

**Stream Oil & Gas Ltd.**

Form 51-102F1

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**First Quarter**

**Three months ended February 28, 2009**

### **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

This Management Discussion & Analysis (MD&A) contains forward-looking statements, which reflect, among other things, management's expectations regarding the Company and the Company's properties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements.

Such forward-looking information, including but not limited to statements such as production targets, timing of the company's planned work program and management's belief as to the potential of certain properties, involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

Such factors include, among others, risks and uncertainties associated with exploration, petroleum operations and risks associated with equipment procurement and equipment failure as well as those described under "Business Risks and Uncertainties" in the Company's Information Circular.

The Company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this MD&A should not be unduly relied upon.

### **Non-GAAP Measures**

Stream Oil & Gas Ltd. (Stream or the Company) uses the following common oil and gas industry non-GAAP measures in discussing its operating results:

- Net operating income is revenue net of royalties, operating and sales and transportation costs. This provides a useful comparative measure of the Company's operations before general and administration costs and other expenses and income.
- Operating net back per barrel (bbl) is determined by dividing operating income by Stream's share of total production. The oil and gas industry uses this measure to indicate the contribution per barrel.

### 1. INTRODUCTION

The Company is an emerging oil and gas production, development and exploration company, currently focused on its three oil fields and a gas field in Albania. The Company's shares trade on the TSX-Venture Exchange under the symbol "SKO".

The following is management's discussion and analysis (MD&A) of the financial condition and results of the operations of Stream Oil & Gas Ltd. (the "Company" or "Stream") for the three month period ended February 28, 2009 and with comparisons to the four-month period ended February 29, 2008.

This MD&A includes information and expectations concerning the Company's outlook based on currently available information and should be read in conjunction with the Company's management-prepared financial statements and related notes for the corresponding period.

All figures are in United States dollars unless otherwise stated.

This MD&A is prepared as of April 24, 2009

### 2. OVERALL PERFORMANCE- FIRST QUARTER 2009

#### Results of Operations

Stream has one operating and reportable segment: all exploration and production operations in this operating segment are conducted in Albania through the Company's wholly owned subsidiary Stream Oil And Gas (CI) Ltd.

During its first quarter Stream's total revenue was \$809,114 compared to \$453,000 during its first four months of operations in 2008.

Stream's share of average daily oil production was 230 bbls in Q1, compared to 120 bbls/day in the first quarter of 2008. Production increased throughout 2008 because of Stream's program of well takeovers, workovers and reactivations.

Stream has made all required expenditures under its Petroleum Agreements and now needs to conserve cash pending fund raising. Further development work has therefore been minimal and as a consequence, Stream did not increase production during its first quarter of 2009.

Stream's average price per barrel of oil during Q1 was about \$ 34 compared to \$29 during the first quarter of 2008. The Q1 2009 price is an estimate based on the Company's sales to an independent customer.

During the first quarter of 2009, Stream remained dependent on one customer, Albpetrol, which sells Stream's share of production to the local refinery, ARMO. The refinery determined pricing. A sales price agreement with the refinery, has not yet been finalized.

Stream's share of production averaged 275 mcf of gas per day and 13 bopd of condensate during the first quarter of 2009, compared to 275 mcf of gas and 11 bbls condensate/day in Q1 2008. The price per mcf of gas is currently being negotiated with the ARMO refinery and the Company expects that it will remain at around \$12 in Q1 2009, as compared to \$12 in Q1 2008. For condensate the price per barrel was \$65 in Q1 2009 compared to \$80/bbl in Q1 2008.

## Management's Discussion & Analysis

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While the Company has positive operating income, its net loss for the three months ended February 28, 2009 was \$255,674 or, \$0.01 per share, compared to \$267,000 or \$0.01 per share for the four months ended February 29, 2008.

General and administrative expenses continue to be relatively high. The Company has over 70 employees, operates four separate oil and gas fields and three administrative and corporate offices in Albania and Canada. Most of these overhead costs are relatively fixed. With its relatively low start-up share of production, the Company has not yet been able to benefit from economies of scale.

