

STREAM OIL & GAS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 28, 2010

(Unaudited – Prepared by Management)

These financial statements have not been reviewed by the Company's auditor

STREAM OIL & GAS LTD.
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)
(Unaudited – Prepared by Management)

	February 28, 2010	November 30, 2009
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,885,165	263,134
Consumables and inventories	400,756	392,016
Accounts receivable (Note 3)	320,484	10,680
GST and other receivables	149,991	15,994
Prepaid expenses	8,546	8,723
	2,764,942	690,547
Property and Equipment (Note 4)	7,426,340	6,650,755
	10,191,282	7,341,302
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,367,317	1,672,546
	1,367,317	1,672,546
Due to related parties (Note 6)	420,000	420,000
	1,787,317	2,092,546
Shareholders' Equity		
Capital stock (Note 7)	5,537,459	2,469,286
Contributed surplus (Note 7)	6,650,690	6,583,829
Deficit	(3,784,184)	(3,804,359)
	8,403,965	5,248,756
	10,191,282	7,341,302

Nature and continuance of operations (Note 1)

Commitments (Note 5)

Related party transactions (Note 6)

Subsequent events (Note 13)

On behalf of the Board:

"Sotirios Kapotas"
Director

"George Mortakis-Martakis"
Director

The accompanying notes are an integral part of these consolidated financial statements

STREAM OIL & GAS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in U.S. Dollars)
(Unaudited – Prepared by Management)

REVENUE		
Oil and gas revenue (Note 3)	1,281,829	809,114
EXPENSES		
Operating	368,429	465,485
Sales and transportation	93,353	58,829
Management fees and salaries	280,082	168,229
Office and miscellaneous	119,597	78,931
Professional fees	328,163	100,034
Travel	55,268	17,543
Stock-based compensation	66,861	87,983
Amortization and depletion	67,388	62,558
Foreign exchange (gain)/ loss	(117,487)	63,710
	<u>1,261,654</u>	<u>1,103,302</u>
Earnings/(loss) before other items	<u>20,175</u>	<u>(294,188)</u>
OTHER ITEMS		
Interest income	-	38,514
Earnings/(loss) and comprehensive earnings/(loss) for the period	<u>20,175</u>	<u>(255,674)</u>
Deficit, beginning of period	<u>(3,804,359)</u>	<u>(1,732,141)</u>
Deficit, end of period	<u>(3,784,184)</u>	<u>(1,987,815)</u>
Basic and fully diluted earnings (loss) per share	<u>0.00</u>	<u>(0.01)</u>
Weighted average number of shares outstanding	<u>46,050,659</u>	<u>38,680,341</u>

The accompanying notes are an integral part of these consolidated financial statements.

STREAM OIL & GAS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)
(Unaudited – Prepared by Management)

	For the three month period ended February 28, 2010	For the three month period ended February 28, 2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings/(loss) for the period	20,175	(255,674)
Items not affecting cash:		
Amortization and depletion	67,388	62,558
Stock-based compensation	66,861	87,983
Changes in non-cash working capital items:		
Accounts receivable	(309,804)	(638,319)
GST and other receivables	(133,997)	19,623
Prepaid expenses	177	110,938
Accounts payable and accrued liabilities	(305,230)	257,057
Crude oil inventory	(8,740)	-
Net cash used in operating activities	(603,170)	(355,834)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(842,972)	(522,486)
Restricted cash	-	604,575
Cash provided by (used in) investing activities	(842,972)	82,089
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued	3,274,256	-
Share issuance costs	(206,083)	-
Cash provided by (used in) financing activities	3,068,173	-
Net change in cash and cash equivalents during the period	1,622,031	(273,745)
Cash and cash equivalents, beginning of period	263,134	737,752
Cash and cash equivalents, end of period	1,885,165	464,007

Supplemental disclosure with respect to cash flows (Note 8)

The accompanying notes are an integral part of these consolidated interim financial statements.

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
(Unaudited – Prepared by Management)

1. NATURE AND CONTINUANCE OF OPERATIONS

Stream Oil & Gas Ltd. (“the Company”) was incorporated on January 11, 2005 under the British Columbia Business Corporations Act as 713471 B.C. Ltd. and changed its name on April 20, 2005 to L.G.R. Resources Ltd. Effective April 19, 2006, the Company’s common shares were listed for trading on the CNQ. On April 4, 2008, the Company changed its name to Stream Oil & Gas Ltd. and consolidated its capital stock on a four for one basis. On July 25, 2008 the Company’s common shares were listed for trading on the TSX Venture Exchange. The Company’s shares were delisted from trading on the CNQ effective August 15, 2008.

