to yield large volumes of light oil similar to the Lebada oilfields which lie between Sterling's two blocks and are along trend. The Lebada fields are reported to contain 70 million barrels of 38 API oil and 400 billion cubic feet of gas.

Two of these large exploration structures, each with the potential of holding in excess of 800 million barrels of oil in place, will be considered for drilling after the current Doina drilling program.

Total/Elf recently acquired the license which adjoins the Midia Block to the south and east. This provides the potential for operating synergy during development and exploration of the more easterly prospects.

Prospect Summary Blocks XIII and XV

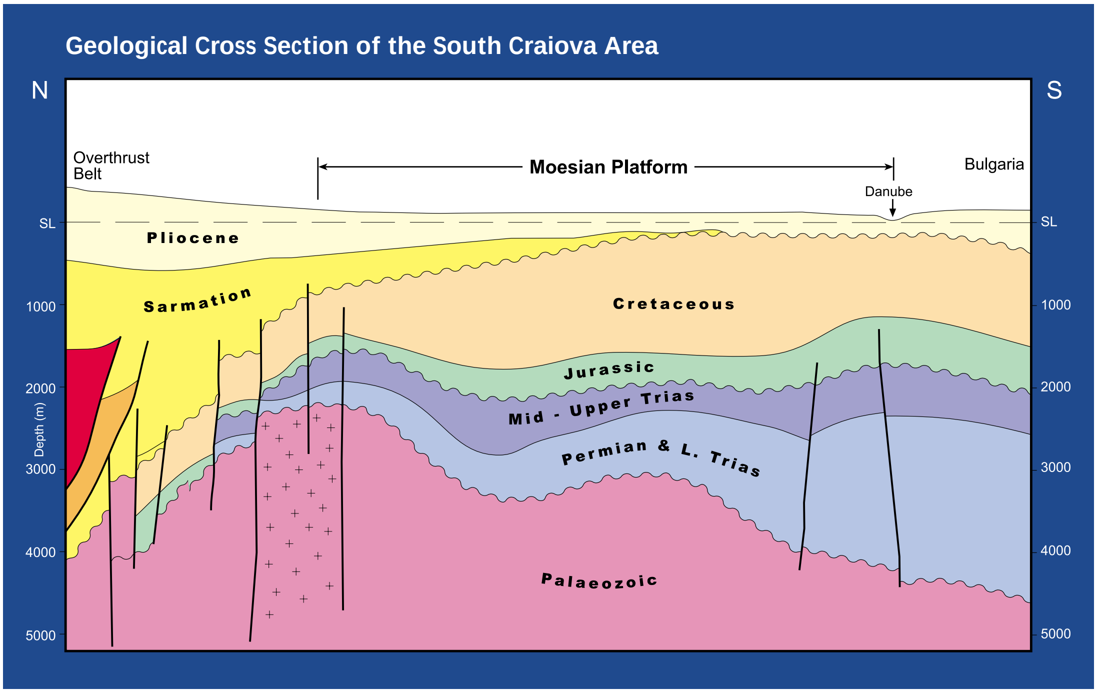


2000 Annual Report

Romania Onshore

The South Craiova Concession Agreement was approved by the Romanian Parliament in August 2000, which becomes the effective date for the license. By the end of the year, Sterling had established a branch office, attained official operator status, secured local and expatriate technical expertise and implemented the first tranche of exploration activity.

The very large onshore block covers 1,545,000 acres lying to the south west of Bucharest with the river Danube and the border with Bulgaria forming the southern boundary. The land is relatively flat, providing ease of access for seismic and drilling activity.



The surface topography overlies a more complex basin framework with thick sedimentation and the basic structural elements for trapping oil and gas. The area is, however, less complex than the Carpathian overthrust region which lies to the north. The South Craiova Block lies just to the south of the Bradesti oilfield (100 million barrels) and to the south and west of the Malu Mare field (40 million barrels of oil and 400 billion cubic feet of gas). Immediately to the south of the block are the producing fields of northern Bulgaria.

