

Financial Statements of

STEALTH VENTURES LTD.

Years ended December 31, 2009 and 2008

MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The management of Stealth Ventures Ltd. is responsible for the preparation and integrity of the accompanying financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgments and estimates where necessary.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the financial statements. By virtue of its size, the Company does not possess a large staff with sophisticated financial reporting skills to ensure that all potential material errors are prevented. The Company works to mitigate this risk through detailed senior management review and Audit Committee oversight.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with the external auditors and management to review the work of each and the propriety of the discharge of their responsibilities. The Audit Committee reviews the financial statements of the Company with management and the external auditors prior to submission to the Board of Directors for final approval. The external auditors and the Board of Directors also review the Annual Report before it is finalized. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters. The shareholders have appointed KPMG LLP as the external auditors of the Company, and, in that capacity, they have examined the financial statements as at and for the period ended December 31, 2009.

Derek Krivak
Chief Executive Officer

Lori Bobye-Magnusson
Chief Financial Officer

April 30, 2010



KPMG LLP
Chartered Accountants
2700-205 5 Avenue SW
Calgary AB T2P 4B9

Telephone
Telefax
Internet

(403) 691-8000
(403) 691-8008
www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Stealth Ventures Ltd. (the "Company") as at December 31, 2009 and 2008 and the statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 29, 2010

STEALTH VENTURES LTD.

Balance Sheets

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 295,558	\$ 544,944
Accounts receivable	517,564	1,453,192
Prepaid expenses and deposits	538,402	1,171,295
	<u>1,351,524</u>	<u>3,169,431</u>
Property and equipment (note 5)	19,930,421	56,521,067
Investments (note 4)	-	793,000
	<u>\$ 21,281,945</u>	<u>\$ 60,483,498</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 578,254	\$ 6,340,460
Bank debt (note 7)	3,195,725	-
	<u>3,773,979</u>	<u>6,340,460</u>
Asset retirement obligations (note 6)	1,815,349	1,924,456
Shareholders' equity:		
Share capital (note 8(b))	64,994,373	63,311,540
Purchase warrants (note 8(e))	9,202,031	8,488,680
Share subscription receivable (note 8(c))	(1,035,599)	-
Contributed surplus (note 8(g))	8,725,946	7,908,255
Deficit	(66,194,134)	(27,489,893)
	<u>15,692,617</u>	<u>52,218,582</u>
Future operations (note 1)		
Commitments (note 11)		
Subsequent event (note 7)		
	<u>\$ 21,281,945</u>	<u>\$ 60,483,498</u>

See accompanying notes to financial statements.

On behalf of the Board:

"Mark Roth" _____ Director

"Derek Krivak" _____ President, CEO, Director

STEALTH VENTURES LTD.

Statements of Loss, Comprehensive Loss and Deficit

Years ended December 31, 2009 and 2008

	2009	2008
Revenues:		
Petroleum and natural gas sales	\$ 3,511,075	\$ 5,021,678
Royalties	(178,894)	(724,466)
	3,332,181	4,297,212
Interest Income	27,959	242,738
	3,360,140	4,539,950
Expenses:		
Operating expenses	1,599,065	986,066
General and administration	2,361,621	3,300,956
Stock-based compensation (note 8(g))	817,691	1,190,446
Interest expense	147,326	-
Write-down of property and equipment (note 5)	33,061,168	1,826,800
(Gain)/loss on investment (note 4)	(75,500)	1,885,000
Depletion, depreciation and accretion	4,153,010	2,528,305
	42,064,381	11,717,573
Net loss and comprehensive loss for the year	(38,704,241)	(7,189,323)
Deficit, beginning of year	(27,489,893)	(20,300,570)
Deficit, end of year	\$(66,194,134)	\$(27,489,893)
Loss per share:		
Basic and diluted (note 8(h))	\$(0.42)	\$(0.24)

See accompanying notes to financial statements.

STEALTH VENTURES LTD.

