

**Stream Oil & Gas Ltd.**

Form 51-102F1

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**First Quarter**

**Three months ended February 28, 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 netback per barrel (bbl) is determined by dividing 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

Stream is an emerging oil and gas exploration, development and production corporation, 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 period ended February 28, 2010, with comparisons to the three-month period ended February 28, 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 April 26, 2010.

**Stream began implementation of its high growth, low risk development plans in the first quarter of 2010, and achieved the following milestones:**

- Completed a \$3.5 million fund-raising on January 4, 2010. The net proceeds of \$3.2 million are being used to implement production growth plans.
- Received approval from Albpetrol Sh.a. (Albpetrol), the state-owned Albanian oil and gas production company of the three oil field Plans of Development (PoDs). The PODs were submitted to the Albanian government authorities for final endorsement on December 24, 2009
- Received approval of the Delvina gas field Plan of Development (PoD), from Albpetrol. The Delvina PoD was submitted to the Albanian government authorities for final endorsement on February 5, 2010.
- Completed the take-over in March 2010 of all wells and infrastructure of the Cakran-Mollaj oil field and the Usoja central treatment facility. This resulted in a 30% net production increase.
- Completed the first mid-depth well workover in the Cakran-Mollaj oilfield in March 2010. This successful workover increased Stream's net daily production by a further 30%.
- Completed the second successful Cakran-Mollaj well workover in April 2010. This second workover provided an additional 13% net oil production increase to 477 bopd, plus 60 boed from gas and associated liquids. As a result, Stream achieved the crucial milestone of 500 boed.

**2. OVERALL PERFORMANCE - FIRST QUARTER 2010****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 quarterly information**

	Three months ended February 28,	
	2010	2009
<b>Financial (USD)</b>		
Oil & gas revenue	1,281,829	809,114
Net operating income	820,047	284,800
G&A	783,110	452,720
Profit (loss) for the period	20,175	(255,674)
Net cash used in operating activities	(603,170)	(355,834)
Profit (loss) per share (cents)	0.00	(0.01)
Additions to property plant and equipment	842,792	522,486

During the first quarter of 2010, Stream's total revenue increased to \$1,281,829 compared to \$809,114 during the first quarter of 2009. This increase was mainly the result of additional gas revenues recorded in Q1 2010 following an agreement with Albpetrol in December 2010

Stream's net share of average daily oil & gas production was 502 bbls by April 22, 2010, compared to 230 bbls in the Q1 2009.

Stream complied with the requirements of its Petroleum Agreements, fulfilled the related financial requirements and submitted Plans of Development for all its fields.

Stream's average price per barrel of oil during Q1 was \$38.70 compared to \$34 during Q1 2009.

During the first 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 which are allowed under the Company's Petroleum Agreements. Exports will begin as soon as volumes permit optimum export sales contracts.

Temporarily constrained by refinery maintenance, Stream's gas production was reduced to a daily average of 240 mcf of gas and 11 bopd of condensate during Q1 2010, compared to 275 mcf of gas and 13 bopd condensate in Q1 2009. Stream's current capacity is 670mcf of gas and 32 bbls condensate/day.

All gas production was delivered to Albpetrol to fulfill pre-existing production (PEP) obligations under the Petroleum Agreements. The local price per mcf of gas was approximately \$14 mcf in Q1 2010, as compared to \$12 in Q1 2009. The condensate price was \$47/bbl in Q1 2010 compared to \$65/bbl in Q1 2009.

The Company recorded a profit for the three months ended February 28, 2010 of \$20,175 or, \$0.00 per share, compared to a loss of \$255,674 or \$0.01 per share for the three months ended February 28, 2009.

General and administrative expenses were higher in the first quarter of 2010 compared to Q1 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 76 field employees. 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 February 28, 2010, the Company's cash balance was \$1,885,165, oil inventory was valued at \$400,756, accounts receivable and pre-paid expenses were \$479,021 and the accounts payable balance was \$1,367,317. Total working capital as of the end of the first quarter was \$1,397,625

As of April 20, 2010, working capital was about \$1.1 million, the Company's cash balance was approximately \$1.5 million, and oil inventory was estimated at 55,655bbl, equivalent to \$494,289. Management is currently negotiating agreements to sell the oil inventory.

The Company has finalized its gas sales to ARMO (local refinery) for 2009 and the beginning of 2010. Government- owned Albpetrol will be used as a sales intermediary. All associated taxes have been paid.