### **Cash flow and working capital**

As of April 24, 2009, the Company's cash balance was about \$300,000. Accounts receivable from Albpetrol, net of Albpetrol's payable was about \$1.4 million and accounts payable, not including amounts payable to Albpetrol was \$1.3 million Working capital was about \$400,000.

Working capital has continued to decline since the Company's year -end of Nov 30, 2009, when working capital was \$1,166,249. This is because the Company has not received payment from Albpetrol since November, 2008.

Stream continues to have discussions with Albpetrol in settling outstanding receivables. Stream has not received any payments from Albpetrol since November 2009 as a result of Albpetrol's own cash flow difficulties. Stream has been offsetting part of the receivable by using Albpetrol for various field services.

In March 2009, Stream entered into a sales contract with a new local customer to take up part or all of Stream's share of crude oil production from Cakran and Gorisht at approximately \$35 per barrel. This is expected to have a positive impact on cash flow because the customer will pay for production on delivery.

Stream is continuing to negotiate sales arrangements directly with the new ARMO refinery owners, especially for the gas providing for direct payments for the remainder of 2009.

Because of Albanian infrastructure limitations, Stream is not yet in a position to market its gas and therefore gas production is limited to the amount that can be sold to the refinery for the refinery's operating requirements.

### **Capital Expenditures**

Capitalized property expenditures were \$522,486 during the first quarter of 2009, compared to \$543,000 in Q1 2008. Due to capital market uncertainties, the Company has deferred further capital expenditures until later in the year.

### **Strategic Priorities**

The Company's priorities during the first quarter of 2009 were:

- Finalizing consulting agreements to engage additional technical and marketing expertise to develop the Company's assets and prepare a three-year plan of development by September 2009. The development plan will cover proving the fields, and, subject to available funding, drilling new horizontal wells, increasing oil and gas production, and cash flow.
- Establishing new markets and investigating export opportunities.

The safety of Stream's employees and positive community relationships is paramount as is improving and maintaining high environmental standards. Stream will continue to strengthen relationships with the Albanian authorities, local communities, employees and investors.

### **Performance Measures**

Cash flow has recently improved as a result of new sales contracts. Production and total sales will remain at current levels until the complete takeover of the Cakran field.

The Company continues to optimize general and administrative costs which it has reduced to \$365,000 in the first quarter of 2009, compared to \$549,000 in Q1 2008.

### **Industry and Economic Factors**

US dollar/Albanian Lek and US dollar/Canadian dollar exchange rate fluctuations expose Stream to foreign exchange losses. The Company records sales and accounts receivable in Albanian Lek. The depreciation of the Lek against the US dollar therefore negatively impacted the Company in Q1. Foreign exchange losses were \$63,710. Stream's Albanian employees' contracts require payment in US dollars. Stream holds most of its cash in US dollars. Fluctuations in the Canadian dollar expose the Company to changes in head office costs, including professional fees. The lower Canadian dollar compared to the same period in 2008 contributed to a reduction in head office costs.

Pricing for the Company's production varies as a result of its sales contract pricing formula based on the Brent oil price.

## **3. RESULTS OF OPERATIONS**

### **Production and revenue**

Under its Petroleum Agreements, Stream has the right to takeover a total of 574 wells, 244 of which are currently in production. To the end of its first quarter 2009, Stream has taken over a total of 87 wells, 44 of which are currently producing. No new wells were taken over in the first quarter of 2009

From these 44 producing wells, Stream produced a total of 26,767 barrels (bbls) over the three month period ended February 28, 2009. Stream's share of this production was 13,275 barrels. Stream's share of daily production currently averages 225 bbls per day.

In addition, during Q1, the Company produced about 536 mcf of gas per day, of which 275 mcf per day was attributed to Stream; and 26 bbls of condensate, 13bbls of which were attributed to Stream.