Statements of Cash Flows

Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net loss for the year	\$(38,704,241)	\$(7,189,323)
Items not involving cash:		
Stock-based compensation	817,691	1,190,446
Write-down of property and equipment (note 5)	33,061,168	1,826,800
Depletion, depreciation and accretion	4,153,010	2,582,305
Gain/loss on investments (note 4)	(75,500)	1,885,000
	(747,872)	241,228
Change in non-cash operating working capital	(5,922,241)	(670,576)
	(6,670,113)	(429,348)
Financing:		
Issuance of share capital and purchase warrants	1,360,585	19,871,948
Increase in bank debt	3,195,725	-
	4,556,310	
19,871,948		
Investing:		
Additions of property and equipment (28,859,637)	(1,192,824)	
Sale of marketable securities (note 4)	868,500	-
Proceeds from sale of vehicle	15,929	-
Proceeds from property sale	600,000	-
Change in non-cash investing working capital	1,572,812	3,172,103
	1,864,417	(25,687,534)
Change in cash and cash equivalents	(249,386)	(6,244,934)
Cash and cash equivalents, beginning of year	544,944	6,789,878
Cash and equivalents, end of year	\$295,588	
\$544,944		

See accompanying notes to financial statements.

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

1. Future operations:

Stealth Ventures Ltd. ("Stealth" or "the Company") is engaged primarily in exploration for, and production of, petroleum and natural gas reserves in Western Canada and Nova Scotia. At the date of this report the Company's production was 100% natural gas.

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue to operate for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

For the year ended December 31, 2009, the Company reported a net loss of \$38,704,241 and a working capital deficiency of \$2,422,455. The Company closed a private placement and raised proceeds of \$2.4 million in December 2009. Proceeds will be used to manage working capital and pursue strategic opportunities in India. Subsequent to December 31, 2009 its credit facility with a Canadian bank was decreased from \$5 million to \$4 million. Refer to Note 7 for additional details.

The successful future operations of the Company are dependent on the ability of the Company to secure sufficient funds through financings, borrowings and operations to be able to meet its obligations as they become due.

Management believes that a going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

2. Significant accounting policies:

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

Specifically, the amounts recorded for depletion, depreciation and accretion of petroleum and natural gas assets and asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The amounts for stock based compensation are based on estimates of risk-free rates, expected lives, forfeitures and volatility. Future income taxes are based on estimates as to the timing of the reversal of the temporary differences and tax rates substantively enacted. By their nature, these estimates are subject to change and the effect on the financial statements of changes in such estimates in future periods could be significant.

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(a) Property and equipment:

The Company accounts for petroleum and natural gas activities in accordance with the Canadian Institute of Chartered Accountants guideline on full cost accounting in the petroleum and natural gas industry, whereby all costs associated with the acquisition, exploration and development of petroleum and natural gas leases are capitalized. Such costs include land acquisition costs, geological and geophysical costs, direct general and administrative charges,

and lease rentals on non-producing properties, costs of productive and non-productive wells including production equipment, the costs of processing facilities and asset retirement obligations. Proceeds received on the disposal of property interests will be credited against the accumulated costs except when the disposition results in a change in the depletion rate of 20% or more, in which case a gain or loss is recognized.

The cost of acquiring and evaluating unproved properties are initially excluded from the depletion calculation. These properties are assessed periodically for impairment. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion.

Depletion is calculated using the unit-of-production method based on proved reserves before royalties as determined by independent engineers. For purposes of this calculation, reserves and production of natural gas are converted into equivalent barrels of petroleum based on the relative energy equivalent of six thousand cubic feet of natural gas to one barrel of crude petroleum.

An impairment loss is recognized when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of: (a) the fair value of proved and probable reserves; and (b) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Other equipment is stated at cost less accumulated amortization. Amortization is provided for over the estimated useful lives of the assets using the declining balance method at a rate of 30%.

(b) Cash and cash equivalents:

Cash and cash equivalents include bank balances and highly liquid temporary money market instruments with original maturities of three months or less.

