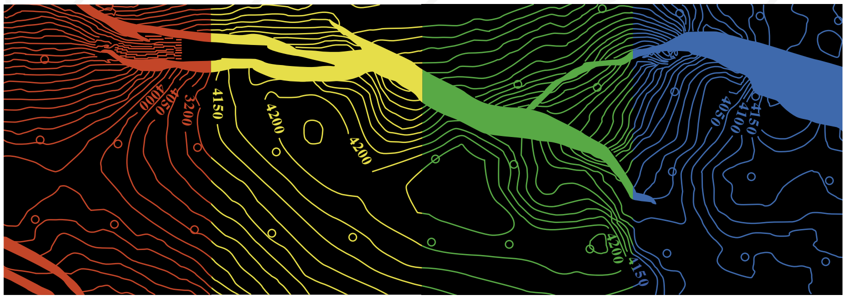


# Sterling Resources Ltd.

## 2004 ANNUAL REPORT

## Corporate 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. The Company currently has landholdings in three countries, the United Kingdom offshore and onshore, Romania offshore and onshore, and France. The major focus areas, the United Kingdom and Romania, both have established hydrocarbon basins, extensive infrastructure and excellent contractual and fiscal terms. The common shares of Sterling Resources Ltd. trade on the TSX Venture Exchange under the symbol SLG.

### Annual General Meeting

An Annual General Meeting of the Shareholders of Sterling Resources Ltd. will be held on Wednesday, May 25, 2005 at 10:00 a.m. (Calgary time) in the Viking "A" 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

The year 2004 was very active and successful. Sterling significantly increased its petroleum license holdings in the UK offshore, brought prospects to the drillable stage in both offshore UK and onshore Romania, and raised additional equity capital to increase and accelerate its exploration activities.

Sterling significantly increased its presence in the North Sea with the award, in October, of eight new Blocks under six Promote Licenses in the UK's 22nd Offshore Licensing Round. This brings Sterling's offshore holdings to interests in eleven Blocks. The new Blocks contain multiple prospects and leads and two have older wells with hydrocarbons. Sterling now has a superior portfolio of UK offshore exploration projects and this is now a strong core area for the Company.

On Block 210/30 in the Northern North Sea, which Sterling acquired last year and holds a 60% interest, mapping and interpretation of the 3D seismic dataset indicated structures in the Middle Jurassic Brent formation and high amplitude anomalies in the Upper Jurassic sequence that indicate the potential for substantial hydrocarbon bearing sands. Given these positive results, Sterling has begun the process of bringing in an industry partner through a farmout of a portion of its interest.

Onshore Romania, technical work indicated a prospect with multiple targets in the northeast portion of the 1.5 million acre Craiova Concession. Following this a farmout was concluded with an industry partner to earn a 40% interest in the Concession. The farmee will pay promoted percentages, based on AFE costs of two wells plus a 140 kilometre 2D seismic program. Sterling retains a 60% interest and will continue as operator. The first well, named Cetatuia, will be drilled to a depth of approximately 2,700 metres.

Detailed studies were commenced on the remainder of the South Craiova Concession to follow up on initial technical work that has identified many leads. This work is planned to be completed in time to enable additional seismic and potential drilling during 2005 and 2006.

With its increased focus on the offshore and its potential for much larger oil and gas reserves, Sterling is considering the monetization of its onshore United Kingdom assets. The assets consist of two smaller oil discoveries, two drillable gas prospects and interests in eight petroleum licenses, covering approximately 155,000 net acres of exploration lands.

To finance its ongoing work programs, Sterling raised additional equity capital. In June, Sterling concluded a private placement with Meridian Capital C.I.S. Fund of 15,350,000 common shares for gross proceeds of CDN $4,912,000. Subsequent to the year end Sterling concluded both a brokered and non-brokered private placement of 30,000,000 common shares for gross proceeds of CDN $27,000,000. These additional funds will allow Sterling to retain larger percentages of certain of its exploration projects, to accelerate technical work on others, to look at other opportunities, as well as maintain a strong working capital position.

Sterling's board of directors was increased to seven members at the annual meeting. Three new directors were elected, Mr. Ian Connor and Mr. Teck Soon Kong, representing Meridian Capital, and Mr. Robert Carter. These gentlemen bring a wealth of international business experience to Sterling. Mr. J.R. Harris, a long time director, did not stand for re-election at the meeting. Sterling is extremely grateful to Mr. Harris for his wise counsel and the many contributions he made during his tenure, which have been instrumental in the growth of the Company.

Sterling's strategy continues to work well. We continue to add exploration petroleum licenses that have excellent potential for large reserves and the continuing geological and geophysical work on our exploration acreage is identifying drillable prospects. Each of the prospects has the potential to add significantly to Sterling's net asset value.

The board wishes to thank the shareholders for their continued interest and support.

On behalf of the Board of Directors

"signed"

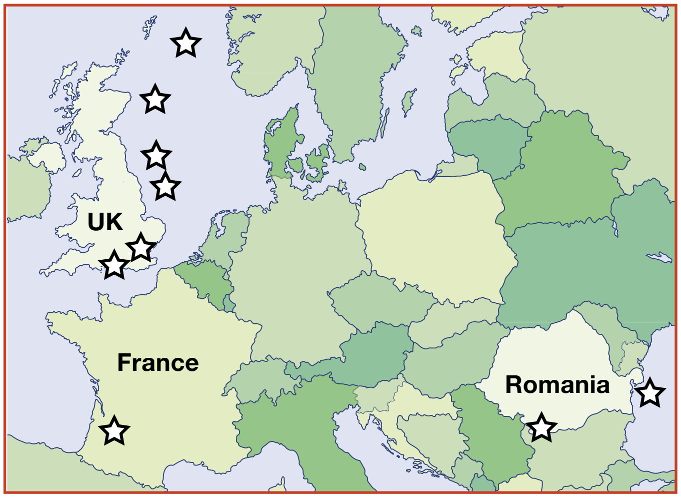
Robert G. Welty
*Chairman & Chief Executive Officer*

"signed"