The Company, through its wholly-owned subsidiary, Stream Oil & Gas (CI) Ltd., is in the business of developing oil and gas properties worldwide. It currently operates four producing and exploration oil and gas properties in Albania.

Under a Share Exchange Agreement entered into April 4, 2008, the Company issued 33,278,010 shares of common stock to the shareholders of Stream Oil & Gas (CI) Ltd. (“Stream Cayman”), a company incorporated on June 11, 2007 under the laws of the Cayman Islands, in exchange for all of the issued and outstanding shares of Stream Cayman. Under the agreement, prior to closing the Company was required to cancel 15,000,000 pre-consolidated escrowed shares of the Company and consolidate its issued capital stock on a four old shares for one new share basis.

The acquisition resulted in the former shareholders of Stream Cayman acquiring 86% of the post consolidated outstanding shares of the Company and has been accounted for as a reverse merger with Stream Cayman, the legal subsidiary, being treated as the accounting parent and Stream Oil & Gas Ltd., the legal parent, being treated as the accounting subsidiary. Accordingly, the consolidated results of operations of the Company include those of Stream Cayman for all periods shown and those of the Company since the date of the reverse acquisition.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

At February 28, 2010, the Company had accumulated losses of \$3,784,184 since inception, and had working capital of \$1,397,625. The Company’s working capital may not be sufficient to sustain operations over the next twelve months and the Company may incur further losses in the development of its business. The Company has however raised Cdn\$3,500,000 during this quarter which will help meet the Company’s obligations as they become due. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The preparation of the financial data is based on accounting principles consistent with those used in the preparation of the audited annual financial statements. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended November 30, 2009, as they do not contain all disclosures required by Canadian GAAP for annual financial statements.

Basis of Presentation and Basis of Consolidation

These unaudited interim consolidated financial statements include the accounts of the Company and it’s wholly-owned subsidiary, Stream Oil & Gas (CI) Ltd. In the opinion of the management, all adjustments (including normal recurring adjustments) necessary to present fairly the financial position as at February 28, 2010 and results of operations and comprehensive loss, shareholders’ deficit and cash flows for all periods presented, have been made.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires that management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to stock-based compensation, the determination of impairment of assets, and the ceiling test applied to oil and gas properties, as well as assumptions used in calculating depletion. Actual results could differ from these estimates

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash and have maturities of one year or less when purchased. Included in cash and cash equivalents are bank balances of \$1,054,457 (November 30, 2009 - \$263,134) and \$830,708 (November 30, 2009 - \$Nil) in term deposits.

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Oil & gas properties

The Company follows the full cost method of accounting for oil and natural gas operations in accordance with Canadian guidelines. Under this method, all costs associated with the acquisition of, exploration for and development of oil and natural gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, geological and geophysical studies, carrying charges on non-producing properties, costs of drilling productive wells, and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on estimated proved reserves, before royalties, as determined by management of the Company or independent consultants.

Sales or dispositions of oil and natural gas properties are credited to the respective cost centers and a gain or loss is recognized when all properties in a cost center have been disposed of, unless such sale or disposition significantly alters the relationship between capitalized costs and proved reserves of oil and natural gas attributable to the cost center. Costs of abandoned properties are accounted for as adjustments of capitalized costs and written off to expense.

Undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be determined. A ceiling test is applied to each cost center and for the aggregate of all cost centers by comparing the net capitalized costs to the estimated future net revenues from production of estimated proved reserves without discount, plus the costs of unproved properties net of impairment. Any excess capitalized costs are written off to expense. Further, the ceiling test for the aggregate of all cost centers is required to include the effects of future removal and site restoration costs, general and administrative expenses, financing costs and income taxes. The calculation of future net revenues is based upon prices, costs and regulations in effect at each year end. Unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience.

In general, the Company may write-off any unproved property under one or more of the following conditions:

- a) There are no firm plans for further drilling on the unproved property;
- b) Negative results were obtained from studies of the unproved property;
- c) Negative results were obtained from studies conducted in the vicinity of the unproved property; or
- d) The remaining term of the unproved property does not allow sufficient time for further studies or drilling.

