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Investment Analysis for Intelligent Investors

September 24, 2008

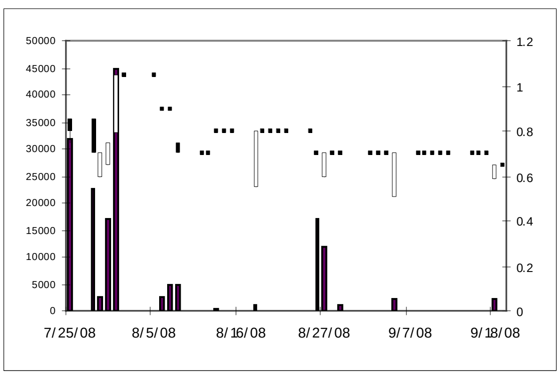
Stream Oil & Gas Ltd. (TSXV: SKO) – Initiating Coverage; E&P company focused on rehabilitation and redevelopment of oil and gas projects in Albania

Sector/Industry: Oil & Gas **www. streamoilandgas.com**

Market Data (as of September 24, 2008)

Current Price	**C$0.50**
Fair Value	**C$1.22**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	N/A
Shares O/S	38,680,341
Market Cap	C$19.34 mm
Current Yield	N/A
P/E	N/A
P/B	2.76
YoY Return	N/A
YoY TSXV	-45.4%

*see back of report for rating and risk definitions



Investment Highlights

- The company has one gas and three oil projects in Albania, namely the Ballsh-Hekaj oilfield, Gorischt-Kocul oilfield, Cakran-Mollaj oilfield and Delvina gas field. All of the company's oil and gas fields are currently in production.
- The company's oil fields produce medium to heavy oils and have had low recovery in the past.
- The Delvina gas field is partially developed, and the company is currently conducting a 3D passive seismic program over the field to map the existing production area and define upside potential.
- Stream's strategy is focused on reactivation and redevelopment of the wells on its oil and gas fields to increase production. The company initiated a radial jetting program in August 2008, which is a cost effective method of extracting more hydrocarbons from existing wells.
- For the 7 months ended May 2008, average net production rates to the company were 113 bbl/d of oil, 209 Mcf/d of gas and 8.4 bbl/d of condensate. We have forecasted average net production to Stream of 162 bbl/d of oil, 211 Mcf/d of gas and 10 bbl/d of condensate for the rest of 2008 (6 month period).
- Current remaining recoverable reserves on the company's oil and gas fields are 61.2 MMbbl of oil and 150 Bcf of gas. Stream plans to update its resource estimates in accordance with NI 51-101 by the end of 2008.
- Stream posted revenues of $1.04 million, and a net loss of 0.54 million (EPS: -$0.01) for the 7 month period ended May 2008. We believe the company will have to raise $4.7 million to fund its capital expenditure budget for the rest of 2008.

Risks

- We believe the critical success factor for Stream is to increase production from pre-existing levels; the company might face challenges during the process.
- The company has yet to update its reserve estimate in accordance with NI 51-101 standards.

Key Financial Data (FYE - Nov 30) (US$)	**2008 (7 mo)**	**2008E (13 mo)**	**2009E**
Revenue	1,037,194	2,864,713	8,621,169
Net Income	(541,220)	(219,906)	2,322,174
EPS	(0.01)	(0.01)	0.06
Cash	1,569,316	315,216	363,083
Working Capital	1,328,465	691,326	1,269,113
Total Assets	8,032,478	13,053,792	34,305,065

Stream Oil & Gas is an emerging E&P company with one gas and three oil projects in Albania. All projects are currently in production. The company is focused on increasing hydrocarbon production via reactivation and redevelopment of the wells, and by utilizing enhanced recovery techniques.

Company Overview

Stream Oil & Gas is an emerging oil and gas company focused on the production, development and exploration of its oil and gas projects in Albania. The company has entered into petroleum agreements with Albpetrol Sh.A., the Albanian state exploration and production company, to evaluate and redevelop three oil and one gas field, namely, the Ballsh-Hekaj oilfield, the Gorischt-Kocul oilfield, the Cakran-Mollaj oilfield and the Delvina gas field. The agreements allow the company to acquire existing wells on the fields at virtually no costs, but Stream is responsible for 100% of the operating expenses and has to pay up to 70% of the pre-existing production (minus up to 10% yearly decline) on the wells it takes over in addition to royalties of between 2% to 6%. Stream owns 100% of any incremental production above the pre-existing production levels. At this time, we think the key success factor for the company is to increase production through its rehabilitation programs and enhanced recovery techniques. Upon achieving successful production increase tests on its current producing wells, we believe the Stream stands a good chance of fully exploring and extracting the relatively large reserves in its fields. This will be done by first developing a comprehensive well takeover plan and later, field development plans.

The company's three oil fields are located in one of Europe's largest onshore producing regions, and have produced over 140 MMbbl of oil over the past 40 years. Currently, there are a total of 572 wells in these fields, of which, 295 were producing at a combined rate of 2,125 bbl/d in June 2008. Stream has the rights to take over the operations of all wells in the fields, which the company plans to complete in stages. According to management, the company had taken over a total of 84 wells, 42 of which were producing at a net production rate to Stream of 126 bbl/d at the end of June 2008. Stream's strategy is focused on the reactivation and redevelopment of the wells to increase production. Facilities, infrastructure upgrading, well workover with perforations and acidization, including PCP pump placement and testing, are currently being implemented on the oilfields. The company also plans to utilize enhanced recovery techniques for carbonate reservoirs. According to management, a trial radial jetting program commenced in mid-August 2008, which is a cost effective method of improving recovery from existing wells. This method had been successfully tested in wells worldwide.

The Delvina gas field, the largest onshore gas field in Albania, has historically produced 2.5 Bcf of gas since 1987. The company has taken over all four wells on the field. At the end of June 2008, 2 wells were producing at 565 Mcf/d gas plus 20 bbl/d condensate, with Stream's share 350 Mcf/d and 11 bbl/d condensate. Stream is currently upgrading the infrastructure, optimizing production control, and conducting a 3D passive seismic program over the field to map the existing production area and define upside potential.

The company's three oil fields have proved and probable reserves of 461 MMbbl, containing 61.2 MMbbl recoverable oil, and the company's gas field has proved and probable reserves of 221 bcf, containing 165 bcf of recoverable gas (according to a Sproule report dated December 31, 2007). According to management, the remaining recoverable gas from the Delvina field is currently 150 Bcf. These reserve estimates are not NI 51-101 compliant. Stream plans to update the reserve estimates and recoverable reserves by completing a full review of its oil and gas fields in accordance with NI 51-101 standards by the end of 2008.

The company reported revenues of $1.04 million for the 7 month period ended May 2008, and had $4.38 million in cash, cash equivalents and restricted cash. We believe the company will have to raise $4.7 million to fund its capital expenditure budget for the rest of 2008. **Based on our valuation models and analysis of the company's projects, we initiate coverage on SKO with a BUY rating, and a fair value of $1.22 per share with a RISK of 4 (Speculative).**

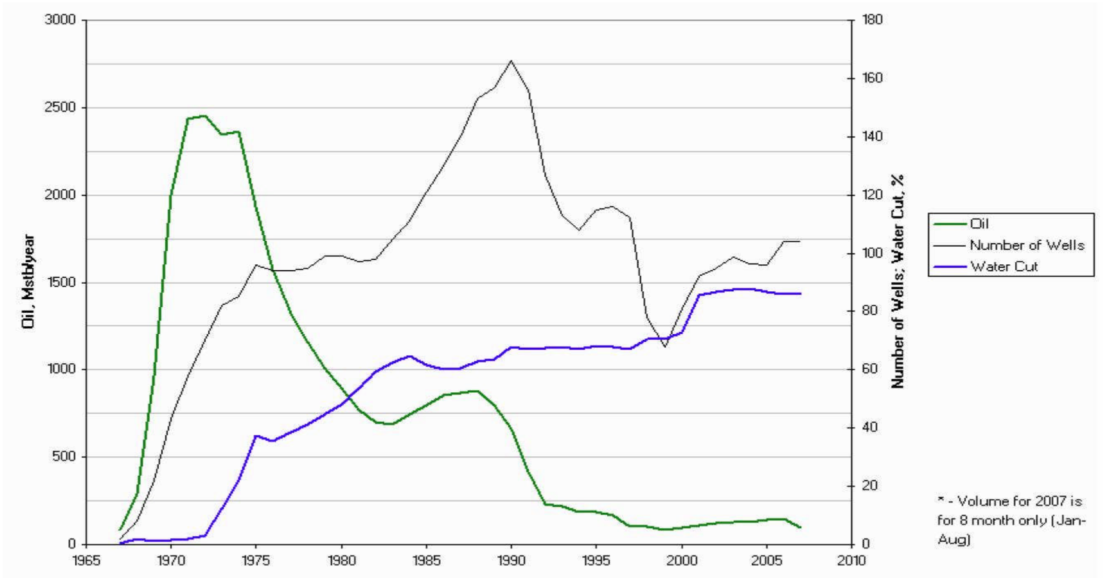
Company History

Stream Oil & Gas was formed as a private Cayman Island company. On August 8, 2007, Albpetrol Sh.A., the Albanian state exploration and production company, transferred four license agreements with Albania's National Petroleum Agency (AKBN) to Stream. These license agreements gave the company access to three onshore oil fields and one onshore gas field. On August 8, 2007, Stream also entered into four petroleum agreements with Albpetrol, which, together with the license agreements, govern Stream's rights with respect to the oil and gas fields. Stream will have 100% working interest in all the wells it takes over. The company pays Albpetrol 70% of a predetermined baseline production forecast from pre-existing well production (65% for the Cakran-Mollaj field) with a 10% annual decline rate (5% for the Delving field), and has 100% ownership of incremental production from the wells. Stream also pays royalties to Albpetrol, ranging from 2% to 6% of gross production. Stream started operations in November 2007 by taking over a total of 21 wells from the oil fields and 2 wells from the gas field.

On April 4, 2008, the company completed a reverse takeover of Canadian based L.G.R. Resources Ltd. L.G.R. Resources consolidated its shares on a 4 to 1 basis, and issued 33.28 million post-consolidated common shares at a deemed issue price of $0.60 per share to the former shareholders of Stream. In conjunction with the acquisition, L.G.R. Resources changed its name to Stream Oil & Gas Ltd. Stream started trading on the TSX Venture Exchange under the ticker "SKO" on July 25, 2008.

The Ballsh-Hekal Field

The Ballsh-Hekal oil field was discovered in 1966, and started production in 1967. This limestone field produces heavy oil of 11° API from fractured carbonates of Cretaceous-Paleocene age, with average sulphur content between 6% and 8%, and depths of 450 to 1,700 metres. The field is considered a structural trap to be fully developed with an average well spacing of approximately 4 ha/well or 10 acres/well. Historically, the Ballsh-Hekal oil field has produced over 33 MMbbl of oil. This field reported high water cut (the ratio of water produced to total liquids produced) of 86% in 2007. The following chart shows historical production at the Ballsh-Hekal oil field.



Source: Sproule

As shown in the chart above, production from the Ballsh-Hekal field has declined significantly during the past 20 years, which is a general trend in the entire Albanian oil and gas industry, due to lack of development funding and technical expertise.

