

STERLING GROUP VENTURES INC
Form 10QSB
April 14, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 Or 15(d) Of The Securities Act Of 1934

For the quarterly period ended **February 28, 2005**

Commission file number: **333-97187**

STERLING GROUP VENTURES, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

72-1535634

(IRS Employer Identification No.)

Suite 900 - 789 West Pender Street, Vancouver, B.C. V6C 1H2

(Address of principal executive offices)

(604) 893-8891

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:

Common Stock, \$0.001 par value

(Class)

40,277,500

(Outstanding as of April 12, 2005)

Transitional Small Business Disclosure Format (Check one): Yes No

STERLING GROUP VENTURES, INC.
FORM 10-QSB

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Part I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STERLING GROUP VENTURES, INC.
 (An Exploration Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
 February 28, 2005 and May 31, 2004
 (Stated in US Dollars)
 (Unaudited)

<u>ASSETS</u>	February 28, <u>2005</u>	May 31, <u>2004</u>
Current		
Cash and cash equivalents	\$ 1,052,758	\$ 634,207
Amounts receivable – Note 4	8,673	5,837
Prepaid expenses	34,516	-
	1,095,947	640,044
Advance on investment – Note 3	-	150,000
Capital assets	3,674	-
	\$ 1,099,621	\$ 790,044
 <u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities – Note 4	\$ 26,154	\$ 75,196
 <u>STOCKHOLDERS' EQUITY</u>		
Common stock, \$0.001 par value		
500,000,000 shares authorized		
40,277,500 outstanding (May 31, 2004: 38,126,000		
outstanding) – Note 5	40,278	38,126
Additional paid in capital	2,190,611	1,215,873
Share purchase warrants	40,110	-
Accumulated other comprehensive loss	(583)	(583)
Deficit accumulated during the exploration stage	(1,196,949)	(538,568)
	1,073,467	714,848
	\$ 1,099,621	\$ 790,044

SEE ACCOMPANYING NOTES

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STERLING GROUP VENTURES, INC.

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONSfor the three and nine months ended February 28, 2005 and February 29, 2004 and
for the period July 27, 1994 (Date of Incorporation) to February 28, 2005

(Stated in US Dollars)

(Unaudited)

	Three months ended		Nine months ended		July 27,1994 (Date of Incorporation) to February 28, 2005
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004	February 28, 2005
Revenue					
Interest income	\$ 4,600	\$ 7	\$ 10,429	\$ 7	\$ 11,005
Expenses					
Accounting, audit and legal fees	14,515	929	56,577	1,429	86,463
Amortization	387	-	972	-	972
Bank charges	104	-	390	-	540
Consulting fees – Note 4	58,872	-	178,121	-	229,251
Filing and transfer agent fees	379	2,877	4,241	4,437	22,615
General and administrative fees	6,236	766	18,543	766	24,166
Permit and engineering studies – Note 3	85,043	-	334,852	-	334,852
Shareholder information and investor relations	20,721	3,952	33,179	3,952	42,750
Stock-based compensation	-	368,641	-	368,641	368,641
Travel and entertainment	8,935	-	41,935	-	97,704
	195,192	377,165	668,810	379,225	1,207,954
Net loss for the period	\$ (190,592)	\$ (377,158)	\$ (658,381)	\$ (379,218)	\$ (1,196,949)
Basic loss per share	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ (0.01)	
Weighted average number of shares outstanding	40,258,611	27,122,198	40,072,291	25,704,818	

SEE ACCOMPANYING NOTES

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STERLING GROUP VENTURES, INC.

