

STREAM OIL & GAS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH AND SIX MONTHS PERIODS ENDED MAY 31, 2009

(Unaudited – Prepared by Management)

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

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

	<u>May 31,</u> <u>2009</u>	<u>November 30,</u> <u>2008</u>
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	437,257	737,752
Restricted cash (Note 5)	95,891	711,831
Accounts receivable (Note 3)	1,379,045	610,284
GST and other receivables	39,129	24,056
Prepaid expenses	13,325	113,768
	1,964,647	2,197,691
Property and Equipment (Note 4)	6,045,412	5,237,131
	8,010,059	7,434,822
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,804,114	1,031,442
	1,804,114	1,031,442
Shareholders' Equity		
Capital stock (Note 7)	2,156,100	2,156,100
Contributed surplus (Note 7)	6,252,196	5,979,421
Deficit	(2,202,351)	(1,732,141)
	6,205,945	6,403,380
	8,010,059	7,434,822

Nature and continuance of operations (Note 1)

Commitments (Note 5)

Related party transactions (Note 6)

Subsequent events (Note 13)

On behalf of the Board:

"Leslie Goodman", Director

"Sotirios Kapotas", Director

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

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

	Three month period ended May 31, 2009	Six month period ended May 31 2009	Three month period ended May 31, 2008	Seven month period ended May 31 2008
	\$	\$	\$	\$
REVENUE				
Oil and gas revenue (Note 3)	766,149	1,575,263	584,247	1,037,194
EXPENSES				
Operating	271,256	736,741	226,921	369,852
Sales and transportation	12,103	70,932	78,296	128,010
Management fees and salaries	65,407	233,636	267,018	537,634
Office and miscellaneous	76,149	155,080	83,940	162,582
Professional fees	207,328	307,362	221,529	403,939
Travel	12,472	30,015	31,182	48,453
Stock-based compensation	184,792	272,775	-	-
Amortization and depletion	53,390	115,948	23,266	33,194
Foreign exchange (gain) loss	97,788	161,498	(4,630)	(3,035)
	980,685	2,083,987	927,522	1,680,629
Loss before other items	(214,536)	(508,724)	(343,275)	(643,435)
OTHER ITEMS				
Interest income	-	38,514	69,335	102,215
Net loss and comprehensive loss for the period	(214,536)	(470,210)	(273,940)	(541,220)
Deficit, beginning of period	(1,987,815)	(1,732,141)	(613,961)	(346,681)
Deficit, end of period	(2,202,351)	(2,202,351)	(887,901)	(887,901)
Basic and fully diluted loss per share	(0.01)	(0.01)	(0.01)	(0.02)
Weighted average number of shares outstanding	38,680,341	38,680,341	36,134,836	35,391,966

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

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

	Three month period ended May 31, 2009	Six month period ended May 31 2009	Three month period ended May 31, 2008	Seven month period ended May 31 2008
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	(214,536)	(470,210)	(273,940)	(541,220)
Items not affecting cash:				
Amortization and depletion	53,390	115,948	23,266	33,194
Shares issued in reverse takeover	-	-	1,975,889	1,975,889
Stock-based compensation	184,792	272,775	-	-
Resource property acquired in reverse takeover	-	-	(12,989)	(12,989)
Changes in non-cash working capital items:				
Accounts receivable	(130,442)	(768,761)	(228,301)	(726,966)
GST and other receivables	(34,696)	(15,073)	(12,314)	(12,314)
Prepaid expenses	(10,495)	100,443	(34,294)	(32,793)
Accounts payable and accrued liabilities	515,615	772,672	606,442	566,562
Crude oil inventory	-	-	3,547	(17,785)
Net cash used in operating activities	363,628	7,794	2,047,306	1,231,578
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment	(4,933)	(4,933)	(168,834)	(249,961)
Restricted cash	11,365	615,940	679,058	1,989,370
Oil and gas property expenditures	(396,810)	(919,296)	(1,132,781)	(1,676,259)
Cash provided by (used in) investing activities	(390,378)	(308,289)	(622,557)	63,150
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital stock repurchased	-	-	-	-
Cash provided by (used in) financing activities	-	-	-	-
Net change in cash and cash equivalents during the per	(26,750)	(300,495)	1,424,749	1,294,728
Cash and cash equivalents, beginning of period	464,007	737,752	144,567	274,588
Cash and cash equivalents, end of period	437,257	437,257	1,569,316	1,569,316

