

Stream Oil & Gas Ltd.

Form 51-102F1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter

Three month and six month periods ended May 31, 2010

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This Management Discussion & Analysis (MD&A) contains forward-looking statements, which reflect, among other things, management's expectations regarding the Company and the Company's properties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements.

Such forward-looking information, including but not limited to statements such as production targets, timing of the company's planned work program and management's belief as to the potential of certain properties, involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

Such factors include, among others, risks and uncertainties associated with exploration, petroleum operations and risks associated with equipment procurement and equipment failure as well as those described under "Business Risks and Uncertainties" in the Company's Information Circular.

The Company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this MD&A should not be unduly relied upon.

Non-GAAP Measures

Stream Oil & Gas Ltd. (Stream or the Company) uses the following common oil and gas industry non-GAAP measures in discussing its operating results:

- Net operating income is revenue net of royalties, operating and sales and transportation costs. This provides a useful comparative measure of the Company's operations before general and administration costs and other expenses and income.
- Operating net back per barrel (bbl) is determined by dividing net operating income by Stream's share of total production. The oil and gas industry uses this measure to indicate the contribution per barrel.

1. INTRODUCTION

The Company is an emerging oil and gas production, development and exploration company, currently focused on its three oil fields and a gas field in Albania. The Company's shares trade on the TSX-Venture Exchange under the symbol "SKO".

The following is management's discussion and analysis (MD&A) of the financial condition and results of the operations of Stream Oil & Gas Ltd. (the "Company" or "Stream") for the three month and six month periods ended May 31, 2010, with comparisons to the three-month and six month periods ended May 31, 2009.

This MD&A includes information and expectations concerning the Company's outlook based on currently available information and should be read in conjunction with the Company's management-prepared financial statements and related notes for the corresponding period.

All figures are in United States dollars unless otherwise stated.

This MD&A is prepared as of July 20, 2010

Stream continued to implement its high growth, low risk development plans in the second quarter of 2010, and achieved the following milestones:

- a. Updated the Plan of Development for the Delvina gas field based on AKBN review recommendations and held a meeting to present PoD in detail to related parties.
- b. All updated Development plans with supplementary material were submitted to Albanian government authorities for final approval.
- c. Following the successful completion of first mid-depth well workover and the corresponding achievement of higher flow rates per well a 3 month program was put in place in order to test as many wells as possible in the Cakran-Mollaj oil field. Parallel to this planning to upgrade the surface infrastructure is in place in order to connect the initial successful wells to the gathering system at the earliest so that the company can benefit from this extra production.
- d. Per the Petroleum Agreement Stream requested a 36 month extension of the Exploration Phase II for the Delvina Gas Field. An Exploration plan is currently being prepared by company experts and will be provided as complementary material to Albanian authorities outlining the work and budget for Phase II.
- e. Advanced negotiation for export crude sales to Mediterranean area. Plan to export a first load around August 2010.

2. OVERALL PERFORMANCE

Results

Results of Operations

Stream has a single operating and reporting entity comprising all of Stream's Albanian exploration and production operations, conducted through the Company's wholly owned subsidiary Stream Oil And Gas (CI) Ltd.

Selected first and second quarter information

	Three months ended May 31		Six months ended May 31	
	2010	2009	2010	2009
Financial (000s USD)				
Oil & gas revenue	1,327,199	766,149	2,609,028	1,575,263
Net operating income	1,100,422	482,790	1,920,469	767,590
Income (loss) for period	(42,927)	(214,536)	(22,753)	(470,210)
Funds from operations	(355,406)	142,167	(958,576)	(213,667)
Loss per share	0.00	(0.01)	0.00	(0.01)
Additions to property, plant and equipment	526,386	401,743	1,369,358	924,229

During the second quarter of 2010, Stream's total revenue increased to \$1,327,199 compared to \$766,149 during the second quarter of 2009. The first half of 2010, Stream's total revenue was \$2,609,028 compared to \$1,575,263 for the first half of 2009. The increase is primarily due to higher oil production and improved product pricing.

Stream's net share of average daily oil & gas production was 365 bbl/d by May 2010, compared to 231 bbl/d in the Q2 2009. This does not include the two well achieved flow rates which were workover tests.