Stream delivers its oil and gas production to a local refinery via Albpetrol's treatment facilities. Except for condensate sales, Albpetrol (and indirectly, the Refinery) was Stream's only customer for its oil production in Q1. Beginning in Q2, Stream has entered into sales contracts with other customers. Total revenues net of royalties from Stream's share of production were \$ 809,114 during the Company's first quarter 2009 (\$ 452,947 in Q1 2008).

Over the past quarter, Stream expects to receive an average of about \$35/bbl of oil, \$12/ mcf for gas and \$65/bbl for condensate. The Company's previous pricing formula is currently being renegotiated with Albpetrol and the new refinery owners.

The Company is currently in discussions with Albpetrol and expects to be able to takeover the remaining wells in the Cakran field and thereby increase average daily production to about 500 bbls

by the end of 2009. The takeover program will be escalated if the Company is able to secure financing.

### **Operating costs**

During Q1 2009, the Company's operating costs were \$465,485 compared to \$142,931 in Q1 2008. The increased costs are the result of the Company's well takeovers and increased payroll which is currently at 71 employees.

### **General and Administrative (G&A)**

Total professional fees were \$100,034 compared to \$182,410 in Q1 2008. Professional costs are lower in 2009 as a result of lower legal fees compared to 2008 when the Company was completing its reverse takeover and applying for TSX Venture listing. Management fees are also significantly lower at \$168,229 in Q1 of 2009 compared to \$270,616 in Q1 2008 as a result of administrative cost-cutting measures. The company operates four different oil and gas fields in Albania and maintains two administrative offices in Albania, and a Vancouver, Canada corporate office.

### **Capital Expenditures**

Stream spent \$522,486 on its properties, including \$222,000 for its seismic program in the gas field and \$300,486, mainly for work-overs and upgrades.

### **Royalties, Direct Expense and Netbacks**

In accordance with its Petroleum Agreements, Stream's share of production is based on a formula whereby the Company receives 30 to 35% of baseline production, established at the time of well take over and declining at a rate of 10% per year, plus 100% of incremental production. Stream must pay an additional 2-4% royalty depending on a cost recovery factor and an additional 0.4 to 1.2 % of profits.

In 2008, a new royalty law passed whereby 10% of revenue must be paid to the state. Under the Petroleum Agreements, such new royalties must have a neutral effect and Stream is therefore in the process of negotiating amendments to its Agreements.

Stream expects current discussions to conclude favorably and amendments to the Agreements will be finalized within the next few weeks.

Because Stream is still at the start-up and evaluation stage, its share of production is still relatively low and it has not yet achieved the benefits of the 100% incremental production it is entitled to under its Petroleum Agreements. The Company is nevertheless responsible for 100% of the operating costs for the wells it operates. The Company does not yet benefit from significant economies of scale. Stream operates in four separate oil and gas fields. Operating netback in Q1 2009 was about \$ 21.45 compared to \$19.07 in Q1 2008.

### **Amortization and Depletion**

Amortization and depletion increased to \$62,558 in the first quarter of 2009 compared to \$9,928 in the first quarter of 2008. The increase reflects mainly amortization of equipment acquired during the previous year.

### Activity Highlights

#### Reactivation and Development Program

The Company's 2009 work program and budgets were approved by the Albanian National Agency of National Resources (AKBN) in March 2009.

The 2009 Work Program and Budget (WP&B) objectives are to reach 500 bopd net by year-end.

Based on the success ratios in some wells and assuming that all the new requested wells to be taken over will have similar success ratios the Company plans to take-over 47 wells by Q3-2009.

Stream is currently conducting an 18-month initial field reactivation and redevelopment program to maximize reservoir performance and substantially increase production through advanced well re-activation and rehabilitation methods. In the gas field, a 24 month evaluation and exploration program is in place and a seismic program to update mapping and reserve estimates is now in progress.

The Company also plans to complete a full review of its four oil and gas fields in accordance with NI 51-101 standards by the end of 2009, to determine recoverable reserves.

