

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

**UNAUDITED**  
**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the ten month period ended  
August 31, 2008

**NOTICE TO READER**

The attached consolidated interim financial statements have been prepared by and are the responsibility of the Company and have not been reviewed by the Company's independent auditor.

**STREAM OIL & GAS LTD.**  
(Formerly L.G.R. Resources Ltd.)  
**CONSOLIDATED INTERIM BALANCE SHEETS**  
(Unaudited, expressed in U.S. Dollars)

	<b>August 31, 2008</b>	<b>October 31, 2007</b>
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	703,425	274,588
Accounts receivable (Note 3, 11)	832,579	-
GST receivable	13,284	-
Crude oil inventory	58,380	-
Prepaid expenses	30,146	1,500
	1,637,814	276,088
<b>Property and Equipment</b> (Note 4)	536,387	59,770
<b>Oil and Gas Properties</b> (Note 5)	3,872,631	827,349
<b>Mineral Property</b> (Note 6)	12,989	-
<b>Restricted Cash</b> (Note 7)	2,015,590	4,800,000
	8,075,411	5,963,207
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 11)	1,180,248	309,032
Due to related parties (Note 8)	106,614	293,508
	1,286,862	602,540
<b>Shareholders' Equity</b>		
Capital stock (Note 9)	2,156,100	305,303
Contributed surplus (Note 9)	5,746,194	5,402,045
Deficit	(1,113,745)	(346,681)
	6,788,549	5,360,667
	8,075,411	5,963,207

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

**On behalf of the Board:**

Sotirios Kapotas, Director

Leslie Goodman, Director

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

**STREAM OIL & GAS LTD.**  
(Formerly L.G.R. Resources Ltd.)  
**CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited, expressed in U.S. Dollars)  
For the three and ten months ended August 31, 2008

	<b>Three months ended August 31, 2008</b>	<b>Ten months ended August 31, 2008</b>
	\$	\$
<b>REVENUE</b>		
Oil and gas revenue (Note 3)	754,447	1,791,641
<b>EXPENSES</b>		
Operating	201,116	570,968
Sales and transportation	80,055	208,065
Management fees and salaries	345,786	883,420
Office and miscellaneous	93,817	256,399
Professional fees	154,996	558,935
Travel	56,531	104,984
Stock-based compensation	14,123	14,123
Amortization	43,201	76,395
	<u>989,625</u>	<u>2,673,289</u>
<b>Loss before other item</b>	<u>(235,178)</u>	<u>(881,648)</u>
<b>OTHER ITEMS</b>		
Interest income	11,629	113,844
Foreign exchange loss	(2,295)	740
	<u>9,334</u>	<u>114,584</u>
<b>Net loss for the period</b>	<u>(225,844)</u>	<u>(767,064)</u>
<b>Deficit, beginning of period</b>	<u>(887,901)</u>	<u>(346,681)</u>
<b>Deficit, end of period</b>	<u>(1,113,745)</u>	<u>(1,113,745)</u>
<b>Basic and fully diluted loss per share</b>	<u>(0.01)</u>	<u>(0.02)</u>
<b>Weighted average number of shares outstanding</b>	<u>38,680,341</u>	<u>40,384,887</u>

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

**STREAM OIL & GAS LTD.**  
(Formerly L.G.R. Resources Ltd.)  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited, expressed in U.S. Dollars)  
For the ten months ended August 31, 2008

	<b>Three months ended August 31, 2008</b>	<b>Ten months ended August 31, 2008</b>
		\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	(225,844)	(767,064)
Items not affecting cash:		
Amortization	43,201	76,395
Shares issued in reverse takeover (Note 10)	-	1,975,889
Resource property acquired in reverse takeover (Note 10)	-	(12,989)
Stock-based compensation	14,123	14,123
	<u>(168,520)</u>	<u>1,286,354</u>
Changes in non-cash working capital items:		
Accounts receivable	(105,613)	(832,579)
GST receivable	(970)	(13,284)
Crude oil inventory	(40,595)	(58,380)
Prepaid expenses	4,146	(28,646)
Accounts payable and accrued liabilities	354,654	921,215
<b>Net cash used in operating activities</b>	<u>43,102</u>	<u>1,274,680</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(285,010)	(534,971)
Restricted cash	795,040	2,784,410
Oil and gas property expenditures (Note 5)	(1,369,023)	(3,045,282)
<b>Cash used in investing activities</b>	<u>(858,993)</u>	<u>(795,843)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Due to related party	(50,000)	(50,000)
<b>Cash used in financing activities</b>	<u>(50,000)</u>	<u>(50,000)</u>
<b>Net change in cash during the period</b>	(865,891)	428,837
<b>Cash, beginning of period</b>	<u>1,569,316</u>	<u>274,588</u>
<b>Cash, end of period</b>	<u>703,425</u>	<u>703,425</u>