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

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three and Six Month Periods Ended May 31, 2009
(Unaudited – Prepared by Management)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

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

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

At May 31, 2009, the Company had not yet achieved profitable operations, has accumulated losses of \$2,202,351 since inception, and had working capital of \$160,533. Included in its working capital, the Company has a restricted cash balance of \$95,891 (November 30, 2008-\$711,831) to be used for property expenditures in accordance with its property agreements. During the period ending May 31, 2009, the Company completed spending 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.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
For the Three and Six Month Periods Ended May 31, 2009
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The preparation of the financial data is based on accounting principles consistent with those used in the preparation of the audited annual financial statements. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the thirteen month period ended November 30, 2008, as they do not contain all disclosures required by Canadian GAAP for annual financial statements.

Basis of Presentation and Basis of Consolidation

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Stream Oil & Gas (CI) Ltd. In the opinion of the management, all adjustments (including normal recurring adjustments) necessary to present fairly the financial position as at May 31, 2009 and results of operations and comprehensive loss, shareholders’ deficit and cash flows for all periods presented, have been made.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash and have maturities of one year or less when purchased. Included in cash and cash equivalents is an overdraft balance of \$611,715 (November 30, 2008 - \$162,248) and \$900,000 (November 30, 2008 - \$900,000) in term deposits.

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
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(Unaudited – Prepared by Management)

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

Oil & gas properties

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

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

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

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

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

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

Basic and Diluted 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income Taxes

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

Equipment

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

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

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

Foreign Exchange

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

Stock-based Compensation

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

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

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

Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there has been no impairment of the Company's long-lived assets as at May 31, 2009.

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.

Changes in Accounting Policies

Goodwill and Intangible Assets

On December 1, 2008, the Company adopted the 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 Company adopted amended CICA Handbook Section 1000, "Financial Statement Concepts". This standard was amended to clarify the criteria for recognition of an asset so that items that no longer meet the definition of an asset are no longer recognized as assets.

There is no material impact to the Company's financial statements as a result of CICA 3064 or amended CICA 1000.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

General Standards of Financial Statements Presentation

On December 1, 2008, the Company adopted amended CICA Section 1400, “General Standards of Financial Statements Presentation”. This standard was amended 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.

The implementation of amended CICA 1400 did not have a significant impact on the Company’s results of operations, financial position or disclosures, other than the disclosure in note 1 to the financial statements.

Future Accounting Pronouncements

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.

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3. ECONOMIC DEPENDENCE - REVENUE AND ACCOUNTS RECEIVABLE

The Company sells its oil and gas to two customers in Albania, including 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 13). Since December 31, 2008, the Company has continued to process oil and invoice AlbPetrol sh.a. according to the terms of the extension agreement, however, since December 2008, the second customer has accounted for 95% of the revenue to the Company. AlbPetrol sh.a. accounts for 95% of the accounts receivable.

4. PROPERTY AND EQUIPMENT

May 31, 2009			
	Cost	Accumulated Amortization and Depletion	Net Book Value
Oil and gas properties, proved	\$ 5,384,898	\$ 17,000	\$ 5,367,898
Automotive	120,877	35,230	85,647
Computer hardware	155,442	32,521	122,921
Computer software	57,178	33,906	23,272
Furniture and equipment	577,294	131,620	445,674
	\$ 6,295,689	\$ 250,277	\$ 6,045,412
November 30, 2008			
	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

STREAM OIL & GAS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited – Prepared by Management)

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

The Company's ceiling test calculations, performed at May 31, 2009, resulted in no impairment loss. The future prices used by the Company in estimating cash flows were based on forecast prices at each year end, adjusted for the Company's quality and other contract differentials. The following table summarizes the benchmark prices used in the calculation:

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

	Six month period ended May 31, 2009	Thirteen month period ended November 30, 2008
Opening balance	\$ 4,465,602	\$ 827,349
Expenditures:		
Seismic program	540,000	1,046,327
Work-overs and upgrades	379,296	2,550,055
Technical report	-	41,871
	919,296	3,638,253
	\$ 5,384,898	\$ 4,465,602

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. COMMITMENTS

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

The Company committed to spend a total of \$4,800,000 in expenditures relating to its properties by September 9, 2009, or pay the National Agency of Natural Resources in Albania, the difference between the \$4,800,000 committed and the amount it actually incurred. The \$4,800,000 was restricted and guaranteed through a letter of credit by the bank. During the period ended May 31, 2009, the Company incurred the balance of the expenditure requirements relating to its properties. As of May 31, 2009 the restricted cash balance is \$95,891, (November 30, 2008 - \$711,831).

6. RELATED PARTY TRANSACTIONS

Related party transactions for the six months ended May 31, 2009 are as follows:

- a) The Company incurred \$80,500 in management and office fees to a private company controlled by a director of the Company.
- b) The Company incurred \$61,236 in management fees to a private company owned by an officer of the Company. The amount included in accounts payable at May 31, 2009 for unpaid management fees owing to the officer was \$24,676.
- c) The Company incurred \$143,373 in consulting fees to private companies owned by officers of the Company. The amount included in accounts payable at May 31, 2009 for unpaid consulting fees owing to the officers was \$134,686.
- d) The Company incurred \$25,000 in directors' fees to several directors of the Company. The amount included in accounts payable at May 31, 2009 for unpaid fees owing to the directors was \$23,750.
- e) The Company incurred \$540,000 in fees for seismic work to a company with a common director. The amount included in accounts payable at May 31, 2009 for unpaid fees owing is \$433,240.

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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7. CAPITAL STOCK

Issued and Outstanding

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance at November 30, 2008	38,680,341	\$ 2,156,100	\$ 5,979,421
Stock-based compensation	-	-	272,775
Balance at May 31, 2009	38,680,341	\$ 2,156,100	\$ 6,252,196

Escrow Shares

As at May 31, 2009, 18,750,002 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.

Warrants

At May 31, 2009, 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		

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

Warrants (cont'd...)

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

	Number of Warrants	Weighted Average Exercise Price
Balance, November 30, 2008	6,271,901	1.67
Warrants of the Company	-	-
Expired	-	-
Exercised	-	-
Balance, May 31, 2009	6,271,901	\$ 1.67

Stock Options

At May 31, 2009, 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
650,000	\$0.20	February 12, 2014
2,800,000	\$0.20	March 20, 2012
500,000	\$0.25	May 12, 2014
5,050,000		

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

Stock Options (cont'd...)

	Number	Weighted Average Exercise Price (\$)	Weighed Average Remaining Life
Balance as at November 30, 2008	1,100,000	1.50	0.87
Granted	3,950,000	0.21	3.39
Exercised			
Cancelled			
Balance as at May 31, 2009	5,050,000		2.91
Exercisable as at May 31, 2009	1,812,500		

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 May 31, 2009, 750,000 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 May 31, 2009, 75,000 stock options are exercisable.

On February 12, 2009, the Company granted 650,000 stock options to an officer, an employee and a consultant of the Company. Each option entitles the option holder to acquire one common share from treasury at \$0.20 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire five years from the grant date, on February 12, 2014. As at May 31, 2009, 162,500 stock options are exercisable.

On March 20, 2009, the Company granted 2,800,000 stock options to four officers of the Company. Each option entitles the option holder to acquire one common share from treasury at \$0.20 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire three years from the grant date, on March 20, 2012. As at May 31, 2009, 700,000 stock options are exercisable.

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

Stock based compensation (cont'd...)

On May 12, 2009, the Company granted 500,000 stock options to two directors and an officer of the Company. Each option entitles the option holder to acquire one common share from treasury at \$0.20 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire five years from the grant date, on May 12, 2014. As at May 31, 2009, 125,000 stock options are exercisable.