Stream's average price per barrel of oil during Q2 2010 was \$38.70 compared to \$35.92 during Q2 2009.

During the second quarter of 2010, Stream continued to sell its current oil production to local customers. At the end of the quarter, the oil inventory was only marginally higher than at the end of the previous quarter.

Management developed plans for oil exports, fully allowed under the Company's Petroleum Agreements, are being implemented. Exports will begin as soon as volumes permit optimum export sales contracts. The first shipment is anticipated in Q3 this year.

Temporarily constrained by refinery maintenance, Stream's gas production was nil for Q2 as the refinery remains shut down. This compares to daily average of 536 mcf per day of gas and 26 bopd condensate in Q2 2009 with net to Stream of 275 mcf per day gas and 13 bopd of condensate. Stream's current capacity is 670 mcf of gas and 32 bbls condensate/day.

The condensate price was \$42.04 bbl in Q2 2010 compared to \$70.31/bbl in Q2 2009.

The Company recorded a loss for the three months ended May 31, 2010 of \$40,996 compared to a loss of \$214,536 or \$0.01 per share for the three months ended May 31, 2009. Loss for the first six months of 2010 ended May 31, 2010 was \$20,822 compared to a loss of \$470,210 for the six months ended May 31, 2009.

General and administrative expenses were higher in the second quarter of 2010 compared to Q2 2009 because the Company added additional technical and operational expertise to its management and staff in order to implement its growth plans.

Incremental increases in production from recent well recompletions resulted in a per barrel reduction in fixed general and administrative expenses, The Company expects to continue to improve such economies of scale as production grows.

The Company operates four separate oil and gas fields with 83 field employees as of May 31. Utilizing the most effective blend of national and foreign expertise, the Company conducts business using two field offices, an Albania administrative office and a Canadian corporate office.

Cash flow and working capital

As of May 31, 2010, the Company's cash balance was \$2,010,827, oil inventory was valued at \$478,688, accounts receivable and pre-paid expenses were \$1,061,267 and the accounts payable balance was \$1,371,746. Total working capital as of the end of the second quarter was \$2,179,036.

As of July 19, 2010, working capital was about \$2.1 million, the Company's cash balance was approximately \$1.6 million, and oil inventory was estimated at 55,655 bbl, equivalent to \$494,289. Management is currently negotiating agreements to sell the oil inventory.

ARMO refinery maintenance outages have affected Stream's ability to sell its gas on a reliable and consistent basis. Albania's domestic consumption of natural gas is limited. Accordingly, the Company's management is finalizing plans for long-term gas utilization. The plans, with a forecast implementation of late 2010, include both industrial and power generation consumers; Albania has significant electricity shortages and frequently imports over 1,000MW of power.

Capital Expenditures

Capitalized expenditures were \$1,369,358 during the first half 2010, compared to \$924,229 in first half 2009. Capitalized expenditures were \$526,386 during Q2 2010 compared to \$401,743 in Q2 2009. The Company plans to continue deploying the cash raised in the financing, along with operating cash flow, for further production growth and is studying several funding options to accelerate production growth.

Strategic Priorities

The Company met its commitments under the Petroleum Agreements for 2009. Activities for 2010 are focused on implementing the Plans of Development for each of its three oil fields and preparing to begin the re-completion program in the Delvina gas field. Priorities achieved during the second quarter of 2010 were:

Management's Discussion & Analysis

- The Company supplemented all Development plans with additional material and submitted them to Albanian government authorities for final ratification.
- The Company will continue implementing its development plans during 2010. These plans include the takeover of all producing wells in the Gorisht-Kocul oil field and the staged takeover of the Ballsh-Hekal oilfield.
- The Company continues to update its database from the seismic results in the Delvina gas field. The Company has retained the support of a specialist for professional interpretation of the results, with plans to use this interpretation for a reserves update as well as the future placement and detailed design of the horizontal wells.
- The Company informed the authorities that it will exercise its rights to extend Phase II of the Delvina Exploration for 36 months and is preparing the corresponding Exploration Plan.
- The Company finalized its plans for the export sales of produced oil. Negotiations are currently underway for Stream's first export shipment of 3000 MT, with respective lifting anticipated in August 2010.
- The Company commenced the deployment of its recently enhanced Environmental, Health, and Safety (EHS) program. The safety of Stream's employees and positive community relationships is paramount as is improving and maintaining high environmental standards. The Company will continue to strengthen relationships with the Albanian authorities, local communities, employees and investors.
- Cakran-Mollaj performance: Continue PCP deployment while testing technologies more palatable to the caustic environment.
- Strengthened the capability of local service providers.
- Improving control systems in support of TSX move.

