

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)

**CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

## AUDITORS' REPORT

To the Shareholders of  
Stream Oil & Gas Ltd.  
(formerly L.G.R. Resources Ltd.)

We have audited the consolidated balance sheets of Stream Oil & Gas Ltd. (formerly L.G.R. Resources Ltd.) as at November 30, 2008 and October 31, 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2008 and October 31, 2007 and the results of its operations and its cash flows for the thirteen month period ended November 30, 2008 and the period from incorporation on June 11, 2007 to October 31, 2007 in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

March 19, 2009



**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. Dollars)

	<b>November 30, 2008</b>	<b>October 31, 2007</b>
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	737,752	274,588
Restricted cash (Note 6)	711,831	-
Accounts receivable (Note 3)	610,284	-
GST and other receivables	24,056	-
Prepaid expenses	113,768	1,500
	2,197,691	276,088
<b>Property and Equipment</b> (Note 4)	5,237,131	887,119
<b>Restricted Cash</b> (Note 6)	-	4,800,000
	7,434,822	5,963,207
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,031,442	309,032
Due to related parties (Note 7)	-	293,508
	1,031,442	602,540
<b>Shareholders' Equity</b>		
Capital stock (Note 8)	2,156,100	305,303
Contributed surplus (Note 8)	5,979,421	5,402,045
Deficit	(1,732,141)	(346,681)
	6,403,380	5,360,667
	7,434,822	5,963,207

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 6)

**Subsequent events** (Note 15)

**On behalf of the Board:**

"Sotirios Kapotas", Director

"Leslie Goodman", Director

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

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in U.S. Dollars)

	<b>For the thirteen month period ended November 30, 2008</b>	<b>For the period from incorporation on June 11, 2007 to October 31, 2007</b>
	\$	\$
<b>REVENUE</b>		
Oil and gas revenue (Note 3)	2,834,723	-
<b>EXPENSES</b>		
Operating	1,225,939	-
Sales and transportation	300,755	-
Management fees and salaries	1,041,051	36,211
Office and miscellaneous	372,945	77,914
Professional fees	691,391	178,060
Travel	158,808	89,568
Stock-based compensation	315,390	-
Amortization and depletion	124,943	9,386
Foreign exchange gain (loss)	136,179	(7,534)
	<b>4,367,401</b>	<b>383,605</b>
<b>Loss before other items</b>	<b>(1,532,678)</b>	<b>(383,605)</b>
<b>OTHER ITEMS</b>		
Interest income	160,207	36,924
Write-off of mineral property (Note 5)	(12,989)	-
	<b>147,218</b>	<b>36,924</b>
<b>Net loss and comprehensive loss for the period</b>	<b>(1,385,460)</b>	<b>(346,681)</b>
<b>Deficit, beginning of period</b>	<b>(346,681)</b>	<b>-</b>
<b>Deficit, end of period</b>	<b>(1,732,141)</b>	<b>(346,681)</b>
<b>Basic and fully diluted loss per share</b>	<b>(0.04)</b>	<b>(0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>36,462,514</b>	<b>33,278,010</b>

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

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in U.S. Dollars)

	<b>For the thirteen month period ended November 30, 2008</b>	<b>For the period from incorporation on June 11, 2007 to October 31, 2007</b>
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	(1,385,460)	(346,681)
Items not affecting cash:		
Amortization and depletion	124,943	9,386
Stock-based compensation	315,390	-
Write-off of mineral property	12,989	-
Changes in non-cash working capital items:		
Accounts receivable	(610,284)	-
GST and other receivables	(15,794)	-
Prepaid expenses	(108,396)	(1,500)
Accounts payable and accrued liabilities	(694,328)	109,032
<b>Net cash used in operating activities</b>	<b>(2,360,940)</b>	<b>(229,763)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(3,058,217)	(448,799)
Restricted cash	4,088,169	(4,800,000)
Cash and cash equivalents acquired on acquisition (Note 9)	1,950,766	-
<b>Cash provided by (used in) investing activities</b>	<b>2,980,718</b>	<b>(5,248,799)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital stock issued	-	11,391,758
Share issuance costs	-	(932,116)
Due to related party	(156,614)	293,508
Capital stock repurchased	-	(5,000,000)
<b>Cash provided by (used in) financing activities</b>	<b>(156,614)</b>	<b>5,753,150</b>
<b>Net change in cash and cash equivalents during the period</b>	<b>463,164</b>	<b>274,588</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>274,588</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>737,752</b>	<b>274,588</b>
<b>Supplemental disclosure with respect to cash flows (Note 10)</b>		

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

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**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 (Note 9). 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 (Note 9).