Field Production: At the end of June 2008, 81 wells were producing at 550 bbl/d, or 6.8 bbl/d/well, out of a total of 212 wells on the field. Production has improved from 2007, when 104 wells produced oil at about 520 bbl/d, or 5.0 bbl/d/well.

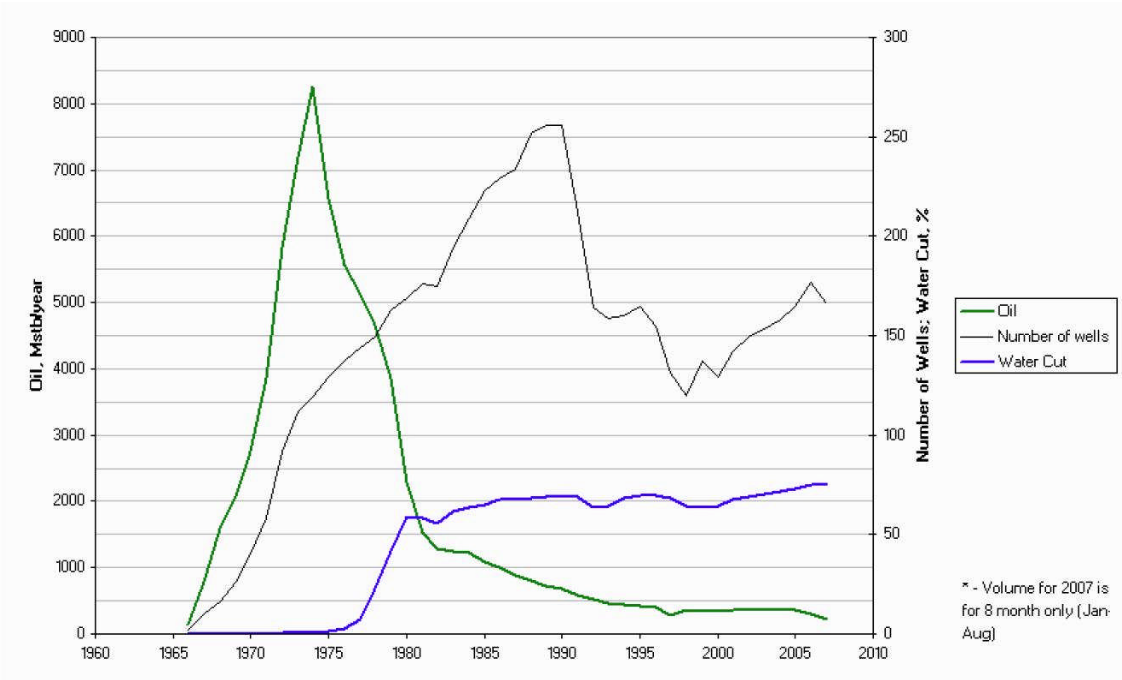
Current operations: The company took over 5 wells on the Ballsh-Hekal oil field in November 2007. Based on our discussion with management, Stream is currently running a staged rehabilitation program on 15 producing wells on the field, and has taken over a total of 8 non-producing wells for reactivation. At the end of June 2008, Stream was entitled to 53 bbl/d of production from its producing wells (after deducting 70% pre-existing production minus 10% yearly decline to Albpetrol).

The company has completed site preparation for the field, and is conducting basic work over on selected wells. According to management, production is being optimized by surface upgrades, and new PCP pumps (progressive cavity pumps) have been ordered. Wells rehabilitated so far using perforation and acidization, have resulted in increased production from well Ba-186 from 7.1 bbl/d to 15 bbl/d, and well Ba-193 from 10.5 bbl/d to 19 bbl/d.

Resource estimate: Based on Albpetrol and local Petroleum Institute estimates, the Ballsh-Hekal field has original oil in place (OOIP) of 135 MMbbl (proved and probable), and 2,337 MMbbl (proved, probable and possible). The remaining oil recoverable is estimated at 10.9 MMbbl.

The Gorisht-Kocul Oil Field

The Gorisht-Kocul oil field was discovered in 1965 and started production in 1966. This limestone field produces heavy oil of 13° to 16° API (or an average of 15° API) from fractured carbonates of the Cretaceous - Paleocene age, with an average sulphur content of 6% and depth of 400 to 1,250 meters. The Gorisht-Kocul field also has relatively high water cut, reported at 75% in 2007. The field is considered a structural trap, to be fully developed with an average well spacing of approximately 2 ha/well or 5 acres/well. The Gorisht-Kocul oilfield has produced over 77.5 MMbbl of oil in the past. The following chart shows production from the Gorisht-Kocul oilfield started to decline in the mid 1970's.



Source: Sproule

Field Production: There are a total of 295 wells on the field. At the end of June 2008, 135 wells were producing at combined rate of 925 bbl/d, down from 996 bbl/d derived from 166 producing wells in 2007. However, on a per well basis, oil rates improved to 6.9 bbl/d/well in June 2008, compared to 6 bbl/d/well in 2007.

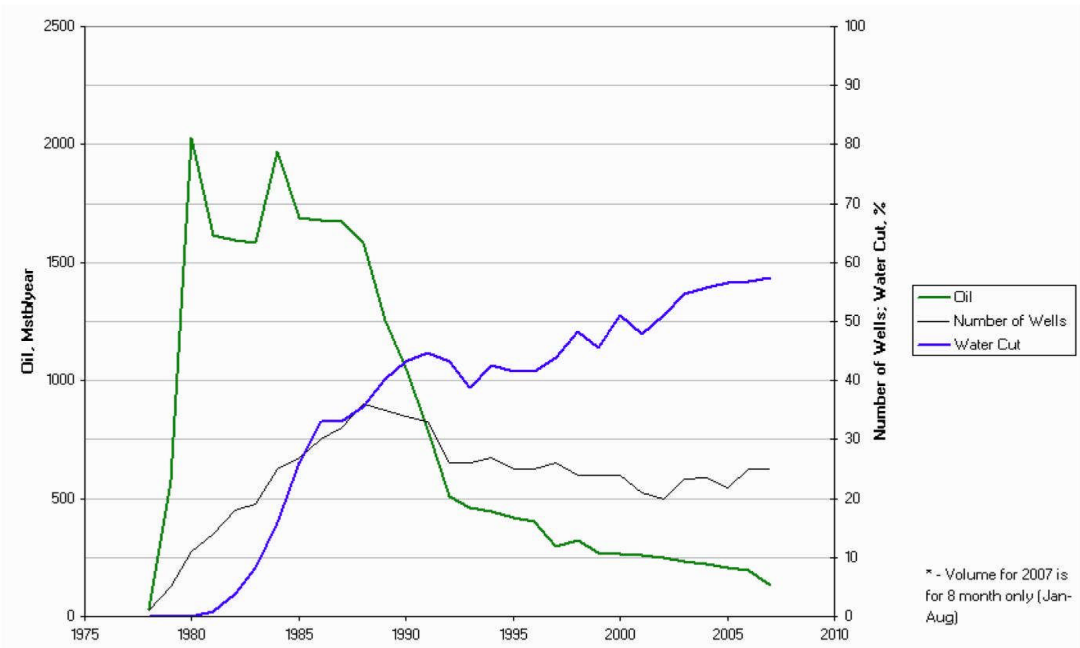
Current operations: The company took over 6 wells from the Gorisht-Kocul limestone field in November 2007, and is currently running a staged rehabilitation program on 13 producing wells, with 14 non-producing wells to reactivate. Field production attributable to Stream (after deducting 70% production minus 10% yearly decline to Albpetrol) was 26 bbl/d at the end of June 2008.

Stream has completed site preparation for the field, and is conducting basic workover on all wells it has taken over. According to management, current average production is low because of pump work, and the company is working on production pump upgrades. It has installed new PCP pumps for two wells. The new PCP pumps have shown excellent results on well Go-136, where production increased to 22.4 bbl/d from 10.2 bbl/d. The PCP for well Go -165 is currently under production increase tests.

Resource estimate: Based on Albpetrol and local Petroleum Institute estimates, the Gorisht-Kocul field has OOIP of 214 MMbbl (proved and probable), and 1,177 MMbbl (proved, probable and possible). The remaining oil recoverable is estimated at 22.6 MMbbl.

The Cakran-Mollaj Oil Field

The Cakran-Mollaj medium oilfield produces oils of 12° to 37° API (or an average of 25° API) from fractured carbonates of the Cretaceous - Paleocene age, with an average sulphur content of 1% and depth of 2,650 to 3,700 meters. The field is considered a structural trap, to be fully developed with an average well spacing of approximately 16 ha/well or 40 acres/well. The field was discovered in 1977, and started production in 1978. This limestone oilfield has produced over 24.0 MMbbl of oil in the past. In 2007, the field had a water cut rate of 58%. The following chart shows historical production from this field has also decreased since the early 1980's.



Source: Sproule

Field Production: At the end of June 2008, there were 65 wells on the field, with 27 producing at 650 bbl/d (24.1 bbl/d/well), compared to 575 bbl/d from 25 producing wells in 2007 (23 bbl/d/well).

Current operations: The company took over 10 wells from the Cakran-Mollaj field in November 2007, with 5 for production and 5 for observation. At the end of June 2008, oil rates attributable to Stream (after deducting 65% of pre-existing production minus 10% yearly decline to Albpetrol) were 47 bbl/d.

The company is currently conducting infrastructure upgrades and simple surface work on the field. Currently, two workover rigs from Albpetrol are being utilized to check well conditions. The company has ordered a bigger heavy oil rig and plans to conduct a staged rehabilitation program. According to management, production increase tests by perforations, acidization, and radial jetting are slated to commence in October 2008. Stream has so far taken over 14 producing wells, and 20 non-producing wells with one of them being scheduled for reactivation. Stream plans full takeover of the south part of the field, and the corresponding gathering and processing station, in Q3 2008. They plan to commence fracture monitoring for key wells in Q4 2008.

Resource estimate: Based on Albpetrol and local Petroleum Institute estimates, the Cakran-Mollaj field has OOIP of 113 MMbbl (proved and probable), and 620 MMbbl (proved, probable, and possible). The remaining oil recoverable is estimated at 27.7 MMbbl.

In summary, based on Albpetrol and local Petroleum Institute estimates, the company's three oilfields have original oil in place (OOIP) estimates of 461 MMbbl (proved and probable), and 2,337 MMbbl (proved, probable and possible). The three fields have historically produced over 140.0 MMbbl of oil. The recoverable oil for the three oilfields is estimated at 61.2 MMbbl. These statistics are summarized in the table below.

Oil Fields	OOIP (MMbbl) 3P	2P	Cumulative production (MMbbl)	Remaining recoverable (MMbbl)
Gorischt-Kocul	1177	214	77.5	22.6
Ballsh-Hekal	540	135	31.2	10.9
Cakran-Mollaj	620	113	24	27.7
Total oil	**2337**	**461**	**142.5**	**61.2**

Source: Sproule, Stream Oil & Gas

Current Plans: The company is finalizing agreements with various service companies, and in discussion with a number of local alliances to maximize value.

In August 2008, the company commenced a trial radial jetting program. The radial jetting program involves the testing of about 10 wells. Upon the successful completion of this program, the company will present a plan for the takeover and remediation of the rest of the existing wells.