Between 1960 and 1980 the block was explored for very shallow targets but there has never been any systematic exploration for deeper targets (such as the Triassic which produces at Bradesti). Very little activity has taken place since 1980 and the multiple play types including Tertiary sands, reefal developments, Dogger sands and Triassic structures remain to be evaluated with the benefit of current technology. Initial work has indicated good prospectivity with several leads being identified in the 5 – 50 million-barrel range.

Sterling operates the block with a 100% interest. As part of the initial phase of activity, approximately 300 kms of existing seismic is being reprocessed. The reprocessing is being completed by Prosectiuni in Bucharest, illustrating the confidence and cooperation between the operator and local services. The results of the reprocessing will lead to an infill seismic acquisition program. Current plans are to firm up the first drilling locations by mid 2002.

Denmark

In addition to its interest in License 5/97, which Sterling operates and holds a 20% working interest, during 2000 the Company, together with partners, applied for two new licenses under the Danish open door policy. Both applications were approved, and licenses awarded early in 2001. One license covers the Salling Block (License 2/01) located in North Jutland. Sterling is operator and holds a 75% working interest. The second license (License 1/01) is located in South Jutland. Sterling has a 20% non-operating working interest. In total, the Company now has interests in 1,333,500 gross acres (450,000 net acres) in Denmark.

Denmark – Location of Sterling's Danish Assets

During the last year, the Company completed a geochemical survey over 5/97 and is currently in the process of completing detailed G&G studies to integrate all data. This is, in part, being completed jointly with the Amerada joint venture group that hold adjacent licenses.

Sterling will initiate activity in the Salling area with the assimilation and evaluation of existing data including the reprocessing of key seismic lines. This area lies within a salt province with related structures and contains a Jurassic source rock, believed to be mature in the deep rim synclines which surround the salt features.

The South Jutland area lies along the Zechstein trend which produces in the UK, Germany and Poland. Geologically it has many similarities to the Company's acreage in the UK Cleveland Basin. This area of Denmark has not had the benefit of modern exploration techniques and initial work will focus on "barrier edge" and "slope" plays, analogous to existing on-trend discoveries.

France

Onshore France in the Larcis Antin Block, the operator completed geological and geophysical studies. These highlighted the geological complexity of the area and indicated that drillable exploration prospects could only be confirmed by the purchase and reprocessing of all of the raw seismic data available over areas of known prospectivity. Discussions have been initiated with the French authorities to attempt to obtain a short time extension of this block in order to accomplish this objective.

Health, Safety and Environment

Sterling Resources is committed to operate safely in an environmentally sensitive manner and to safeguard the health and welfare of its employees, contractors, suppliers and the public, in every area of operations.

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 policies 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.

Robert G. Welty
Chairman & Chief Executive Officer

Sherry L. Cremer
Treasurer & Assistant Corporate Secretary

Auditors' Report

To the Shareholders of Sterling Resources Ltd.

We have audited the consolidated balance sheets of **Sterling Resources Ltd.** as at December 31, 2000 and 1999 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 auditing standards generally accepted in Canada. 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, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Calgary, Canada
March 2, 2001

Ernst & Young LLP (signed), Chartered Accountants

Consolidated Balance Sheets

As at December 31

	2000 $	1999 $
Assets		
Current		
Cash and short term investments *[note 2]*	**98,231**	1,512,435
Accounts receivable	**95,500**	79,166
	193,731	1,591,601
Due from officers *[note 3]*	**440,000**	540,000
Capital assets *[note 4]*		
Petroleum and natural gas properties and equipment	**5,208,977**	3,911,668
Furniture and fixtures	**33,280**	39,142
	5,242,257	3,950,810
	5,875,988	6,082,411
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**259,970**	119,324
Commitments *[note 7]*		
Shareholders' equity		
Share capital *[note 6]*	**8,310,328**	7,807,728
Contributed surplus	**66,479**	66,479
Deficit	**(2,760,789)**	(1,911,120)
	5,616,018	5,963,087
	5,875,988	6,082,411

