

STREAM OIL & GAS LTD.

FINANCIAL STATEMENTS

OCTOBER 31, 2007

AUDITORS' REPORT

To the Directors of
Stream Oil & Gas Ltd.

We have audited the balance sheet of Stream Oil & Gas Ltd. as at October 31, 2007 and the statements of operations and deficit and cash flows for the period from incorporation on June 11, 2007 to October 31, 2007. 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2007 and the results of its operations and its cash flows for 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

December 28, 2007

A Member of SC INTERNATIONAL

STREAM OIL & GAS LTD.
BALANCE SHEET
(Expressed in U.S. Dollars)
OCTOBER 31, 2007

ASSETS

Current

Cash	\$ 274,588
Prepaid expenses	<u>1,500</u>
	276,088

Equipment (Note 3) 59,770

Restricted cash (Note 4) 4,800,000

Oil & gas properties (Note 4) 827,349

\$ 5,963,207

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Accounts payable and accrued liabilities	\$ 309,032
Due to related parties (Note 5)	<u>293,508</u>
	<u>602,540</u>

Shareholders' equity

Capital stock (Note 6)	305,303
Contributed surplus (Note 6)	5,402,045
Deficit	<u>(346,681)</u>
	<u>5,360,667</u>

\$ 5,963,207

Nature and continuance of operations (Note 1)

Subsequent event (Note 11)

On behalf of the Board:

"Leslie Goodman"

Director

"Glenn Whiddon"

Director

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

STREAM OIL & GAS LTD.
STATEMENT OF OPERATIONS AND DEFICIT
(Expressed in U.S. Dollars)
FROM INCORPORATION ON JUNE 11, 2007 TO OCTOBER 31, 2007

EXPENSES	
Amortization	\$ 9,386
Foreign exchange gain	(7,534)
Management fees and salaries	36,211
Office and miscellaneous	77,914
Professional fees	178,060
Travel	<u>89,568</u>
Loss before other item	<u>(383,605)</u>
OTHER ITEM	
Interest income	<u>(36,924)</u>
Loss for the period	(346,681)
Deficit, beginning of period	<u>-</u>
Deficit, end of period	<u>\$ (346,681)</u>
<hr/> <hr/>	
Basic and diluted loss per common share	\$ (0.02)
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Weighted average number of common shares outstanding	22,519,696

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

STREAM OIL & GAS LTD.
STATEMENT OF CASH FLOWS
(Expressed in U.S. Dollars)
FROM INCORPORATION ON JUNE 11, 2007 TO OCTOBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Loss for the period	\$ (346,681)
Items not affecting cash:	
Amortization	9,386
Changes in non-cash working capital items:	
Increase in prepaid expenses	(1,500)
Increase in accounts payable and accrued liabilities	<u>109,032</u>
Net cash used in operating activities	<u>(229,763)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of equipment	(69,156)
Restricted cash	(4,800,000)
Oil & gas property expenditures	<u>(379,643)</u>
Net cash used in investing activities	<u>(5,248,799)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Capital stock issued	11,391,758
Share issuance costs	(932,116)
Due to related party	293,508
Capital stock repurchased	<u>(5,000,000)</u>
Net cash provided by financing activities	<u>5,753,150</u>

Change in cash during the period	274,588
Cash, beginning of period	<u>-</u>
Cash, end of period	<u>\$ 274,588</u>

Supplemental disclosure with respect to cash flows (Note 8)

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

STREAM OIL & GAS LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
OCTOBER 31, 2007

1. NATURE AND CONTINUANCE OF OPERATIONS

Stream Oil & Gas Ltd. (the “Company”) is in the business of development of oil & gas properties worldwide and has presently operations in Albania. The Company was incorporated under the laws of the Cayman Islands on June 11, 2007.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet.

	October 31 2007
Deficit	\$ (346,681)
Working capital (deficiency)	(326,452)

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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. Actual results could differ from these estimates

Financial instruments

The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) under CICA Handbook Section 1530 “Comprehensive Income” (“Section 1530”), Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement” (“Section 3855”), Section 3861 “Financial Instruments – Disclosure and Presentation” and Section 3865 “Hedges”. These new sections, which apply to fiscal periods beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources.

Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

STREAM OIL & GAS LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
OCTOBER 31, 2007

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

Financial instruments (cont'd...)

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash as held-for-trading. Restricted cash is classified at amortized cost, accounts payable and accrued liabilities as well as due to related parties are classified as other financial liabilities, all of which are measured at amortized cost. The Company does not have any derivatives or embedded derivatives.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

Oil & gas properties

The Company follows the full cost method of accounting for petroleum and natural gas operations in accordance with Canadian guidelines. Under this method, all costs associated with the acquisition of, exploration for and development of petroleum 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 petroleum 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 petroleum 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.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
OCTOBER 31, 2007

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.