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 (“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 November 30, 2008, the Company had not yet achieved profitable operations, has accumulated losses of \$1,732,141 since inception, and had working capital of \$1,166,249. Included in its working capital, the Company has a restricted cash balance of \$711,831 (October 31, 2007-\$4,800,000) to be used for property expenditures in accordance with its property agreements. Subsequent to November 30, 2008, the Company has spent the required \$4,800,000, in accordance with its agreements, so it is in good standing with respect to its property expenditures requirements. The Company’s working capital may not be sufficient to sustain operations over the next twelve months and the Company expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company’s ability to continue as a going concern. 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.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian GAAP.

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Stream Oil & Gas (CI) Ltd.

**Use of Estimates**

The preparation of financial statements in conformity with 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. Cash and cash equivalents consists of an overdraft balance of \$162,248 (2007 - \$Nil) and \$900,000 (2007 - \$Nil) in term deposits.

**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.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Oil & gas properties (cont'd...)**

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 Loss per Share**

Basic loss per share is calculated by dividing the net 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.

**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.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**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.

**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 November 30, 2008.

**STREAM OIL & GAS LTD.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**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.

**Comparative Figures**

Certain comparative figures have been reclassified to conform to the current period's presentation.

**Asset Retirement Obligations ("ARO")**

The Company records a liability for the fair value of the statutory, contractual or legal asset retirement obligations associated with the retirement and reclamation of tangible long-lived assets when the related assets are put into use, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion and amortization of the underlying assets. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the consolidated balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

As at November 30, 2008 and October 31, 2007, the Company had no significant asset retirement obligations.

**Financial Instruments**

The Company follows the CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement".

The Financial Instrument Standards establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities", as defined by the standard.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial Instruments (cont'd)...**

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value with changes in those fair values recognized in OCI. Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged as a result of implementing the new standards.

In accordance with this standard, the Company has classified its cash and cash equivalents and restricted cash as “held-for-trading”. Accounts receivable and GST and other receivables are designated as “loans and receivables”. Account payable and accrued liabilities and due to related parties are designated as “other financial liabilities”. Any interest rate applied to other financial liabilities would be based on the effective interest rate and therefore, the financial instrument designation of other financial liabilities has no impact as the fair value is equal to the carrying value.

There was no material impact to these financial statements as a result of CICA 3855.

**Changes in Accounting Policies**

On November 1, 2007, the Company adopted the CICA Handbook Section 3862, “Financial Instruments – Disclosures”, and CICA Handbook Section 3863, “Financial Instruments – Presentation”. These standards enhance disclosure requirements, and carry forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks.

The Company has included disclosures recommended by these handbook sections in note 13 to these financial statements.

As of November 1, 2007, the Company adopted revised CICA Handbook Section 1506 “Accounting Changes”, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information

There is no material impact to the Company’s financial statements as a result of CICA 1506.

**Capital Disclosures**

On November 1, 2007, the Company adopted the CICA Handbook Section 1535, “Capital Disclosures”. Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Capital Disclosures (cont'd...)**

The Company has included disclosures recommended by this new handbook section in note 12 to these financial statements.

**Future Accounting Pronouncements**

**Goodwill and Intangible Assets**

Recently, the CICA issued the new CICA accounting standard, CICA Handbook Section 3064 Goodwill and Intangible Assets. The new standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including those developed internally. At the same time the CICA accounting standards board amended Section 1000 Financial Statement Concepts to clarify the criteria for recognition of an asset. Therefore items that no longer meet the definition of an asset are no longer recognized with assets. The new standard and amended standard are both effective for annual and interim periods beginning on or after October 1, 2008.

The Company is assessing the effect of the new standard and does not anticipate a material effect on its results.