Based on our discussion with management, the company aims to achieve the following for its oilfields by Q1 2009: complete rehabilitation of 20 wells via perforations and acidization; install PCP pumps on 20 wells, conduct radial jetting on 20 wells; and complete infrastructure upgrades (gathering stations, pipelines, well site) on 40 wells. **Important milestones are summarized in the list below.**

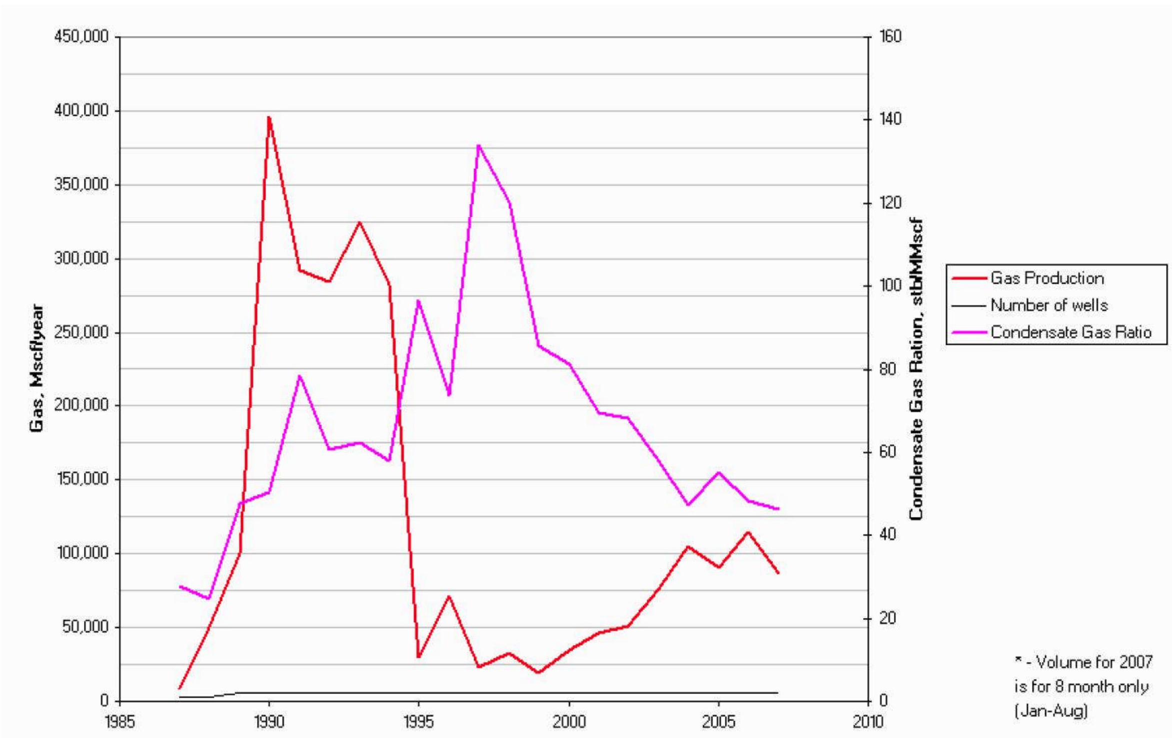
- **October 2008 -** Receive the heavy oil rig for deeper wells.
- **December 2008 -** Complete a full review of its four oil and gas fields in accordance with NI 51-101 standards, to update and determine the corresponding recoverable reserves.

- **April 2009 -** Complete oilfield evaluation program and submit a development program for approval.

The Delvina Gas Field

The Delvina gas field is the largest onshore gas field in Albania, and is the sole supplier of gas to the ARMO refinery in central Albania. The ARMO refinery was previously owned by the Albanian government. The refinery was recently taken over by a U.S.-Swiss group, as part of the government's plan to privatize the oil and gas industry.

The Delvina gas field was discovered and started production in 1987. The limestone gas field produces gas and 62.5° API condensate from fractured carbonates of Cretaceous - Paleocene age. There are 2 producing wells out of a total of 4 wells, with depths of 2,800 to 3,500 meters. The field is considered a structural trap. It has an effective inter-well spacing of approximately 1.6 kilometers, translating to approximately 256 ha/well or 640 acres/well. Historically, the field has produced 2.5 Bcf of gas and 0.15 MMbbl of condensate. As shown in the table below, historical production from this field declined significantly during the 1990's due to lack of local demand, and started to increase since 2000 in light of growing demand particularly from the power generation sector.



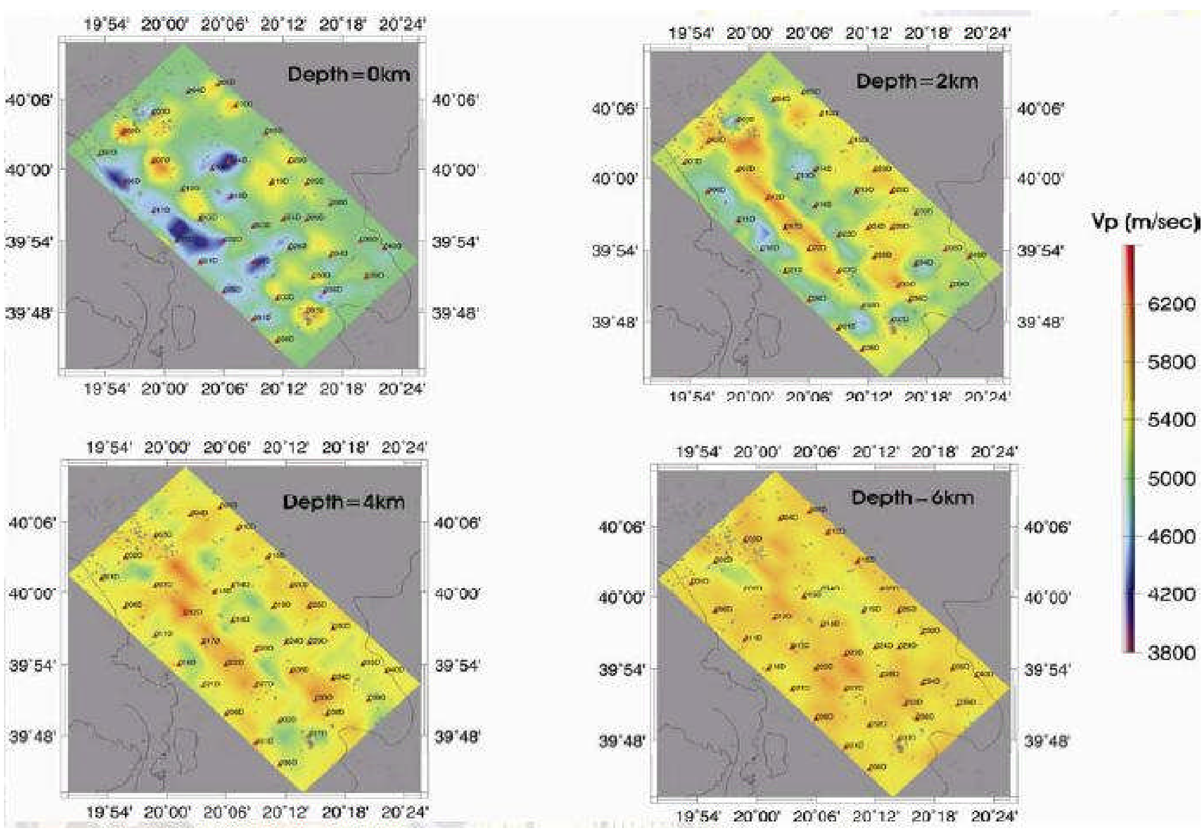
Source: Sproule

Current Operations: The company took over both producing wells in the Delvina gas field in November 2007. According to management, Stream has also taken over the 2 non-producing shut-in wells in May 2008. Both have completion problems and need to be redrilled. At the end of June 2008, production from the field was 565.0 Mcf/d gas plus 20.0

bbl/d condensate from two producing wells, with Stream's share of 349.6 Mcf/d and 11 bbl/d condensate (after deducting the 70% pre-existing production minus 5% yearly decline to Albpetrol). This has improved compared to a gas rate of 450 Mcf/d in 2007.

The company is currently upgrading the infrastructure, optimizing production control of gas and condensate, and conducting gas tests to understand the phase behaviour of the field. Stream plans to rework all existing wells, and to utilize the rig ordered for the Cakran-Mollaj field for its rehabilitation program on the 2 producing wells. It will also check the condition of the other 2 non-producing wells. PVT analysis (pressure, volume, and temperature) is underway to understand the phase characteristics of the gas.

In addition, the company is conducting a 3D passive seismic program over the Delvina field in order to map the existing production area and define upside potential. According to management, a 20km x 38km area is being evaluated through this 12-month program. Preliminary results indicate sufficient micro-seismic events to construct a subsurface mode. The following charts show the structural slices from advanced subsurface mappings of the 3D seismic program.



Source: Stream Oil & Gas

To maximize the value of the Delvina field in the longer term, the company is evaluating various options including drilling addition production wells for gas power generation and upgrading condensate production and storage. Stream is considering the possibility of constructing a gas fired power generation facility to meet regional energy demand. Effective June 30, 2008, the company engaged Pöyry Energy of Italy to conduct a scoping study for a 100MW well-head-to-wire gas power plant in Albania. Management expects the current remaining gas recoverable to sustain a 150MW plant for at least 15 to 20 years.

Current plans: Based on our discussion with management, the company has planned to achieve the following milestones for the Delvina field for the rest of 2008 and 2009.

- **September 2008 -** Scoping study for an electric gas plant
- **November 2008 -** Construct a subsurface model of the Delvina gas field
- **May 2009 -** Complete gas field evaluation program
- **June 2009 -** Feasibility study for gas plant
- **September 2009 -** Prepare to submit a development program for approval
- **October 2009 -** Secure funding for gas plant

Resource estimate: Based on estimates by Chevron Global Technology Services in 1993, the Delvina gas field has original gas in place (OGIP) estimates of 221 Bcf (proved and probable) and 1,200 Bcf (proved, probable, and possible). The field has historically produced 2.5 Bcf natural gas. According to management, the remaining gas recoverable of 165 Bcf mentioned in a Sproule report dated December 31, 2007, was estimated in late 1980's. The current estimate is 150 Bcf with 7.6 MMbbl condensate. The following table summarizes resource estimates for the Delvina gas field.

Gas Fields	OGIP (Bcf) 3P	2P	Cumulative production (Bcf)	Remaining recoverable (Bcf)
Delvina	1,200	221	2.5	150

Source: Sproule, Stream Oil & Gas

Evaluation Period

Stream has entered into petroleum agreements with Albpetrol Sh.A. to evaluate and redevelop the three oil fields and the Delvina gas field under four 25-year license agreements with Albania's National Petroleum Agency. Under the agreements between Stream and Albpetrol, there is a 18-month evaluation period for the oilfields, and a 24-month evaluation period plus 24-month exploration phase 1 period for the gas field. During the evaluation period, the company is required to commit minimum capital expenditures of $4.80 million ($0.6 million for the Ballsh-Hekal field, $0.7 million for the Gorisht-Kocul field, $1 million for the Cakran-Mollaj field and $2.5 million for the gas field). At the end of May 2008, Stream has incurred $1.99 million of the expenditure requirement. Stream may take over all wells in each field during the period, and receive 100% working interest for the wells it takes over.