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 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 \$842,972,460 during the Q1 2010, compared to \$522,486 in Q1 2009. Expenditures increased following the December fund-raising. The Company plans to continue deploying the cash raised in the financing, along with operating cash flow, for further 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 recompletion program in the Delvina gas field. Priorities achieved during the first quarter of 2010 were:

## Management's Discussion & Analysis

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- Completed the evaluation phases on its three Albanian oil fields (Cakran-Mollaj, Gorisht-Kocul, Ballsh-Hekal). Oil field plans of development (PoDs), submitted in September 2009 to the Albanian authorities, were approved by Albpetrol on December 24, 2009.
- Utilizing the proceeds of the recent \$3.5 million private placement, the Company procured the necessary equipment and services to begin implementing the oilfields' growth programs, initially focusing on the Cakran-Mollaj field.
- The PoD for the Delvina Gas field was approved by Albpetrol on February 4, 2010. The Company expects the Albanian government to endorse the PoD.
- The Company took over all wells (including producing and many non-producing) in the Cakran field and initiated its first mid-depth recompletion and workover with the goal of increasing production. The first well workover was successfully completed in March 2010 and increased production to 110 bopd.
- 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. In Q1 the Company focused on the detailed planning for these two fields' takeovers.
- 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 finalized its plans for the export sales of oil production. Negotiations are currently underway with regional refineries, to enable immediate export when increased production milestones are reached.
- The Company added foreign heavy oil production and workover expertise to its Albanian team, to support the aggressive implementation of its growth plans
- 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.

### 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. As production is forecast to increase commensurate with Cakran workovers, sales contracts will continue to be (re)negotiated to enable the sales of this additional oil production.

### 3. RESULTS OF OPERATIONS

#### Production and revenue

Under its Petroleum Agreements, Stream has the right to takeover all the 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 Q1 2010 the Company had taken over a total of 89 wells, of which 41 were producing. The Company has taken over an additional 26 wells since the end of Q1 and now operates 115 wells, of which 55 are producing.

From the 41 producing wells, the Company produced a total of 41,641 barrels (bbls) over the three month period ended February 28, 2010. The Company's share of this production was 20,968 bbls, resulting in a daily production average of 233 bbls at the end of Q1 2010.

In addition, during Q1, the Company produced a gross total of 22.3 mmcf of gas from Delvina (240 mcf average), as well as 1,023 bbls of natural gas liquids. 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 Q1. 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. Therefore, during this quarter, refinery closures resulted in all production being provided to Albpetrol, upon reopening of the refinery, to fulfil Stream's pre-existing production obligations.

Total revenues net of royalties from the Company's share of production for oil, gas and condensate were \$1,281,829 during Q1 2010 (\$809,114 in Q1 2009).

Revenues from the sales of gas and condensate were \$701,519 for Q1 2010. The Company is developing gas utilization plans, with implementation to commence in 2010, in order to increase gas and condensate revenue.

#### Operating costs

For Q1 2010, the Company's operating costs were lower at \$368,429 compared to \$465,485 in Q1 2009.

#### General and Administrative (G&A)

Total professional fees for Q1 2010 were \$328,163 compared to \$100,034 in Q1 2009. G&A costs have increased as a result of the engagement of foreign experts to develop and implement the Company's Plans of Development.

Management fees have increased as Stream continues to build an effective national/expatriate organization to support the implementation of the growth plans. In Q1 2010 these costs were \$280,082 compared to \$168,229 in Q1 2009. The Company optimizes its fixed overhead costs however it must maintain two Albanian field and administrative office and a Canadian corporate office.

#### Capital Expenditures

Stream's capital expenditure was \$842,972 including \$730,020 on plant and equipment and \$112,952 on work-overs 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 dependant) of pre-existing production (PEP) , established at the time of well take over, declining at a rate of 10% per year, 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, 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 oil production.)

The operating netback in Q1 2010 was approximately \$25.18 compared to \$21.45 in Q1 2009

### **Amortization and Depletion**

Amortization and depletion increased to \$67,388 in the first quarter of 2010 compared to \$62,558 in the Q1 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 takeovers and reactivations as well as the full takeover of the Gorisht-Kocul oilfield. The Company also intends to commence the first phase water flood pilot in the Gorisht-Kocul field.

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 and Ballsh 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 25 wells out of a field inventory of 62 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 a total single well production of 82 bpd.

Field production as at February 28, 2010 was 550 bopd, of which 93 bopd are net to Stream. As of the date of this report, Stream's net production from the Cakran field is 328 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 February 28, 2010 is approximately 1150 bopd, of which 82 bopd are net to the Company. This relatively low net production stems from the fact that the Company has taken over only 13 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 for production stimulation. The Company is currently preparing 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 16 producing wells in the field and has taken over another eight for reactivation. The field production as of February 28, 2010 is 500 bopd with 67 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.

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 producing from two active wells, which have had no intervention for nearly two decades. Current production capability of the existing wells is 714 mcf/d (428 mcf/day, net to Stream) and 40 boed of condensate (21boed net to Stream).

The Company has completed its evaluations and is currently finalizing its plans for the 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. Danny Davis as Company's CFO.