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(c) Joint operations:

The Company's oil and gas exploration and development activities are conducted with others and, accordingly, the financial statements reflect only the Company's interest in such activities.

(d) Asset retirement obligations ("ARO"):

The Company recognizes the fair value of ARO in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed to income in the period. Actual costs incurred upon the settlement of the ARO are charged against the liability. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation.

(e) Revenue recognition:

Petroleum and natural gas revenues are recognized when title and risk pass to the purchaser.

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(g) Stock-based compensation:

The Company uses the fair value method in valuing stock options granted to employees and directors under the share option plan. Under this method, compensation expense is measured at the grant date and recognized as a charge to earnings over the vesting period with a corresponding credit to contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The fair value of the options is determined using the Black-Scholes option-pricing model. Compensation cost of equity-classified awards to non employees, initially measured at fair value and periodically re-measured to fair value until the non-employees' performance is complete, are expensed over the vesting period. The Company accounts for actual forfeitures as they occur for unvested options.

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(h) Per share amounts:

The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of stock options, where the market price exceeds option price, are used to

repurchase common shares at the prevailing price. Basic earnings per share are computed by dividing net loss by the weighted average number of common shares outstanding for the

year. Diluted per share amounts reflect the potential dilution that could occur if the securities or other contracts to issue common shares were exercised to common shares.

(i) Foreign currency translation:

Transactions originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are included in income.

(j) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including all derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its cash and cash equivalents and investments in marketable securities as held for trading which are measured at fair value. Accounts receivable and share subscription receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other liabilities which are measured at amortized cost, which is determined using the effective interest method.

The Company measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

The Company immediately expenses all transaction costs incurred in relation to the acquisition of a financial asset or liability.

The Company applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and investments.

3. Change in accounting policies:

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

(a) Goodwill and intangible assets

Effective January 1, 2009 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

The Company retrospectively adopted CICA Section 3064, Goodwill and Intangible Assets issued by the AcSB. This section clarifies the criteria for the recognition of assets, intangible assets and internally developed intangible assets. The adoption of this standard did not impact the Company's financial results.

(b) Financial instruments - disclosures

In May 2009, the CICA amended Section 3862, *Financial Instruments - Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosure. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Company on December 31, 2009.

4. Investments:

During 2007 the Company exchanged its interest in certain Saskatchewan properties for 13 million common shares of PanTerra Resources Corp ("PanTerra") valued at a cost of \$0.25 per share. The Company's holding represented approximately 19.5% of the outstanding common shares of PanTerra. At December 31, 2008 these shares were revalued to its quoted market price of \$0.055 per share resulting in the recognition of a loss on investment of \$1,885,000.

During the first quarter of 2009, 4,766,000 shares of Panterra were sold at an average price of 0.064 per share for proceeds of \$305,300. A gain of \$43,170 was recognized from the sale of the shares. During the second quarter of 2009 the remaining 8,234,000 shares of PanTerra were sold at an average price of \$0.049 per share for proceeds of \$413,200. A loss of \$39,670 was recognized from the sale of the PanTerra shares in the second quarter of 2009.

During 2007 the Company acquired 6 million shares of a foreign unlisted private company Golden Hill International Holdings Limited ("Golden Hill") valued at a cost of \$78,000. The Company accounts for its investment in Golden Hill at cost since the shares do not have a quoted price in an active market. During the second quarter of 2009, the Company sold its entire investment in Golden Hill for \$150,000. A gain of \$72,000 was realized from the sale.