**General Standards of Financial Statements Presentation**

In June 2007, the CICA amended Section 1400 to include requirements to assess and disclose an entity's ability to continue as a going concern and disclose any material uncertainty that casts doubt on its ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this new accounting standard will have no material impact on the financial statements of the Company other than disclosure in the notes to the financial statements.

**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.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

**3. ECONOMIC DEPENDENCE - REVENUE AND ACCOUNTS RECEIVABLE**

The Company sells oil and gas to one customer in Albania, Albpetrol Sh.a, an Albanian state owned agency, under an agreement that expired on July 31, 2008 and was extended to cover the period from August 1, 2008 to December 31, 2008 (Note 15). This customer accounts for 95% (October 31, 2007 – 0%) of revenues and 100% (October 31, 2007 – 0%) of accounts receivable).

**4. PROPERTY AND EQUIPMENT**

<b>November 30, 2008</b>			
	Cost	Accumulated Amortization and Depletion	Net Book Value
Oil and gas properties, proved	\$ 4,465,602	\$ 10,000	\$ 4,455,602
Automotive	120,877	20,116	100,761
Computer hardware	153,896	11,102	142,794
Computer software	57,178	10,634	46,544
Furniture and equipment	573,907	82,477	491,430
	\$ 5,371,460	\$ 134,329	\$ 5,237,131
<b>October 30, 2007</b>			
	Cost	Accumulated Amortization and Depletion	Net Book Value
Oil and gas properties, proved	\$ 827,349	\$ -	\$ 827,349
Automotive	7,416	1,112	6,304
Computer hardware	42,000	6,300	35,700
Furniture and equipment	19,740	1,974	17,766
	\$ 896,505	\$ 9,386	\$ 887,119

The Company's ceiling test calculations, performed at November 30, 2008, 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:

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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

Year	Oil Price (US\$/barrel)
2009	\$ 50
2010	55
2011	59
2012	62
2013	65
Average annual increase, thereafter	5%

	Thirteen Month period ended November 30, 2008	Period from Incorporation on June 11, 2007 to October 31, 2007
Opening balance	\$ 827,349	\$ -
Expenditures:		
Seismic program	1,046,327	200,000
Work-overs and upgrades	2,550,055	589,849
Technical report	41,871	37,500
	3,638,253	827,349

**5. MINERAL PROPERTY**

By an agreement dated May 2, 2005 and amended August 26, 2005, the Company acquired from a former director of the Company a 100% interest in a mineral property, known as the Jack Claim, located near Boston Bar, British Columbia. The Company had incurred geological consulting fees of \$12,989 on the property. During the year-ended November 30, 2008, the Company decided to not continue with these claims and accordingly, all related costs were written-off to operations.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
November 30, 2008

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**6. 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.

The Company is committed to spend a total of \$4,800,000 in expenditures relating to its properties by September 9, 2009. If the Company does not meet its expenditure requirements, it must pay the National Agency of Natural Resources in Albania, the difference between the \$4,800,000 committed and the amounts actually incurred. The \$4,800,000 is restricted and is guaranteed through a letter of credit by the bank.

As of November 30, 2008 the restricted cash balance is \$ 711,831, the Company having incurred \$4,088,169 of the expenditure requirements (October 31, 2007 - \$4,800,000).

**7. RELATED PARTY TRANSACTIONS**

Related party transactions for the thirteen months ended November 30, 2008 are as follows:

- a) The amount due to the related party is unsecured, non-interest bearing and without specific terms of repayment. \$136,894 of the amount due to the related party was waived (Note 8) and \$156,614 was repaid during the period ended November 30, 2008, leaving a balance due of \$Nil as at November 30, 2008 (October 31, 2007 - \$293,508).
- b) The Company incurred \$1,046,327 (period-ended October 31, 2007 - \$200,000) in oil and gas expenditures to a private company with a director and officer in common with the Company.
- c) The Company incurred \$273,287 (period-ended October 31, 2007 - \$Nil) in management and office fees to a private company controlled by a director of the Company.
- d) The Company incurred \$154,927 (period-ended October 31, 2007 - \$Nil) in consulting and management fees to a private company owned by an officer of the Company.
- e) The Company incurred \$41,132 (period-ended October 31, 2007 - \$Nil) in directors' fees to several directors of the Company.