Stewart G. Gibson
*President & Chief Operating Officer*

*March 30, 2005*

# Operations Review



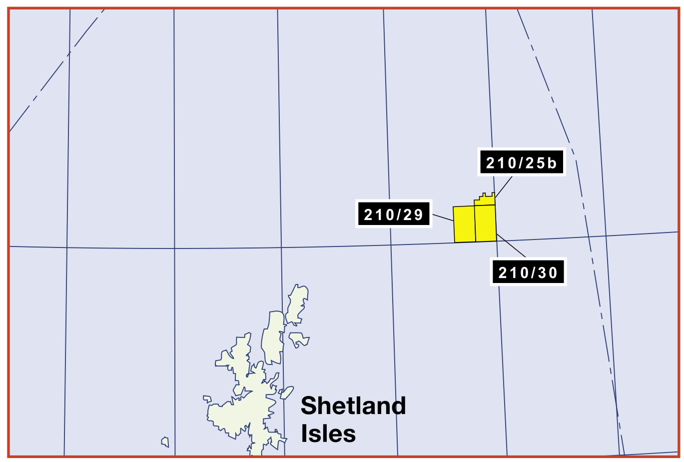

Sterling's Interest Areas



## United Kingdom Offshore

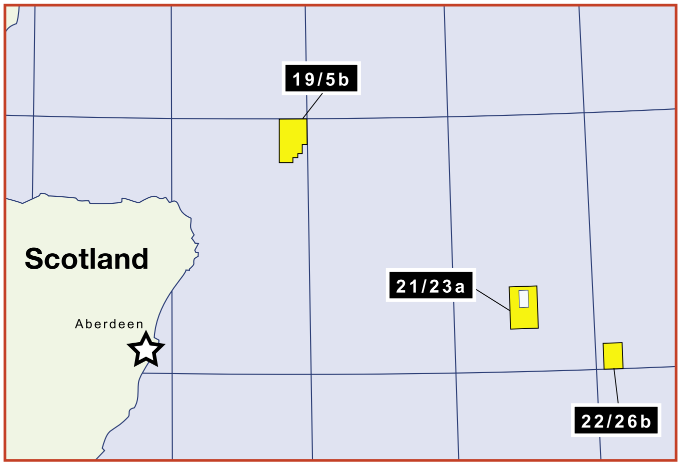
Sterling's success in the UK 22nd Offshore Licensing Round resulted in the addition of eight operated Blocks to its portfolio, one with a 60% working interest and the remainder with 100% working interests. The Company now holds licenses in each of the main producing basins in the North Sea: three Blocks in the Northern North Sea (oil), three Blocks in the Central North Sea (oil) and five Blocks in the Southern North Sea (gas). Apart from one small Block in the Southern North Sea, all areas are covered by modern 3D seismic and have nearby well data to enable detailed evaluation. Two of the recently acquired Blocks contain wells with hydrocarbons. The Blocks are close to existing infrastructure, allowing ease of access to export routes and have been awarded under the Promote License concept, specifically designed by the UK Department of Trade and Industry to encourage increased activity by a set of new, smaller companies. To aid in the timely evaluation of the new licenses, Sterling has formed alliances with four of the UK's established consulting companies. This ensures access to experienced personnel and state of the art technical systems as and when required.

Block 210/29 is adjacent to the previously acquired 210/30 Block in the Northern North Sea. Sterling has a 60% interest. The 3D data over the new Block has been integrated with the 210/30 survey and confirms that 210/29 contains an extension of the mapped Upper Jurassic high amplitude events previously evaluated in 210/30. In addition, two Brent structures are mapped, one on each of the mid and upper fault terraces which form the western margin to the deeper basin.




Northern North Sea

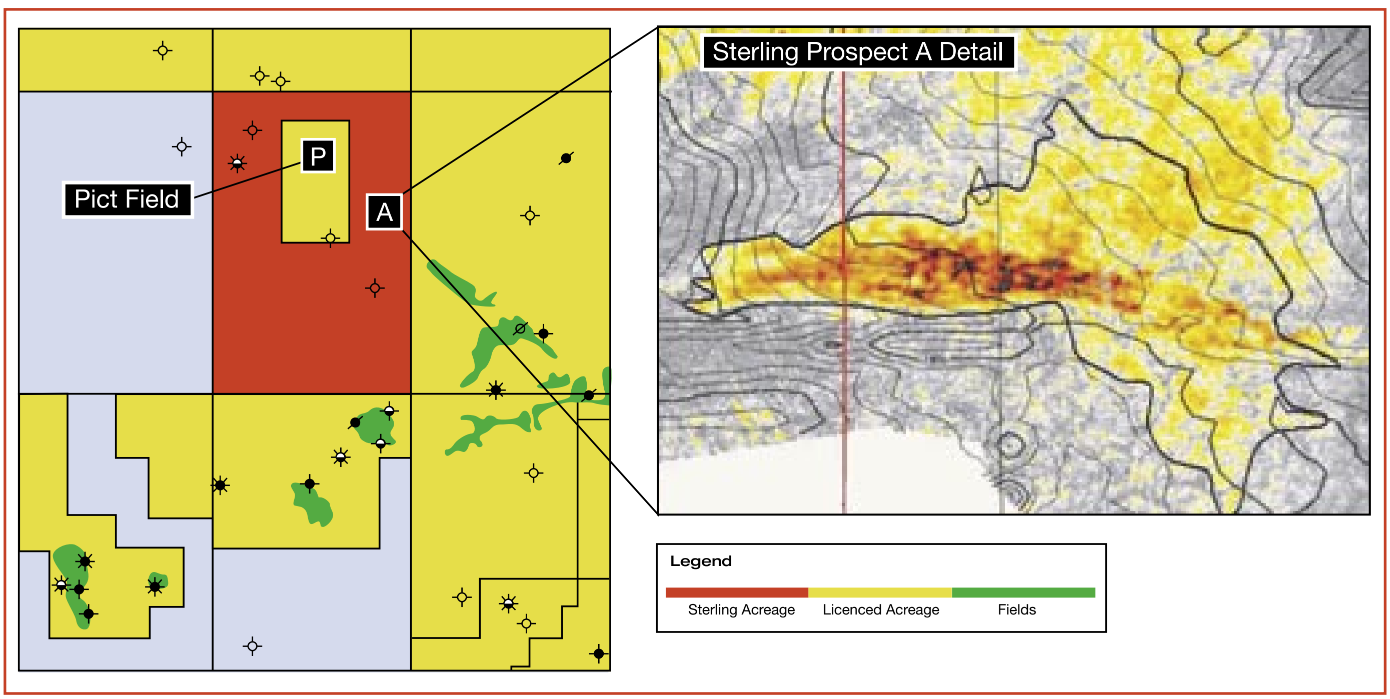
The Company now has 100% interest in three Blocks in the prolific Central North Sea province. Block 19/5b is located adjacent to the giant Buzzard field and ongoing technical work is focusing on an analogue Jurassic prospect with secondary Cretaceous targets. This area is covered by a WesternGeco Q Marine 3D survey. The two remaining Central North Sea Blocks (21/23a and 22/26b) are targeting Eocene Tay Sand channel sequences with related amplitude anomalies. Block 21/23a surrounds the PetroCanada Pict field and recent Gladstone well. Mapping has been completed over two Eocene prospects and a Palaeocene lead. Detailed mapping across Block 22/26b will be completed by mid 2005. Both Blocks also have additional potential within the deeper Palaeocene through Jurassic sequences and this is currently under evaluation.




Central North Sea

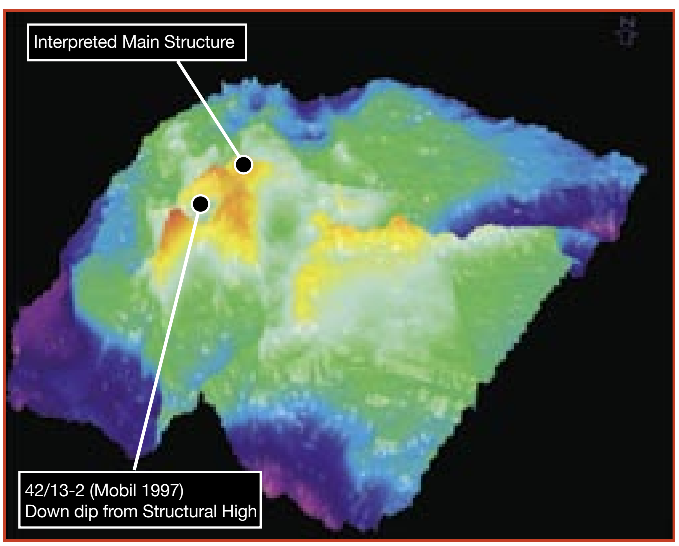
The 22nd Round awards to Sterling also added four 100% interest Blocks in the Southern Gas Basin of the North Sea. A core area of three adjoining Blocks (42/19, 42/20 and 42/24) is located just north of the Ravenspurn gas fields. The Blocks are covered by a high quality WesternGeco OBC 3D survey and evaluation to date has identified a prospect at the relatively shallow Bunter Sandstone level which has well defined structural closure and an identified migration pathway from the underlying Carboniferous source. Also mapped on these Blocks are several prospects and leads at the deeper Rotliegendes and Carboniferous reservoir levels, all of which are mapped with large potential volumes. All three reservoir intervals produce in nearby fields. Remaining work on these Blocks will include the mapping of the southern portion of Block 42/24, immediately north of the Ravenspurn field which is only covered by 2D data.