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWSfor the nine months ended February 28, 2005 and February 29, 2004 and
for the period July 27, 1994 (Date of Incorporation) to February 28, 2005

(Stated in US Dollars)

(Unaudited)

	Nine months ended		July 27, 1994 (Date of Incorporation) to February 28, <u>2005</u>
	February 28, <u>2005</u>	February 29, <u>2004</u>	
Cash Flows used in Operating Activities			
Net loss for the period	\$ (658,381)	\$ (379,218)	\$ (1,196,949)
Items not affecting cash:			
Amortization	972	-	972
Permit and engineering studies	150,000	-	150,000
Shareholder information and investor relations	10,500	-	10,500
Translation adjustment	-	(604)	(106)
Stock-based compensation	-	368,641	368,641
Changes in non-cash working capital items			
Amounts receivable	(2,836)	-	(8,673)
Prepaid expenses	(3,016)	(2,000)	(3,016)
Accounts payable and accrued liabilities	(49,042)	105	26,154
	(551,803)	(13,076)	(652,477)
Cash Flows used in Investing Activities			
Advance on investment	-	-	(150,000)
Acquisition of capital assets	(4,646)	-	(4,646)
	(4,646)	-	(154,646)
Cash Flows from Financing Activities			
Capital stock issued	975,000	-	1,858,000
Amounts contributed by a director	-	-	1,881
Share subscriptions received	-	290,000	-
	975,000	290,000	1,859,881
Increase in cash during the period	418,551	276,924	1,052,758
Cash and equivalents, beginning of the period	634,207	-	-
Cash and equivalents, end of the period	\$ 1,052,758	\$ 276,924	\$ 1,052,758

SEE ACCOMPANYING NOTES

/cont'd

STERLING GROUP VENTURES, INC.

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended February 28, 2005 and February 29, 2004 and
for the period July 27, 1994 (Date of Incorporation) to February 28, 2005
(Stated in US Dollars)
(Unaudited)

	Nine months ended		July 27, 1994
	February 28,	February 29,	(Date of
	<u>2005</u>	<u>2004</u>	Incorporation) to
			February 28,
			<u>2005</u>
Cash and equivalents consist of:			
Cash	\$ 71,972	\$ 126,917	\$ 71,972
Term deposits	980,786	150,007	980,786
	\$ 1,052,758	\$ 276,924	\$ 1,052,758
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -
Non-cash Transactions – Note 6			

SEE ACCOMPANYING NOTES

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STERLING GROUP VENTURES INC.

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)

for the period July 27, 1994 (Date of Incorporation) to February 28, 2005

(Stated in US Dollars)

(Unaudited)

	Common Shares		Additional	Share	Accumulated	Deficit	
	<u>Number</u>	<u>Par Value</u>	<u>Paid-in Capital</u>	<u>Purchase Warrants</u>	<u>Other Comprehensive Loss</u>	<u>Accumulated During the Pre-exploration Stage</u>	<u>Total</u>
Balance, July 27, 1994 (Date of Incorporation) \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Common stock Amount contributed by	1	1	-	-	-	-	1
director	-	-	1,881	-	-	-	1,881
Net loss for the period	-	-	-	-	-	(7,902)	(7,902)
Balance, May 31, 2001	1	1	1,881	-	-	(7,902)	(6,020)
Net loss for the year	-	-	-	-	-	(1,860)	(1,860)
Balance, May 31, 2002	1	1	1,881	-	-	(9,762)	(7,880)
Net loss for the year	-	-	-	-	-	(1,360)	(1,360)
Balance, May 31, 2003	1	1	1,881	-	-	(11,122)	(9,240)
Reverse Acquisition	(1)	(1)	(1,881)	-	-	-	(1,882)
Issuance of common shares for reverse acquisition	25,000,000	25,000	(23,119)	-	-	-	1,881

/cont'd

SEE ACCOMPANYING NOTES

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STERLING GROUP VENTURES INC.
 (An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)
 for the period July 27, 1994 (Date of Incorporation) to February 28, 2005
 (Stated in US Dollars)
 (Unaudited)