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

5. Property and equipment:

2009	Cost	Accumulated Depletion and Amortization	Net Book Value
Computer and office equipment	\$ 406,958	\$ 223,357	\$ 183,601
Leasehold improvements	61,600	22,785	38,815
Petroleum and natural gas properties	70,911,849	51,203,844	19,708,005
	<u>\$71,380,407</u>	<u>\$51,449,986</u>	<u>\$19,930,421</u>
2008			
Computer equipment	\$ 403,995	\$ 179,348	\$ 224,647
Leasehold improvements	55,162	14,585	40,577
Automobiles	84,296	58,704	25,592
Petroleum and natural gas properties	69,940,509	13,710,258	56,230,251
	<u>\$70,483,962</u>	<u>\$ 13,962,895</u>	<u>\$56,521,067</u>

At December 31, 2009, petroleum and natural gas properties included \$750,000 (2008 - \$14,903,981) relating to unproved properties which have been excluded from the depletion calculation, and future development costs of \$11,004,000 (2008 - \$20,850,000) were included in the depletion calculation. No general and administrative costs were capitalized during the year.

For purposes of ceiling test calculations, the following forecast oil and gas prices have been used in estimating future cash flows from proved reserves as at December 31, 2009:

	Benchmark AECO Spot Gas Price CDN\$ / MMBTU	Foreign Exchange \$ 1 US / Cdn. \$
2009	\$ 4.15	\$1.00
2010	\$ 6.05	\$1.00
2011	\$ 6.75	\$1.00
2012	\$ 7.15	\$1.00
2013	\$ 7.45	\$1.00
Escalated at the rate of 2% thereafter.		

In 2009, impairment was recognized in the amount of \$19.7 million on its Wildmere property. This impairment was realized due to technical revisions in the independent reserve evaluators report. The technical revision related to price and the underperformance of wells. In 2009, the Company

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

sold its interest in the Stellarton property for one million shares in a private company called East Coast Energy. As of December 31, 2009, the shares have no market value.

In addition, the Company's Stellarton and Cumberland properties were written down by \$13.4 million. The Company closed a deal with Clean Coal Limited on its Cumberland property for a success fee of \$750,000 to be paid upon issuance of a permit for a UCG pilot on the Cumberland Basin. The Company will receive a 5% equity ownership in a publically traded Newco and a royalty of \$3.50 per short ton of coal mined or combusted.

6. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its retirement obligations is approximately \$2,951,750 as at December 31, 2009 (2008 - \$3,025,000), which will be incurred between 2009 and 2023. A credit-adjusted risk-free rate of 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligations.

	2009	2008
Asset retirement obligations, beginning of year	\$1,924,456	\$870,842
Liabilities incurred	-	946,607
Liabilities disposed	(231,067)	-
Accretion expense	121,960	107,007
Asset retirement obligations, end of year	\$1,815,349	\$ 1,924,456

7. Credit facility:

During the second quarter 2009, the Company increased its demand operating credit facility from \$3.1 million to \$5.0 million. Stealth may borrow via Prime-based loans bearing interest at the prime bank rate plus 225 basis points per annum, subject to a minimum interest rate of 5%. The facilities do not contain any financial covenants. The credit facility is subject to periodic review, with the next required prior to April 30, 2010. The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lender, based primarily on reserves and using commodity prices estimated by the lender, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility which may require a repayment to the lender. The facility is collateralized by a \$5.0 million demand fixed and floating debenture over all of Stealth's assets. Subsequent to December 31, 2009 a review was conducted; and it was agreed the Company would have a decrease from \$5.0 million to 4.0 million with the next review to be completed by May 2010. As at December 31, 2009, \$3,195,725 had been drawn against these facilities.

The credit facility principle repayments will be made in 33 equal installments of \$120,000 per month, commencing May 1, 2010.

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

8. Share capital:

(a) Authorized: Unlimited common shares without par value

(b) Issued:

	Number of Shares	Amount
Balance December 31, 2007	61,954,587	\$49,919,481
Private placement at \$0.75 per unit	29,726,956	17,316,217
Normal course issuer bid (1,126,409)	(1,553,500)	
Share issue costs	-	(2,797,749)
Balance December 31, 2008	90,128,043	63,311,540
Private placement at \$0.07 per unit	35,658,643	1,782,753
Share issue costs	-	(99,920)
Balance December 31, 2009	125,786,686	\$64,994,373