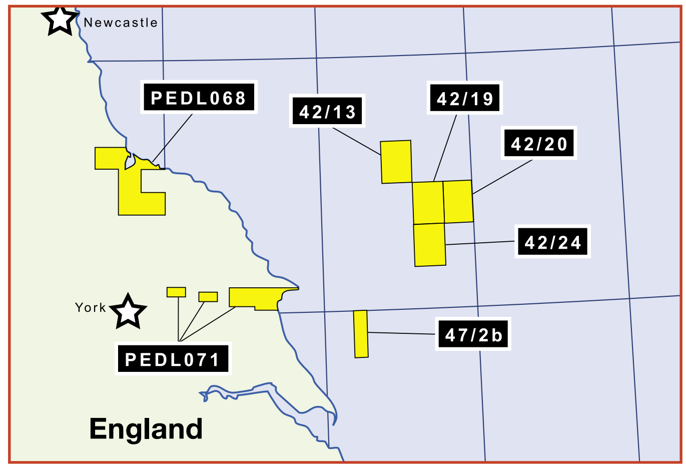

Central North Sea – 21/23a

The other Block awarded in the Southern Gas Basin, 42/13, is located on the Dogger Shelf just north of the Cleveland Basin. The Block is covered by 3D seismic and the 42/13-2 well drilled in 1997 tested gas from a 400 foot gross gas column. The evaluation of the Block to date indicates the potential for major reserves in a very large structure. Of note, the evaluation indicates that the 1997 discovery well 42/13-2 is located considerably down dip from the mapped structural high and the older 42/13-1 (1968) well on the eastern edge of the Block was off structure. In addition, analysis conducted recently by independent consultants of the test results of the 42/13-2 discovery well indicates that the tested portion was highly damaged and the well could have potentially achieved rates of 11-25 mmscfd, significantly above the 3 mmscfd, originally tested in the well. Further work will focus on the merits of seismic data enhancement across the crest of the structure and selecting the optimum location for an appraisal well.




Block 42-13 Recent Interpretation

Sterling retains a 15% interest in Block 47/2b which was one of two Blocks awarded to a joint venture in the 2003 UK 21st Offshore Licensing Round. The remaining work program on this license has been farmed out and a drill or drop decision will be made by mid 2005.




Southern North Sea & Cleveland Basin

## United Kingdom Onshore

During 2004, the two discoveries drilled in the Weald and Wessex Basins completed extended tests which, in turn, have led to additional appraisal programs scheduled to be implemented in 2005.

In the Weald Basin the Avington discovery has been independently assessed to have oil in place volumes ranging from 25 to 110 million barrels and has the potential to be similar in nature to the neighbouring Stockbridge producing field. Sterling has an 8.33% interest.

The Waddock Cross-2 well in the Wessex Basin confirmed the productivity of both the Unit 2 and Unit 3 Bridport Sands. Independent estimates give an oil in place range of 17.5 to 28.4 million barrels. The test well has been re-completed to allow dual production and re-injection of produced water and is temporarily suspended awaiting the next phase of appraisal. Sterling has an 18.75% interest

On licenses PEDL 068 in the Cleveland Basin, planning permission has been obtained for two wells and Sterling concluded a farm out of a 15% working interest. Under the terms of the farm-out, the incoming partner will fund 30% of each of the planned wells on the Kirkleatham and Westerdale prospects. Both wells will target prospects with significant potential gas reserves from locations close to old wells which tested gas. Sterling operates PEDL 068 and holds a 65% working interest.

With its increased focus on the UK offshore, and its potential for much larger oil and gas reserves, Sterling is considering the monetization of its onshore UK assets.

## Onshore France

The joint venture obtained an independent determination of the significant oil in place associated with the Grenade heavy oil discovery and the results indicate a resource of approximately 221 million barrels of oil in place. Near the end of 2004, a farmout was agreed to with a firm that has specific experience in heavy oil production, transport and marketing which can be applied to the Grenade area. Under the farmout terms, the farminee will complete the associated engineering and development studies necessary to determine the merits of an appropriate appraisal program. Sterling's working interest will reduce from 42.85% to 33.423%.

## Romania Offshore

Sterling holds a 20% working interest in a Production Sharing Contract covering two offshore Blocks in the Black Sea. The Pelican Block XIII to the north and the Midia Block XV to the south together cover 1.1 million acres. On the southern Midia Block, several vintages of seismic data covering the large Midia South East prospect were reprocessed, resulting in enhanced definition of the structure. Because of the water depth, drilling activity on this prospect will be dependent upon securing a semi submersible drilling rig. A slot on a rig may become available during the latter part of 2005 or early 2006.

Also on the Midia Block, given the continued growth of the gas market in Romania and the associated firming of the gas price, further work is being undertaken to scope out and cost the various options available to develop the Doina gas discovery in conjunction with drilling the look-alike Doina Sister prospect.

## Romania Onshore

The processing of a 110 kilometre seismic program, shot in the north east corner of the 1.5 million acre South Craiova Concession, was concluded early in 2004. Results of the work identified a drillable prospect named Cetatuia which has multiple targets. The first target will be within the Sarmatian formation at depths from 1,400 to 1,700 metres, where a sequence of sands pinch out against the base Tertiary Unconformity. The second main target is a closure within the Middle Triassic at a depth of 2,700 metres. Both these formations produce in the nearby Bradesti field. The sediment wedge sitting below the Tertiary Unconformity from 1,800 to 2,400 metres is also potentially prospective.