	Common Shares		Additional	Share	Accumulated	Deficit	
	<u>Number</u>	<u>Par</u> <u>Value</u>	<u>Paid in</u> <u>Capital</u>	<u>Purchase</u> <u>Warrants</u>	<u>Other</u> <u>Comprehensive</u> <u>Loss</u>	<u>Accumulated</u> <u>During the</u> <u>Pre-</u> <u>exploration</u> <u>Stage</u>	<u>Total</u>
Outstanding common shares of Company prior to acquisition	11,360,000	11,360	(10,883)	-	(583)	-	(106)
Issuance of shares for cash pursuant to a private placement – at \$0.50	1,766,000	1,766	881,234	-	-	-	883,000
Stock-based compensation	-	-	368,641	-	-	-	368,641
Net loss for the year	-	-	-	-	-	(527,446)	(527,446)
Balance, May 31, 2004	38,126,000	38,126	1,215,873	-	(583)	(538,568)	714,848
Issuance of shares for cash pursuant to a private placement – at \$0.50	1,950,000	1,950	973,050	-	-	-	975,000
Issuance of shares for finder's fee of private placement	101,500	102	50,648	-	-	-	50,750
Finder's fee	-	-	(50,750)	-	-	-	(50,750)

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Fair value of share purchase warrants								
finder's fee	-	-	(40,110)	40,110	-	-	-	-
Issuance of shares for services rendered	100,000	100	41,900	-	-	-	-	42,000
Net loss for the period	-	-	-	-	-	-	(658,381)	(658,381)
Balance, February 28, 2005	40,277,500 \$	40,278 \$	2,190,611 \$	40,110 \$	(583) \$	(1,196,949) \$		1,073,467

SEE ACCOMPANYING NOTES

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STERLING GROUP VENTURES, INC.

(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2005 (Stated in US Dollars)

(Unaudited)

Note Interim Financial Statements

1

While the information presented in the accompanying nine months to February 28, 2005 financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, result of operations and cash flows for the interim periods presented in accordance with the accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Operating results for the quarter ended February 28, 2005 are not necessarily indicative of the results that can be expected for the year ending May 31, 2005.

Note Principles of Consolidation

2

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Micro Express Holdings Inc., Micro Express Ltd., Micro Express (Lushi) Ltd. and Makaelo Limited. All inter-company transactions and account balances have been eliminated.

Note Mineral Projects – Note 7

3

a) Jiajika Spodumene Project

On September 16, 2003, the Company, entered into an agreement with a Chinese partner to acquire at least a 75% interest in a 30-year mining joint venture company, which will hold the mining licenses to develop the Jiajika Spodumene property located in Sichuan Province, China for the extraction of lithium and lithium salts. On April 5, 2005 the joint venture contract was executed. The Company is required to contribute RMB42,000,000 (US\$5,100,000) to earn its 75% interest as follows:

	<u>RMB</u>
On April 15, 2005	5,000,000
On or before July 31, 2005	10,000,000
After stage 1 construction	7,000,000
Within 2 years from the date of issuance of a business licence	20,000,000
	42,000,000

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Sterling Group Ventures, Inc.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
February 28, 2005
(Stated in US Dollars)
(Unaudited) – Page 2

Note

3 Mineral Projects – Note 7 – (cont'd)

a) Jiajika Spodumene Project – (cont'd)

As at February 28, 2005, the Company had advanced \$150,000 towards this project. These funds were used to acquire the mining permit and as a result this amount has been included in permit and exploration costs for the period ended February 28, 2005. In addition, the Company has spent \$16,691 (RMB138,000) for an environmental impact and water preservation study, \$24,288 (RMB200,000) for a feasibility study, \$31,633 (CDN\$41,629) for a preliminary review of the existing feasibility study report provided by the Chinese partner, \$19,370 (RMB160,000) for engineering design reports, \$7,264 (RMB60,000) for metallurgical test, \$43,584 (RMB360,000) for road design and \$6,053 (RMB50,000) for coordination and service costs.

b) Lushi Spodumene Property

On December 28, 2003, the Company, entered into a Letter of Intent to earn an interest of between 90% to 92% in a 30-year mining joint venture, which will hold the rights to develop the Lushi Spodumene property located in Henan Province, China. The Company shall contribute the total investment in the project. The amount of the investment will be determined by a pre-feasibility study. On April 10, 2004, the Company entered into a formal joint venture agreement with its Chinese partner to commence earning its 92% interest. As at February 28, 2005, the Company has spent \$10,910 (RMB90,000) for resource audit costs, \$22,988 (RMB190,000) for metallurgical testing work, \$1,217 (RMB10,000) for sampling fees and \$854 (RMB7,061) for report translation.