**Supplemental disclosure with respect to cash flows** (Note 11)

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

**STREAM OIL & GAS LTD.**  
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, expressed in U.S. Dollars)  
August 31, 2008

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

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 & gas properties worldwide. It currently operates four producing and exploration oil & 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 10). 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 10).

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 interim financial statements have been prepared in accordance with generally accepted accounting principles 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 August 31, 2008, the Company had not yet achieved profitable operations, has accumulated losses of \$1,113,745 since inception, and had working capital of \$350,952. In addition to its working capital, the Company has a restricted cash balance of \$2,015,590 (October 31, 2007-\$4,800,000) to be used for property expenditures in accordance with its property agreements. If the Company does not spend the required \$4,800,000, in accordance with its agreements, it could lose its property assets. As of August 31, 2008, the Company is in good standing with respect to its property expenditures. 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.**  
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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August 31, 2008

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## 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

### **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. 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.

### **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.

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.

### **Mineral Properties**

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries and are not intended to represent present or future values.

### **Basic and Diluted Earnings 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 year. 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 years 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.

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

**Property and Equipment**

Property and 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 & fixtures	20%

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

**Foreign Exchange**

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.

**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 share capital.

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 August 31, 2008.

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

**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 August 31, 2008, the Company had no asset retirement obligations.

**Change in Accounting Policy**

On December 1, 2006, the Company adopted CICA Handbook Sections 1530, “Comprehensive Income”, Section 3251, “Equity”, Section 3855, “Financial Instruments – Recognition and Measurement”, Section 3861, “Financial Instruments – Disclosure and Presentation” and Section 3865, “Hedges”. 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 that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including 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: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated its accounts payable and accrued liabilities as other financial liabilities, which are measured at amortized cost.

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

On December 1, 2007, the Company adopted CICA Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial instruments – Presentation

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.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The adoption of these Handbook Sections had no impact on opening deficit.

**Accounting Policy Choice for Transaction Costs**

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs ("EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective November 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

**Accounting Changes**

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

**3. REVENUE AND ACCOUNTS RECEIVABLE**

Albpetrol Sh.a, an Albanian state owned agency was the Company's main client during the period. Albpetrol sells the product to the ARMO Sh.a Refinery. Revenue is net of royalties. The Company recognizes revenue when the product is delivered to Albpetrol.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited, expressed in U.S. Dollars)  
August 31, 2008

**4. PROPERTY AND EQUIPMENT**

	<b>August 31, 2008</b>		
	Cost	Accumulated Amortization	Net Book Value
Automotive	\$ 190,668	\$ 15,205	\$ 175,463
Computer hardware	41,515	3,420	38,095
Computer software	45,003	9,024	35,979
Equipment	302,402	15,552	286,850
	<b>\$ 579,588</b>	<b>\$ 43,201</b>	<b>\$ 536,387</b>

**5. OIL AND GAS PROPERTY EXPENDITURES**

	<b>Three Months ended August 31, 2008</b>	<b>Ten Months ended August 31, 2008</b>
Opening balance	\$ 2,503,608	\$ 827,349
Expenditures:		
Seismic program	264,714	1,037,930
Work-overs and upgrades	1,104,309	1,965,481
Technical report	-	41,871
	<b>1,369,023</b>	<b>3,045,282</b>
	<b>\$ 3,872,631</b>	<b>\$ 3,872,631</b>

**6. 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 for \$1. Included with the purchase were all previous data, engineering reports and equipment related to exploration of the claim by the vendor. No additional consideration is payable other than fees or taxes related to the purchase. The vendor has retained a 3% net smelter royalty. As at August 31, 2008 the Company had incurred geological consulting fees of \$12,989 on the property.

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

As of August 31, 2008 the restricted cash balance is \$ 2,015,590, the Company having incurred \$2,784,410 of the expenditure requirements.