See accompanying notes

On behalf of the Board:

Robert G. Welty (signed), Director

Stewart G. Gibson (signed), Director

Consolidated Statements of Operations and Deficit

For the years ended December 31

	2000 $	1999 $
Revenue		
Oil and gas, net of royalties	—	167,853
Expenses		
Operating	—	31,099
General and administrative	**870,167**	825,259
Depletion and depreciation	**8,027**	66,850
	878,194	923,208
Other Income		
Interest	**28,525**	88,753
Gain on sale of capital assets *[note 4]*	—	33,370
	28,525	122,123
Net loss for the year *[note 5]*	**(849,669)**	(633,232)
Deficit, beginning of year	**(1,911,120)**	(1,277,888)
Deficit, end of year	**(2,760,789)**	(1,911,120)
Net loss per share	**(0.10)**	(0.08)

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31

	2000 $	1999 $
Operating Activities		
Net loss for year	**(849,669)**	(633,232)
Items not affecting cash		
Depletion and depreciation	**8,027**	66,850
Gain on sale of capital assets	**—**	(33,370)
Cash flow from operations	**(841,642)**	(599,752)
Change in non-cash working capital	**124,312**	(119,076)
Cash used in operating activities	**(717,330)**	(718,828)
Investing Activities		
Petroleum and natural gas properties and equipment additions	**(1,297,309)**	(871,004)
Furniture and fixture additions	**(2,165)**	(15,637)
Abandonment trust fund	**—**	11,387
Proceeds on sale of capital assets	**—**	1,055,559
Cash provided by (used in) investing activities	**(1,299,474)**	180,305
Financing Activities		
Issue of common shares, net of share issue costs	**502,600**	314,647
Due from officers	**100,000**	(315,000)
Cash provided by (used in) financing activities	**602,600**	(353)
Decrease in cash	**(1,414,204)**	(538,876)
Cash and short term investments, beginning of year	**1,512,435**	2,051,311
Cash, end of year	**98,231**	1,512,435

See accompanying notes

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Consolidation and Investments

The consolidated financial statements include the accounts of Sterling Resources Ltd. (the "Company") and its wholly owned subsidiary Sterling Resources (UK) Ltd. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada.

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 nonproductive wells.

In 1999, the Company sold all of its producing reserves. All cost centres are in the pre-development stage and as such the costs in each centre are not subject to depletion. 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.

Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets except where such a disposal would alter the depletion and depreciation rate by more than 20 percent, in which case a gain or loss would be recognized.

Capitalized costs of proven petroleum and natural gas properties are depleted using the unit-of-production method based on estimated proven petroleum and natural gas reserves. For purposes of this calculation, these reserves are converted to a common unit of measure based on their relative energy content.

The net carrying value of the Company's oil and gas properties and equipment in each cost centre is limited to an estimated recoverable amount. This amount is calculated as the aggregate future net revenues from proved reserves plus the cost of unproved properties, net of impairment allowances, less future expenditures required to develop and produce the reserves and future site restoration costs. Future net revenues are calculated using prices in effect at the Company's year end without escalation or discounting.

The net carrying value of all developed cost centres, less related accumulated provisions for future site restoration costs and future income taxes, is further limited to the total estimated recoverable amount of all cost centres less future general and administrative costs, financing costs and income taxes.

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

Joint Operations

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

Net Loss Per Share

Net loss per share is calculated based on the weighted average number of common shares outstanding during the period. The effect of the exercise of outstanding stock options and warrants would be anti-dilutive.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties are based on estimates. The limitation on the carrying value of petroleum and natural gas properties is based on estimates of proved reserves, production rates and oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates and those related to the future cash flows and estimated market values used to assess impairment, as well as the carrying value of unproven properties, are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

Foreign Currency Translation

The Company's operations in the United Kingdom are translated using the temporal method. Transactions denominated in foreign currencies are translated at the exchange rate on the transaction date. Foreign currency denominated monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date.

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 income.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under the liability method, the Company will record 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 substantively enacted income tax rates.

