



Third Quarter Report

For the Nine Months Ended September 30, 2001

Message to Shareholders

Sterling moved into the drilling stage of its exploration activity with the spudding of the Doina well, offshore Romania, during the third quarter. In addition, several other prospects were matured to the point where locations have been selected for drilling during 2002.

Romania

Offshore Romania, the Doina-3 well was spudded on August 29, 2001. The 1,500 meter well was drilled to appraise the existing Doina discovery within the main sand section and evaluate an additional upper sand interval to the west of the original Doina discovery. The main Doina sand, which tested gas in the previous discovery well, was encountered close to prognosis, confirmed the extent of the gas-bearing main reservoir and had an overall net pay slightly better than expected. Porosities and permeabilities in the main sand section were in the region of 30% and up to 5 Darcies respectively. However, the shallower reservoir target was not well developed. The well was plugged and abandoned as a gas well. Well results will be incorporated into the existing database over the coming months to determine further activities.

Onshore Romania, a detailed technical evaluation over the eastern portion of the 1.5 million acre block, incorporating reprocessed seismic and digitized well data, has identified several leads, some of which are analogous to the neighbouring producing fields in Romania and Bulgaria. Ongoing work involves the high grading of the leads, the planning for new seismic acquisition and a geochemical survey to firm up potential 2002 drilling locations.

United Kingdom

The drilling of the West Compton-1 well onshore UK on license PEDL 048, which had been delayed due to the impact of the foot and mouth epidemic, is expected to spud in the first quarter of 2002, following completion of access road improvements and site construction. The West Compton prospect is a fault-closed structure at Sherwood Sandstone level. The prospect lies at the western end of the Central Wessex High, a stable structural trend which was the focus for the migration of oil, and updip from the Wytch Farm oil field, the largest onshore oil field in Western Europe.

Technical work on Sterling's other UK licenses has resulted in the identification of several leads and potential drilling locations. These will be further refined in preparation for a 2002 drilling campaign. Initial planning activities have commenced over four potential 2002 drilling sites.

Denmark

Geological and geophysical activity is being conducted on both new license areas, 1/01 (South Jutland) and 2/01 (Salling). On 2/01 trial reprocessing of key lines has been completed and refinement of the main prospective areas is underway incorporating regional geological and maturation studies.

The results of the full block evaluation of 5/97 concluded that the potential structures were more complex, deeper and smaller than anticipated. Based on this, the license was relinquished on September 15, 2001.

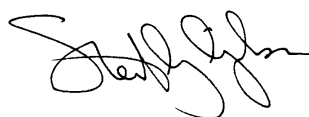
Financial

In October 2001 the Company completed a private placement financing of 500,000 common shares at \$0.60 per share. Proceeds of the issue will be used to finance the Company's on-going work programs and to augment working capital.

On behalf of the Board of Directors



Robert G. Welty
Chairman & Chief Executive Officer



Stewart G. Gibson
President & Chief Operating Officer

November 13, 2001

Consolidated Balance Sheets

Unaudited

	Sept. 30, 2001	Dec. 31, 2000
ASSETS		
Current		
Cash and short term investments (note 3)	\$ 1,460,866	\$ 98,231
Accounts receivable	122,089	95,500
	1,582,955	193,731
Due from officers	240,000	440,000
Capital assets		
Petroleum and natural gas properties and equipment	7,200,329	5,208,977
Furniture and fixtures	30,791	33,280
	7,231,120	5,242,257
	\$ 9,054,075	\$ 5,875,988
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 626,772	\$ 259,970
Shareholders' equity		
Share capital (note 2)	11,612,046	8,310,328
Contributed surplus	66,479	66,479
Deficit	(3,251,222)	(2,760,789)
	8,427,303	5,616,018
	\$ 9,054,075	\$ 5,875,988

See selected notes to consolidated financial statements.