**8. RELATED PARTY TRANSACTIONS**

Related party transactions for the ten months ended August 31, 2008 are as follows:

- a) The amount due to the related party is non-interest bearing without specific terms of repayment. \$136,894 of the amount due to the related party was waived during the period ending February 29, 2008 and \$50,000 was repaid during the period ended August 31, 2008, leaving a balance due of \$106,614.
- b) The Company incurred \$1,037,930 in seismic survey work to a private company with a director in common with the Company.
- c) The Company incurred \$219,249 in management and office fees to a private company controlled by a director of the Company.
- d) The Company incurred \$124,750 in consulting and management fees to a private company owned by an officer of the Company.
- e) Two vehicles valued at \$68,040 were contributed to the Company by an officer and insider of the Company.
- f) The Company incurred \$29,882 in directors fees to several directors of the Company.

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**9. CAPITAL STOCK**

**Issued and Outstanding**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance at November 30, 2007	9,152,331	\$ 305,303	\$ 5,538,939
Cancellation of shares	(3,750,000)	(125,092)	125,092
Shares issued pursuant to acquisition (Note 10)	33,278,010	1,975,889	-
Contributed vehicles	-	-	68,040
Non-cash stock-based compensation	-	-	14,123
Balance at August 31, 2008	38,680,341	\$ 2,156,100	\$ 5,746,194

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 10).

**Escrow Shares**

As at August 31, 2008, 22,509,013 of the issued shares are held in escrow. These shares are subject to the escrow requirements of the CNQ and/or potential requirements of the TSX Venture Exchange and will be released from escrow in stages in accordance with securities regulatory requirements.

**Initial Public Offering**

On March 31, 2006 the Company completed an initial public offering of 2,000,000 common shares at Cdn \$0.18 per share for gross proceeds of \$360,000. The Company paid the agent a commission of \$36,000, a corporate finance fee of \$15,000 and granted the agent share purchase options to acquire up to 200,000 shares at Cdn \$0.18 per share exercisable to April 19, 2008. The agent's options were valued at \$30,000 and have been included in share issue costs. The value was determined using the Black-Scholes model using the following assumptions:

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

	<b>Year ended <u>November 30, 2006</u></b>
Risk free rate	3.97%
Dividend yield	0%
Expected volatility	1.836
Expected option life	2 years

**Private Placements**

On June 30, 2006 the Company completed a private placement of 4,222,219 units at \$0.225 per unit for gross proceeds of Cdn \$950,000. Each unit consists of one common share and one-half of one share purchase warrant. Each full warrant entitles the holder thereof to purchase one additional common share at \$0.30 per share on or before June 30, 2008. All of the proceeds received have been allocated to share capital and no value was allocated to the warrants.

On August 14, 2007 the Company completed a private placement of 9,239,606 units at Cdn \$0.27 per unit for gross proceeds of Cdn \$2,494,694. Each unit consists of one common share and one-half of one warrant. Each full warrant entitles the holder thereof to purchase one additional common share at Cdn. \$0.40 per share on or before August 14, 2009. All of the proceeds received have been allocated to share capital and no value was allocated to the warrants. The Company paid the agents a cash commission of Cdn \$162,155 and issued the agents' special warrants entitling the holder to purchase 600,574 units of the Company for Cdn \$0.27 per unit on or before August 14, 2009. These units were issued on the same terms as the above-noted private placement. The agents' warrants were valued at \$70,000 and have been included in share issue costs.

The fair value of the special warrants was determined using the Black Scholes model using the following assumptions.

	<b>Year ended <u>November 30, 2007</u></b>
Risk free rate	4.84%
Dividend yield	0%
Expected volatility	190.41%
Expected warrant life	2 years

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August 31, 2008

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

**Share Purchase Warrants**

At August 31, 2008, the following warrants were outstanding:

Number of Warrants	Exercise Price (Cdn \$)	Expiry Date
1,154,951	\$1.60	August 14, 2009
4,147,559	\$1.75	August 2, 2009
405,345	\$1.75	August 9, 2009
754,102	\$1.50	August 2, 2009
73,699	\$1.50	August 9, 2009
6,535,656		

On April 19, 2008, 3,150 (12,600 pre-consolidation) warrants with an exercise price of Cdn \$0.72 per share (\$0.18 per share pre-consolidation) expired.