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.

**STREAM OIL & GAS LTD.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

**8. CAPITAL STOCK**

**Issued and Outstanding**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Shares issued on incorporation	27,000,000	247,706	-
Shares issued for cash	8,278,010	75,946	11,315,812
Share issuance costs	-	-	(932,116)
Repurchase of shares for cash	<u>(2,000,000)</u>	<u>(18,349)</u>	<u>(4,981,651)</u>
Balance at October 31, 2007	33,278,010	\$ 305,303	\$ 5,402,045
Capital stock of Stream Oil & Gas (CI) Ltd.	(33,278,010)	-	-
Capital stock of the Company	9,152,331	-	-
Cancellation of shares	(3,750,000)	(125,092)	125,092
Shares issued pursuant to acquisition (Note 9)	33,278,010	1,975,889	-
Stock-based compensation	-	-	315,390
Related party balance waived (Note 7)	-	-	136,894
Balance at November 30, 2008	<u>38,680,341</u>	<u>\$ 2,156,100</u>	<u>\$ 5,979,421</u>

Effective April 4, 2008, the Company consolidated its issued and authorized share capital on a 4 old shares for 1 new share basis. All references to share and per share amounts have been retroactively restated to reflect the share consolidation.

On April 4, 2008, the Company cancelled 15,000,000 (3,750,000 post split) common shares in accordance with the reverse takeover (Note 9).

**Escrow Shares**

As at November 30, 2008, 22,509,013 of the issued shares are held in escrow. These shares are subject to the escrow requirements of the TSX Venture Exchange and will be released from escrow in stages in accordance with securities regulatory requirements.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**8. CAPITAL STOCK (cont'd...)**

**Initial Public Offering**

On July 24, 2007, the Company issued 27,000,000 common shares to the founders of the Company. Consideration for the shares was recorded in oil & gas properties as an acquisition cost

On August 2 and 9, 2007, the Company completed a private placement of a total of 8,278,010 subscription receipts at \$CDN 1.50 per subscription receipt to raise gross proceeds of \$11,391,758 (\$CDN 12,417,015). On August 10, 2007, the subscription receipts were exchanged for a total of 8,278,010 units at no additional cost in accordance with their terms. Each unit consisted of one common share of the Company and one-half of a share purchase warrant. Each whole share purchase warrant is exercisable for a common share of the Company at a price of \$CDN 1.75 for a period of 24 months from the respective issue dates of the subscription receipts. A total of 4,139,005 common shares are issuable upon exercise of the share purchase warrants. Share issuance costs of \$932,116 included \$840,372 in commissions paid to the agents, and \$91,744 in legal fees. The Company also issued a total of 827,801 agents' special warrants to the agents upon the closings of the private placement on August 2 and 9, 2007. On August 10, 2007, the agents' special warrants were exchanged for a total of 827,801 agents' warrants at no additional cost in accordance with their terms. Each agents' warrant is exercisable for a unit ("agents' unit") at a price of \$CDN 1.50 for a period of 24 months from the respective issue dates of the agents' special warrants. Each agents' unit consists of one common share of the Company and one-half of a share purchase warrant ("agents' unit warrant"). Each whole agents' unit warrant is exercisable at a price of \$CDN 1.75 to purchase one common share of the Company for a period of 24 months from the respective issue dates of the agents' special warrants. A total of 1,241,700 common shares are issuable to the agents upon the exercise of the agents' warrants and the agents' unit warrants.

On August 15, 2007, the Company repurchased 2,000,000 common shares at \$2.50 from one of the founders of the Company per share for \$5,000,000.