Consolidated Statements of Operations and Deficit

Unaudited

	Three months ended Sept. 30, 2001	Three months ended Sept. 30, 2000	Nine months ended Sept. 30, 2001	Nine months ended Sept. 30, 2000
Revenues				
Oil and gas, net of royalties	\$ –	\$ –	\$ –	\$ –
	–	–	–	–
Expenses				
Operating	–	–	–	–
General and administrative	133,613	85,630	473,032	427,686
Project costs (note 2)	34,099	39,444	87,505	109,565
Depletion and depreciation	1,767	1,935	5,750	6,145
	169,479	127,009	566,287	543,396
Other Income				
Interest	26,615	3,679	75,854	26,808
Net loss for the period	(142,864)	(123,330)	(490,433)	(516,588)
Deficit, beginning of period	(3,108,358)	(2,304,378)	(2,760,789)	(1,911,120)
Deficit, end of period	\$ (3,251,222)	\$ (2,427,708)	\$ (3,251,222)	\$ (2,427,708)
Net loss attributable per common share (note 2)				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.06)
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.05)
Weighted average number of shares outstanding	14,396,637	8,857,336	11,841,987	8,857,336

See selected notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Unaudited

	Three months ended Sept. 30, 2001	Three months ended Sept. 30, 2000	Nine months ended Sept. 30, 2001	Nine months ended Sept. 30, 2000
Operating Activities				
Net loss for period	\$ (142,864)	\$ (123,330)	\$ (490,433)	\$ (516,588)
Items not affecting cash				
Depletion, depreciation and amortization	1,767	1,935	5,750	6,145
Cash flow from operations	(141,097)	(121,395)	(484,683)	(510,443)
Change in non-cash working capital	909,373	(22,834)	340,212	7,068
Cash used in operating activities	768,276	(144,229)	(144,471)	(503,375)
Investing Activities				
Petroleum and natural gas properties and equipment additions	(1,398,190)	(292,223)	(1,991,351)	(1,029,173)
Furniture and fixtures additions	(1,125)	–	(3,261)	(1,201)
Cash used in investing activities	(1,399,315)	(292,223)	(1,994,612)	(1,030,374)
Financing Activities				
Repayment of loan to officer	200,000	100,000	200,000	100,000
Issue of common shares, net of issue costs	304,800	157,500	3,301,718	233,100
Cash provided by financing activities	504,800	257,500	3,501,718	333,100
Increase (decrease) in cash	(126,239)	(178,952)	1,362,635	(1,200,649)
Cash and short term investments, beginning of period	1,587,105	490,738	98,231	1,512,435
Cash and short term investments, end of period	\$ 1,460,866	\$ 311,786	\$ 1,460,866	\$ 311,786

See selected notes to consolidated financial statements.

Selected Notes to Consolidated Financial Statements

Nine months ended September 30, 2001

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The interim consolidated financial statements of Sterling Resources Ltd. have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2000. The disclosures included below are incremental to those included with annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2000.

NOTE 2 - CHANGES IN ACCOUNTING POLICIES

In 2001, the Company retroactively adopted the new Canadian Institute of Chartered Accountants earnings per share standard. The new standard relates to the computation, presentation and disclosure of earnings per share. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments.

Prior period diluted net income attributable per common share has been restated for this change. If the imputed earnings method had been used to calculate these amounts, there would not be a material dilutive effect on net income attributable per common share.

The Company has adopted the policy of segregating project costs from general and administrative expenses. Prior period general and administrative costs have been restated for this change.

NOTE 3 - CASH AND SHORT TERM INVESTMENTS

At September 30, 2001, included in cash and short term investments are \$1,142,674 of bankers' acceptances with maturities of less than 90 days, bearing interest between 2.90% and 2.10%.

NOTE 4 - SHARE CAPITAL

a) Authorized

Unlimited common shares without nominal or par value

b) Issued and outstanding

	Number of Shares	Amount \$
Common shares		
Balance, December 31, 2000	9,212,336	8,310,328
Private placement	5,592,964	3,355,580
Exercise of stock options	176,667	74,800
Share issue costs	-	(128,662)
Balance September 30, 2001	14,981,967	11,612,046

The Company has a stock option plan under which employees, directors and officers are eligible to receive grants. On September 30, 2001, there were 942,500 common shares reserved for issuance under the plan with exercise prices between \$0.375 and \$0.90. Options granted under the plan are generally fully exercisable after three years and expire in five years after the grant date.

	Number of Options	Weighted Average Exercise Price
Stock options outstanding at December 31, 2000	659,167	\$ 0.54
Granted	460,000	0.60
Exercised	176,667	0.42
Cancelled	-	-
Stock options outstanding at September 30, 2001	942,500	0.59
Exercisable at September 30, 2001	330,000	\$ 0.67