
**CONSOLIDATED STATEMENTS  
OF CASH FLOWS**

Unaudited	Nine months ended Sept. 30, 2000	Nine months ended Sept. 30, 1999
<b>OPERATING ACTIVITIES</b>		
Net loss for period	\$ (516,588)	\$ (449,472)
Items not affecting cash:		
Depletion, depreciation and amortization	6,145	64,584
Gain on disposal of fixed assets	---	(33,370)
Cash flow from operations	(510,443)	(418,258)
Change in non-cash working capital	7,068	(36,620)
Cash used in operating activities	(503,375)	(454,878)
<b>INVESTING ACTIVITIES</b>		
Petroleum and natural gas properties and equipment additions	(1,029,173)	(689,880)
Furniture and fixture additions	(1,201)	(14,292)
Abandonment trust fund	---	11,387
Proceeds of disposal of capital assets	---	1,052,905
Cash used in investing activities	(1,030,374)	360,120
<b>FINANCING ACTIVITIES</b>		
Repayment of loan to officer	100,000	93,000
Issue (repurchase) of common shares, net of issue costs	233,100	(92,960)
Loan receivable	---	(155,991)
Cash used in financing activities	333,100	(155,951)
Increase (decrease) in cash	(1,200,649)	(250,709)
Cash and term investments, beginning of period	1,512,435	2,051,311
Cash and term investments, end of period	\$ 311,786	\$ 1,800,602

**CONSOLIDATED BALANCE SHEETS**

Unaudited	Sept. 30, 2000	Dec. 31, 1999
<b>ASSETS</b>		
<b>Current</b>		
Cash and short term investments	\$ 311,786	\$ 1,512,435
Accounts receivable	474,464	79,166
	<u>786,250</u>	<u>1,591,601</u>
Due from officers	440,000	540,000
<b>Capital assets</b>		
Petroleum and natural gas properties and equipment	4,858,729	3,911,668
Furniture and fixtures	34,182	39,142
	<u>4,892,911</u>	<u>3,950,810</u>
	<u>\$ 6,119,161</u>	<u>\$ 6,082,411</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 170,062	\$ 119,324
<b>Shareholders' equity</b>		
Share capital	8,310,328	7,807,728
Contributed surplus	66,479	66,479
Deficit	(2,427,708)	(1,911,120)
	<u>5,949,099</u>	<u>5,963,087</u>
	<u>\$ 6,119,161</u>	<u>\$ 6,082,411</u>

sterling resources ltd.


 Third  
Quarter  
Report

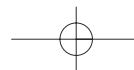
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3

 for the nine  
months ended  
September 30, 2000

THIRD QUARTER REPORT



**MESSAGE TO SHAREHOLDERS**

In the third quarter of 2000 Sterling strengthened landholding positions in the United Kingdom and advanced preparations for drilling onshore the United Kingdom and offshore Romania.

**Onshore United Kingdom**, preparations have progressed for the drilling of Sterling's first wells in the Wessex Basin. The positive results from a geochemical survey conducted over PEDL 048, served to confirm the selection of our first drilling location which has been submitted to the local Planning Authorities. The well is expected to spud early next year. A well is also planned for an adjacent license.

In September, Sterling was awarded five new exploration licenses from the UK Department of Trade and Industry as a result of the 9th Round of Onshore Licensing. The five licenses, totaling one half million gross acres (240,000 net acres), add materially to Sterling's existing UK presence and bring Sterling its first operated positions in the UK. Three of the new licenses consolidate Sterling's position in the Wessex and Weald Basins and the remaining two licenses establish a significant position in the Cleveland Basin in the north east of England. All three basins are in established hydrocarbon producing areas and the licenses are close to producing fields, with known structures and in several cases containing discoveries.

**Offshore Romania**, where Sterling holds a 20% working interest in the Midia and Pelican Blocks in the Black Sea, the joint venture group concluded the technical effort and planning for further appraisal of the Doina gas discovery and associated Doina trend. A Doina appraisal well location has been agreed to along with two possible further locations for the Doina trend. Site surveys required for rig positioning are being completed in preparation for the first well, which is scheduled for drilling with a jack-up rig in early 2001. The technical review of both blocks integrated the results of the new seismic, a rework of geochemistry with core analyses and petrophysics. This recent technical effort further defined additional large

structures on both blocks, separate from the Doina trend, some of which have the potential to be oil-bearing. Further technical work will be undertaken.

**Onshore Romania**, Sterling received final Government approval for its Concession Agreement for the South Craiova block. This exploration block, in which Sterling holds a 100% interest, covers an area of 1.5 million acres. Initial exploration activity will commence in the fourth quarter and will include the reinterpretation and reprocessing of existing seismic data and the acquisition of new seismic over a portion of the block.

**Onshore Denmark**, the recent geochemical survey conducted over Block 5/97 gave some positive indications, and accordingly a work program for the next year has been formulated to evaluate this prospect further.

In September, Sterling discontinued negotiations with a private European firm on its offer to Sterling of a private placement of approximately 6 million shares, and is in discussions with other interested parties.

Sterling's primary efforts over the past two years have been to assemble a portfolio of quality international exploration projects. We are pleased with the results. Our activities will now be concentrated on advancing each of the projects to a drilling prospect stage.



R. G. Welty  
Chairman and  
Chief Executive Officer

November 8, 2000



Stewart G. Gibson  
President and  
Chief Operating Officer

**CONSOLIDATED STATEMENTS  
OF OPERATIONS AND DEFICITS**

Unaudited	Nine months ended Sept. 30, 2000	Nine months ended Sept. 30, 1999
<b>REVENUES</b>		
Oil and gas, net of royalties	\$ ---	\$ 167,852
	---	167,852
<b>EXPENSES</b>		
Operating	---	31,099
General and administrative	537,251	622,371
Depletion and depreciation	6,145	64,584
	543,396	718,054
<b>OTHER INCOME</b>		
Interest	26,808	67,360
Gain on sale of capital assets	---	33,370
	26,808	100,730
Net loss for the period	(516,588)	(449,472)
Deficit, beginning of period	(1,911,120)	(1,277,888)
Deficit, end of period	\$ (2,427,708)	\$ (1,727,360)

Note to Consolidated Financial Statements  
1. Change in Accounting Policy

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under the liability method, the Company will record future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. There is no material affect to the financial Statements at January 1, 2000 or September 30, 2000.