Basic and Diluted Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the periods presented.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

Equipment

Equipment is recorded at cost. The Company provides for amortization on the declining balance method at the following annual rates:

Automotive	30%
Computer hardware	30% & 55%
Computer software	100%
Furniture and equipment	20%

Additions are amortized at one-half the rate in the year of acquisition.

Foreign Exchange

The Company's functional currency is the Canadian dollar and its subsidiary's functional currency is the United States dollar. For accounting purposes the Company is considered the subsidiary of Stream Oil & Gas (CI) Ltd. and is an integrated operation. The Company's monetary assets and liabilities are translated at the rate of exchange at the balance sheet date and non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations. Transaction gains and losses are reflected in the statement of operations for the periods presented.

Stock-based Compensation

The Company records a compensation cost attributable to all share options granted at fair value at the grant date using the Black-Scholes valuation model and the cost is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to capital stock.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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For the Three Month Period Ended February 28, 2010
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there has been no impairment of the Company's long-lived assets as at February 28, 2010.

Revenue Recognition

Revenue from oil and gas operations is recognized in the accounts when oil and natural gas are shipped, title passes and collection of the sale is reasonably assured.

Receivables

The Company records an allowance for doubtful accounts against accounts receivable that management believes are impaired. Specific allowances are recorded against customer receivables based on the Company's knowledge of the financial condition of its customers. The Company also considers the aging of the receivables, customer and industry concentrations, the current business environment and historical experience.

Future Accounting Pronouncements

Business combinations (Section 1582)

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The Company does not expect the adoption of this section to have a significant effect on its financial statements.

Consolidated Financial Statements (Section 1601) and Non-Controlling Interests (Section 1602)

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company does not expect the adoption of this section to have a significant effect on its financial statements.

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(Expressed in U.S. Dollars)
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future Accounting Pronouncements (cont'd...)

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 Company’s 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.

3. ECONOMIC DEPENDENCE - REVENUE AND ACCOUNTS RECEIVABLE

In fiscal 2009, the Company sold its oil and gas to customers in Albania, of which sales totalling \$2,064,403 were made to one customer, accounting for 93% of total revenue. In the three months ended February 28, 2010 the Company continued to sell its oil and gas in Albania but has expanded its customer base, significantly reducing its dependence on any individual customer.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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For the Three Month Period Ended February 28, 2010
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4. PROPERTY AND EQUIPMENT

February 28, 2010

	Cost	Accumulated Amortization and Depletion	Net Book Value
Oil and gas properties, proved	\$ 6,236,520	\$ 85,000	\$ 6,151,520
Automotive	120,877	55,634	65,243
Computer hardware	155,442	61,640	93,802
Computer software	57,178	57,178	-
Plant and equipment	1,345,112	229,337	1,115,775
	\$ 7,915,129	\$ 488,789	\$ 7,426,340

November 30, 2009

	Cost	Accumulated Amortization and Depletion	Net Book Value
Oil and gas properties, proved	\$ 6,123,568	\$ 70,000	\$ 6,053,568
Automotive	120,877	50,344	70,533
Computer hardware	155,442	54,056	101,386
Computer software	57,178	57,178	-
Furniture and equipment	606,943	181,675	425,268
	\$ 7,064,008	\$ 413,253	\$ 6,650,755

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4. PROPERTY AND EQUIPMENT (cont'd...)

The Company's ceiling test calculations, performed at February 28, 2010, resulted in no impairment loss. The future prices used by the Company in estimating cash flows were based on forecast prices at each year end, adjusted for the Company's quality and other contract differentials. The following table summarizes the benchmark prices used in the calculation:

Year	Gas Price (US\$/Mcf)	Oil Price (US\$/barrel)
2010	\$ 10	\$ 42
2011	10	46
2012	10	50
2013	10	55
2014	11	59
Average annual increase, thereafter	2%	2%

	period ended February 28, 2010	year ended November 30, 2009
Opening balance	\$ 6,123,568	\$ 4,465,602
Expenditures:		
Seismic program	-	710,000
Work-overs and upgrades	112,952	857,747
Technical report	-	90,219
	112,952	1,657,966
	\$ 6,236,520	\$ 6,123,568

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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For the Three Month Period Ended February 28, 2010
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5. COMMITMENTS

The Company holds the rights to four petroleum properties located in Albania. These are the Cakran-Mollaj, Ballsh-Hekal, Gorisht-Kocul and the Delvina Block properties.