Performance Measures

The Company's performance goals are focused on increasing production, sales and cash flow. Production continues to increase significantly and as a result of new and revised sales contracts, cash flow has improved. The Company intends to export production as soon as favourable contracts can be negotiated thereby proactively managing in-country sales risks. As production is forecast to increase commensurate with Cakran workovers and GoKo takeover, sales contracts will continue to be (re)negotiated to enable the sales of this additional oil production.

RESULTS OF OPERATIONS

	Three months ended May 31		Six months ended May 31	
	2010	2009	2010	2009
Operating				
Avg daily oil production (bopd)	326	231	276	230
Average price	38.70	24.00	41.42	29.00
Avg condensate	nil	13	nil	12

Management's Discussion & Analysis

production (bopd)				
Avg gas (mcf/day)	nil	275	nil	275
Avg gas price (\$/mcf)	nil	\$12.00	nil	12.00
Avg condensate price (\$/bbl)	42.04	\$65.00	nil	65.00

Production and revenue

Under its Petroleum Agreements, Stream has the right to takeover all the existing wells and facilities in its oil and gas fields (approximately 600 wells). Of these wells, 244 are producing with the remainder requiring some type of intervention. By the end of Q2 2010 the Company had taken over a total of 124 wells, of which 58 were producing at time of takeover. The Company has taken over an additional 35 wells since the end of Q1.

From the 58 producing wells, the Company produced a total of 62,476 barrels gross (bbls) over the three month period ended May 31, 2010 with net to Stream of 30,031 bbls.

During Q2, the Company produced negligible amounts of gas from Delvina, as well as 188 bbls of condensate. The Company delivers its produced gas to a local refinery via Albpetrol's pipeline. Albpetrol (and indirectly, the Refinery) was the Company's only customer for its gas production in Q2. Stream has a pre-existing production (PEP) obligation to Albpetrol, which continues even when the refinery is down for maintenance. When the refinery reopens, Stream is obliged to deliver the accumulated PEP obligation to Albpetrol for the refinery usage.

Total revenues net of royalties from the Company's share of production for oil, gas and condensate were \$1,327,199 during Q2 2010 (\$766,149 in Q2 2009).

Revenue from condensate sales from inventory was \$10,312 during Q2 2010. The Company has developed gas utilization plans, with implementation of first phase to commence in late 2010, in order to increase gas and condensate revenue.

Operating costs

For Q2 2010, the Company's operating costs were lower at \$194,997 compared to \$271,256 in Q2 2009.

General and Administrative (G&A)

Total professional fees for Q2 2010 were \$154,614 compared to \$207,328 in Q2 2009. G&A costs have decreased as the consultants engaged to complete the Company's Plans of Development have completed the task.

Management fees have increased as Stream continues to build an effective national/expatriate organization to support the implementation of the growth plans. In Q2 2010 these costs were \$355,124 compared to \$65,407 in Q2 2009. The Company optimizes its fixed overhead costs however it must maintain two Albanian field and administrative offices and a Canadian corporate office.

Capital Expenditures

Stream's capital expenditure was \$526,386 including \$218,863 on plant and equipment and \$307,523 on workovers, services and upgrades.

Royalties, Direct Expense and Netbacks

In accordance with its Petroleum Agreements, Stream's share of production is calculated using formula whereby the Company receives a combination of:

- 30 to 35% (field dependent) of pre-existing production (PEP), established at the time of well take over, declining at a rate of 10% per year (5% for Delvina), plus
- 100% of all increased production over PEP.

The Company is obligated to provide Albpetrol an additional 2 - 4% royalty (calculated based on cumulative capital recovery); following full capital recovery.

In 2008, a new 10% mineral tax was legislated by the Albanian Ministry of Finance. Under the Company's Petroleum Agreements, any new financial burdens (including new mineral taxes) shall be neutralized by amendments to the Petroleum Agreements. To maintain the win-win relationship the Company worked diligently with local officials to generate neutralization options and recommended the optimum solution. The Company expects the finalization of terms to neutralize the effects of this mineral tax to occur shortly, subsequent to the Government's endorsement of the Company's Plans of Development.