For the period from January 1, 1999 to December 31, 1999, the Company followed the deferral method of accounting for the tax effect of the timing differences between taxable income and income as recorded in the financial statements.

Stock Options

Under the stock option plan, no compensation expense is recognized when stock options are issued to employees. Any consideration paid on exercise of stock options is credited to share capital.

2. Cash and Short Term Investments

At December 31, 1999, included in cash and short term deposits are $1,403,000 of bankers' acceptances with maturities of less than 90 days, bearing interest between 4.80% and 5.25%.

3. Related Party Transactions

During 1998, the Company loaned $225,000 to an officer of the Company for purposes of acquiring common shares in the Company. The loan is interest free and the principal sum is repayable in full on January 27, 2002. During 2000, the officer repaid $100,000.

During 1999, the Company loaned $315,000 to an officer of the Company for purposes of acquiring common shares in the Company. The loan is interest free and the principal sum is repayable in full on September 1, 2003.

Collateral for the notes consists of the common shares purchased. The Company has no recourse against the parties to the notes if the Company's share price subsequently declines.

4. Capital Assets

a) Petroleum and Natural Gas Properties and Equipment

	2000	1999
	$	$
Romanian oil and gas properties	**3,152,062**	2,505,326
U.K. oil and gas properties	**1,922,591**	1,389,749
Other	**134,324**	16,593
	5,208,977	3,911,668

No general and administrative costs were capitalized in 2000 or 1999.

In March 1999, the Company sold all of its producing reserves in Canada for $1,600,000. After deducting net adjustments and other disposal costs of $548,000, the gain on disposal amounted to approximately $33,000.

b) Furniture and Fixtures

	2000	1999
	$	$
Furniture and fixtures	**66,920**	64,755
Less accumulated depreciation	**(33,640)**	(25,613)
	33,280	39,142

5. Income Taxes

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants. Under the liability method, the Company will record future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. The Company has prospectively adopted the liability method.

Taxes differ from the amounts, which would be obtained by applying the statutory income tax rate to the loss before income taxes as follows:

	2000	1999
	$	$
Computed income taxes (recovery) at the statutory rate of 44.62%	**(379,123)**	(282,549)
Prescribed resource loss	**—**	3,467
Benefit of loss in foreign subsidiary not recognized	**—**	84,710
Tax benefit of losses not recognized	**379,123**	194,372
	—	—

At December 31, 2000, the Company has the following balances available to be claimed against future income for tax purposes:

	$
Undepreciated capital cost	40,000
Canadian exploration expenditures	228,000
Unamortized share issue costs	71,000
United Kingdom deductible expenditures	2,489,000
Foreign exploration and development expenditures	2,784,000

In addition, as at December 31, 2000, the Company had the following non-capital losses available to reduce future Canadian taxable income expiring as follows:

	$
2001	303,000
2002	356,000
2003	17,000
2004	913,000
2006	129,000
2007	912,000
Total	2,630,000

The benefit of these losses has not been recognized in these financial statements.

6. Share Capital

a) Authorized

Unlimited common shares without nominal or par value

b) Issued

	Number of Shares	Amount $
Common shares		
Balance, December 31, 1998	7,968,336	7,653,410
Repurchased for cash	(166,000)	(159,439)
Issued for cash	700,000	315,000
Share issue costs	—	(1,243)
Balance, December 31, 1999	8,502,336	7,807,728
Issued for cash	**700,000**	**497,000**
Exercise of stock options	**10,000**	**5,600**
Balance, December 31, 2000	**9,212,336**	**8,310,328**

During 2000, the Company issued 700,000 common shares at $0.71 in a private placement for total proceeds to the Company of $497,000.

During 1999, the Company repurchased and cancelled 166,000 shares at $0.56. The weighted average cost of these shares was approximately $159,000 and the excess of cost over repurchase price of approximately $66,000 was set up as contributed surplus.

c) Stock Options

The Company has established a stock option plan whereby the Company may grant options to its directors, officers and employees for up to 20% of the outstanding listed common shares (on a non-diluted basis). The exercise price of each option equals the market price of the Company's shares on the date of the grant less any applicable discount approved by the Board of Directors and the Canadian Venture Exchange. The option's maximum term is five years, with the minimum vesting period to be 18 months. The stock options vest over the initial three years. No compensation expense is recognized for the plan when stock options are issued or exercised. Any consideration paid on exercise of stock options is credited to share capital.