As at February 28, 2010 the Company had no financial commitments.

6. RELATED PARTY TRANSACTIONS

Related party transactions for the three months ended February 28, 2010 are as follows:

- a) The Company incurred \$52,274 to a private company controlled by a director of the Company for management, administration, liaison and office services in support of the Company's Albanian operations.
- b) The Company incurred \$33,132 in consulting and management fees to a private company owned by an officer of the Company.
- c) The Company recorded in management fees and salaries \$146,110 in consulting fees to private companies owned by officers of the Company. The amount included in accounts payable at February 28, 2010 for unpaid consulting fees owing to the officers was \$264,865.
- d) The Company incurred \$31,934 in consulting and management fees to an officer of the company.
- e) The Company incurred \$11,250 in directors' fees to several directors of the Company. The amount owing to directors at February 28, 2010 for directors' fees owing was \$42,500.
- f) At February 28, 2010, the total balance payable for unpaid fees owing to a company with a common director of the Company was \$510,000. Of this amount \$420,000 is a long term payable. The Company has entered into an agreement for repayment of fees owing under which the balance outstanding will be repaid at a rate of \$10,000 per month with the remaining balance due November 30, 2010.

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
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7. CAPITAL STOCK

Issued and Outstanding

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance at November 30, 2009	39,939,548	\$ 2,469,286	\$ 6,583,829
Shares issued	10,000,000	\$ 3,274,256	\$ -
Share issue expenses	-	\$ (206,083)	\$ -
Stock-based compensation	-	\$ -	\$ 66,861
Balance at February 28, 2010	49,939,548	\$ 5,537,459	\$ 6,650,690

Escrow Shares

As at February 28, 2010, none (November 30, 2009, 15,000,003) of the issued shares are held in escrow. These shares were subject to the escrow requirements of the TSX Venture Exchange and were to be released from escrow in stages in accordance with securities regulatory requirements.

On January 25, 2010, 3,750,000 escrow shares were released under Escrow Agreements dated April 4, 2008 and July 9, 2008 leaving a balance in escrow of 11,250,003 shares.

On January 27, 2010 the Company became a Tier-1 issuer on the TSX-Venture Exchange. As a result, in accordance with the eighteen month holding period for Tier-1 issuers on the TSX-Venture Exchange, all of the 11,250,003 remaining shares held in escrow were released.

Warrants

At February 28, 2010, the following warrants were outstanding:

Number of Warrants	Exercise Price (Cdn \$)	Expiry Date
5,000,000	0.55	January 4, 2012
630,500	0.35	January 4, 2012
5,630,500		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
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7. CAPITAL STOCK (cont'd...)

Warrants (cont'd...)

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, November 30, 2009			
Warrants of the Company			
Issued	5,630,500	\$	0.55
Balance, February 28, 2010	5,630,500	\$	0.55

Stock Options

At February 28, 2010, the following stock options were outstanding:

Number of Options	Exercise Price (Cdn \$)	Expiry Date	Number Exercisable
800,000	\$1.50	April 4, 2010	800,000
100,000	\$1.50	May 8, 2013	100,000
650,000	\$0.20	February 12, 2014	487,500
2,100,000	\$0.20	March 20, 2012	1,050,000
500,000	\$0.25	May 12, 2014	250,000
490,000	\$0.24	June 22, 2012	122,500
4,640,000			2,810,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. CAPITAL STOCK (cont'd...)

Stock Options (cont'd...)

	Number	Weighted Average Exercise Price (\$)	Weighed Average Remaining Life
Balance as at November 30, 2009	4,640,000	0.46	2.80
Balance as at February 28, 2010	4,640,000	0.46	2.55
Exercisable as at February 28, 2010	2,810,000	0.62	1.95

Stock based compensation

On April 4, 2008, the Company granted 1,000,000 stock options. Each option entitles the option holder to acquire one common share from treasury at \$1.50 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire two years from the grant date, on April 4, 2010. During the year ended November 30, 2009, 200,000 stock options were cancelled. As at November 30, 2009, 800,000 stock options are exercisable. On June 2, 2009, the TSX Venture exchange approved repricing 400,000 of the stock options to two directors, to Cdn\$0.25 per share. The repricing will be subject to disinterested shareholder approval.