The Company is obligated to fund the operating costs of the wells taken over, despite benefiting from only 30-35% of the pre-existing production. With the recent Cakran-Mollaj workovers, the Company continues to increase its incremental oil production and the ratio of net production to gross production. This will have a positive effect on operating netbacks. (Operating netback is calculated as revenue net of royalties, less operating expenses, divided by net oil production.)

The operating netback / bbl in Q2 2010 was approximately \$24.81 compared to \$22.71 in Q2 2009

Amortization and Depletion

Amortization and depletion increased to \$77,877 in the second quarter of 2010 compared to \$53,390 in the Q2 2009. The increase reflects mainly amortization of equipment acquired during the previous year.

Activity Highlights:

Reactivation and Development Program

The Company's 2010 objectives are focused on reaching 2,000 bopd gross crude production, 2,000 mcf/d of gas and 150 bopd condensate by year-end. This goal is based on recent success ratios in reactivations and is in line with planned reactivations as well as the full takeover of the Gorisht-Kocul oilfield and phased takeover of Ballsh. The Company also intends to commence the first phase water flood pilot in the Gorisht-Kocul field.

Management's Discussion & Analysis

Management's strategy for 2010 is to focus on high growth, low risk production increases utilizing improved oil recovery methods. These methods include improved artificial lift, integrated reservoir management and production optimization.

Through the balance of 2010 fiscal year, the Company will continue additional takeovers, enabling further production growth, as well as carrying out technical planning for the future deployment of the Gorisht water flood and Enhanced Oil Recovery (EOR) testing for the Cakran, Ballsh and Gorisht oil fields.

The following is a summary of the activities in each of Stream's four Albanian properties:

Cakran-Mollaj field was discovered in 1977 and is currently producing a medium gravity crude (25 API) from 28 wells out of a field inventory of 70 wells. This is the deepest of the Company's oil fields at 2650-3700 meters.

Management's goal for the project is to increase pre-existing production three fold by using proven western technology (mid-depth recompletion with appropriate artificial lift mechanism, currently PC pumps). This was achieved on one well, increasing its average field production from 5 bpd to 110 bpd. On its second mid-depth workover, the Company achieved total single well production of 82 bpd.

Field production as at May 31, 2010 was 489 bopd, of which 225 bopd is net to Stream. As of the date of this report, Stream's net production from the Cakran field is 232 bopd.

The Company is currently using locally sourced service equipment to perform the Cakran-Mollaj mid-depth workovers. This rig limits workover depths to 2,000 meters. Wanting to locate the pumps closer to the actual payzone, the Company is presently negotiating with suppliers to enable full depth workovers in Q4 2010.

Gorischt-Kocul field was discovered in 1965 and is a heavy oil field (15 API) currently producing from 135 wells out of a field inventory of 295. Well depths range from 400-1250 meters. Field production as of May 31, 2010 is approximately 1150 bopd, of which 77 bopd are net to the Company. This relatively low net production stems from the fact that the Company has taken over only 27 wells to date (out of an inventory of 295). The Company plans to take over the remainder of the wells (at no cost to the Company) by the end of Q3 2010.

This field has good potential to not only maintain but also to further increase production rates, specifically using water flooding (potentially heated) for production stimulation. The Company is finalization preparations for the initial phase of its water flood program with the objective of validating the previously conducted water flood tests. Management is selecting a suitable area and wells and will soon start discussions with Albpetrol for agreement to take over the wells.

Ballsh-Hekaj field was discovered in 1966 and is a heavy oil field (11 API) currently producing from 81 wells out of 212. The Company is conducting a staged rehabilitation program on 15 producing wells in the field and has taken over another eight for reactivation. The field production as of May 31, 2010 is 500 bopd with 65 bopd net to the Company.

The Company plans to gradually takeover this field starting in 2011, with the intent of working it over with western artificial lift technology, i.e. PC pumps before moving into the combination of EOR testing and new infill drilling.

Management's Discussion & Analysis

For further detail regarding the Albanian properties, please refer to the Company's reserve report summaries.