The following is a continuity of stock options outstanding for which shares have been reserved:

	2000		1999	
		Weighted Average		Weighted Average
	Options	Exercise Price $	Options	Exercise Price $
Opening balance	**809,167**	**0.54**	741,667	0.64
Granted	**—**	**—**	307,500	0.41
Exercised	**(10,000)**	**(0.56)**	—	—
Cancelled	**(140,000)**	**(0.56)**	(240,000)	(0.67)
Ending balance	**659,167**	**0.54**	809,167	0.54

7. Commitments

The Company is committed to an operating lease for office premises and storage facilities which expire in 2002. Future payments are as follows:

	$
2001	60,861
2002	41,104

8. Financial Instruments

The fair market values of the Company's financial instruments, including cash and short term investments, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values.

9. Segmented Information

Sterling 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. The Company's activities are conducted in four geographic segments: Canada, the United Kingdom, Romania and other international locations which includes operations in France and Denmark.

December 31, 2000	Other International $	Romania $	United Kingdom $	Canada and Corporate $	Total $
Expenses	—	—	272,070	606,124	878,194
Other income	—	—	2,052	26,473	28,525
Net loss	—	—	270,018	579,651	849,669
Capital expenditures	117,731	646,736	532,842	—	1,297,309
Total assets	134,234	3,152,062	1,990,633	598,969	5,875,988

December 31, 1999	Other International $	Romania $	United Kingdom $	Canada and Corporate $	Total $
Revenues	—	—	—	167,853	167,853
Expenses	—	—	189,016	734,192	923,208
Other income	—	—	1,000	121,123	122,123
Net loss	—	—	188,016	445,216	633,232
Capital expenditures	16,593	138,111	324,820	200,643	680,167
Total assets	16,593	2,505,326	1,474,948	2,085,544	6,082,411

For the year ended December 31, 1999, revenues from one customer in the Canadian segment represented 85% of the Company's total revenues.

10. Subsequent Event

In January 2001, 5,092,634 common shares were issued through a private placement at a price of $0.60 per share for gross proceeds of $3,055,580.

Corporate Information

Sterling Resources Ltd.

Directors

Robert G. Welty
Chairman & Chief Executive Officer
Sterling Resources Ltd.

Stewart G. Gibson
President & Chief Operating Officer
Sterling Resources Ltd.
Managing Director
Sterling Resources (UK) Ltd.

Raj K. Agrawal
President
NRG Engineering Ltd.

J. Richard Harris
Independent Businessman

Philip C. Swift
President & Chief Executive Officer
ARC Financial Corporation

Officers

Robert G. Welty
Chairman & Chief Executive Officer

Stewart G. Gibson
President & Chief Operating Officer

Rodger D. Conner
Corporate Secretary

Sherry L. Cremer
Treasurer & Assistant Corporate Secretary

Corporate Headquarters

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Website: www.sterling-resources.com

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Banker

The Royal Bank of Canada

Legal Counsel

Conner & Conner

Stikeman Elliott

Registrar and Transfer Agent

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Computershare Trust Company of Canada
Suite 600, 530 Eighth Avenue S.W.
Calgary, Alberta, Canada T2P 3S8

Attn: Stock Transfer Department

Telephone: (403) 267-6800

E-Mail: caregistryinfo@computershare.com

Stock Exchange Listing

Canadian Venture Stock Exchange
Trading Symbol: SLG

Sterling Resources (UK) Ltd.

(wholly owned)

Directors

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Stewart G. Gibson
Odiham, United Kingdom

David Miller
London, United Kingdom

Officers

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Chairman

Stewart G. Gibson
Managing Director

Walter R. Roberts
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