On May 8, 2008, the Company granted 100,000 stock options to an officer of the Company. Each option entitles the option holder to acquire one common share from treasury at \$1.50 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire five years from the grant date, on May 8, 2013. As at November 30, 2009, 100,000 stock options are exercisable. On June 2, 2009, the TSX Venture exchange approved repricing 100,000 of the stock options to two directors, to Cdn\$0.25 per share. The repricing will be subject to disinterested shareholder approval.

On February 12, 2009, the Company granted 650,000 stock options to an officer, an employee and a consultant of the Company. Each option entitles the option holder to acquire one common share from treasury at Cdn\$0.20 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire five years from the grant date, on February 12, 2014. As at November 30, 2009, 325,000 stock options are exercisable.

On March 20, 2009, the Company granted 2,800,000 stock options to four officers of the Company. Each option entitles the option holder to acquire one common share from treasury at Cdn\$0.20 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire three years from the grant date, on March 20, 2012. During the year ended November 30, 2009, 700,000 stock options were cancelled. As at November 30, 2009, 1,050,000 stock options are exercisable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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For the Three Month Period Ended February 28, 2010
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7. **CAPITAL STOCK** (cont'd...)

Stock based compensation (cont'd...)

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option-pricing model under the following weighted average assumptions:

	Three month period ended <u>February 28, 2010</u>	Year ended <u>November 30, 2009</u>
Risk free rate	2.13%	2.13%
Dividend yield	0%	0%
Expected volatility	100%	100%
Expected life of options	3.84 years	3.84 years

Stock-Based Compensation Plan

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 20% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the greater of Cdn \$0.05 per share or the closing price at the date of grant less the maximum discount as may be permitted by the policies of the stock exchange upon which the Company's shares are listed. Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company. Under the option agreement, the options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period.

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
(Unaudited – Prepared by Management)

8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	Three month period ended February 28, 2010	Year ended November 30, 2009
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

The Company had the following significant non-cash transaction for the three month period ended February 28, 2010:

The Company issued 630,500 finders' warrants having a two year term. The finders' warrants entitle the holder to purchase one unit comprising of one common share and one-half warrant exercisable for a 2 year term.

9. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the development of oil and gas properties in Albania. Geographical information is as follows:

	February 28, 2010	November 30, 2009
Property and Equipment		
Canada	\$ 3,043	\$ 3,269
Albania	7,423,297	6,647,486
	\$ 7,426,340	\$ 6,650,755

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
(Unaudited – Prepared by Management)

10. CAPITAL MANAGEMENT

The Company considers its capital stock as capital, which at February 28, 2010 totaled \$5,537,459 (November 30, 2009, \$2,469,286).

The Company's objective, when managing capital, is to ensure sufficient resources are available to meet day to day operating requirements and to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets.

In order to meet its objectives for managing capital, the Company may issue new shares, which has historically been done through private placements.

The Company's Officers and senior management take full responsibility for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors are responsible for overseeing this process.

The Company is not subject to any externally imposed capital requirements.

11. FINANCIAL 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 are 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.

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
(Unaudited – Prepared by Management)

11. FINANCIAL INSTRUMENTS (cont'd...)

Sensitivity analysis:

At February 28, 2010, if the Canadian dollar had fluctuated by 10% against the local functional currencies with all other variables held constant, net loss for the three month period ended February 28, 2010 would have differed by \$80,000.

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 does not believe it is subject to any significant credit risk.

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 in managing liquidity risk 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. As at February 28, 2010, the Company had a cash and cash equivalent balance of \$1,885,165 (November 30, 2009 \$263,134).

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.

The Company is exposed to interest rate risk to the extent that it has excess cash held with banks and other financial institutions. The Company currently has no debt or short term borrowing. In management's opinion, the Company is not exposed to significant interest rate risk.

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.

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three Month Period Ended February 28, 2010
(Unaudited – Prepared by Management)

12. CONTINGENCIES

On February 16, 2010, the Company announced that BA Capital Inc., a private consulting company owned by Mr. Art Agolli, has commenced litigation against the Company, claiming damages of \$637,000 arising from the allegedly wrongful termination of a Consulting Agreement with the Company. The Company believes the lawsuit to be without merit and intends to defend against the litigation vigorously. At this time, the likelihood of the outcome is not determinable and no liability has been recorded in connection with the litigation.