Under the agreements, Stream pays Albpetrol 70% (65% for the Cakran-Mollaj field) of a predetermined baseline production forecast from pre-existing well production. The actual amount of pre-existing production is calculated based on the 6-month production average, and is assumed to decline at 10% per year (5% for the Delving field). Stream has 100% ownership of incremental production from the wells.

At the end of the evaluation period, the company has the option to submit a development plan, which should outline development proposals such as development area, spacing, drilling and completion of wells, production and storage facilities, and transportation and delivery facilities. Alternatively, the company can farm out the assets but has to pay the difference between the minimum work commitment and the amount actually spent during the period. The company also has the options to extend the evaluation periods or enter into new evaluation periods. For the Delvina field, the company has the option to enter a 36-month exploration period phase 2, with a minimum work commitment of $7 million.

Royalties

Stream pays royalties to Albpetrol, ranging from 2% to 6% of gross production based on a R factor as listed in the table below. The company also pays profits to Albpetrol at one fifth of the royalty percentage (or 0.4% to 1.2%), after all costs are recovered.

R Factor	Royalties
0.0 < R < 1.0	2.0%
1.0 < R < 1.5	2.5%
1.5 < R < 2.0	4.0%
R > 2.0	6.0%

R Factor = (Contractor Gross Revenue - Taxes)/All Costs

The Albanian government has recently established a new royalty tax minimum of 10% on the gross revenue of hydrocarbon production. Stream's current petroleum agreements provide amendments to eliminate any negative economic effects. The company has undertaken consultation with the Ministry of Trade Economy and Energy, Albpetrol and the National Agency for Natural resources, aiming to amend its current agreements in order to minimize any negative economic impact to Stream. We have used the royalty schedule as shown in the above table in our models and will revise our valuation models when the outcome of a new royalty agreement becomes available.

Rehabilitation and Enhanced Oil Recovery

Historically, oil production in Albania was primarily heavy with low recovery. Field production from the company's oilfields was 8.7 bbl/d/well (or an aggregate of 2,125 bbl/d from 243 producing wells) at the end of June 2008, compared to 7.1 bbl/d/well (or an aggregate of 2,091 bbl/d from 295 producing wells) in 2007. As a result, field rehabilitation opportunities exist to increase production. In addition, production from the company's oil and gas fields has been declining for the past 20 years. Hence, Stream' strategy is focused on increasing production from existing wells by using enhanced recovery techniques, and by reactivating or recompleting non-producing wells.

The company is currently undertaking well workover with perforations, acidization, and PCP pump placement and testing, which, according to management, is expected to increase production by at least 2 fold. The following photos show an old pump replaced by a new PCP pump.

Old Pump

PCP Pump

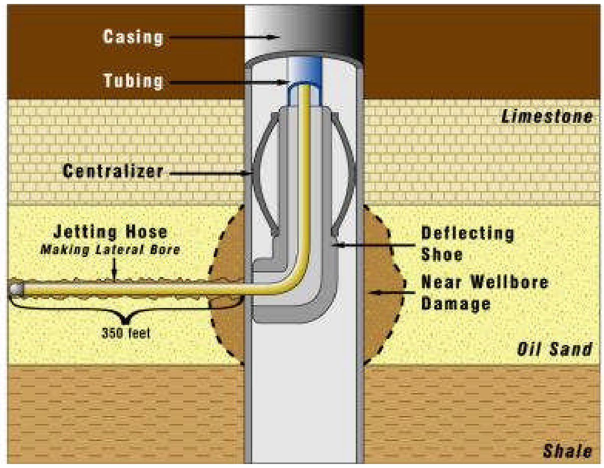
Source: Stream Oil & Gas

In addition, the company's primary objective is to grow production by using enhanced recovery techniques (EOR) or tertiary recovery for carbonate reservoirs. EOR techniques aim to increase oil output, and usually result in extracting more oil (up to over 50% of a reservoir's original oil content), compared to primary oil recovery (whereby oil is extracted by natural drive) and secondary recovery (whereby energy such as waterflood is added to the reservoir to displace oil). According to the University of Saskatchewan, primary and secondary recovery extract up to 50% (average – 19%) and 45% (average - 32%) of original oil in place, respectively, and tertiary recovery can add another 5 to 20% more oil extracted.

Common EOR techniques include gas injection, thermal recovery, and chemical injection. In gas injection, gases such as carbon dioxide, natural gas, or nitrogen are injected into the reservoir to push additional oil to the wellbore. The gases also dissolve in the oil to lower its viscosity and thereby improve oil flow rates. Thermal recovery injects steam to improve flow rates, and chemical injection usually involves polymer flooding, surfactant-polymer flooding, and alkaline-surfactant-polymer (ASP) flooding to improve oil recovery.

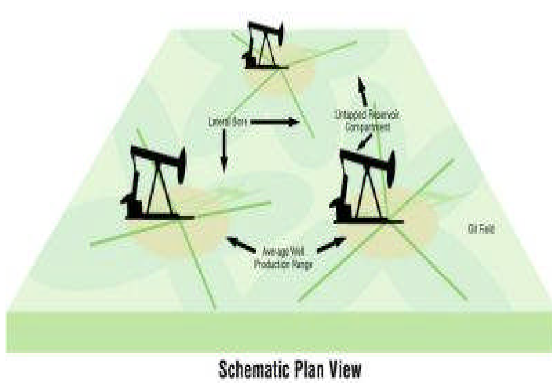
Radial Jet Enhancement: Particularly, Stream plans to utilize the radial jet enhancement technique to increase oil recovery (a patented technology developed in Canada and the U.S., and tested worldwide). According to Well Enhancement Services, the radial jetting technique is a cost effective method to extract more oil and gas from existing wells. The technique has made it feasible to enhance production from more than 1.7 million wells that would otherwise be cost prohibitive to recover by conventional technologies.

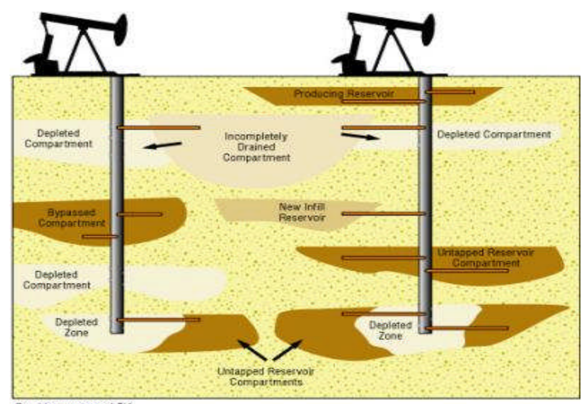
As shown in the following figure, Radial Jet Enhancement is based on patented design and manufacturing technology of the Deflecting Shoe Boot and pressure water jetting. It targets oil and gas wells of 6,000 feet and shallower. The technique enables jetting lateral holes further into the strata, and opens up the formation to allow freer flow of hydrocarbons into the wellbore; hence, increasing the production rate of an existing well. Operating costs of radial jetting is an order of magnitude less expensive than current lateral drilling techniques.



Source: Well Enhancement Services

Radial Jet Enhancement can significantly expand the production area within a given field. At any given depth, the technology can laterally enter areas up to 300 feet in 16 different directions. It has the ability to drill up to 8 laterals in only two days, as compared to a typical period of four weeks per well. Specifically, traditional well extracts petroleum from an area of up to 120 feet from the well bore, translating to a total pay zone volume of 271,296 cubic feet. In comparison, Radial Jetting extends the production area laterally up to 300 feet, translating to over 360,000 cubic feet, or 1,440,000 cubic feet on four laterals. The figures below illustrate how the technology works to increase production area.





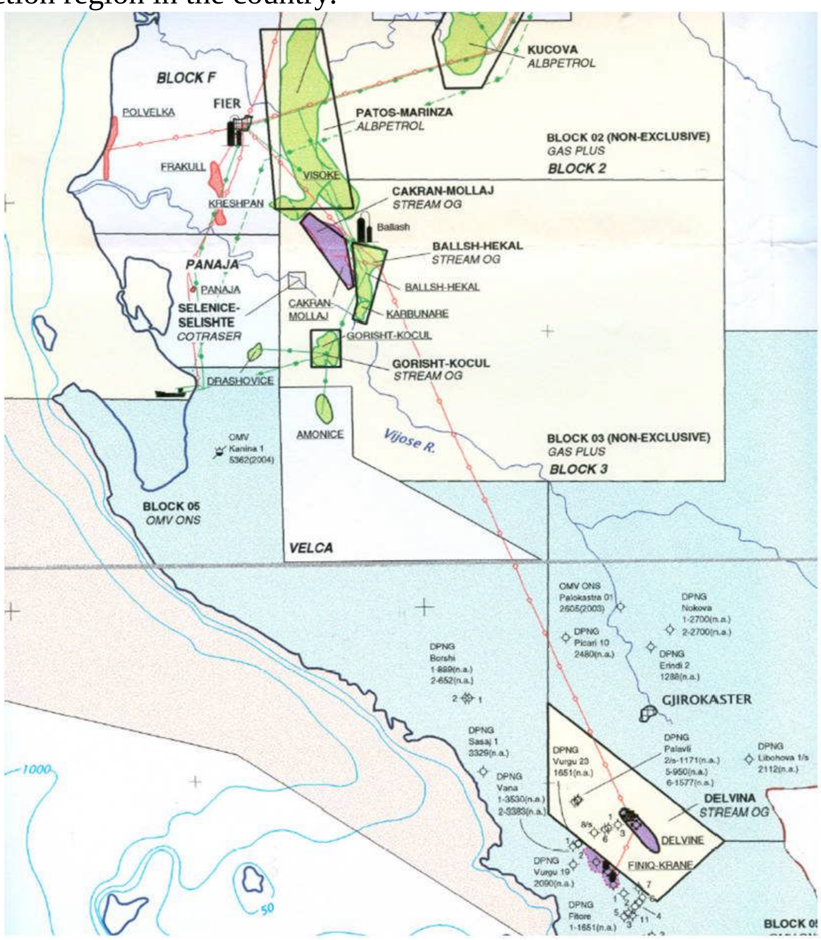
Source: Well Enhancement Services

In summary, we believe the company is on the right direction to utilize enhanced recovery techniques on its oil and gas fields. Considering that the company's oil fields produce medium to heavy oils with relatively large oil in place, we think utilizing EOR techniques, such as radial jetting, has the potential to improve production rates as well as increase recoverable reserves from these fields. The Ballsh-Hekaj oilfield and Gorischt-Kocul are mature oilfields based on current estimates of remaining oil recoverable. We believe the company has the opportunity to increase their reserve estimates as recovery increases, by rehabilitation of the existing wells and utilizing enhanced recovery techniques. The Cakran-

Mollaj oilfield, and the partially developed Delvina gas field, still have relatively large recoverable reserves, and we think they represent a great opportunity for the company to increase production significantly.