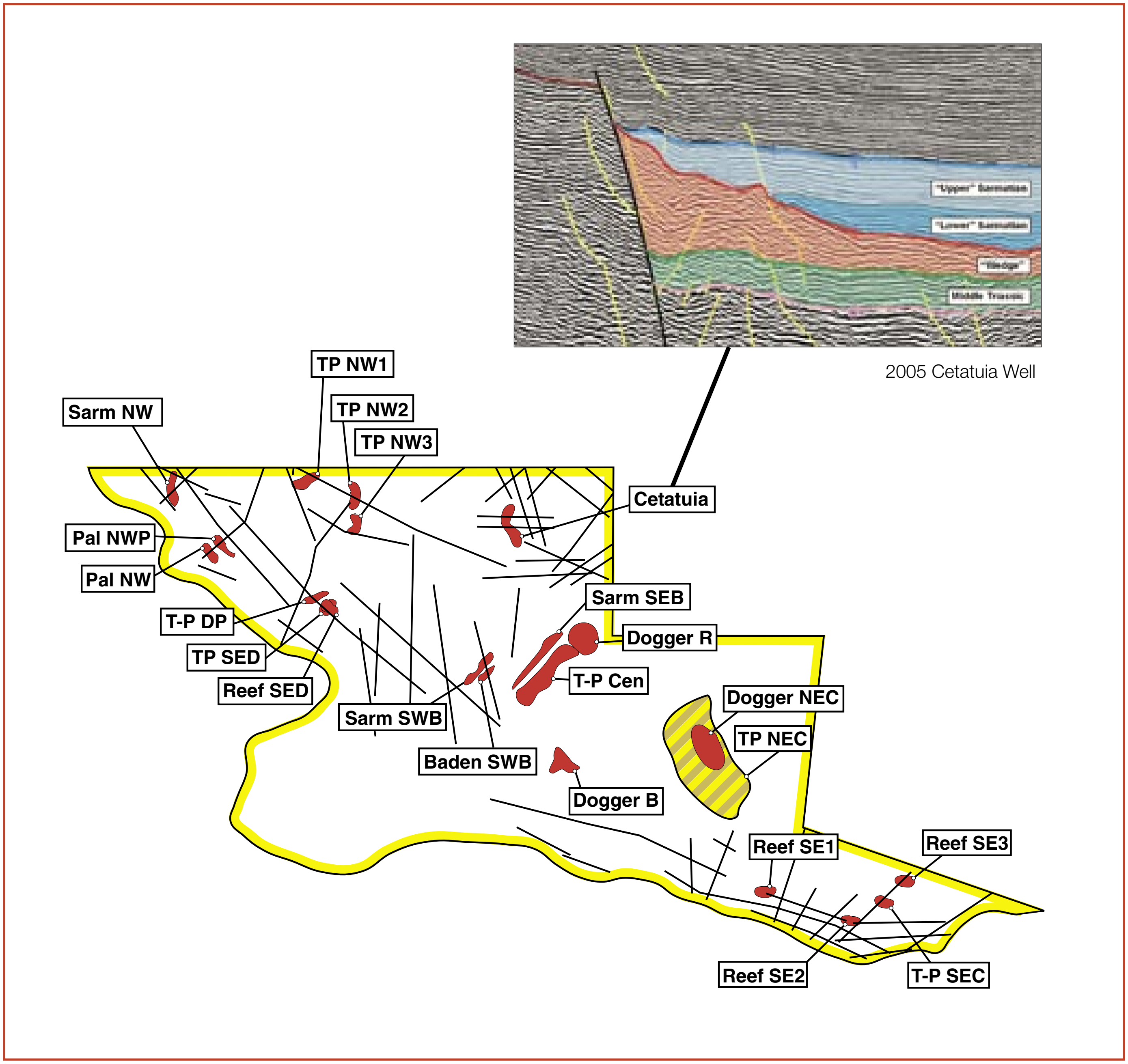
The drilling contract for the Cetatuia well has been signed with the South Craiova Drilling Company, a firm that has drilled the majority of wells in the Craiova area. The permitting, land access rights, environmental and Governmental approval processes were initiated and operations are scheduled to commence early Q2 2005. The first portion of the activity, a two kilometre access road, site preparation, rig mobilization and drilling and casing to 550 metres will be completed on a turnkey basis. Drilling below 550 metres will be on day rate.

In October 2004, Sterling farmed out a 40% interest in the Concession, retaining 60% and operatorship. The farmee will pay promoted percentages, based on AFE costs, of two wells plus a 140 kilometre 2D seismic program in order to earn its interest.

Sterling also commenced a technical review of the remainder of this large Concession. All available data has been reviewed, correlated and integrity checked to compile a set of maps over the Concession at each of the main geological horizons. Several areas of interest with associated leads have been identified to date and will be prioritised to design and implement the next phase of seismic and exploration drilling planned for 2005.

## Onshore Romania – Current Prospect and Leads





# MD&A

*The following Management's Discussion and Analysis (MD&A) is dated March 30, 2005 and should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2004 and 2003.*

*The Company's financial statements and the financial data included in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All financial amounts are expressed in Canadian dollars, except as otherwise indicated.*

## Forward-looking Statements

Certain statements contained in the MD&A are forward-looking statements. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas;
- risks and uncertainties involving geology of oil and gas deposits;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- uncertainties as to the availability and cost of financing;
- risks in conducting foreign operations; and
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld.

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

## Overview and Corporate Strategy

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 outside Canada. The majority of the Company's efforts and expenditures to date have been focused on assessing prospects, obtaining exploration rights and gathering and interpreting geological and geophysical data. If an exploration right has been obtained or awarded, these expenditures are categorized as petroleum and natural gas properties and capitalized in country-by-country centers. If no right has been obtained these expenditures are categorized as project development costs and expensed. The Company's strategy for achieving growth is to source and initiate international projects with the potential for larger reserves. High initial working interests are taken where possible, and financial exposure and risk are managed by obtaining industry participations. Current activities are focused in the United Kingdom offshore and in Romania.



## Selected Annual Consolidated Financial Information

The selected annual consolidated financial information presented below should be read in conjunction with the consolidated financial statements.

| | Years ended December 31 | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Revenues, net of royalties | Nil | Nil | Nil |
| Net loss | $ 850,255 | $ 1,157,739 | $ 678,440 |
| per share – basic and fully diluted | $ (0.02) | $ (0.06) | $ (0.04) |
| Total assets | $ 14,228,723 | $ 9,359,237 | $ 8,871,661 |
| Share capital | $ 19,691,149 | $ 14,052,083 | $ 12,382,568 |
| Common shares outstanding | | | |
| basic | 43,448,042 | 24,041,467 | 16,675,967 |
| fully diluted [1] | 50,851,967 | 34,743,467 | 21,763,607 |
| Long term debt | Nil | Nil | Nil |

[1] The number of shares representing company ownership, including common shares and current conversion or exercise value of the stock options and warrants.

## Discussion of Financial Results and Operations

Net losses for the past three fiscal years are shown in the table on the previous page. The 2003 loss included a write-off of the Company's costs on exploration licenses relinquished.

There is no material revenue at the present time. Expenses for each of the three year periods consist primarily of general and administrative expenditures less costs recovered from jointly owned oil and gas properties in which the Company is the joint venture operator. General and administrative costs amounted to $785,445, $574,308 and $508,199 for the three fiscal years 2004, 2003 and 2002 respectively. The increase in costs for 2004 relate primarily to increased payroll, travel and consulting fees in connection with the Company's increased level of activity, particularly in the United Kingdom offshore and Romania onshore.

## Petroleum Properties Activities and Capital Expenditures



Sterling had invested $10,492,650 in its oil and gas properties to December 31, 2004, compared with $9,237,465 as at December 31, 2003. As of December 31, 2004 the Company had interests in petroleum licenses and contracts as set out in the following schedule.

| | Gross Acres | Net Acres |
|---|---|---|
| United Kingdom | 888,576 | 577,523 |
| Romania | 2,645,000 | 1,147,000 |
| France | 294,049 | 126,000 |
| Total | 3,827,625 | 1,850,523 |

Geological and geophysical work on the properties to date has resulted in many prospects and leads, several of which have been brought to the drillable stage and Sterling has successfully utilized its strategy of bringing in industry partners to manage technical and financial risk. Two wells were drilled over the past two years onshore United Kingdom, both of which were farmed out, and resulted in small oil discoveries and are currently being appraised. The majority of Sterling's share of costs of both wells was covered by bringing in industry partners who paid for Sterling's share of costs in return for earning a portion of Sterling's working interest in the petroleum licenses.