Delvina field was discovered in 1987, and is a gas condensate field with reservoirs at a depth of 2800-3500m. The field is currently producing from two wells. The Company upgraded the infrastructure and optimized production control of the gas and condensate. Gas tests to understand phase behaviour and a PVT analysis study were also completed. Stream management is evaluating the results of passive seismic for mapping and estimating upside potential.

The field is currently shut-in due to the only customer, ARMO refinery being shut down. Current production capability of the existing wells is 670 mcf/d and 32 bbl/d of condensate.

The Company has completed its evaluations and has finalized its plans for the late 2010 workovers of the two existing vertical wells (assuming availability of funds). The company will then move towards field development with the commencement of the horizontal drilling program, currently planned for 2011. The Company plans to expand its existing gas market and is finalizing gas utilization plans which will be deployed in time to support the Delvina field development program timelines.

Additions to Management Team

The Company has strengthened its management team through the addition of Mr. James Hodgson as Company's CFO and board member.

Outlook and Plans for Q3- 2010

The Company is currently focused on completing its Plan of Exploration, negotiating with new customers for sale of its production in Albania and the rest of Europe and strengthening its financial resources.

Plans of Development (PoD)

Following the December and February approval of the PoDs by Albpetrol, the Company expects that AKBN (the representative of the Albania Ministry of Economy, Trade and Energy) will provide their ratification in due course. The Company will, in accordance with the provisions of the Petroleum Agreements, continue to execute its programs as defined within these development plans.

The PoD includes:

- Re-activation of existing wells
- Workover of existing wells
- New drilling
- Rehabilitation of surface facilities

In support of the execution plans, the Company plans to aggressively implement the following:

- Finalization of facilities- rehabilitation requirements
- Finalization of reservoir simulations for horizontal drilling
- Development of the reservoir models for new well drilling at Cakran and Delvina
- Finalization of gas utilization plans, including power generation

Management's Discussion & Analysis

- Environmental program enhancement and development of missing elements
- Alternative marketing opportunities of commodities

Production

Management is targeting substantial production increases to continue in 2010, with the objective of exiting 2010 at 2,000 boed gross.

In Q3 2010, the oilfields team will continue to workover the Cakran-Mollaj wells, while preparing for the full takeover of the next oilfield.

In Q3 2010, the gas field team will continue to produce gas subject to market demand, while finalizing the vertical wells recompletion plans, including further testing for natural gas liquids productivity.

The Company plans to take-over the following wells and associated surface facilities during the remainder of 2010:

- Gorisht field complete takeover
- Ballsh- Stream gradual takeover, across 2011 and 2012 years

Sales

The Company will continue to identify and negotiate new and higher value sales agreements for its production in Albania.

Technical Planning

The Company will continue to focus its technical personnel on further defining the resource potential, including selecting the appropriate recovery mechanisms to test in the 2011 fiscal year.

Reserve Valuation

The Company obtained its first National Instrument 51-101 compliant reserve valuation report during Q4 2009 and will obtain an update during Q4 2010. The Company continues to update its database from the results of the workover programs completed in the crude oil fields, and the passive seismic results in the gas field. This additional information will be provided to the reserve evaluators, in support of the reserve update and evaluation.

Procurement

The Company continues to expand its core and local procurement capacity, currently managing:

- Negotiations for the engagement of a heavy work over rig and related services for deep workovers in the Cakran-Mollaj field as well as the Delvina field vertical recompletion program
- Advanced negotiations with suppliers for supplier credit facilities

Field Operations

The Company will continue to increase its value, through:

Management's Discussion & Analysis

- Training and development of national personnel in production and field services
- Optimizing production operations to benefit from Stream's vast underdeveloped resource
- Improving field controls

3. SUMMARY OF QUARTERLY RESULTS

	2010		2009				2008	
(\$ 000)	Q2	Q1	Q4	Q3	Q2	Q1*	Q4	Q3
Oil & gas revenue (net of royalties)	1,327	1,282	(151)	791	766	809	1044	754
Sales and transportation.	32	93	(13)	79	12	59	93	78
Operating expenses	355	368	222	134	271	465	654	227
Net operating income	940	820	(359)	577	483	285	297	279
General and Administrative	693	783	602	668	361	365	403	604
Net income (loss)	(43)	20	(858)	(396)	(214)	(256)	(618)	(274)
Basic and diluted earnings (loss) per share	0.00	0.00	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)
Additions to property, plant and equipment	526	843	620	371	180	522	1,471	1,091