(c) Private placement

In December 2009, the Company closed a non-brokered private placement, to consist of the sale of up to 35,658,643 units at a price of \$0.07 per unit to raise gross proceeds of up to \$2,496,105. Each unit will consist of one (1) common share and one-half (1/2) of a non-transferable share purchase warrant, with each whole warrant to entitle the holder to purchase one additional common share at a price of \$0.15 for a period of two (2) years from closing, provided that, in the event the closing price of Stealth's shares as traded on the TSX Venture Exchange is \$0.25 or greater for a period of 30 consecutive trading days, it may give notice of an earlier expiry of the warrants, in which case the warrants would expire 30 calendar days from the giving of such notice. The private placement closed in two tranches, the second closing December 31, 2009. Cash from the second closing was received in January 2010 and therefore a share subscription receivable was recorded in the amount of \$1,035,599. The proceeds from this private placement will be used for working capital purposes, including allowing Stealth to explore potential strategic opportunities in Asia with a focus in India.

(d) Normal course issuer bid

In September 2008, the Company initiated a normal course issuer bid to repurchase up to 6,504,000 shares of the Company and subsequently cancel these shares. The bid commenced October 2, 2008 and terminates on October 1, 2009. As at December 31, 2009, the Company has purchased 1,553,500 shares at an average price of \$0.17 per share for a total cost of \$267,020. The shares were cancelled and the average share price of \$0.73 (\$1,126,409) was charged to share capital with the remaining recorded in contributed surplus.

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

(e) Purchase warrants

The value of each warrant was estimated on the date of issue using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Expected life (in months)	24	24
Risk-free interest rate (%)	0.67%	3.75%
Volatility (%)	144%	87%
Range of fair value of warrants issued (\$)	\$0.04	\$0.34 to \$0.36

Changes in the common share purchase warrants are as follows:

Description	Number	Exercise price	Expiry date	Carrying amount
Balance December 31, 2007	11,287,380			\$4,838,400
Private placement	14,863,478	0.85	May 2010	4,979,000
Finders' fees	1,781,818	0.75	May 2010	641,500
Warrants expired	(3,281,258)	2.30	March 2008	(1,595,720)
Warrants expired	(569,322)	1.60	March 2008	(374,500)
Balance December 31, 2008	24,082,096			8,488,680
Private placement	17,829,322	0.15	Dec 2011	713,351
Balance December 31, 2009	41,911,418			\$9,202,031

(f) Stock option plan

The Company has in place an Incentive Stock Option Plan (the "Plan"), which is administered by the Directors of the Company. All directors, officers, employees and consultants of the Company are eligible to be granted incentive stock options under the Plan. The exercise price of options granted under the Plan cannot be less than the market price of the Company's shares as traded on the TSX Venture Exchange (the "Exchange") at the time of the grant, less the permissible discount allowed by the Exchange. The Plan was amended through the course of 2008. These amendments provide that: (1) options may be granted under the Plan in respect of up to an aggregate of 18,000,000 common shares, provided that (i) options in respect of no more than 5% of the issued shares of the Company, calculated at the date the option is granted, may be granted to any one optionee in any 12 month period; (ii) options in respect of no more than 2% of the issued shares of the Company, calculated at the date the option is granted, may be granted to any one consultant in any 12 month period; and (iii) options in respect of no more than an aggregate of 2% of the issued shares of the Company, calculated at the date the option is granted, may be granted in any 12 month period to optionees conducting investor relations activities; (2) the maximum term of options

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

granted under the Plan has been extended from 5 years to 10 years; and (3) options granted under the Plan having an exercise price at or above the market price of the Company's shares may become vested immediately upon the date of the grant (as opposed to being vested on a quarterly basis over an 18 month period).