On August 18, 2004, Micro Express (Luchi) Ltd. was incorporated in the British Virgin Islands as the immediate holding company of the Lushi Spodumene Property.

Note

4 Related Party Transactions

The Company was charged consulting fees during the three months ended February 28, 2005 in the amount of \$40,488 and for the nine months ended February 28, 2005 in the amount of \$96,534 (July 27, 1994 (Date of Incorporation) to February 28, 2005: \$109,124) by companies controlled by directors of the Company.

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

Amounts receivable at February 28, 2005 includes \$Nil (May 31, 2004: \$5,663) due from a director of the Company with respect to travel advances.

Accounts payable and accrued liabilities at February 28, 2005 includes \$2,500 (May 31, 2004: \$Nil) due to two directors of the Company.

Sterling Group Ventures, Inc.

(An Exploration Stage Company)

Notes to the Interim Consolidated Financial Statements February 28, 2005

(Stated in US Dollars)

(Unaudited) – Page 3

Note Capital Stock

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Commitments:

a) Capital Stock

The Company has arranged a private placement of up to 5,000,000 units at \$0.50 per unit for total proceeds of \$2,500,000. Each unit consists of one common share and one share purchase warrant entitling the holder the right to purchase one common share at \$0.75 per share, expiring on February 16, 2006. Upon exercise of the share purchase warrant, an additional share purchase warrant will be granted at \$1.00 per share, expiring February 16, 2007. As at February 28, 2005, the Company has received total subscriptions of \$1,858,000 for 3,716,000 units. Finder's fee of 101,500 units with the aforementioned terms were issued.

b) Stock Options

During the nine months ended February 28, 2005, no stock options were granted, exercised or cancelled.

As at February 28, 2005, there were 3,636,000 stock options outstanding exercisable at \$0.50 per share, expiring on February 3, 2009.

c) Share Purchase Warrants

During the nine months period ended February 28, 2005, 2,051,500 share purchase warrants were issued, including 101,500 warrants with a fair value of \$40,110 for a finder's fee. No warrants were exercised or cancelled during the period.

As at February 28, 2005, the Company has a total of 3,817,500 share purchase warrants outstanding. Each warrant entitles the holder thereof the right to purchase one common share at \$0.75 per share, expiring on February 16, 2006. Upon exercising of the warrant, an additional share purchase warrant will be granted at \$1.00 per share expiring on February 16, 2007.

The fair values of the warrant granted to the finder range from \$0.24 to \$0.54 per share and were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used: dividend yield of 0%, expected volatility from 73.5% to 92.5%, risk-free interest rate from 2.99% to 3.27%, and an expected life of from 1.25 to 1.5 years.

Sterling Group Ventures, Inc.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
February 28, 2005
(Stated in US Dollars)
(Unaudited) – Page 4

Note Non-cash Transactions

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Investing and financing activities that do not have a direct impact on current cash flows are excluded from the cash flow statement. During the nine months ended February 28, 2005, the Company issued 101,500 common shares at a value of \$50,750 as commission paid to the broker for a private placement and issued 100,000 common shares at a value of \$42,000 for investor relations services. As at February 28, 2005, \$31,500 was included in prepaid expenses and \$10,500 was expensed. These transactions were excluded from the statement of cash flows.