Albanian Oil & Gas Industry

Oil was first discovered in Albania at Drashovice in 1918, and then the Kucova and Patos fields in 1928. Currently, the country has an onshore oil field area of 28,700 sq km. Oil production in Albania concentrates in 6 fields in the west of the country, namely, the Kucova field, the Patos-Marinza field, the Cakran-Mollaj field, the Ballsh-Hekal field, the Gorisht-Kocul field, and the Visoke field. Historically, these oil fields have had low recoveries, and about 80% of Albania's oil production is heavy. The Patos Marinze field is the largest onshore oil field in Europe, with approximately 1 billion bbls of in-place reserves of 8º to 10º API oil (Source: EnergyFiles). According to BMO Capital Markets, production in this field exceeds 5,000 bbl/d in 2007. Bankers Petroleum (TSX: BNK), the current operator of the Patos Marinze field, has an updated reserve estimate 147 MMbbl in the proved and probable reserves out of 2 billion bbl of original oil in place. The following map shows the oil production region in the country.

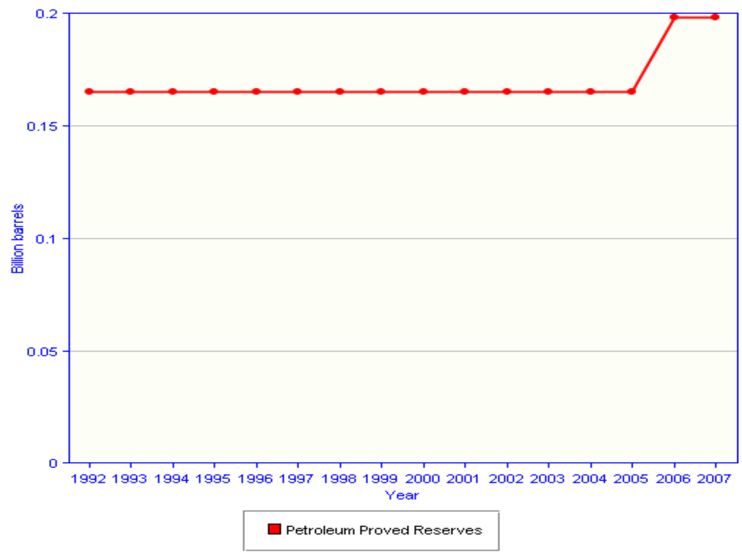


Source: Stream Oil & Gas

Reserves

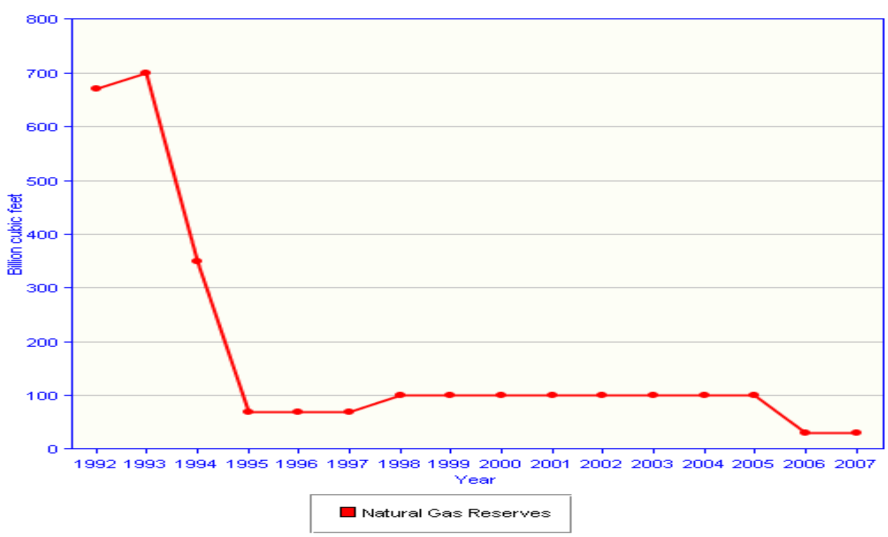
Although Albania is an important onshore oil region in Europe, its oil reserves are not comparable to some of the largest oil countries in the world. According to the Energy Information Administration (EIA), proved oil reserve in the country are ranked 14th in Europe (including Eurasia) and 57th in the world. In 2007, the country had total proved oil reserves of 0.198 billion bbls. We believe the EIA's estimate could increase considerably in light of the updated reserve estimate from the Patos Marinze field, and the anticipated NI 51-101 compliant reserve estimate from Stream for its three oilfields. The following chart shows Albania's rank in Europe and changes in its reserves in the past.

European oil reserves (in Billion bbl)		
1	Russia	60.000
2	Kazakhstan	30.000
3	Norway	7.849
4	Azerbaijan	7.000
5	United Kingdom	3.875
6	Denmark	1.277
7	Italy	0.600
8	Romania	0.600
9	Turkmenistan	0.600
10	Uzbekistan	0.594
11	Ukraine	0.395
12	Germany	0.367
13	Turkey	0.300
14	**Albania**	**0.198**
15	Belarus	0.198



Source: EIA

Albania's gas reserves are not significant. Proved gas reserves in Albania were 30 Bcf in 2006, ranked 31st in Europe (including Eurasia) and 86th in the world. The following chart shows the change in the country's gas reserves in the past 15 years.



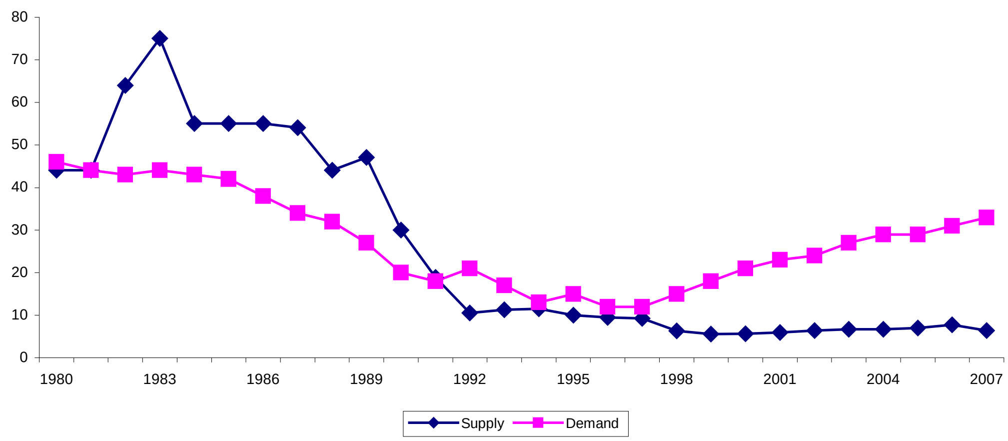
Source: EIA

Large Oil and Gas Discovery: According to World Prout Assembly, in January 2008, Swiss-based Manas Petroleum Corporation (OTCBB:) announced a large unproved oil and gas deposit in Northern Albania, encompassing an area of 780,000 acres. The discovery is estimated to contain 2.987 billion barrel oil and 3.014 trillion cubic feet of natural gas. We believe this new oil and gas prospect has the potential to significantly increase Albania's oil reserves, and increase the country's importance in the world oil and gas markets.

Supply and Demand

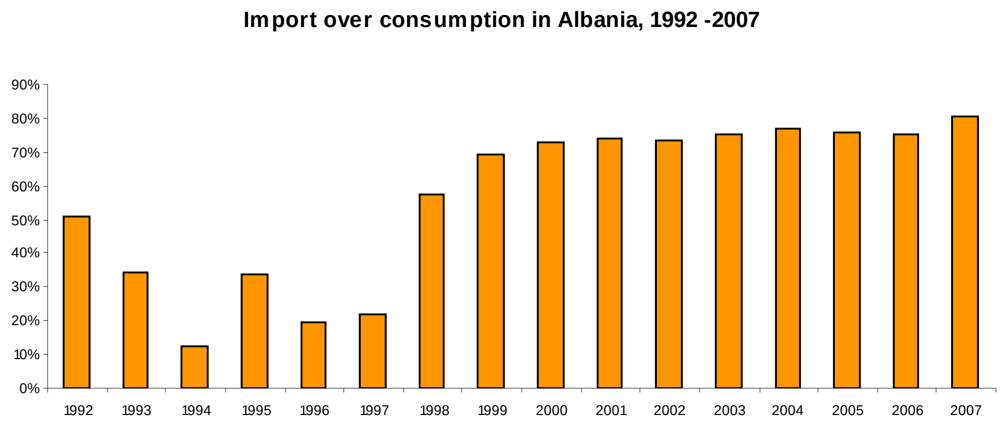
Crude oil production in Albania peaked in 1983, at 75,000 bbl/d, and has been declining since then. The rapid decline in oil production during the 1980's, and early 1990's, was primarily due to lack of funding for development and technical expertise. In 2007, 6,420 bbl/d of oil was produced, compared to 7,740 bbl/d in 2006. However, consumption of oil products in Albania started increasing in 1997, and reached an estimated 33,000 bbl/d in 2007.

Albanian Oil Supply vs Demand, 1980 - 2007 (in thousand bbl/d)



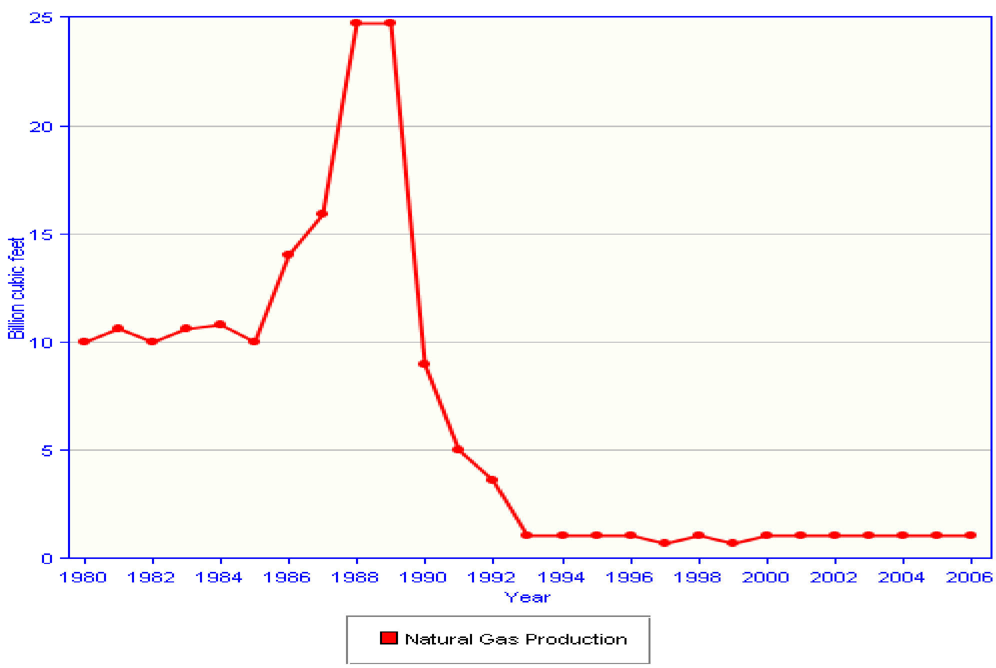
Source: EIA

The deficit in domestic oil production has been resolved by imports. According to the EIA, Albania has been a net importer of oil products since 1992. In 2006, it imported 75% of its demand for oil products, and was estimated to have imported 80.5% of its needs in 2007. The following chart shows Albania has been increasingly dependent on imports for oil products during 1992 – 2007 (expressed as a percentage of import over consumption). Particularly, the country imported more than 70% of its demand for oil products each year since 2000.