Based on positive results from technical work, Sterling elected to enter Phase 3 of the initial Exploration Period of the Craiova Concession agreement in Romania. Phase 3 is from June 23, 2004 to December 24, 2005 and involves work commitments of one well plus 140 kilometres of 2D seismic.

During 2004, Sterling brought two additional prospects to the drillable stage. The first well on the Company's 1.5 million acre South Craiova Concession onshore Romania, named Cetatuia, is scheduled to be drilled in the spring of 2005. A drillable prospect on Sterling's first offshore United Kingdom license, Blocks 210/30 and 210/25b, was also developed. Sterling is currently seeking a farmout partner, and if successful, a well on this prospect could be drilled in the latter part of 2005.

In October, Sterling concluded a farmout of a portion of its 100% South Craiova Concession onshore Romania. Under the terms of the agreement, the farmee will earn a 40% interest in the Concession by paying promoted percentages, based on AFE costs, of two wells, one being the Cetatuia well, plus a 140 kilometre 2D seismic program. Sterling retains a 60% interest and is the operator.

Sterling and its joint venture partners concluded a farmout agreement in October 2004 covering Block 47/2b offshore United Kingdom. Sterling agreed to assign 25% of its 20% working interest (Sterling retains a 15% working interest) in this Block in return for the assignee paying Sterling's share of a specified work program, totaling an estimated $137,000.

Net capital expenditures on oil and gas activities were $1,255,185 for 2004, $1,382,532 for 2003 and $870,399 for 2002.

Expenditures for 2004 were primarily comprised of $377,000 for geological and geophysical work on the offshore United Kingdom licenses, $360,000 for geological and geophysical work and well preparation on the South Craiova Concession onshore Romania, and $370,000 for appraisal of the two onshore United Kingdom oil discoveries.

Expenditures in 2003 were primarily comprised of $365,000 in the United Kingdom primarily for the evaluation of geological data, $926,000 onshore Romania to conduct a seismic program and geological work, and $91,000 in other international areas to fulfill license obligations and to evaluate prospects.

Expenditures in 2002 were primarily comprised of $323,000 in the United Kingdom for the evaluation of geological data, $283,000 onshore Romania for geological evaluation of the properties, and $264,000 in other international areas to fulfill license obligations and to evaluate prospects.

## Financing, Liquidity and Solvency

As at December 31, 2004 Sterling had working capital of $3,295,000.

During 2004, Sterling completed a private placement to an international investment fund, consisting of 15,350,000 common shares at a price of $0.32, for gross proceeds of $4,912,000 ($4,329,000 after issue expenses) to fund Sterling's ongoing work programs and to augment working capital. Also, throughout the year, 2,406,575 warrants were exercised for proceeds of $773,000.

In June 2003 an amount of $1,800,000 ($1,628,000 after issue expenses) was raised through the issue of 7,200,000 units (net of commissions) at $0.25 per unit. Each unit consisted of one common share and one two-year common share purchase warrant exercisable at a price of $0.30 for the first year and $0.35 second year.

As at December 31, 2004 there were 43,448,042 common shares outstanding and a further 2,445,000 common shares reserved for stock options. In addition, warrants attached to common share issues completed in 2003 reserve 4,958,925 common shares at $0.35 per share until June 2005.

Subsequent to the year end, on February 10, 2005, Sterling raised by brokered and non-brokered private placements an amount of $27,000,000 ($25,526,277 net of estimated issue expenses) through the issue of 30,000,000 common shares at a price of $0.90 per common share. Commissions in the amount of $1,350,000 and 1,200,000 Agent's warrants were paid on the issue. The Agent's warrants are exercisable at $0.90 per share for a period of nine months from close of the private placement. The proceeds of the issue will allow Sterling to maintain larger working interests in certain drillable prospects, accelerate exploration activities, as well as augment working capital.

As is typical of companies in Sterling's stage, future exploration and development activities will require substantial amounts of additional capital which the Company may raise through debt or equity financing and by farming out of partial interests in certain properties. Financings and farm outs are subject to prevailing market conditions at the time. Successful completion of financings and farm outs of partial interests are required for Sterling to carry out its activities on each of its projects until such time as it establishes production and cash flow. Sterling may also raise capital from time to time by monetization of certain of its existing assets.

Commitments on oil and gas properties are those associated with Phase 3 of the Exploration Period onshore Romania, which Sterling elected to enter effective June 23, 2004 and the majority of these costs have been covered by an industry partner who funds the expenditures to earn a 40% interest in the Concession. Commitments on its offshore Romanian contract areas have been suspended with the agreement of the Romanian Government pending resolution of the Romanian/Ukrainian maritime boundary delineation. Onshore United Kingdom, the Company has a commitment to fund 65% of two wells on PEDL 068 to be drilled prior to September 2006, but may farmout or monetize its interest in the license. Other licenses in the United Kingdom and France each have only minor expenditure commitments for geological and geophysical activities, which aggregate approximately $1,000,000.

## Changes in Accounting Policy

As of January 1, 2004 the Company adopted the CICA Handbook Section 3110, "Asset Retirement Obligations" and Accounting Guide AcG–6 "Oil and Gas Accounting – Full Cost". The effect of adopting these policies is explained in Note 3 to the December 31, 2004 financial statements.

## Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. The amounts recorded for depletion, accretion expense and depreciation of property, plant and equipment, the provision for future asset retirement obligations, stock based compensation expense and taxation are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

## Related Party Transactions

During 2003, the Company entered into a revolving demand credit facility agreement with the Royal Bank of Canada. In order to obtain this financing, the facility was guaranteed by a company owned by an officer and director of the Company. The facility was paid in full and closed in 2004.

During 2004, a company controlled by a director made non-interest bearing advances to the Company totaling $280,000. The advances were repaid in full on June 30, 2004.

## Future Plans

Sterling plans to continue with its growth strategy. Over the next two years the major initiatives will be to:

- Drill at least six exploration wells on the key prospects, which have been matured within the currently held acreage. It is intended to continue the successful farm out strategy adopted to date for the majority of these wells.
- Continue geological and geophysical work to evaluate the many other prospects and leads that exist on the current licenses, in addition to those identified in the drilling program. In particular, this work will focus on offshore United Kingdom and onshore Romania, where significant additional prospectivity exists.
- Consider divestiture of the United Kingdom onshore assets which contain two oil discoveries, to allow concentration on the United Kingdom offshore.
- Appraise and develop the existing Doina gas discovery offshore Romania.
- Acquire more blocks through promote license applications in the United Kingdom North Sea and consider the acquisition of "Fallow Blocks" and "Fallow Discoveries". Generally, these are license areas that have been so designated by the Department of Trade and Industry where the initial term of the license has expired and there has been no drilling or dedicated seismic or other significant activity for four years.