Note Subsequent Events – Note 3

7

On March 2, 2005, the Company, through its wholly-owned BVI subsidiary, Makaelo Limited, entered into a Joint Venture Agreement with a Chinese citizen to earn a 52% interest in a 30 year cooperative joint venture company which will hold two exploration permits for a copper and silver project (the “Project”) located near Chifeng City, Inner Mongolia, China. In order to earn the interest, the Company will be required to spend RMB5,200,000 (\$628,368) in exploration costs in the permit areas over three years. The Company is required to spend in the first year not less than RMB2,000,000 (\$241,680). After the Company has earned its 52% interest in the cooperative company, contributions to fund the exploration and development of the Project will be made pro rata. The interest of the Chinese party will be diluted to not less than 10% if it elects not to make cash contributions.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

INTRODUCTION

The information presented here should be read in conjunction with Sterling Group Venture, Inc.'s (the "Company") financial statements and other information included in this Form 10-QSB. The Company has presented its quarterly financial statements, which should be read in conjunction with its annual financial statements and the notes thereto for the fiscal year ended May 31, 2004.

As used in this quarterly report, the terms "we", "us", "our", "our company", "Company" and "Sterling" mean Sterling Group Venture, Inc. and its subsidiaries, unless otherwise indicated.

When used in this Form 10-QSB, the words "expects", "anticipates", "estimates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties, including those set forth below under "Risks and Uncertainties," that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date hereof. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

PLAN OF OPERATIONS

Sterling is an exploration stage company and there is no assurance a commercially viable mineral deposit exists on any of the properties. Further exploration will be required before final evaluation as to the economic and legal feasibility is determined.

On January 20, 2004, the Company completed the acquisition of all of the issued and outstanding shares of Micro Express Ltd., a British Virgin Islands corporation ("Micro") pursuant to an Acquisition Agreement, filed as an exhibit to a Form 8-K on January 29, 2004. Pursuant to the transaction, the Company issued an aggregate of 25,000,000 shares of common stock to the stockholders of Micro in exchange for 100% of the shares of Micro common stock.

Jiajika Lithium Project

Micro is a party to an agreement signed on September 16, 2003 with Sichuan Province Mining Ltd for the development of Jiajika lithium project in Sichuan Province, China. Under the terms of the agreement, Micro has the right to acquire 75% of the shares of a joint-venture company to be formed. The business of the joint-venture company is to develop the Jiajika spodumene property for the extraction of lithium concentrate and other minerals.

The Jiajika lithium project is located in Kangding county, Sichuan Province, and 432 km southwest of Chengdu - the capital of Sichuan Province.

The Jiajika mining permit was issued to Sichuan Province Mining Ltd. on May 24, 2004. On June 22, 2004, the Bureau of Land and Resources of Sichuan Province also approved the joint venture proposal submitted by Sichuan Province Mining Ltd. Pursuant to the approval document, Sichuan Province Mining Ltd. will use its mining permit and part of cash as its contributions in the proposed joint venture company with Micro Express Ltd. Micro will contribute cash and bring the project into production.

In July 2004, Micro & our Chinese partner signed an agreement with China Nonferrous Engineering and Research Institute (ENFI) for the feasibility study of Jiajika project. In July 2004, Micro & our Chinese partner signed another agreement with Sichuan Research Academy of Environmental Sciences for the environmental impact and water preservation study of Jiajika project. In October 2004, Micro & our Chinese partner signed agreements with Sichuan

Shukang Geology Engineering and Survey Ltd. for a series of engineering studies including road measurement, topography survey and earthquake studies. In December 2004, Micro signed an agreement with

Beijing General Research Institute of Mining & Metallurgy (BGRIMM) to conduct metallurgical testing study of Jiajika project. In December 2004, Micro & our Chinese partner signed an agreement with Sichuan Forrest Reconnaissance Design and Research Institute for the road design of Jiajika project.

On April 5, 2005, the Company through its subsidiaries, Micro express Ltd., signed the Joint Venture Contract with Sichuan Province Mining Ltd. for the establishment of Jihai Lithium Ltd. (the JV Company) and the development of Jiajika lithium deposit. Pursuant to the JV contract, filed as an exhibit to a Form 8-K on April 11, 2005, the project is planned to be developed in two (2) stages with initial processing capacity of 240,000 tonnes of spodumene ore per annum and an increase to 900,000 t/a in stage II. The exploration process is conducted in phases. When phase one is completed, and upon analysis of the results of that first phase, the Company will make a decision whether to proceed with each successive phase of the exploration program. The initial registered capital is 56 million Chinese Yuan (US\$6.8 million). Sichuan Province Mining Ltd. will contribute 14 million Chinese Yuan (about US\$1.7 million) including the mining permits and previous works. Micro will contribute 42 million Chinese Yuan (about US\$5.1 million).