Source: EIA

The country's natural gas production (shown below) has essentially been flat in the past few years at 1.1 Bcf per year. Lack of local demand is believed to have caused the rapid decline in gas production during the 1990's. The following chart shows the country's natural gas production for the past 15 years. Domestic gas production has met the country's consumption needs for gas during this period.



Source: EIA

Investment in Albania

In light of declining domestic production, the Albanian government made efforts to attract foreign capital and technology in the 1990's by offering access to offshore acreage and two onshore licensing rounds.

In 1990, offshore blocks were offered and taken by companies such as Chevron (NYSE; CVX) and Occidental (NYSE: OXY). In 1992, the first international onshore licensing round offered access to seven onshore fields, namely, Patos-Marinza and Kucova, Visoke, Ballsh, Gorisht-Kocul, Cakran Mollaj, and Delvina. In 1995, the second onshore licensing round offered a total of 10 onshore blocks and one block in the Adriatic Sea. This round was attended by 30 oil companies. The following list summarizes notable events to redevelop Albania's oil fields.

- In 1994, Anglo-Albanian Petroleum was established by Albpetrol and Premier Oil to exploit enhanced oil recovery (EOR) techniques on older fields, with new development programs proposed including dismantling derricks, installing new wellheads, electric PCP pumps and storage tanks, and building a new central processing facility and pipeline connecting to an onshore storage facility on the coast with an SBM system and tanker for export (source: Energy Files). Premier withdrew from the project in 2000. Only a small increase in output was achieved.
- In 1994, Saxon International (subsidiary of Bankers Petroleum) entered into an agreement with Albpetrol to workover 12 wells and a water disposal well in the Patos-Marinza field.
- In 1995, a joint venture between Albpetrol, Fountain Oil and CanArgo Energy (AMEX: CNR) was formed to redevelop the Gorisht-Kocul oil field. Fountain, as operator, was responsible for finding financing for field redevelopment and provide EOR equipment.
- In 1996, Drillsearch Energy of Australia started to operate in the Cakran-Mollaj and Ballsh-Hekal oilfields. In 1998, Drillsearch entered into a contract to sell all production from both fields to Albpetrol.
- In 1998, three onshore blocks were awarded to Occidental and partners.

Despite the efforts by the international oil companies, oil and gas production in Albania remained low compared to historical high levels in the 1970's and 1980's. Currently, Bankers Petroleum is the operator on the Patos-Marinza Oil Field and Kuçova Oil Field. Stream started operating on the Ballsh-Hekaj oilfield, Gorischt-Kocul oilfield, Cakran-Mollaj oilfield and the Delvina gas field in November 2007.

Country Risk Analysis

According to the World Bank, GDP in Albania grew 5% in 2006. Although the country experienced certain difficulties in the 1990's in its transitioning to a market economy, it had achieved GDP growth of close to 10% during that period. We believe current economic conditions in the country are relatively stable for investments in the country's oil and gas sector in light of its large domestic oil supply shortage.

Privatization: In 1991, Albania commenced the transition to an open-market economy. The government enacted a foreign investment law in 1994 to attract and protect foreign investment, guard against nationalization and expropriation of assets, and allow funds to transfer freely in and out of the country. According to Forbes, 80% of the economy in the country has been privatized in 2007. In addition, the government has major privatization plans for the sale of the last remaining large state-controlled companies in 2008 (Source: Energy Today).

Particularly, the Albanian government has policies for the privatization of the petroleum sector. The oil and gas industry in Albania is administered by the Ministry of Industry and Energy. The National Petroleum Agency is responsible for oil and gas licensing activities. The state-controlled Albanian Petroleum Corporation (APC) is the parent to Albpetrol (responsible for exploration and production), ARMO (responsible for refining and marketing of oil products), and Servcom (providing technical services to Albpetrol in development and drilling). In May 2008, the U.S.-Swiss consortium, Refinery Associates of Texas & Anika Enterprises, won 85% control of ARMO for 125 million euros.

Political risks: Elections in 1997, and a referendum in 1998, established Albania's current constitution after the civil unrest in early 1997. With strong orientation towards the U.S. and Europe, Albania is now committed to European integration and adoption of western values including those for human rights. According to Emerging Europe Monitor, Albania plans to apply for EU candidate status soon, and expects to join the union in the first half of the next decade. According to Forbes, several world-class companies have already been operating successfully in Albania including Siemens (NYSE: SI) and Societe Generale (Euronext: GLE). Some of the most efficient projects are funded by well-known banks including The European Bank for Reconstruction and Development. The World Bank has invested $915 million in 63 operations and provides insurance against political risk in Albania.

Overall, we believe country risks within Albania are not substantial compared to the 1990's. However, we note investment in Albania can be severely affected by political and economic instability in other Balkan countries. There have been instances of force majeures that affected oil projects, such as the ones declared by Occidental and Drillsearch in light of deteriorating security conditions in neighboring Yugoslavia in 1998. In 2007, Moody's gave Albania its first ever credit ratings in recognition of its transition to a market economy. Albania's current rating is Ba1 – Speculative/Substantial Credit Risk with a stable outlook.

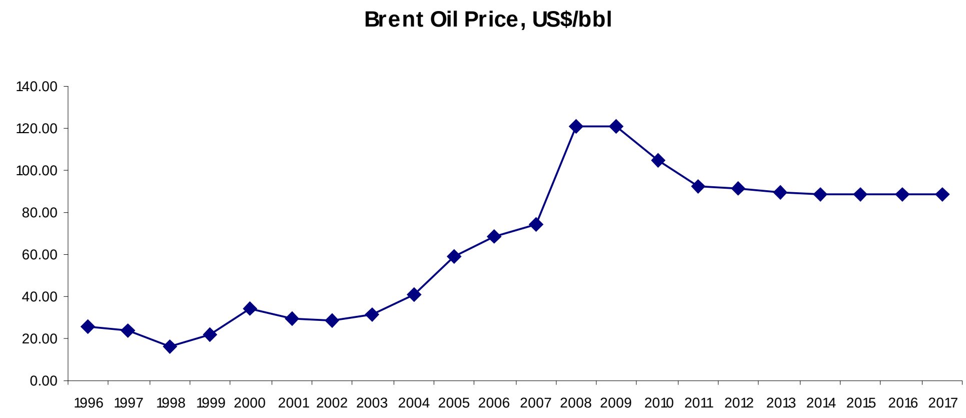
Oil and Gas Prices in Albania

Stream's currently sells its oil and gas production to the ARMO refinery via Albpetol's treatment facilities. The following table summarizes the averages prices the company received for the 3 and 7 month periods ended May 2008.

	3 months	7 months
Crude Oil (US$/bbl)	37.70	32.73
Gas (US$/Mcf)	17.00	14.14
Condensate (US$/bbl)	82.00	80.86

Oil price: Oil prices in Albania are negotiated and agreed upon between oil companies and local ministries, with reference to average Brent price after making gravity adjustments. The company has been able to negotiate higher oil prices since November, during which period oil sold below $30/bbl. In addition, we believe the recent privatization of the ARMO refinery will likely result in more transparent pricing with the market, which we think is positive for the company in light of recent high oil prices. Brent oil (which has 38° API and 1.0% sulphur) is currently trading at about $120/bbl. GLJ forecasts Brent prices to remain strong at $121.34/bbl in 2008, and $123.50/bbl in 2009. In the longer term, although GLJ expects

Brent price to soften, it forecasts the price to stay above $80/bbl (inflation adjusted) in the period 2008 - 2017. The following graph shows historical and forecasts for Brent.



Source: GLJ

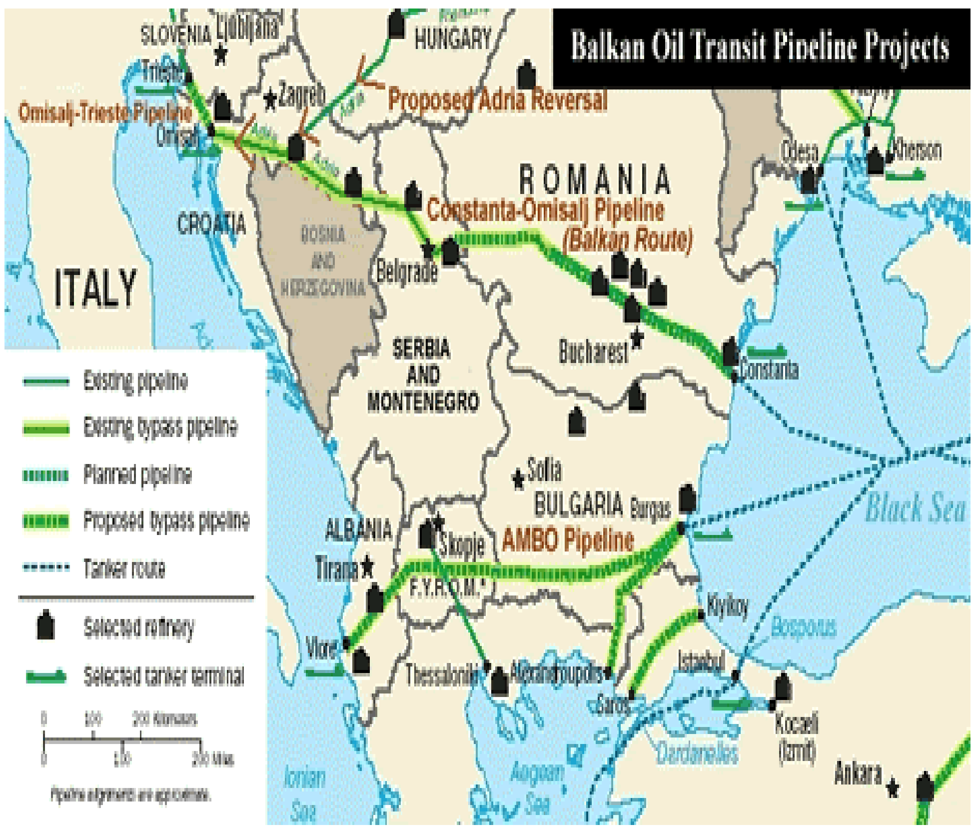
We think Stream has a good opportunity to receive higher prices for its produced oil and gas going forward. The company is selling oil at 31% of Brent prices (based on the company's 3 month average oil price received of $37.7/bbl and an average Brent price of $120/bbl). We expect the company to improve oil prices to at least 45% of Brent in 2009 (heavy oil of 12° API is currently trading at about 78% of light oil prices in North America). According to management, Stream is negotiating oil prices of $70/bbl for Q4 2008, based on a Brent price forecast of $130/bbl. The company also plans to improve its average sales price for oil through the establishment of a treatment facility and export of the product. In addition, we believe the country's oil supply shortage will also prevent oil prices from declining significantly from current levels in the short term.

Gas price: According to the United Nations Economic Commission for Europe (UNECE), about 500 wells have been drilled in gas fields in Albania with 255 wells containing gas. The existing gas fields are in their final development phase with depleting reserves. However, consumption of gas is expected to increase. For the period 2006 to 2015, aggregate gas demand for power generation in Albania is expected to reach 0.98 billion m3 (34.61 Bcf), and total demand for gas in all sectors is forecasted to be 1.1 billion m3 (38.85 Bcf). This translates to average annual demand for gas of about 3.9 Bcf. We believe demand for gas in the country has not improved significantly so far, and was at 1.1 Bcf in 2006. However, in light of declining domestic gas reserves, gas prices in Albania are above adjacent regions. According to Stream, ARMO prices averaged $17.2/Mcf in Q1 2008, and $15.5/Mcf in 2007, compared to the average Mediterranean gas prices of $12.2/Mcf and $9.9/Mcf in the respective periods. Due to limits in domestic gas capacity and time required to bring new capacity online, we expect gas prices in Albania to continue to trade at premium to the average price in neighboring areas.