The fair value of stock options granted during the six month period ended May 31, 2009 was estimated at \$487,615 (November 30, 2008 - \$630,780), a weighted average fair value per share of \$0.12 (November 30, 2008 - \$0.57), which is being recognized over the options' vesting period. Total stock-based compensation expense recognized during the six-month period ended May 31, 2009 was \$272,775 (November 30, 2008 - \$315,390).

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:

	Six month period ended <u>May 31, 2009</u>	Thirteen month period ended <u>November 30, 2008</u>
Risk free rate	1.88%	2.88%
Dividend yield	0%	0%
Expected volatility	100%	100%
Expected life of options	3.39 years	1.62 years

Stock-Based Compensation Plan

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

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8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	Three month period ended May 31, 2009	Thirteen month period ended November 30, 2008
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

The Company had no significant non-cash transaction for the six month period ended May 31, 2009.

9. 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.

10. CAPITAL DISCLOSURES

The Company considers its capital stock as capital, which at May 31, 2009 totaled \$2,156,100 (November 30, 2008 - \$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.

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11. FINANCIAL INSTRUMENTS

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

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

Currency risk

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

Sensitivity analysis:

At May 31, 2009, if the Canadian dollar had fluctuated by 10% against the local functional currencies with all other variables held constant, net loss for the six month period ended May 31, 2009 would have differed by \$21,000. If the Euro had fluctuated by 10% against the local functional currencies with all other variables held constant, net loss for the six month period ended May 31, 2009 would have differed by \$17,000. If the Albanian Lek had fluctuated by 10% against the local functional currencies with all other variables held constant, net loss for the six month period ended May 31, 2009 would have differed by \$16,000.

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.

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11. 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 May 31, 2009, the Company had a cash and cash equivalent balance of \$437,257 (November 30, 2008 \$737,752) and restricted cash of \$95,891 (November 30, 2008 - \$711,831) to settle current liabilities of \$1,804,114 (November 30, 2008 - \$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.

12. INCOME TAXES

The Company's subsidiary, Stream Oil & Gas (CI) Ltd., 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 six month period ended May 31, 2009, relating to the Company's subsidiary, Stream Oil & Gas (CI) Ltd. The Company is subject to Canadian corporate income taxes.

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12. 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:

	May 31, 2009	November 30, 2008
	\$	\$
Canadian loss before income tax	(470,210)	(1,279,825)
Expected tax recovery	(148,116)	(400,611)
Non-deductable (deductible) items for tax purposes		
Stock-based compensation	85,924	98,723
Finance charges	-	(24,967)
Other non-deductible expenses	34,681	7,868
Unrecognized benefit of non-capital losses	27,511	318,987
Income tax recovery	-	-

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

	May 31, 2009	November 30, 2008
	\$	\$
Non-capital losses	789,500	726,600
Resource properties	3,400	3,400
Equipment	3,400	3,400
Financing costs	35,400	35,400
	831,700	768,800
Valuation allowance	(831,700)	(768,800)
Net future income tax assets	-	-

The Company has Canadian non-capital losses carried forward of approximately \$3,000,000 (November 30, 2008 - \$2,800,000). The non-capital losses can be used to offset future taxable income through 2029. 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.

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13. SUBSEQUENT EVENTS

Subsequent to May 31, 2009, 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 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.
- c) The Company has filed with the TSX-Venture Exchange, a shares for services transaction as outlined in the policies of the TSX-Venture Exchange, under which \$186,856 of services will be exchanged for 778,567 shares at \$0.24 per share. The transaction is subject to approval of the TSX-Venture Exchange.
- d) On June 22, 2009, the Company granted 490,000 stock options to a consultant of the Company. Each option entitles the option holder to acquire one common share from treasury at \$0.24 per share. The options vest on a semi-annual basis with 25% vesting on each vesting date, starting from the grant date and over a subsequent 18-month period, and expire three years from the grant date, on June 22, 2012.