Average daily production								
oil (bbl)	326	236	250	240	231	230	235	162
Gas (mcf)	nil	247	0	nil	275	275	356	108
Condensate (bbl)	2	11	0	nil	13	11	11	5

Average price								
Oil/bbl	38.70	38.70	38.69	40.00	24.00	34.00	38.00	46.31
Gas/mcf	n/a	14.00	n/a	n/a	12.00	12.00	17.80	17.80
Condensate/bbl	42.04	47.00	n/a	n/a	65.00	65.00	90.50	82.00

Quarterly trends:

- Oil revenues have increased due to higher sales volumes and prices. Gas production and sales were negligible during the quarter due to lack of demand.
- Operating expenses have increased as the Company has taken over additional wells and added employees.
- G&A has increased as result of increasing the management team.

4. LIQUIDITY

As of July 19, 2010, working capital was approximately \$2.1 million. This included cash balances of approximately \$1.6 million. Accounts receivable from Albpetrol, and other short-term accounts receivable, were \$1.1 million. Inventory was \$0.5 million and accounts payables were \$1.0 million.

The Company is able to fund its operations from current revenues, subject to timely collections. However, Stream's only gas customer, Albpetrol has historically awaited payment from ARMO (a privately run refinery) prior to fulfilling its payment obligation to the Company. Management has commodity swap arrangements whereby the Company will be provided oil from Albpetrol as payment for the supplied gas. Management is of the opinion that the outstanding and future amounts will be collected and therefore has not made any bad-debt provision.

Stream has numerous customers for its oil, with the majority oil transfers occurring after payment receipt in accordance with the sales agreements. The Company is finalizing its plans to sell its oil inventories. Management is of the opinion that the inventories will be sold within the next few months and that no write downs or bad-debt provisions are required.

5. CAPITAL RESOURCES

To date the Company has relied on cash flow and minimal external funding to fund its ongoing operations.

With its current cash balance and recent improvements to cash flow as a result of cash sales to its new customers, Stream is able to support current operations on existing properties. Additional financing will be required to fund the Company's exploration and development plans.

6. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

7. TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the six months ended May 31, 2010 are as follows:

- a) The company incurred \$80,769 in management and office fees to a private company controlled by a director of the Company
- b) The company incurred \$48,687 in consulting and management fees to a private company owned by an officer of the company.
- c) The Company recorded in management fees and salaries \$293,810 in consulting fees to private companies owned by officers of the Company. The amount included in accounts payable at May 31, 2010 for unpaid consulting fees owing to the officers was \$152,166.
- d) The Company incurred \$76,184 in consulting and management fees to a private individual who is an officer of the company.
- e) The Company incurred \$36,374 in directors' fees to several directors of the Company. The amount owing to directors at May 31, 2010 for directors' fees owing was \$52,624.
- f) At May 31, 2010, the total balance payable for unpaid fees owing to a company with a common director of the Company was \$480,000. Of this amount \$420,000 is a long term payable. The Company has entered into an agreement for repayment of fees owing under

which the balance outstanding will be repaid at a rate of \$10,000 per month with the remaining balance due November 30, 2010.

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

8. CHANGES IN ACCOUNTING POLICY INCLUDING INITIAL ADOPTION

Future Changes in Accounting Policies:

Business combinations (Section 1582)

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

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

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

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.

The Company commenced assessing the adoption of IFRS for 2011, including the deployment of tools that support appropriate reporting, and in Management's opinion will be able to meet the stipulated timetable.

9. FINANCIAL AND OTHER 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 were 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

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

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 is to maintain sufficient liquidity in order to meet operational requirements at any point in time. The Company generates cash flow from its operations and has maintained adequate cash balances. The Company is exposed to liquidity risk because it previously depended on one customer, Albpetrol whose outstanding receivable has not yet been settled. This is mitigated by the fact that local vendors are supportive and certain of them have agreed to defer collection of the Company's payables. If required the Company will seek additional working capital funding by means of issuing share capital or debt financing.