On June 30, 2008, 527,778 (2,111,110 pre-consolidation) warrants with an exercise price of Cdn \$1.20 per share (\$0.30 per share pre-consolidation) expired.

**Special Warrants**

As at August 31, 2008, the Company had 150,144 (600,574 pre-consolidation) (November 30, 2007: 600,574) agents' special warrants outstanding entitling the holders thereof the right to purchase one unit of the company for each unit held at \$1.08 per unit (\$0.27 per unit pre-consolidation) on or before August 14, 2009. Each unit consists of one common share and one-half of one share purchase warrant. Each full warrant entitles the holder thereof to purchase one additional common share at \$1.60 per share (\$0.40 per share pre consolidation) on or before August 14, 2009.

**Stock Options**

	Number	Weighted Average Exercise Price (\$)	Weighted Average Time to Expiration
Balance as at November 30, 2007	-		
Granted	1,100,000	1.50	1.89
Exercised	-		
Cancelled	-		
Balance as at August 31, 2008	1,100,000	1.50	1.89

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**9. 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.

During the period ended May 31, 2008, the Company recorded fair value of 1,000,000 stock options granted and vested as stock-based compensation of \$Nil. The fair value has been estimated using the Black Scholes Options Pricing Model with the following assumptions: risk-free interest rate of 2.03%, expected stock price volatility of 0%, an expected option life of 2 years and no expectation for the payment of dividends. No benefit was recorded as the shares had zero volatility and the exercise price exceeded the current market value of the shares at the time of issuance.

On May 8, 2008, the Company entered into an agreement with an officer of the Company to grant 100,000 stock options to the officer of the Company on the listing date exercisable at Cdn \$1.50 per share with a term of five years and a vesting schedule as follows:

- a) as to 25% of the Optioned Shares on the Listing Date;
- b) as to a further 25% of the optioned Shares on and from six months following the Listing Date;
- c) as to a further 25% of the optioned Shares on and from 12 months following the Listing Date;
- d) as to a further 25% of the optioned Shares on and from 18 months following the Listing Date;

The listing date is July 25, 2008 which is the date the Company's common shares were first listed on the TSX Venture Exchange. The options will be valued on the date they are vested.

During the period ended August 31, 2008, the Company recorded fair value of 25,000 stock options vested as stock-based compensation of \$14,123 in accordance with the agreement dated May 8, 2008. The fair value has been estimated using the Black Scholes Options Pricing Model with the following assumptions: risk-free interest rate of 2.42%, expected stock price volatility of 107.17%, an expected option life of 5 years and no expectation for the payment of dividends.

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**10. STOCK 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 of 33,278,010 shares of the common stock of Stream Oil & Gas Ltd. ("Company"). At the time of the transaction, the former shareholders of Stream Cayman (the "Transferors") acquired 86% of the 38,350,341 total issued and outstanding shares of the Company.

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 original Stream Cayman warrants.

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.

Cash and cash equivalents	\$ 1,950,766
GST receivable	7,878
Prepaid expenses	3,872
Resource property	12,989
Accounts payable and accrued liabilities	384
	<hr/>
	\$ 1,975,889

These consolidated interim financial statements include the results of operations of Stream Cayman since November 1, 2007 and the results of operations of the Company since the date of the reverse acquisition on April 4, 2008.

The weighted average number of Common shares outstanding for 2008 is that of the Company calculated as if the additional 33,278,010 shares issued in connection with the acquisition of Stream Cayman were issued on November 1, 2007.

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

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	<b>Ten months ended August 31, 2008</b>
Cash paid during the period for interest	\$ -
Cash paid during the period for income taxes	\$ -

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**11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS (cont'd...)**

The Company had the following significant non-cash transactions for the ten month period ended August 31, 2008:

- a) Included in accounts receivable is \$832,579 due from Albpetrol representing invoiced oil & gas sales.
- b) Included in accounts payable is \$370,190 due to Albpetrol for well work-over work, \$201,791 due to Silvi Construction, \$171,343 due to Well Enhancement Services, \$127,202 due to Spyrides Albania, \$93,758 due to Landtech, and \$53,089 due to Rompetrol.
- c) A related party waived \$136,894 in amounts due.

**12. SEGMENTED INFORMATION**

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

**13. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, accounts receivable, inventory, prepaid expenses, 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.

**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. The Company receives Albanian Lek for its oil and gas sales.