Equipment

Equipment is recorded at cost and amortization is calculated at the following rates per annum using the declining balance method:

Automotive	30%
Computer hardware	30%
Furniture & fixtures	20%

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

As at October 31, 2007, there are no material asset obligations.

Loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year.

STREAM OIL & GAS LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
OCTOBER 31, 2007

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

Loss per share (cont'd...)

For diluted per share computations, assumptions are made regarding potential common shares outstanding during the year. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding if, at the beginning of the year, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's common shares at their average market price during the period, thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets are recognized to the extent that realization of those assets is more likely than not. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Withholding taxes, where applicable, on earnings of foreign operations are provided in the accounts only to the extent earnings are expected to be repatriated.

Foreign currency transactions

These financial statements are expressed in U.S. dollars. Any amounts expressed in Canadian dollars are indicated as such.

Transactions in a foreign currency are translated at rates that approximate those in effect at the time of translation. Gains and losses from translation of foreign currency transactions into U.S. dollars are included in current results of operations.

3. EQUIPMENT

	October 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Automotive	\$ 7,416	\$ 1,112	\$ 6,304
Computer hardware	42,000	6,300	35,700
Furniture & fixtures	<u>19,740</u>	<u>1,974</u>	<u>17,766</u>
	<u>\$ 69,156</u>	<u>\$ 9,386</u>	<u>\$ 59,770</u>

STREAM OIL & GAS LTD.
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4. OIL & GAS PROPERTIES

During the period ending October 31, 2007, the Company acquired the rights to four petroleum properties located in Albania. These are the Cakran-Mollaj, Ballsh-Hekal, Gorisht-Kocul and the Delvina Block properties. To date, the Company has incurred \$827,349 in costs related to these properties which consist of acquisition costs, technical report fees, and a seismic survey.

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. The Company will have to pay royalties ranging from 2% - 6% on net profits available from petroleum sales.

5. RELATED PARTY TRANSACTIONS

Related party transactions for the period ended October 31, 2007 are as follows:

- a) Accrued \$200,000 for a seismic survey to a company where one of the directors of the Company holds a majority interest in the company.
- b) The amount due to related party is non-interest bearing without specific terms of repayment.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

6. CAPITAL STOCK

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
50,000,000 common voting shares, with a par value of \$CDN 0.01			
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

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.

STREAM OIL & GAS LTD.
NOTES TO THE FINANCIAL STATEMENTS
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6. CAPITAL STOCK (cont'd...)

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

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

	Number of Warrants	Exercise Price
Balance on incorporation	-	\$ -
Share purchase warrants granted	4,139,005	CDN 1.75
Special agent warrants granted	<u>827,801</u>	<u>1.50</u>
Balance, October 31, 2007	<u>4,966,806</u>	

At October 31, 2007, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
3,770,508	\$CDN 1.75	August 2, 2009
368,497	1.75	August 9, 2009
754,102	1.50	August 2, 2009
<u>73,699</u>	1.50	August 9, 2009
<u>4,966,806</u>		

STREAM OIL & GAS LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
October 31, 2007

6. CAPITAL STOCK (cont'd...)

Stock options

For the periods presented, the Company does not have any options outstanding. No stock options have been granted to date.

7. INCOME TAXES

The Company is incorporated in Cayman Islands. Under the income tax laws of the Cayman Islands, at the date hereof, there is no Cayman Islands corporation income taxes payable by the Company. The Company is not subject to Canadian corporation income taxes.

There are no material future income tax assets or liabilities for the period ended October 31, 2007.

8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	Period ended October 31, 2007
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 period ended October 31, 2007:

- a) Issued 27,000,000 common shares as founder's shares for the acquisition of oil & gas properties (Note 6).
- b) Included in accounts payable and accrued liabilities is \$200,000 related to the seismic survey (Note 5).

9. SEGMENTED INFORMATION

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

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, restricted cash, accounts payable and accrued liabilities and due to related party. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

STREAM OIL & GAS LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
October 31, 2007

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

Currency risk

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

11. SUBSEQUENT EVENT

Subsequent to October 31, 2007, the Company entered into a letter of intent with L.G.R. Resources Ltd (“LGR”), a British Columbia incorporated company whereby LGR would acquire the Company through a reverse transaction. No definitive agreement has yet been reached and this transaction is subject to shareholder and regulatory approval.