Estimated minimum capital expenditures and general administrative expenditures for 2005 are $5,000,000 net of planned farmouts on certain properties. Sterling has flexibility over most of its capital expenditures and as to the percentage of its working interests farmed out.

For the past four years, Sterling's strategy for growth and financing has been successful. During this time the Company has increased its holdings of exploration lands, geological and geophysical work has enhanced the prospectivity of many of its properties and exploration prospects have been generated. All exploration prospects brought to the drillable stage have been successfully farmed out on a promoted basis. Plans are to increase the amount of drilling activity over the next two years on the Company's expanded portfolio of exploration properties. Successful drilling would result in production and cash flow with which to finance further activity.

## Business Risks

The international oil and gas industry is exposed to a variety of risks which include the uncertainty of finding new reserves, developing those reserves and finding markets for them, commodity price fluctuations, interest and exchange rates, and changes in government regulations. The oil industry is intensely competitive and Sterling must compete against companies that have larger technical and financial resources.

Sterling works to mitigate these risks by employing highly skilled personnel, focusing exploration efforts in areas where the Company has existing knowledge and expertise and access to such expertise, using current technology to enhance methods and controlling costs. The Company maintains a corporate insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts and other operating accidents and disruptions.

The oil and gas industry is subject to extensive and varying environmental regulations imposed by governments related to the protection of the environment. Sterling 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 operation.

Sterling reports to its shareholders in Canadian dollars. Fluctuations in the relationship of the Canadian dollar against the US dollar or UK pound sterling could adversely or favorably impact the value of Sterling's assets and liabilities in Canadian dollars.

Sterling has a large exploration portfolio and a number of undrilled prospects. Its ability to grow profitably will depend on its ability to drill successfully and develop these properties, as well as to obtain additional prospects.

## Selected Quarterly Information

The tables below present selected unaudited quarterly consolidated financial information relating to the Company for 2004 and 2003.

| | 2004 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| **Expenses** | | | | |
| General and administrative | | | | |
| corporate | $ 210,776 | $ 160, 356 | $ 243,536 | $ 170,777 |
| stock based compensation | $ 31,431 | $ 34,488 | $ 15,428 | $ 14,513 |
| Accretion | $ 300 | $ 300 | $ 300 | $ 300 |
| Depreciation | $ 2,748 | $ 1,204 | $ 987 | $ 987 |
| **Other income** | | | | |
| Interest | $ 20,607 | $ 17,148 | $ 205 | $ 216 |
| **Net loss** | $ 224,648 | $ 179,200 | $ 260,046 | $ 186,361 |
| **Net loss per common share** | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 |

| | 2003 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| **Expenses** | | | | |
| General and administrative | | | | |
| corporate | $ 169,214 | $ 165,986 | $ 147,108 | $ 92,000 |
| stock based compensation | $ 11,789 | $ 12,033 | $ 3,263 | $ 2,625 |
| Write-off of petroleum and natural gas properties | $ (2,764) | $ – | $ 555,871 | $ -- |
| Accretion | $ 247 | $ 246 | $ 247 | $ 246 |
| Depreciation | $ 1,095 | $ 1,143 | $ 1,177 | $ 1,177 |
| **Other income** | | | | |
| Interest | $ 1,062 | $ 2,649 | $ 842 | $ 411 |
| **Net loss** | $ 178,519 | $ 176,759 | $ 706,824 | $ 95,637 |
| **Net loss per common share** | $ 0.01 | $ 0.01 | $ 0.04 | $ 0.01 |

Note: The quarterly results above reflect the adoption of the new Canadian Institute of Chartered Accountants standard for reporting asset retirement obligations and hence differ from quarterly financial results originally reported.

Additional information about Sterling Resources Ltd. and its business activities is available on SEDAR at www.sedar.com.

# Management's & Auditors' Reports

## 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 principles 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.



"signed"
Robert G. Welty
*Chairman & Chief Executive Officer*

"signed"
Sherry L. Cremer
*Treasurer & Corporate Secretary*

*March 7, 2005*

## Auditors' Report

To the Shareholders of Sterling Resources Ltd.

We have audited the consolidated balance sheets of Sterling Resources Ltd. as at December 31, 2004 and 2003 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 Canadian generally accepted auditing standards. 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"signed"

Ernst & Young LLP
Chartered Accountants
*Calgary, Canada*

*March 2, 2005*

# Consolidated Balance Sheets



| As at December 31 | 2004<br>$ | 2003<br>$<br>(restated – note 3) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and short term investments [note 5] | **3,522,130** | 17,227 |
| Accounts receivable and prepaid expenses | **182,093** | 84,390 |
| | **3,704,223** | 101,617 |
| **Capital assets** [note 7] | | |
| Petroleum and natural gas properties and equipment | **10,492,650** | 9,237,465 |
| Furniture and fixtures | **31,850** | 20,155 |
| | **10,524,500** | 9,257,620 |
| | **14,228,723** | 9,359,237 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Bank indebtedness [note 8] | **–** | 75,000 |
| Accounts payable and accrued liabilities | **409,066** | 350,451 |
| | **409,066** | 425,451 |
| **Asset retirement obligations** [note 3] | **12,061** | 10,861 |
| **Commitments** [note 11] | | |
| **Shareholders' equity** | | |
| Share capital [note 10] | **19,691,149** | 14,052,083 |
| Contributed surplus | **201,848** | 105,988 |
| Deficit | **(6,085,401)** | (5,235,146) |
| | **13,807,596** | 8,922,925 |
| | **14,228,723** | 9,359,237 |

See accompanying notes

On behalf of the Board:

"signed"

Robert G. Welty
Director

"signed"

Robert B. Carter
Director

# Consolidated Statements of Operations and Deficit

| For the years ended December 31 | 2004<br>$ | 2003<br>$ |
|---|---|---|
| | | (restated note 3) |
| EXPENSES | | |
| General and administrative | **785,445** | 574,308 |
| Stock-based compensation expense [note 10] | **95,860** | 29,710 |
| Write-off of petroleum and natural gas properties [note 7] | **–** | 553,107 |
| Accretion [note 3] | **1,200** | 986 |
| Depreciation | **5,926** | 4,592 |
| | **888,431** | 1,162,703 |
| OTHER INCOME | | |
| Interest | **38,176** | 4,964 |
| **Net loss for the year** [note 9] | **850,255** | 1,157,739 |
| Deficit, beginning of year | **5,235,146** | 4,077,407 |
| Deficit, end of year | **6,085,401** | 5,235,146 |
| Net loss per common share – basic and diluted [note 4] | **0.02** | 0.06 |

See accompanying notes

# Consolidated Statements of Cash Flows

| For the years ended December 31 | 2004<br>$ | 2003<br>$<br>(restated note 3) |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss for the year | (850,255) | (1,157,739) |
| Add items not affecting cash: | | |
| Write-off of petroleum and natural gas properties [note 7] | – | 553,107 |
| Stock-based compensation expense | 95,860 | 29,710 |
| Accretion expense | 1,200 | 986 |
| Depreciation | 5,926 | 4,592 |
| Funds flow used in operations | (747,269) | (569,344) |
| Change in non-cash working capital | (39,088) | 14,914 |
| **Cash used in operating activities** | (786,357) | (554,430) |
| INVESTING ACTIVITIES | | |
| Petroleum and natural gas properties and equipment additions | (1,255,185) | (1,382,532) |
| Furniture and fixture additions | (17,621) | – |
| **Cash used in investing activities** | (1,272,806) | (1,382,532) |
| FINANCING ACTIVITIES | | |
| Issue of common shares, net of share issue costs | 5,639,066 | 1,669,515 |
| Repayment of bank indebtedness | (75,000) | – |
| **Cash provided by financing activities** | 5,564,066 | 1,669,515 |
| **Increase (decrease) in cash, during the year** | 3,504,903 | (267,447) |
| **Cash and short term investments, beginning of year** | 17,227 | 284,674 |
| **Cash and short term investments, end of year** | 3,522,130 | 17,227 |

See accompanying notes

# Notes to Consolidated Financial Statements

## 1. Description of Business and Basis of Presentation

Sterling Resources Ltd. (the "Company") 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.