The following is a summary of the activity on Stream's four Albanian properties:

**Delvina field** was discovered in 1987, and is a gas condensate field with reservoirs at a depth of 2800-3500m. The field is currently producing from two wells out of four. The Company upgraded the infrastructure and optimized production control of the gas and condensate. Gas tests to understand phase behaviour and a PVT analysis study were also completed. Stream management is evaluating the results of passive seismic and 2D seismic work for mapping and estimating upside potential.

Subject to additional funding, Stream has reserved a rig to do rehabilitation work in this field and the Cakran-Mollaj field.

Field production, when the refinery operates, is about 18,200 cubic meters gas per day and 25 bopd condensate. Of this production, 10,800 cubic meters of gas per day and 13 bopd of condensate are attributable to Stream as of February 28, 2009.

The Company is evaluating various options including the development of the field by drilling extra production wells for gas power generation and upgrading condensate production and storage.

**Ballsh-Hekaj field** was discovered in 1966, is a heavy oil field (11 API) currently producing from 81 wells out of 212. The Company is conducting a staged rehabilitation program on 16 producing wells in the field and has taken over another eight for reactivation. The field production as of February 28, 2009 is 550 bop/d, of which 79 bop/d are attributable to Stream.

**Gorischt-Kocul field** was discovered in 1965, is a heavy oil field (15 API) currently producing from 135 wells out of 295. Well depths range from 400-1250 m. This field still has good potential to further increase production. The Company is now running a staged rehabilitation program on 13 producing wells in the field and has taken over another 14 for reactivation. Field production as of February 28, 2009 is around 925 bop/d, of which 70 bop/d are attributable to Stream.

**Cakran-Mollaj field** was discovered in 1977 and is currently producing a medium gravity crude (25 API) from 27 wells out of 65. This is the deepest of the Company's oil fields at 2650-3700 m. Management's goal for the project is to increase production three to five fold by using modern technology.

The Company performed flow improvement tests and optimized performance on two wells. Infrastructure upgrades are in progress. The Company has reserved a rig, subject to fund raising, in order to start a staged rehabilitation program on the 14 producing wells that Stream operates in the field and reactivation of another well that was taken over recently. Field production as at February 28, 2009 was 650 bop/d, of which 76 bop/d are attributable to Stream.

In addition to the rehabilitation program on 14 producing wells, the Company has taken over another 20 wells for reactivation. Fracture monitoring is underway on key wells. The Company engaged Seismotech in order to deploy equipment and monitor microfracing. For 2009 plans include full take-over of the remaining field and the corresponding gathering and processing stations.

For further detail regarding the Albanian properties, please refer to the Information Circular, the Sproule NI 51-101 Report, and Stream Oil & Gas's February 29, 2008 interim statements, available on SEDAR.

### **Outlook and Plans for Q2- 2009**

#### **Sales Contracts**

The Company continues to focus on identifying new customers and markets for its production in Albania and the rest of Europe.

#### **Plan of Development (PoD)**

Stream is currently working on a PoD which it will submit by September 2009 for the oil fields and by March 2010 for the gas field. The conceptual design and a reservoir update is underway. The PoD includes:

- Re-development of wells
- Facilities-indentify treatment plant rehabilitation
- Examine gas to power plant
- Reservoir simulations for horizontal drilling
- Complete reservoir model for new well drilling at Cakran and Delvina
- Environmental studies
- Alternative sales opportunities

Stream is also currently:

- Finalizing royalty tax amendments to Agreements.
- Resolving accounts receivable collection delays with Albpetrol and ARMO.
- Negotiating the engagement heavy work over rig and related services in order to implement its program in the Cakran-Mollaj field and be within its capital expenditure budget.

## Management's Discussion & Analysis

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Initial observations of a large number of acoustic emission events from micro seismic monitoring in the Cakran-Mollaj confirm the presence of highly fractured zones in the reservoir production levels. Results from this study will help in our understanding of the behavior of the production formation and will guide the Company's rehabilitation work in this field once the heavy work over rig is engaged.

Rehabilitation work in the Ballsh-Hekal and Gorisht-Kocul oilfields will continue with PCP pump installations and basic work over when required.