**Warrants**

At November 30, 2008, the following warrants were outstanding:

Number of Warrants	Exercise Price (Cdn \$)	Expiry Date
1,154,951	\$1.60	August 14, 2009
3,770,508	\$1.75	August 2, 2009
368,497	\$1.75	August 9, 2009
150,144	\$1.08	August 14, 2009
754,102	\$1.50	August 2, 2009
73,699	\$1.50	August 9, 2009
6,271,901		

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

**8. 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 on Incorporation	-	\$ -
Granted	4,966,809	1.71
Expired	-	-
Exercised	-	-
Balance, October 31, 2007	4,966,809	1.71
Warrants of the Company	1,836,022	1.44
Expired	(530,928)	(1.20)
Exercised	-	-
Balance, November 30, 2008	6,271,901	\$ 1.67

**Stock Options**

At November 30, 2008, the following stock options were outstanding:

Number of Options	Exercise Price (Cdn \$)	Expiry Date
1,000,000	\$1.50	April 4, 2010
100,000	\$1.50	May 8, 2013
1,100,000		

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

**8. CAPITAL STOCK (cont'd...)**

**Stock Options (cont'd...)**

	Number	Weighted Average Exercise Price (\$)	Weighed Average Remaining Life
Balance as at Incorporation and October 31, 2007	-		
Granted	1,100,000	1.50	1.62
Exercised	-		
Cancelled	-		
Balance as at November 30, 2008	1,100,000	1.50	1.62
Exercisable as at November 30, 2008	550,000	1.50	

**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-months period, and expire two years from the grant date, on April 4, 2010. As at November 30, 2008, 500,000 stock options are exercisable.

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, 2008, 50,000 stock options are exercisable.

The fair value of stock options granted during the year-ended November 30, 2008 was estimated at \$630,780 (October 31, 2007 - \$Nil), a weighted average fair value per share of \$0.57, which is being recognized over the options' vesting period. Total stock-based compensation expense recognized during the period ended November 30, 2008 was \$315,390 (October 31, 2007 - \$Nil).

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:

	<b>Thirteen month period ended November 30, 2008</b>	<b>Period from Incorporation on June 11, 2007 to October 31, 2007</b>
Risk free rate	2.88%	-
Dividend yield	0%	-
Expected volatility	100%	-
Expected life of options	1.62 years	-

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

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**8. CAPITAL STOCK (cont'd...)**

**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.

**9. ACQUISITION**

By agreement dated April 4, 2008, the Company acquired 100% of the issued and outstanding shares of Stream Oil & Gas (CI) Ltd. ("Stream Cayman") in exchange for 33,278,010 shares of the common stock of the Company. Legally, the Company is the parent of Stream Cayman; however, as a result of the share exchange described above, the former shareholders of Stream Cayman acquired 86% of the total issued and outstanding shares of the Company, and control of the combined entity passes to the former shareholders of Stream Cayman.

This acquisition has been accounted for as a capital transaction in substance using accounting principles applicable to reverse acquisitions, with Stream Cayman being treated as the accounting parent (acquirer) and the Company being treated as the accounting subsidiary (acquiree). As the shares issued on acquisition represent 86% of the Company's issued and outstanding capital stock and the Company's shares are thinly traded, it is impossible to estimate the actual market value of the 33,278,010 common shares. Therefore, the value of the shares issued on acquisition is based on the fair value of the net assets acquired. The fair value of the Company's net assets was \$1,975,889, and allocated as follows:

Cash and cash equivalents	\$	1,950,766
GST and other receivables		8,262
Prepaid expenses		3,872
Resource property		12,989
	\$	1,975,889

The balance sheet as at October 31, 2007 and the statements of operations and cashflows for the period from June 11, 2007, the date of incorporation to October 31, 2007 are those of Stream Cayman. The consolidated statements of operations and cashflows include Stream Caymans' results of operations and cashflows for the thirteen month period ended November 30, 2008 and the Company's results of operations from April 4, 2008 (the date of the reverse acquisition) to November 30, 2008.

Each outstanding warrant of Stream Cayman will be exchanged for one warrant of the Company, entitling the holder to acquire one additional common share in the capital of the Company under the same terms as the original Stream Cayman warrants.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

**10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

	<b>Thirteen month period ended November 30, 2008</b>	<b>Period from Incorporation on June 11, 2007 to October 31, 2007</b>
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

The Company had the following significant non-cash transactions for the thirteen months ended November 30, 2008:

- a) The acquisition of 100% of the issued and outstanding shares of Stream Oil & Gas (CI) Ltd. (Note 9).
- b) Included in accounts payable is \$1,616,738 in oil and gas expenditures.
- c) A related party waived \$136,894 in amounts due.