### **Outlook and Plans for Q2- 2010**

#### **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 approval in due course. The Company will, however, continue to execute its program 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
- Environmental program enhancement and development of missing elements
- Alternative commodities marketing opportunities

### **Production**

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

In Q2 2010, the oilfields team will continue to workover the Cakran-Mollaj wells, while preparing for the full takeover of the next oilfield.

In Q2 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 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
- Regional acquisition of materials and equipment for fields workovers
- Negotiations with suppliers for supplier credit facilities

### **Field Operations**

The Company will continue to increase its value, through:

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

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- Improving field controls

### 4. SUMMARY OF QUARTERLY RESULTS

	2010		2009			2008		
(\$ 000)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil & gas revenue (net of royalties and returns)	1,282	(151)	791	766	809	1044	754	584
Sales and transportation.	93	(13)	79	12	59	93	80	78
Operating expenses	368	222	134	271	465	654	201	227
<b>Net operating income (loss)</b>	<b>820</b>	<b>(359)</b>	<b>577</b>	<b>483</b>	<b>285</b>	<b>297</b>	<b>473</b>	<b>279</b>
General and Administrative	783	602	668	361	365	403	651	604
Net income (loss)	20	(858)	(396)	(214)	(256)	(618)	(226)	(274)
Basic and diluted earnings (loss) per share	0.00	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)
Additions to property, plant and equipment	843	620	371	180	522	1,471	1,370	1,091

<b>Average daily production</b>								
oil (bbl)	236	250	240	231	230	235	162	103
Gas (mcf)	247	0	nil	275	275	356	108	122
Condensate (bbl)	11	0	nil	13	11	11	5	5

<b>Average price</b>								
oil /bbl	38.70	38.69	40.00	24.00	34.00	38.00	46.31	37.70
Gas/mcf	14.00	n/a	n/a	12.00	12.00	17.80	17.80	17.00
Condensate/bbl	47.00	n/a	n/a	65.00	65.00	90.50	82.00	82.00

#### Quarterly trends:

- Oil revenues have dipped slightly due to slower sales, however the overall revenue has increased as a result of gas sales during the quarter
- 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.

### 5. LIQUIDITY

As of April 20, 2010, working capital was approximately \$1.1 million. This included cash balances of approximately \$1.5 million. Accounts receivable from Albpetrol, and other short-term accounts receivable, were \$0.5million. Inventory was \$0.5 million and accounts payables were \$1.4 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 is currently finalizing 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 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.

### 6. 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.

### 7. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

### 8. TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the three months ended February 28, 2010 are as follows:

- a) The Company incurred \$52,274 to a private company controlled by a director of the Company for management, administration, liaison and office services in support of the Company's Albanian operations.
- b) The Company incurred \$33,132 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 \$146,110 in consulting fees to private companies owned by officers of the Company. The amount included in accounts payable at February 28, 2010 for unpaid consulting fees owing to the officers was \$264,865.

- d) The Company incurred \$31,934 in consulting and management fees to an officer of the company.
- e) The Company incurred \$11,250 in directors' fees to several directors of the Company. The amount owing to directors at February 28, 2010 for directors' fees owing was \$42,500.
- f) At February 28, 2010, the total balance payable for unpaid fees owing to a company with a common director of the Company was \$510,000. 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.

### **CONTINGENCY**

On February 16, 2010, the Company announced that BA Capital Inc., a private consulting company owned by Mr. Art Agolli, has commenced litigation against the Company, claiming damages of \$637,000 arising from the allegedly wrongful termination of a Consulting Agreement with the Company. The Company believes the lawsuit to be without merit and intends to defend against the litigation vigorously. At this time, the likelihood of the outcome is not determinable and no liability has been recorded in connection with the litigation.

## **9. 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.

## **10. 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.

### **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; 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.

### **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.

In management's opinion, the Company is not exposed to significant interest rate risk. Due to low current interest rates, it earns an insignificant amount of money via interest. It currently has no overdraft facility set up with any bank.

### **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.

## **11. OTHER**

Additional information relating to Stream, is on SEDAR at [www.sedar.com](http://www.sedar.com).

## **12. OUTSTANDING SHARE DATA**

As of April 24, 2009, the Company has 49,939,548 common shares issued and outstanding.

### **Stock Options**

As of February 28, 2010, 4,640,000 common shares were reserved for issuance on the exercise of stock options, under the Company's stock option plan.

There were no options issued, cancelled or exercised during the first quarter of 2010. Outstanding stock options as of February 28, 2010 were as follows:

- 800,000 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. The re-pricing and term extension agreements are subject to disinterested shareholder approval at the Company's next AGM, scheduled for May 27, 2010.
- 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. The agreement is subject to disinterested shareholder approval at the Company's next AGM.

- 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.

### 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.

## 13. 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.

### 14. 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.

### 15. 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 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

*"George Mortakis-Martakis"*

\_\_\_\_\_ Director