### **Reserve Valuation**

The Company plans to obtain a National Instrument 51-101 compliant reserve valuation report during the second half of 2009. The Company continues to update its database from results of the rehabilitation work completed in the crude oil fields and the passive seismic results in the gas field. It will make this data available for the reserve update and evaluation.

### **Production**

Management is targeting the following average daily production by the end of the year: 500 bopd; 300 – 400 Mcf/d of gas, and 15-30 bopd condensate. In order to reach 500 bbl/day, the Company must takeover and successfully rehabilitate an additional 47 wells.

Based on the success ratio to date, and assuming all well-takeovers are productive, Stream plans to take-over the following wells by Q3 2009:

- Cakran- remaining 13 wells (Q2)
- Ballsh- another group of 7 wells (Q3)
- Gorisht- all of group six- 27 wells (Q3)

Due to current financial market conditions, Stream will defer significant capital raising plans and will incur minimal property development expenditures

### **Additions to Management Team**

The Company has strengthened its management team with additional technical, engineering and industry expertise in the exploration, development and production of oil and natural gas in Albania. Under Agreements effective March 20, 2009, the Company has appointed: Mike Berezowski, Chief Operating Officer, Art Agolli as Executive Vice President Business Development, , Richard Enns, Head of Power and Facilities Division and Terry Horkoff, Head of Gas Operations Division. The new team, based in Calgary, will provide technical, business and advisory services, including preparation of Stream's Plan of Development.

4. SUMMARY OF QUARTERLY RESULTS

	2009	2008					2007
(\$ 000)	Q1	TOTAL	Q4	Q3	Q2	Q1*	Q4*
Oil & gas revenue (net of royalties)	809	2835	1044	754	584	453	nil
Sales and transportation.	59	301	93	80	78	50	nil
Operating expenses	465	1,225	654	201	227	143	nil
<b>Net operating income</b>	<b>285</b>	<b>1,308</b>	<b>297</b>	<b>473</b>	<b>279</b>	<b>259</b>	<b>nil</b>
General and Administrative	365	2,264	403	708	604	549	384
Net income (loss)	(256)	(1,385)	(618)	(226)	(274)	(267)	(347)
Basic and diluted earnings (loss) per share	(0.01)	(0.04)	(0.02)	(0.01)	(0.01)	(0.02)	(0.02)
Additions to property, plant and equipment	522	4,475	1,471	1,370	1,091	543	896

Average daily production	2009 Q1	2008 Avg	Q4	Q3	Q2	Q1*	2007 Q4*
oil (bbl)	230	155	235	162	103	120	nil
Gas (mcf)	275	215	356	108	122	275	nil
Condensate (bbl)	13	8	11	5	5	11	nil

Average price	2009 Q1	2008 Avg	Q4	Q3	Q2	Q1*	2007 Q4*
oil /bbl	34.00	38.38	38.00	46.31	37.70	29.00	n/a
Gas/mcf	12.00	15.83	17.80	17.80	17.00	12.00	n/a
Condensate/bbl	65.00	84.21	90.50	82.00	82.00	80.00	n/a

\* 2007 Q4- Four months of operation from start-up; Q1 four months

Quarterly trends:

- Revenues have increased as a result of higher production resulting from additional takeovers and higher oil prices
- Operating expenses have increased as the Company has taken over additional wells and added employees.
- G&A has trended downward as result of lower professional fees and cost-cutting measures.

### 5. LIQUIDITY

As of April 24, 2009, the Company's cash balance was about \$300,000. Accounts receivable from Albpetrol, net of Stream's Albpetrol payable was about \$1.4 million and accounts payable, not including amounts payable to Albpetrol was \$1.3 million. Working capital was about \$400,000.

The Company is able to fund its operations from current revenues, subject to timely collections. However, Stream's main customer, Albpetrol, a state-owned company, has not made any significant payments since November 2008. Management is currently discussing payment arrangements and the Company continues to have a positive working relationship with Albpetrol. Management is of the opinion that the outstanding amounts will be collected and therefore has not made any bad-debt provision.