## 2. Significant Accounting Policies

*Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Sterling Resources (UK) Ltd. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

*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 and that portion of general and administrative expenses related to acquisition, exploration and development activities.

All cost centers are in the pre-development stage and as such the costs in each centre are not subject to depletion. An assessment is performed at every reporting date to determine whether the aggregate net costs in each pre-development stage cost center are recoverable. Costs which are unlikely to be recovered are written off. 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.

*Furniture and fixtures*

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

*Asset retirement obligation*

The company recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed in the period. Actual costs incurred upon the settlement of the ARO are charged against the liability.

*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.

*Foreign currency translation*

Operations in foreign countries are translated using the temporal method, in which foreign currency denominated monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date, and 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 the consolidated statement of operations.

*Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, the Company records 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 income tax rates expected to apply in the years in which differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted.

*Stock options*

Under the Company's stock option plan, options to purchase common shares are granted to directors, officers, employees and consultants at current market prices. Options issued by the Company are accounted for in accordance with the fair value method of accounting for stock-based compensation, and as such the cost of the options is charged to operations over the vesting period, with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value of the options at the grant date determined using a Black-Scholes options pricing model.

*Measurement uncertainty*

The amounts recorded for depreciation of furniture and fixtures and are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of changes in such estimates in future periods could be material.

## 3. Change in Accounting Policy

Effective January 1, 2004, the Company adopted CICA Handbook Section 3110 "Asset Retirement Obligations" to account for future costs of abandonment of existing facilities. The effect of this change in accounting policy has been recorded retroactively with restatement of prior periods, as follows:

| Balance Sheet | 2003<br>$ |
|---|---|
| Asset retirement costs, included in natural gas and petroleum properties and equipment | 9,875 |
| Asset retirement obligations | 10,816 |

| Income Statement | 2003<br>$ |
|---|---|
| Accretion expense | 986 |

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas pre-exploratory stage activity. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $49,915 which will be incurred between 2005 and 2020. A credit adjusted risk-free rate of 10% and an inflation rate of 4% were used to calculate the fair value of asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

| Asset retirement obligations | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Balance, January 1 | 10,861 | 9,875 |
| Accretion expense | 1,200 | 986 |
| Balance, December 31 | 12,061 | 10,861 |

## 4. Earnings Per Share

The Company follows the treasury stock method for the computation of fully diluted per share amounts. Under this method, the diluted weighted average number of common shares is calculated assuming the proceeds from the exercise of dilutive securities are used to purchase common shares at the average market price. The effect of the options outstanding using the treasury method would not be dilutive for the years ended December 31, 2004 and 2003.

Net loss per common share is calculated based on net loss as the numerator in the calculation and the weighted average number of shares issued and outstanding during the year ended December 31, 2004 of 33,555,307 (2003 – 20,784,189) as the denominator.

## 5. Cash and Short Term Investments

Cash and short term investments includes $3,240,000 (2003 – $nil) of bankers' acceptances with maturities of less than 30 days, bearing interest at 2.17% in 2004.

## 6. Related Party Transactions

During 2003, the Company entered into a revolving demand credit facility agreement with the Royal Bank of Canada. In order to obtain this financing, the facility was guaranteed by a company owned by an officer and director of the Company. The facility was paid in full and closed in 2004.

During 2004, a company controlled by a director made non-interest bearing advances to the Company totaling $280,000. The advances were repaid in full on June 30, 2004.

## 7. Capital Assets

*(a) Petroleum and natural gas properties and equipment*

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Romanian oil and gas properties | 6,318,412 | 5,895,394 |
| U.K. oil and gas properties | 4,130,395 | 3,298,933 |
| Other | 43,843 | 43,138 |
| | 10,492,650 | 9,237,465 |

During the year ended December 31, 2003, the Company wrote-off $553,107, representing all of its petroleum and natural gas properties in Denmark which management determined would not provide benefit to the Company in the future, and which the Company was no longer interested in developing.

In order for the Company to maintain its working interests in its oil and gas properties in the pre-development stage, the Company has commitments to complete various seismic, geological, geophysical and other exploration work programs, none of which are of a material amount except those disclosed in note 11. The continuation of this work is dependent upon the ability of the Company to obtain continued financing and/or farm out any of its existing working interests.

*b) Furniture and fixtures*

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Furniture and fixtures | 90,269 | 72,642 |
| Less accumulated depreciation | (58,419) | (52,487) |
| | 31,850 | 20,155 |

## 8. Bank Indebtedness



The Company had a revolving demand credit facility available up to $250,000, of which $75,000 was drawn as at December 31, 2003. This facility bore interest at the Royal Bank of Canada prime lending rate plus 0.25% and was guaranteed by a shareholder [note 6]. The draw was paid out and facility arrangement terminated during 2004.

## 9. Income Taxes

Income taxes differ from the amounts that would be obtained by applying the Canadian statutory income tax rate to the loss before income taxes as follows:

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Computed income taxes (recovery) at the statutory rate of 38.87% (2003 – 40.75%) | (330,494) | (471,377) |
| Tax rate differential on foreign operations | 2,295 | 6,845 |
| Tax benefit of losses not recognized | 290,939 | 452,425 |
| Stock-based compensation | 37,260 | 12,107 |
| | – | – |

At December 31, 2004, the Company has the following approximate balances available to be claimed against future income for tax purposes:

| | $ |
|---|---|
| Undepreciated capital cost | 379,000 |
| Canadian exploration expenditures | 228,000 |
| Canadian development expenditures | 500,000 |
| Canadian oil and gas property expenditures | 269,000 |
| United Kingdom deductible expenditures | 6,780,000 |
| Foreign exploration and development expenditures | 3,867,000 |
| Undeducted share issue costs | 626,000 |

As well, as at December 31, 2004, the Company had the following approximate non-capital losses available to reduce future Canadian taxable income expiring as follows:

| | $ |
|---|---|
| 2006 | 129,000 |
| 2007 | 770,000 |
| 2008 | 392,000 |
| 2009 | 237,000 |
| 2010 | 205,000 |
| 2014 | 524,000 |
| Total | 2,257,000 |

The Company also has subsidiary UK tax losses carried forward of approximately $1,681,000 (2003 – $1,375,000), which are not subject to expiry. The benefit of these losses has not been recognized in these financial statements.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. As at December 31, 2004 and 2003, the Company has recognized a full valuation allowance against a future income tax asset arising from tax pools in excess of the net book value of capital assets, share issue costs and non-capital losses as follows:

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Tax pools in excess of net book value of capital assets | 549,805 | 547,724 |
| Share issue costs | 216,570 | 33,704 |
| Domestic and foreign non-capital losses | 1,454,229 | 1,289,845 |
| | 2,220,605 | 1,871,273 |
| Less valuation allowance | (2,220,605) | (1,871,273) |
| Future tax asset | – | – |

## 10. Share Capital

*a) Authorized*

Unlimited common shares without nominal or par value

*b) Issued*

| | Number of Shares | Amount $ |
|---|---|---|
| Common shares | | |
| Balance, December 31, 2002 | 16,675,967 | 12,382,568 |
| Issued for cash – private placement | 7,365,500 | 1,841,375 |
| Share issue costs | – | (171,860) |
| Balance, December 31, 2003 | 24,041,467 | 14,052,083 |
| Issued for cash – private placement | 19,406,575 | 6,221,722 |
| Share issue costs | – | (582,656) |
| Balance, December 31, 2004 | 43,448,042 | 19,691,149 |

*c) Stock options*

The Company has established a stock option plan whereby the Company may grant options to its directors, officers, employees and consultants. On December 31, 2004 there were 3,000,000 (2003 – 2,200,000) common shares reserved for issuance under the plan. 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 TSX Venture Exchange. The option's maximum term is five years and must vest over a period of not less than 18 months. Stock options currently issued vest over the initial three years. The following is a continuity of outstanding stock options:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Options | Weighted Average Exercise Price $ | Options | Weighted Average Exercise Price $ |
| Opening balance | 1,642,000 | 0.43 | 1,007,500 | 0.47 |
| Granted | 1,210,000 | 0.33 | 655,000 | 0.36 |
| Cancelled/Expired/Exercised | (407,500) | 0.42 | (20,000) | (0.30) |
| Outstanding at December 31 | 2,445,000 | 0.38 | 1,642,000 | 0.43 |

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2004:

| Exercise Price | Number Outstanding December 31, 2004 | Expiry Date | Number Exercisable December 31, 2004 |
|---|---|---|---|
| $ 0.32 | 50,000 | March 30, 2009 | 50,000 |
| $ 0.33 | 1,110,000 | July 1, 2007 | – |
| $ 0.36 | 625,000 | June 23, 2008 | 625,000 |
| $ 0.37 | 260,000 | February 5, 2007 | 96,667 |
| $ 0.43 | 50,000 | January 1, 2009 | 50,000 |
| $ 0.60 | 350,000 | January 23, 2006 | 253,333 |
| | 2,445,000 | | 1,075,000 |

The company has adopted the fair value method of accounting for all stock options granted to directors, officers, employees and consultants using the Black-Scholes option pricing model using the following assumptions:

| | 2004 | 2003 |
|---|---|---|
| Risk-free interest rate | 3.50 | 3.33% |
| Expected hold period to exercise | 3 years | 3 years |
| Volatility in the price of the Company's shares | 86.4% | 64.0% |
| Dividend yield | 0.00% | 0.00% |

*d) Warrants*

As a result of various private placements of shares as noted in b) above, there are 4,958,925 warrants outstanding as at December 31, 2004 (December 31, 2003 – 9,059,500) entitling the holder to acquire an additional treasury share for each warrant held on the following terms and conditions:

| Expiry Date | Number | Exercise Price |
|---|---|---|
| June 6, 2005 | 3,051,000 | $0.35 |
| June 16, 2005 | 1,907,925 | $0.35 |

No value has been ascribed to these warrants in these financial statements.

## 11. Commitments

The Company is committed to an operating lease for office premises and storage facilities with remaining payments of $18,996 in 2005, the year the leases expire.

The Company has issued an irrevocable letter of guarantee to the National Agency for Mineral Resources ("NAMR") in Romania totaling $450,000 USD on behalf of its wholly owned subsidiary, Sterling Resources (UK) Ltd. This amount represents the subsidiary's total share of anticipated Phase 3 costs of an exploration program pursuant to a concession agreement between the subsidiary and the NAMR. The term of this third phase extends from June 23, 2004 to December 24, 2005 and costs must be incurred during this time period or any extension thereof.

## 12. Financial Instruments

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

## 13. Segmented Information

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



*Segmented Information*

| | Corporate | United Kingdom | Romania | Other International | Total |
|---|---|---|---|---|---|
| December 31, 2004 | $ | $ | $ | $ | $ |
| Expenses | 557,405 | 331,026 | – | – | 888,431 |
| Other income | 36,021 | 2,155 | – | – | 38,176 |
| Net loss | 521,384 | 328,871 | – | – | 850,255 |
| Capital expenditures | 13,592 | 835,492 | 423,018 | 704 | 1,272,806 |
| Total assets | 3,347,249 | 4,519,219 | 6,318,412 | 43,843 | 14,228,723 |

| | Corporate | United Kingdom | Romania | Other International | Total |
|---|---|---|---|---|---|
| December 31, 2003 | $ | $ | $ | $ | $ |
| Expenses | 266,143 | 343,453 | – | 553,107 | 1,162,703 |
| Other income | 3,445 | 1,519 | – | – | 4,964 |
| Net loss | 262,698 | 340,948 | – | 553,107 | 1,156,753 |
| Capital expenditures | – | 351,249 | 939,608 | 91,675 | 1,382,532 |
| Total assets | 41,181 | 3,379,523 | 5,895,394 | 43,139 | 9,359,237 |

## 14. Subsequent Event

In February 2005, the Company completed a brokered and non-brokered private placement consisting of 30,000,000 common shares at a price of $0.90 per common share for gross proceeds of $27,000,000.

## STERLING RESOURCES LTD.

### Directors

Raj K. Agrawal
President, NRG Engineering Ltd.

Robert B. Carter [1] [2]
Independent Businessman

Ian Connor
Managing Director, Meridian Capital

Stewart G. Gibson
President & Chief Operating Officer
Sterling Resources Ltd.

Teck Soon Kong [1]
Independent Businessman

David E. Powell [1]
Independent Businessman

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

[1] Audit Committee
[2] Chairman Audit Committee

### Officers

Robert G. Welty
Chairman & Chief Executive Officer

Stewart G. Gibson
President & Chief Operating Officer

David A. Findlater
Vice President Exploration

Sherry L. Cremer
Treasurer & Corporate Secretary

### Corporate Headquarters

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E-Mail: ken@sterling-resources.com

### Auditors

Ernst & Young LLP

### Banker

The Royal Bank of Canada

### Legal Counsel

Stikeman Elliott LLP
Calgary, Canada

### Registrar and Transfer Agent

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

Computershare Investor Services Inc.
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Telephone: (800) 564-6253
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E-Mail: service@computershare.com

### Stock Exchange Listing

The TSX Venture Stock Exchange
Trading Symbol: SLG

## STERLING RESOURCES (UK) LTD.

(wholly owned)

### Directors

Michael Dodworth
Helensburgh, Scotland

Stewart G. Gibson
Aboyne, Scotland

David Miller
London, England

Robert G. Welty
Calgary, Canada

### Officers

Robert G. Welty
Chairman

Stewart G. Gibson
Managing Director & Corporate Secretary

David A. Findlater
Vice President Exploration &
Business Development

### United Kingdom Office

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