Infrastructure and Pipeline

Based on our discussion with management, Stream's oil and gas production are shipped from the fields via pipeline to the ARMO refinery in close proximity. According to Energy Today, ARMO owns two refineries, a research centre, 11 depots and a network of gas stations. Basic oilfield services are available in Albania, with a skilled and low-cost work force for the oil and gas industry. However, according to UNECE, certain pipeline infrastructure in Albania needs rehabilitation and parts of the network need to be totally substituted, particularly due to the low level of gas production, which resulted in corrosion and destruction.

Overall, the Balkan region is an important transit centre for transporting Russian and Caspian Sea oil to western consumers. The following maps show existing and new pipeline projects in the region.



Source: EIA

The planned AMBO pipeline connects the Bulgarian Black Sea port Burgas, via Macedonia, with Albania's Adriatic port Vlore. The proposed pipeline is 570 mile long, and transports oil at 750,000 bbl/d. The pipeline is to be built and operated by the US-based Albanian Macedonian Bulgarian Oil Corporation (AMBO), and estimated to cost $1.5 billion. The U.S. government financed a feasibility study for the project in 2002. Four pump stations (two in Bulgaria, one each in Macedonia and Albania) are to be constructed along the route. The project is expected to commence in late 2008 (upon finishing environmental studies and receiving construction licenses), with the pipeline being operational by 2011.

Management

We believe Stream has a strong management team with solid technical expertise in the Albanian oil and gas fields. Brief biographies of management, as provided by the company, follow.

Dr. Sotiris Kapotas, President & CEO and Director (Chairman): As founder of the company, Dr. Kapotas has more than 20 years experience in the petroleum industry. He has been an executive with TOTAL up to the latest post of New Ventures and Exploration Manager in Libya. He holds a Ph.D. in Geophysics from University of Alberta, related to heavy oil applications.

Angela Huxham, CFO: Mrs. Huxham has more than 17 years senior regulatory management experience including, corporate finance, internal audit, market surveillance and enforcement. She has been a director of corporate finance with the British Columbia Securities Commission and Vice President, Market Regulation with the TSX-V. Mrs. Huxham holds an MBA from Concordia University, Montreal.

Dr. Nikos Martakis, Vice President, Exploration: As a cofounder of Stream, Dr. Nikos Martakis has more than 10 years experience in Exploration projects. He is a management member of Oil and Gas Service company LandTech SA. He received a Ph.D. from University of Patras, Greece, related to exploration techniques in thrust belts similar to the Albanian settings.

Arian Tartari, Vice President, Albania: Mr. Tartari, a cofounder of Stream, is a graduate of Economics from the University of Tirana and brings experience from the Albanian business sector. He has been running several private companies successfully over the last 10 years.

Georghe Georgescu, Technical support management: Mr. Georgescu has more than 30 years drilling experience with Rompetrol BV, a Romanian Oil & Gas company. He supervises daily Stream's production operations, and guides a team of two production and drilling engineers on a contract from Rompetrol in the field.

Dr. Dimitris Evgenios, Special Advisor: Dr. Evgenios has over 30 years experience in the petroleum industry as an engineer specializing in oil technology. The majority of Dr. Evgenios's professional career was with Hellenic Petroleum SA, where for the past 8 years he was Director of E&P.

George Mortakis-Martakis, VP Administration and Director: Mr. Mortakis, a cofounder of Stream, is a graduate of the Economic University of Athens, and brings many years of experience in the finance sector. He has held positions in the American Express Bank in Greece since 1969 up to the position of Manager in the Trade Finance Department in Greece. He moved recently to become the President for the American Albanian Bank Athens branch.

Glenn Whiddon, Director: Mr. Whiddon has served on the boards of Grove Energy (merged with Stratic Energy) and Omegacorp (subject of Denison takeover) among others on the ASX, TSX & AIM.

Leslie Goodman, Director: Mr. Goodman is a Director of several public and private companies including Genco Resources and Rambler Metals & Mining.

Lee Southern, Director: Mr. Southern was a director of L.G.R. Resources. He has extensive senior management experience in the government, university and public education sectors, most recently as Executive Director of the British Columbia School Trustees Association.

Outlook on Oil

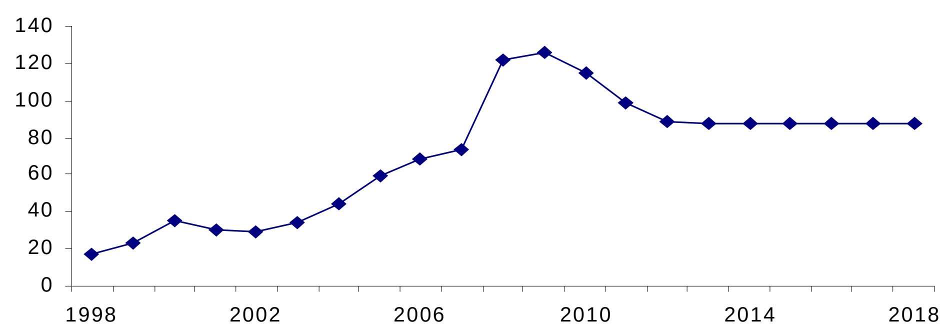
World Supply and Demand of Oil: Crude oil prices are impacted by world supply and demand for oil. Prices worldwide tend to move in tandem because of the ability to transport oil more readily. According to the EIA, world oil production is expected to grow at 1.16% per annum during the period 2005 – 2030, compared to consumption growth of 1.19% during the same period. Supply of oil is forecasted to be sufficient to meet demand, and thus no deficit is predicted for the forecast period. World oil supply and demand forecasts are presented in the table below.

Oil Supply and Demand (in Million boe/d)	2005	2010	2015	2020	2025	2030	CAGR (2005-30)
World Production	**84.3**	**89.2**	**95.7**	**101.3**	**106.5**	**112.5**	**1.16%**
Consumption							
OECD North America	25.2	25.3	26.2	26.7	27.2	28.0	0.42%
OECD Europe	15.5	15.4	15.9	16.0	16.0	16.0	0.13%
OECD Asia	8.6	8.4	8.8	9.0	9.1	9.2	0.27%
China	6.7	8.8	10.0	11.7	13.6	15.7	3.46%
Middle East	5.9	6.8	7.5	8.2	8.9	9.5	1.92%
Africa	2.9	3.4	3.7	4.0	4.1	4.3	1.59%
Central and South America	5.5	6.3	6.6	7.0	7.3	7.8	1.41%
World Consumption	**83.6**	**89.2**	**95.7**	**101.3**	**106.5**	**112.5**	**1.19%**
Deficit	**0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	

Source: EIA

Price Forecasts: The following chart shows historic oil prices, along with projections through 2018.

Oil (WTI Cushing Oklahoma), US$/bbl



Source: Sproule & GLJ

The average WTI Cushing Oklahoma oil price in 2007 was US$72.27/bbl, compared to $21.99/bbl in 1996, reflecting a CAGR of 11.4%. Despite the recent drop, oil is expected to remain above $110/bbl in 2008 and 2009 (Source: EIA, Sproule, GLJ). In the long term, we expect prices to soften, though we believe that oil demand growth is strong enough to support prices above historical averages ($35.5/bbl during 1996-2007). For instance, China's crude oil imports reached a new record of 163.17 million tons in 2007, representing growth of 12.4% over the previous year (Source: Energy Daily). In addition, we think the changes in fundamentals, such as increased finding costs, also support oil prices above historical averages. The consensus forecast is that oil prices are expected to stay above US$80.00/bbl through 2018 (Source: Sproule, GLJ).

Outlook on Gas

Supply and Demand of Natural Gas: Natural gas around the world is priced based on regional fundamentals (supply and demand), i.e., prices vary from region to region because other than a small amount of LNG, it is hard to arbitrage gas. Selected world natural gas supply and demand forecasts are shown in the table below.

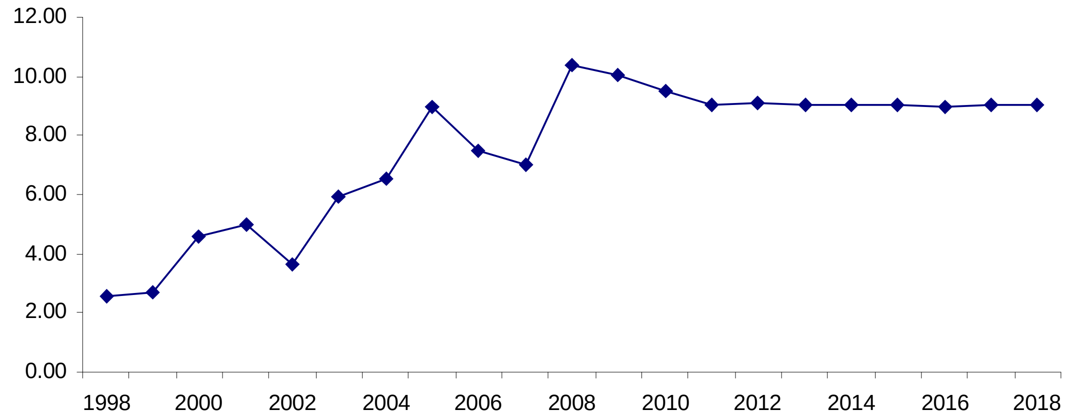
Gas - Supply and Demand (in Tcf)	2005	2010	2015	2020	2025	2030	CAGR (2005 - 30)
OECD							
Production	39.0	40.7	41.2	41.4	41.7	42.0	0.30%
Consumption	51.9	55.4	59.2	61.9	63.9	65.9	0.96%
Deficit	**-12.9**	**-14.7**	**-18.0**	**-20.5**	**-22.2**	**-23.9**	
World Total							
Production	101.7	114.9	128.3	140.5	149.0	157.7	1.77%
Consumption	103.7	115.7	129.2	141.1	149.5	158.0	1.70%
Deficit	**-2.0**	**-0.8**	**-0.9**	**-0.6**	**-0.5**	**-0.3**	

Source: EIA

As shown in the table, world gas production is expected to grow 1.77% per annum through 2030, higher than predicted consumption growth of 1.70%. However, natural gas supply is expected to be in shortage throughout the period. In addition, since Stream has opportunities to expand its gas market internationally, particularly to western European countries, we believe the forecasted shortage in gas supply for the OECD countries is positive for the company. Consumption in OECD countries is expected to grow at 0.96% per annum, compared to production growth of only 0.30% per annum. The supply shortage in OECD countries is forecasted to be higher than 10 Tcf through 2030.

Price Forecasts: As mentioned earlier, natural gas prices are largely determined by regional demand and supply factors. Albania has limits in production capacity, but growing consumption forecasts for gas in light of its economic growth. Therefore, we believe the country’s gas price will trade at premium to regions where supply is not as tight. For reference, the following chart shows historic and forecasts of Henry Hub prices (inflation adjusted).