In order to minimize future payment delays, the Company is finalizing a contract with the local refinery in order to receive direct payments.

Stream has entered into arrangements with alternative customers for up to 60% of Stream's share of production. Under these arrangements, Stream began in April to receive weekly payments from new customers which it expects will total about \$150,000 per month. The Company therefore expects to significantly improve cash flow by Q2.

### 6. CAPITAL RESOURCES

The Company has, to date, relied upon external financing to fund its activities. With its current cash balance and recent improvements to cash flow as a result of cash sales to its new customer (Section 2.) Stream is able to support current operations on existing properties. Additional financing will be required to fund the Company's exploration and development plans.

#### **Commitments for capital expenditures**

Stream completed all capital expenditure requirements on its properties. With its Q1 2009 report to AKBN, due May 15, 2009 Stream will submit supporting documentation for approval and expects that AKBN will formally release Stream from any outstanding expenditure commitments.

### 7. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

### 8. TRANSACTIONS WITH RELATED PARTIES

The Company incurred \$222,000 in seismic work costs to Landtech, a private company of which the Company's CEO is a director. The Company owed Landtech about \$272,000 at the end of February 2009. Landtech has agreed to defer payment until Stream's cash position improved.

Management office fees of \$39,300 were paid to a private company owned by the Company's CEO. These charges were to cover the cost of administrative support for Stream Albania. Monthly fees have been reduced by half as administrative support functions shift to Albania and to the Vancouver corporate office.

Consulting and management fees of \$30,358 were payable to the Company's CFO and Corporate Secretary, through her private consulting company. In order to conserve cash, \$8,646 of this total was deferred during the first quarter.

\$11,250 in directors' fees were deferred in Q1 until the Company's cash position improves.

### 9. CHANGES IN ACCOUNTING POLICY INCLUDING INITIAL ADOPTION

#### Change in Accounting Policies

In June 2007, the CICA issued amendments to Section 1400, General Standards of Financial Statement – Presentation” to include requirements to assess and disclose an entity's ability to continue as a going concern. The amendments are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company has applied the new amendments at the beginning of its fiscal year. The implementation did not have a significant impact on the Company's results of operations, financial position or disclosures other than the disclosure in Note 1 of the Company's financial statements.

#### Future Accounting Policies:

#### Transition to International Financial Reporting Standards

The Canadian Accounting Standards Board (“AcSB”) in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over a five-year transitional period.

In February 2008 the AcSB announced that 2011 is the changeover date for publicly-accountable enterprises to use IFRS, replacing Canada's own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition of IFRS cannot be reasonably estimated at this time.

### 10. FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, GST and other receivables, restricted cash, accounts payable and accrued liabilities, and due to related parties. Fair value estimates were made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and may involve significant uncertainties in matters of judgment and, therefore, cannot be determined with precision. The fair values of these financial instruments approximate their carrying values due to their short-term maturity.

The Company examines the various financial instrument risks to which it is exposed, and assesses any impact and likelihood of those risks. These risks may include currency risk, credit risk, liquidity risk, interest rate risk and other price risks. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant credit, liquidity, interest or other price

risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

### **Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency. The Company operates internationally and is exposed to risks from changes in foreign currency rates, particularly the Canadian dollar, the Euro and the Albanian Lek. The Company does not use derivative instruments to reduce its exposure to foreign currency risk

### **Credit Risk**

Credit risk is the risk of loss associated with the inability of a third party to fulfill its own payment obligations. The Company is exposed to the risk that third parties that owe it money or other assets will not perform their obligations.

The Company's accounts receivable is solely with Albpetrol Sh.A, an Albanian state-owned agency. The receivable is currently over 90 days due. Management is of the opinion that this amount is fully collectible as payments from Albpetrol Sh.A typically take more than 90 days to collect. Historically the Company has collected previous sales and accordingly has not recorded a valuation allowance in these accounts

### **Liquidity Risk**

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements.