Lushi Lithium Project

On April 10, 2004, Micro signed a joint venture agreement with Lushi Guanpo Minerals Development Ltd. ("Lushi") for the exploration and development of Lushi lithium project in Henan Province, China. On May 26, 2004, the Company through Micro signed an agreement with Beijing General Research Institute of Mining & Metallurgy for the resource audit of Lushi spodumene property. On July 15, 2004, the Company, through Micro, signed another agreement with Beijing General Research Institute of Mining & Metallurgy for metallurgical testing of Lushi property.

Inner Mongolia Copper Project

On March 2, 2005, the Company through its subsidiary, Makaelo Limited, a company incorporated in the British Virgin Islands, had entered into a Joint Venture Agreement with Aifeng Li, an individual residing in Anyang, Henan Province of China. Pursuant to the Agreement, the parties will set up a Joint Venture company in Inner Mongolia for the exploration and development of copper and silver in the areas of Donggou and Xiaoxigou. Aifeng Li will contribute all the necessary exploration licenses, achievements and geological data to the Joint Venture in exchange for 48% of the Joint Venture company, while the Company will finance the cost of exploration in return for 52% of the Joint Venture company. The Company expects the cost of exploration to be approximately \$630,000 to be contributed over the three years.

Donggou and Xiaoxigou (DX) copper property is located in Linxi County, Chifeng, Inner Mongolia, and only 300km northeast of Beijing – the Capital of China.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended May 31, 2004; and should further be read in conjunction with the financial statements included in this report. Comparisons made between reporting periods herein are for the three and nine months ended February 28, 2005, as compared to the three and nine months ended February 29, 2004.

The Company had interest income of \$4,600 for the quarter ended February 28, 2005 as compared to \$7 for the quarter ended February 29, 2004. For the nine months ended February 28, 2005 the Company had interest income of \$10,429 as compared to \$7 for the nine months ended February 29, 2004.

The operating loss decreased to \$190,592 for the quarter ended February 28, 2005, compared to \$377,158 for the quarter ended February 29, 2004, while the operating loss for nine months ended February 28, 2005 increased to

\$658,381 compared to \$379,218 for the nine months ended February 29, 2004.

For the three months ended February 28, 2005, consulting services expenses increased to \$58,872 compared to \$0 for the quarter ended February 29, 2004. Consulting services expenses increased to \$178,121 for the nine months ended February 28, 2005 compared to \$0 for the nine months ended February 29, 2004. The increases in consulting services resulted from the Company's expanded operations focusing on development activities and financing activities.

Accounting, audit and legal fees increased by \$13,586 for the three months ended February 28, 2005 when compared to the three months ended February 29, 2004. Accounting, audit and legal fees increased by \$ 55,148 for the nine months ended February 28, 2005 when compared to the nine months ended February 29, 2004.

Permit and engineering studies costs increased to \$85,043 for the three months ended February 28, 2005, compared to \$0 for the three months ended February 29, 2004. Permit and engineering studies costs increased to \$334,852 for the nine months ended February 28, 2005, compared to \$0 for the nine months ended February 29, 2004.

Travel expenses increased to \$8,935 for the three months ended February 28, 2005, compared to \$0 for the three months ended February 29, 2004. Travel expenses increased to \$41,935 for the nine months ended February 28, 2005, compared to \$0 for the nine months ended February 29, 2004.

The Company expects the trend of losses to continue at an increasing rate until we can achieve commercial production on some of the mineral properties, of which there can be no assurance.