Natual Gas Price (Henry Hub), US$/Mcf



Source: Sproule, GLJ

Henry Hub gas prices are forecasted to average of $10.15/Mcf in 2008, and $9.56/Mcf in 2009 (Source: EIA, Sproule and GLJ). The price is expected to stay above $9/Mcf based on Sproule and GLJA's long term forecasts.

Financials

Revenues: The company commenced operations on its oil and gas properties in November 2007. Stream reported revenues of $0.58 million, and $1.04 million, for the 3, and 7 month periods ended May 2008, respectively. The following table shows the revenue distribution.

(US$)	3 months	7 months
Crude Oil	367,220	576,866
Gas	203,045	379,078
Condensate	13,983	81,250

Net production rates to Stream averaged at 113 bbl/d oil, 209 Mcf/d gas and 8.4 bbl/d condensate for the 7 months ended May 2008. Production in Q2 2008 (3 months ended May 2008) was down due to significant servicing down-time of the ARMO refinery, and averaged 103/bbl oil, 122 Mcf/gas, and 4.9 bbl/d condensate. Going forward, the company expects oil rates to average 170 bbl/d in Q3 2008 (ended August 2008), and the gas and condensate rates to remain the same as Q2 2008. For the period from September to December 2008, Stream has target production rates of 200-300 bbl/d oil, 300-400 Mcf/d gas, and 15-30 bbl/d condensate. The company is currently examining the opportunity to increase condensate production by supplying a brick factory in Q4 2008.

We estimate the company will produce at an average of 162 bbl/d of oil, 211 Mcf/d of gas and 10 bbl/d of condensate for the rest of FY2008 (6 months ended November 2008), and 358 bbl/d of oil, 294 Mcf/d of gas and 15 bbl/d of condensate in FY2009. **Our revenue forecasts for FY2008 (13 month period from November 2007 to November 2008) and FY2009, are $2.86 million and $8.62 million, respectively.**

Cash Flows and Capital Structure: In the 7 month period ended May 2008, the company generated $1.23 million from operations, and spent a total of $1.93 million in oil and gas property expenditures as well as properties and equipment. The deficit was financed by the company's restricted cash account, which had a balance of $2.81 million as of May 31, 2008. Although Stream is only required to spend $4.8 million under the evaluation program, based on our discussion with management, the company has a capital expenditure budget of $10.5 million for 2008 (13 month period). At the end of May 2008, the company had $4.38 million in cash (including the restricted cash), and we believe the company will have to raise $4.7 million to fund its capital expenditure budget in FY2008.

Liquidity: the following table summarizes the company's liquidity position as of May 31, 2008.

Liquidity Position (US$)	2008 (7 mo)
Cash (incl. Restricted Cash)	4,379,946
Working Capital	1,328,465
Current Ratio	2.29
Debt	-
Debt/Asset	-

EPS forecasts: The company recorded high general and administrative expenses of $1.28 million in the 7 months ended May 2008, which also included one-time corporate expenditures including listing on the TSX Venture Exchange and legal and professional fees. We expect G&A expenses to be significantly lower in the future. We have assumed it to represent 15% of revenues from 2009+.

In the 7 month period ended May 2008, the company had a net loss of $0.54 million (EPS: -$0.01). In Q2 2008 (quarter ended May 2008), Stream recorded a net loss of $0.27 million (EPS: -$0.01). **We estimate a net loss of $0.22 million (EPS: -0.01) in FY2008 (13 month period). In FY2009, we forecast net income of $2.32 million (EPS: 0.06).**

Valuation

DCF Valuation: Our discounted cash flow valuation model (shown on the next page) gave a fair value of $1.22 per share on the company.

DCF Summary	
Recovered Oil (incl. Condensate) to Stream (MMbbl)	53.31
Recovered Gas to Stream (Bcf)	147.73
Field Life	32
Oil Rate (bbl/d/well)	20 (2018+)
Number of Producing Wells - Oil	375 (2018 +)
Gas Rate (Mcf/d/well)	575 (2013+)
Discount Rate	15%
Cash & Restricted Cash (US$)	$4,379,946
Debt	-
Net Present Value (C$)	**$47,258,122**
Shares	38,680,341
Fair Value (C$/Share)	**$1.22**

Stream is still in the early stage of rehabilitation for its oil and gas fields. In light of the uncertainties in their field development plans, we have made the following assumptions in our DCF model:

- Our models assume net recoverable reserves of 77.93 MMboe (from 53.31 MMbbl of oil and condensate plus 147.73 Bcf of gas) to Stream. Our DCF model is highly dependent on the reserve estimates. At this time, we have used the current remaining recoverable reserve estimates (not NI 51-101 compliant) in the company's oil and gas fields. **We note our valuation of the company would be negatively affected if the company's NI 51-101 compliant report (expected by the end of 2008) has lower recoverable reserve estimates than the current estimates.**
- During 2010 – 2018, the company will acquire 30 oil wells every year. Our models assume that the company will operate a total of 375 producing wells from its oilfields from 2018+.
- Our models assume the company will drill a total of 62 new gas producing wells to deplete 147.73 Bcf of gas from the Delvina field.
- We have used a discount rate of 15%, which we think is commensurate for the project and Albania's country risks. The following table shows the sensitivity of our valuation to changes in discount rate.

Sensitivity					
Discount Rate	7.5%	10.0%	12.5%	**15.0%**	17.5%
Fair Value	$5.71	$3.47	$2.10	**$1.22**	$0.65

Comparable Analysis: Stream is trading at US$0.2/boe based on net recoverable reserves of 77.9 boe, compared to US$5.2/boe for Bankers Petroleum. We believe the company's low EV/boe multiple reflects the fact that it still does not have a NI 51-101 compliant reserve estimate, and has yet to show consistent production increase, from pre-existing levels. In addition, we believe Bankers Petroleum, Manas Petroleum and Stream Oil & Gas are not direct comparables as they are in different stage of operations. Moreover, Stream has yet to have a NI 51-101 compliant reserve estimate. Therefore, we have decided to base our valuation on Stream purely based on our DCF model.

	Company	Symbol	Market Cap (US$)	Enterprise Value (US$)	Risked Resource (mmboe)	EV/boe	Primary Area of Operations
1	JKX Oil and Gas	LSE: JKX	930,185,920	844,794,920	48.4	17.4	Ukraine, Russia
2	Europa Oil and Gas	LSE: EOG	21,787,302	24,792,575	1.8	13.6	UK, Romania
3	Bankers Petroleum Ltd.	TSX: BNK	602,601,580	572,234,580	109.5	5.2	Albania
4	Manas Petroleum Corp.	OTCBB: MNAP	87,448,900	83,419,973	148.7	0.6	Albania, Chile
5	Stream Oil & Gas Ltd.	TSXV: SKO	19,340,171	14,960,225	77.9	0.2	Albania
					Average	**2.0**	

Note: BNK's risked resources are in accordance with National Instrument 51-101, and are in gross basis
MNAP's risked resouces are based on historical estimates and exploration targets. 10% of these estimates are included in the analysis.
The average does not include 1 and 2, as they are outliers

Conclusion & Rating

Based on our valuation models and review of the company's projects, we initiate coverage on Stream Oil & Gas with a BUY rating and a fair value estimate of $1.22 per share. Our fair value estimate reflects 144% upside potential from current price levels.

We think the company has the opportunity to significantly increase production from its oil and gas fields. These fields also have considerable potential to increase reserve estimates. However, at this time, it is critical for Stream to increase extraction rates from pre-existing levels, since we believe the incremental production, which Stream owns 100%, represent the real upside potential of the company going forward.

Risk Analysis

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The company still needs to update reserve estimates of its oil and gas fields in accordance with NI 51-101 standards.
- Historically, the company's oilfield produced heavy and medium oil with low recoveries and high water cut. Challenges may exist to achieve targeted production growth through rehabilitation and enhanced recovery techniques. Stream only started operations in November 2007, and we feel the company has yet to show solid production increases from pre-existing production levels.
- Stream's operations may be negatively affected by the economic and political instability in the Balkan region.
- Oil and gas prices are negotiated between companies and Albanian government agencies. Although oil prices are indexed to the UK Brent price, the company may not be able to obtain favorable prices to increase revenues and profitability. We note that the privatization of the oil and gas sector in Albania is likely to result in more transparent pricing in the future.
- Access to capital is crucial to be able to continue pursuing exploration and development for the company.

Based on risks mentioned above, we rate the shares a RISK of 4 (Speculative).

APPENDIX

Stream Oil & Gas - Income Statement
(in US$)

	2008E (13 mo)	2009E
Gross Revenues		
Royalties		
Oil and gas revenues	**2,864,713**	**8,621,169**
Operating expenses	1,043,879	2,304,693
Gross Margins	**1,820,834**	**6,316,476**
General and Administrative	2,030,618	1,293,175
EBIDA	**(209,784)**	**5,023,301**
Amortization	137,891	355,614
EBIT	**(347,675)**	**4,667,687**
Interest income	127,769	-
Foreign exchange gain	-	-
Tax		2,333,843
Profit sharing to Albpetrol		11,669
Net Income	**(219,906)**	**2,322,174**
EPS	(0.01)	0.06

Stream Oil & Gas - Blance Sheet
(in US$)

	2008E	2009E
Current Assets		
Cash and cash equivalent	315,216	363,083
Accounts receivable	1,280,902	3,017,409
GST receivable	12,314	12,314
Crude oil inventory	20,388	52,579
Prepaid expenses	94,714	285,036
	1,723,534	**3,730,421**
Property and equipment	1,436,238	3,908,560
Oil and gas properties	9,881,031	26,653,095
Mineral property	12,989	12,989
Restricted cash	-	-
	13,053,792	**34,305,065**
Current Liabilities		
Accounts payable and accrued liabilities	875,594	2,304,693
Due to related parties	156,614	156,614
	1,032,208	**2,461,307**
Shareholder's Equity		
Capital stock	6,981,192	24,481,192
Contributed surplus	5,606,979	5,606,979
Deficit	(566,587)	1,755,587
	12,021,584	31,843,758
Total Liabilities and Shareholder's Equity	**13,053,792**	**34,305,065**

Stream Oil & Gas - Statement of Cash Flows
(in US$)

	2008E (13 mo)	2009E
Cash flows from operations		
Net income	(219,906)	2,322,174
	-	
Amortization	137,891	355,614
Shares issued in reverse takeover	1,975,889	
Resouce property acquired in reverse takeover	(12,989)	
	1,880,885	2,677,788
Change in working capital		
Accounts receivable	(1,280,902)	(1,736,507)
GST receivable	(12,314)	-
Crude oil inventory	(20,388)	(32,191)
Prepaid expenses	(93,215)	(190,322)
Accounts payable and accrued liabilities	566,562	1,429,099
	1,040,628	**2,147,868**
Cash flows from investing activities		
Acquistion of property and equipment	(1,362,560)	(2,543,446)
Restricted cash	4,800,000	-
Oil and gas property expenditures	(9,137,440)	(17,056,554)
	(5,700,000)	**(19,600,000)**
Cash flows from financing activities		
Equity	4,700,000	17,500,000
Debt	-	
	4,700,000	17,500,000
	-	
Net change in cash	**40,628**	**47,868**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

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3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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