The Company's objective is to maintain sufficient liquidity in order to meet operational requirements at any point in time. The Company generates cash flow from its operations; however, the Company is exposed to liquidity risk because it currently depends on one customer. The Company may seek additional cash funding by means of issuing share capital or debt financing.

### **Interest Rate Risk**

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In management's opinion, the Company is not exposed to significant interest rate risk. It earns interest on a \$900,000 term deposit under a guarantee agreement with its bank, related to the Stream's restricted cash. The Company had an overdraft balance of about \$ 671,343 with a variable exchange rate.

### **Other Price Risk**

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## **11. OTHER**

Additional information relating to Stream, is on SEDAR at [www.sedar.com](http://www.sedar.com).

## **12. OUTSTANDING SHARE DATA**

As of April 24, 2009, the Company has 38,680,341 common shares issued and outstanding.

### **Stock Options**

4,550,000 common shares have been reserved for issuance on exercise of stock options, under the Company's Stock Option Plan as follows:

- 1,000,000 at \$1.50 per share until April 4, 2010, which were granted to directors and consultants concurrent with completion of the Acquisition.
- 100,000 common shares at \$1.50, granted to an officer of the Company subject to 18 month vesting until May 8, 2013
- 650,000 common shares to an officer, a consultant and an employee at \$0.20 per share subject to 18 month vesting until February 12, 2014
- 2,800,000 common shares to four new officers, at \$0.20 per share subject to 18 month vesting until March 20, 2012

### **Warrants**

A further 6,271,901 shares have been reserved for issuance on the exercise of outstanding warrants. On a fully diluted basis, the issued share capital would be 49,502,242 common shares.

### **Escrowed Shares**

Of the 25 million escrowed shares issued in connection with the Acquisition, 6,249,997 were released from escrow since the Company's April 4, 2008 listing on the TSX Venture. The remaining 18,750,003 escrow shares of the Company remain subject to the escrow requirements of the TSX Venture Exchange and will be released from escrow in stages in accordance with securities regulatory requirements.

### 13. CONTROLS AND PROCEDURES

The Company is a Venture Issuer and therefore under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), has not made representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, the Chief Executive Officer and the Chief Financial Officer, the Company's certifying officers, have not made any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

The Company has adopted a Delegation of Signing Authority, Code of Business, and Disclosure Policies. These are available on the Company's website.

### 14. CORPORATE GOVERNANCE

The Company's Terms of Reference for the Board of Directors and Committee Charters for the Audit Committee, Reserves Committee and Compensation Committee, are available on the Company's website.

### 15. PRINCIPAL BUSINESS RISKS

The Company's principal business, oil and gas exploration, development and production, is subject to a high degree of risk, which even a combination of experience, knowledge and careful evaluation may fail to overcome. Such risks include but are not limited to the uncertainty to finding oil and gas in commercial quantities, securing markets for production, commodity price fluctuations, exchange and interest rate exposure and changes to government regulations including regulations relating to prices, taxes, royalties and environmental protections. The oil and gas industry is very competitive and Stream Oil & Gas competes with a large number of companies with greater resources.

Stream Oil & Gas's ability to increase its reserves in future will depend on its ability to develop its current properties and in its abilities to acquire new properties. This will require sufficient capital from outside sources to be available as needed. The availability of equity or debt financing is affected by many factors which are beyond the control of the company.

## Management's Discussion & Analysis

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Stream Oil & Gas's current investment focus is its Albanian properties. There are a number of risks involved in conducting foreign operations over which Stream oil & Gas has no control, including political stability, potential and actual civil disturbances, ability to repatriate funds, changes in laws affecting foreign ownership and existing contracts, environmental regulations, oil and gas prices, production regulations, royalty rates, tax law changes, potential expropriation of property without fair compensation and restrictions on exports. Additional risks which may affect Stream Oil & Gas are set out in the Information Circular filed on SEDAR.

### APPROVED BY THE DIRECTORS:

*"Sotirios Kapotas"*

\_\_\_\_\_ Director

*"Leslie Goodman"*

\_\_\_\_\_ Director