LIQUIDITY AND WORKING CAPITAL

As of February 28, 2005, the Company had total current assets of \$1,095,947, and total liabilities of \$26,154. The Company has a working capital surplus of \$1,069,793.

The Company has no other capital resources other than the ability to use its common stock to raise additional capital or exercise of the warrants by the unit holders. There is no assurance the Company will receive the funding.

RISK FACTORS

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock. We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

Lack of Technical Training of Management

The Management of our Company has academic and scientific experience related to mining issues but lacks technical training and experience exploring for, commissioning and operating a mine. With no direct training or experience in these areas, management may not be fully aware of many of the specific requirements related to working within this industry. The decisions and choices may not take into account standard engineering or managerial approaches mineral exploration companies commonly use. Consequently, operations, earnings and the ultimate financial success of the Company could suffer irreparable harm due to management's lack of experience in this industry.

Exploration Risk

Development of mineral properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate.

The company's exploration properties have not been examined in the field by professional geologists or mining engineers. There is no assurance that commercial quantities of ore will be discovered on any of the Company's exploration properties. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of the Company.

The exploration process is conducted in phases. When each phase of a project is completed, and upon analysis of the results of that phase, the Company will make a decision whether to proceed with each successive phase of the exploration program. There is no assurance that projects will be carried to completion.

Limited Management Resource Development Experience

The Company does not have a track record of exploration and mining operation history. The Company's management has limited experience in mineral resource development and exploitation, and has relied on and may continue to rely upon consultants and others for development and operation expertise.

Limited Operating History; Anticipated Losses; Uncertainty of Future Results

Sterling is an exploration stage company and there is no assurance a commercially viable mineral deposit exists on any of the properties. Further exploration will be required before final evaluation as to the economic and legal feasibility is determined.

Sterling Group Ventures, Inc. has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be evaluated with a view to the risks encountered by a company in an early stage of development, particularly in light of the uncertainties relating to the new and evolving distribution methods with which the Company intends to operate and the acceptance of the Company's business model. To the extent that such expenses are not subsequently followed by commensurate revenues, the Company's business, results of operations and financial condition will be materially adversely affected. There can be no assurance that the Company will be able to generate sufficient revenues from the sale of its products. If cash generated by operations is insufficient to satisfy the Company's liquidity requirements, the Company may be required to sell additional equity or debt securities. The sale of additional equity or convertible debt securities would result in additional dilution to the Company's stockholders.

Limited Financial Resources

Furthermore, the Company has limited financial resources with no assurance that sufficient funding will be available to it for future exploration and development or to fulfill its obligations under current agreements. There is no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects.

Limited Public Market, Possible Volatility of Share Price

The Company's Common Stock is currently quoted on the NASD OTC Bulletin Board under the ticker symbol SGGV. As of February 28, 2005, there were approximately 40,277,500 shares of Common Stock outstanding. There

can be no assurance that a trading market will be sustained in the future.

Potential Fluctuations in Quarterly Results

Significant variations in our quarterly operating results may adversely affect the market price of our common stock. Our operating results have varied on a quarterly basis during our limited operating history, and we expect to experience significant fluctuations in future quarterly operating results. These fluctuations have been and may in the future be caused by numerous factors, many of which are outside of our control. We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and that you should not rely upon them as an indication of future performance. Also, it is likely that our operating results could be below the expectations of public market analysts and investors. This could adversely affect the market price of our common stock.

Dependence on Executive Officers and Technical Personnel

The success of our business plan depends on attracting qualified personnel, and failure to retain the necessary personnel could adversely affect our business. Competition for qualified personnel is intense, and we may need to pay premium wages to attract and retain personnel. Attracting and retaining qualified personnel is critical to our business. Inability to attract and retain the qualified personnel necessary would limit our ability to implement our business plan successfully.

Need for Additional Financing

The Company believes it has sufficient capital to meet its short-term cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. However, if losses continue it may have to seek loans or equity placements to cover longer term cash needs to continue operations and expansion.