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 does currently hold any financial instruments and is not exposed to any significant interest rate risk on its cash deposits.

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.

10. OTHER

Additional information relating to Stream is on SEDAR at www.sedar.com.

11. OUTSTANDING SHARE DATA

As of May 31, 2010, the Company has 51,844,191 common shares issued and outstanding.

Stock Options

As of May 31, 2010, 5,965,000 common shares were reserved for issuance on the exercise of stock options, under the Company's stock option plan.

There were 1,725,000 stock options granted to officers, directors and consultants of the Company on May 11, 2010. Outstanding stock options as of May 31, 2010 were as follows:

- 400,000 common shares at \$1.50 per share until April 4, 2010, granted to directors and consultants. Under re-pricing and term extension agreements dated May 12, 2009, 400,000 of these options will be exercisable at \$0.25 for a term expiring April 4, 2013.
- 100,000 common shares at \$1.50, granted to an officer of the Company subject to 18 month vesting until May 8, 2013. Under re-pricing agreement dated May 12, 2009 the exercise price will be reduced to \$0.25.
- 650,000 common shares to an officer, a consultant and an employee at \$0.20 per share subject to 18 month vesting until February 12, 2014
- 2,100,000 common shares to three officers, at \$0.20 per share subject to 18 month vesting until March 20, 2012
- 500,000 common shares to an officer and two directors, at \$0.25 per share, subject to 18 month vesting until May 12, 2014.
- 490,000 common shares granted to a consultant at \$0.24 per share subject to 18 month vesting until June 22, 2012.

- 1,725,000 common shares granted to officers, directors and consultants on May 31, 2010 at \$0.63 per share subject to 18 month vesting until May 11, 2013.

Share warrants

On January 4, 2010 the Company issued 5,000,000 share warrants with a two year term permitting the purchase of one common share at an exercise price of CDN \$0.55. The Company has the right to force the exercise of warrants at any time if the shares trade at CDN \$0.75 or higher over a twenty day consecutive period.

On January 4, 2010 the Company issued 630,500 finders warrants with a two year term permitting the purchase of a unit comprising one common share and one half share warrant (with the terms as described above) at an exercise price of CDN \$0.35.

As of May 31, 2010 the outstanding balance of warrants is 3,725,857 at a weighted average exercise price of \$0.52 as 1,904,643 warrants were exercised during the period.

12. CONTROLS AND PROCEDURES

The Company is a Venture Issuer and therefore under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), has not made representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, the Chief Executive Officer and the Chief Financial Officer, the Company's certifying officers, have not made any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

The Company has adopted a Delegation of Signing Authority, Code of Business, and Disclosure Policies. These are available on the Company's website.

13. CORPORATE GOVERNANCE

The Company's Terms of Reference for the Board of Directors and Committee Charters for the Audit Committee, Reserves Committee and Compensation Committee, are available on the Company's website.

14. PRINCIPAL BUSINESS RISKS

The Company's principal business, oil and gas exploration, development and production, is subject to a high degree of risk, which even a combination of experience, knowledge and careful evaluation may fail to overcome. Such risks include but are not limited to the uncertainty to finding and producing oil and gas in commercial quantities, securing markets for production, commodity price fluctuations, exchange and interest rate exposure and changes to government regulations including regulations relating to prices, taxes, royalties and environmental protections. The oil and gas industry is very competitive and Stream Oil & Gas competes with a large number of companies with greater resources.

Stream Oil & Gas's ability to increase its reserves in future will depend on its ability to develop its current properties and in its abilities to acquire new properties. This will require sufficient capital from outside sources to be available as needed. The availability of equity or debt financing is affected by many factors which are beyond the control of the company.

Stream Oil & Gas's current investment focus is its Albanian properties. There are a number of risks involved in conducting foreign operations over which Stream oil & Gas has no control, including political stability, potential and actual civil disturbances, ability to repatriate funds, changes in laws affecting foreign ownership and existing contracts, environmental regulations, oil and gas prices, production regulations, royalty rates, tax law changes, potential expropriation of property without fair compensation and restrictions on exports. Additional risks which may affect Stream Oil & Gas are set out in the Information Circular filed on SEDAR.

APPROVED BY THE DIRECTORS:

"Sotirios Kapotas"

_____ Director

"Leslie Goodman"

_____ Director