The Company had the following significant non-cash transactions for the period ended October 31, 2007:

- a) Issued 27,000,000 common shares as founder's shares for the acquisition of oil and gas properties.
- b) Included in accounts payable and accrued liabilities is \$200,000 related to the seismic survey.

**11. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the development of oil and gas properties in Albania. All of the Company's oil and gas properties are located in Albania.

**12. CAPITAL DISCLOSURES**

The Company considers its capital stock as capital, which at November 30, 2008 totalled \$2,156,100.

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.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
November 30, 2008

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**13. 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.

Sensitivity analysis:

At November 30, 2008, if the Canadian dollar had fluctuated by 10% against the local functional currencies with all other variables held constant, net loss for the thirteen month period ended November 30, 2008 would have differed by \$44,000. If the Euro had fluctuated by 10% against the local functional currencies with all other variables held constant, net loss for the thirteen month period ended November 30, 2008 would have differed by \$119,000. If the Albanian Lek had fluctuated by 10% against the local functional currencies with all other variables held constant, net loss for the thirteen month period ended November 30, 2008 would have differed by \$103,000.

**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'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.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
November 30, 2008

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**13. FINANCIAL INSTRUMENTS (cont'd...)**

**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 November 30, 2008, the Company had a cash and cash equivalent balance of \$737,752 and restricted cash of \$711,831 to settle current liabilities of \$1,031,442.

**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.

**14. INCOME TAXES**

The Company's subsidiary, Stream Cayman, was incorporated in the Cayman Islands. Under the income tax laws of the Cayman Islands, at the date hereof, there are no corporate income taxes applicable to companies incorporated in the Cayman Islands. There are no material future income tax assets or liabilities for the thirteen month period ended November 30, 2008, relating to the Company's subsidiary, Stream Cayman. The Company is subject to Canadian corporate income taxes.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
November 30, 2008

**14. INCOME TAXES (cont'd...)**

The Company's actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial statutory corporate income tax rate to the Company's loss before income taxes. The components of these differences are as follows:

	<b>November 30, 2008</b>	<b>October 31, 2007</b>
	\$	\$
Canadian loss before income tax	(1,279,825)	-
Expected tax recovery	(400,611)	-
Non-deductable (deductible) items for tax purposes		
Stock-based compensation	98,723	-
Finance charges	(24,967)	-
Other non-deductible expenses	7,868	-
Unrecognized benefit of non-capital losses	318,987	-
Income tax recovery	-	-

The significant components of the Company's Canadian future income tax assets are as follows:

	<b>November 30, 2008</b>	<b>October 31, 2007</b>
	\$	\$
Non-capital losses	726,575	-
Resource properties	3,377	-
Equipment	3,375	-
Financing costs	35,409	-
	768,736	-
Valuation allowance	(768,736)	-
Net future income tax assets	-	-

The Company has Canadian non-capital losses carried forward of approximately \$2,800,000 (October 31, 2007 - \$Nil). The non-capital losses can be used to offset future taxable income through 2028. Future tax benefits which may arise as a result of these non-capital losses and other tax assets have not been recognized in these financial statements and have been offset by a valuation allowance.

**STREAM OIL & GAS LTD.**  
(formerly L.G.R. Resources Ltd.)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
November 30, 2008

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**15. SUBSEQUENT EVENTS**

Subsequent to November 30, 2008, the Company entered into the following significant transactions:

- a) Effective August 2008, the Albanian Parliament imposed a 10% royalty tax. As required under the contract, the Company's Petroleum Agreements are currently being renegotiated to neutralize the effect of the new royalty tax on the Company.
- b) On February 12, 2009, the Company granted 650,000 stock options to an officer, an employee and a consultant of the Company. The options vest  $\frac{1}{4}$  immediately and  $\frac{1}{4}$  every six months and will be fully vested at the end of eighteen months. Each option entitles the holder to acquire one common share from treasury at \$0.20 per share. The options expire at the end of five years from the grant date.
- c) On December 31, 2008, the extension agreement to the Sale Contract with the Company's significant client, Albpetrol Sh.a., an Albanian state owned agency, expired (Note 3). The Company has been without a Sale Contract since that date but has continued to process oil through Albpetrol Sh.a. and invoice the client according to the terms of the extension agreement.