No commitments to provide additional funds have been made by management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to the Company to allow it to cover operation expenses.

If future operations are unprofitable, it will be forced to develop another line of business, or to finance its operations through the sale of assets it has, or enter into the sale of stock for additional capital, none of which may be feasible when needed. The Company has no specific management ability or financial resources or plans to enter any other business as of this date.

Political Risks

The market in China is monitored by the government, which could impose taxes or restrictions at any time which would make operations unprofitable and infeasible and cause a write-off of investment in the mineral properties. Other factors include political policy on foreign ownership, political policy to open the doors to foreign investors, and political policy on mineral claims and metal prices.

Market Risk

The Company does not hold any derivatives or other investments that are subject to market risk. The carrying values of any financial instruments, approximate fair value as of those dates because of the relatively short-term maturity of these instruments which eliminates any potential market risk associated with such instruments.

Other Risks and Uncertainties

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production. At present, none of the Company's properties has a known body of commercial mineral deposit. Other risks facing the Company include competition, reliance on third parties and joint

venture partners, environmental and insurance risks, political and environmental instability, statutory and regulatory requirements, fluctuations in mineral prices and foreign currency, share price volatility, title risks, and uncertainty of additional financing.

The Company has sought to identify what it believes to be the most significant risks to its business, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurances that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to the Company's stock.

ITEM 3. CONTROLS AND PROCEDURES

The management of the company has evaluated the effectiveness of the issuer's disclosure controls and procedures as of May 31, 2004, the date of their last annual report on Form 10KSB, and have concluded that the disclosure controls and procedures are adequate and effective based upon their evaluation as of the evaluation date.

There were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation of such, including any corrective actions with regard to significant deficiencies and material weaknesses.

Part II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On January 17, 2005, at an Annual Meeting of Shareholders, the shareholders approved the following matters:

1. Received the financial statements of the Company for its fiscal year ended May 31, 2004 and the report of the Auditors thereof.

27,527,920 shares voted in favor;
0 shares voted against; and
500 shares abstained.
2. Ratified the designation of Amisano Hanson as independent accountants for the annual period ending May 31, 2005.

27,528,420 shares voted in favor;
0 shares voted against; and
0 shares abstained.
3. Elected Board of four (4) directors to hold office until the next annual meeting of stockholders or until their respective successors have been elected and qualified: Richard Shao, Raoul Tsakok, Patrick Chan, and Gerald Runolfson.

For Richard Shao
27,528,420 shares voted in favor;
0 shares voted against; and
0 shares abstained.

For Raoul Tsakok

27,526,420 shares voted in favor;
2000 shares voted against; and
0 shares abstained.

For Patrick Chan
27,528,420 shares voted in favor;
0 shares voted against; and
0 shares abstained.

For Gerald Runolfson
27,528,420 shares voted in favor;
0 shares voted against; and
0 shares have abstained.

4. Approved the 2004 Incentive Stock Option Plan of Sterling Group Ventures, Inc.

27, 525, 920 shares voted in favor;
2,500 shares voted against; and
0 shares abstained.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

3.1	Articles of Incorporation of the Registrant (1)
3.2	Amended Bylaws of the Registrant (2)
<u>31.1</u>	<u>Section 302 Sarbanes-Oxley Certification of Chief Executive Officer</u>
<u>31.2</u>	<u>Section 302 Sarbanes-Oxley Certification of Chief Financial Officer</u>
<u>32.1</u>	<u>Section 906 Sarbanes-Oxley Certification of Chief Executive Officer</u>
<u>32.2</u>	<u>Section 906 Sarbanes-Oxley Certification of Chief Financial Officer</u>

- (1) Previously filed as an exhibit to Sterling Group Ventures, Inc. registration statement on Form SB-2 filed July 26, 2002
- (2) Previously filed as an exhibit to Sterling Group Ventures, Inc. quarterly report on Form 10QSB filed October 14, 2004.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 14, 2005

STERLING GROUP VENTURES, INC.

/s/ Richard Shao
Richard (Xuxin) Shao
President