8. Share capital (continued):

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	5,229,000	\$0.52	5,228,000	\$1.49
Granted	-	-	3,439,000	0.25
Granted	-	-	1,865,000	0.98
Granted	-	-	100,000	0.80
Granted	-	-	150,000	0.48
Expired	100,000	1.20	50,000	0.25
Expired	50,000	2.30	300,000	2.07
Expired	40,000	0.98	300,000	1.32
Expired	118,000	0.25	-	-
Expired	325,000	0.25	-	-
Cancelled	300,000	0.25	943,000	1.50
Cancelled	-	-	1,225,000	2.30
Cancelled	-	-	575,000	0.98
Cancelled	-	-	660,000	0.80
Cancelled	-	-	400,000	1.20
Cancelled	-	-	300,000	0.65
Cancelled	-	-	200,000	0.50
Cancelled	-	-	450,000	0.55
Cancelled	-	-	150,000	0.48
Outstanding, end of year	4,296,000	\$0.50	5,229,000	\$ 0.52
Exercisable, end of year	4,296,000	\$0.50	3,919,000	\$ 0.42

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

8. Share capital (continued):

Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable
\$ 0.55	250,000	0.3 years	250,000
0.98	100,000	0.5 years	100,000
0.98	1,250,000	3.6 years	
1,250,000			
0.25	2,546,000	9.0 years	2,546,000
0.25	150,000	9.0 years	150,000
	4,296,000		4,296,000

(g) Stock-based compensation:

The Company accounts for options issued under its Plan using the fair value method. Under this method, a compensation cost is charged to expense for stock options granted to employees and directors with a corresponding increase to contributed surplus.

The following table reconciles the Company's contributed surplus:

	2009	2008
Balance, beginning of year	\$ 7,908,255	\$ 3,888,200
Warrants expired	-	1,970,220
Stock-based compensation expense	817,691	1,190,446
Normal course issuer bid	-	859,389
Balance, end of year	\$8,725,946	\$7,908,255

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

8. Share capital (continued):

The fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Expected life (in months)	12 to 60	12 to 60
Risk-free interest rate (%)	2.67 to 2.7	1.70 to 3.40
Volatility (%)	133.0 to 151	81.5 to 124
Range of fair value of options granted (\$)	\$0.22 to \$0.90	\$0.14 to \$0.67

(h) Per share amounts:

Per share amounts were calculated using the weighted average number of common shares outstanding of 91,408,235 (2008 - 78,881,875). The stock options and warrants were not included in the diluted loss per share calculation because to do so would be anti-dilutive.

9. Income taxes:

The provision for income taxes in the financial statements differs from the result, which would have been obtained by applying the combined federal and provincial statutory tax rate to the Company's net loss. This difference results from the following items:

	2009	2008
Combined federal and provincial tax rate	29.00%	29.68%
Expected income tax (reduction) at statutory rate	\$ (11,219,792)	\$ (2,130,319)
Increase (decrease) resulting from:		
Stock-based compensation	237,130	353,324
Effect of changes in tax rates	1,515,627	894,877
Other items	18,320	52,623
Change in valuation allowance	9,459,663	549,761
Non-deductible portion of capital loss	(10,948)	279,734
	\$ -	-

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at 2009 and 2008 are presented below:

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

	2009	2008
Future tax assets:		
Non-capital losses	\$ 2,199,338	\$ 1,612,175
Investments	309,497	316,875
Property, plant, and equipment	11,599,050	2,589,223
Asset retirement obligations	453,837	481,114
Share issue costs	682,830	1,043,862
Valuation allowance	(15,244,552)	(6,043,249)
Net future tax asset	\$ --	\$ --

The Company has non-capital loss carry forwards of \$8,797,350 expiring from 2010 to 2029.

10. Financial instruments and Risk management:

(a) Credit risk:

Portions of the Company's accounts receivable are with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company's accounts receivable is made up of \$35,738 over 90 days and \$481,826 less than 90 days. \$306,055 in the less than 90 days category is from the Company's gas purchaser. In addition, the Company has a share subscription receivable of \$ 1,035,598 due to the private placement that closed on December 31, 2009. The shares were issued on December 31, 2009, however the funds were received in January 2010. Purchasers of the Company's oil and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment.

(b) Commodity price risk:

The Company is subject to commodity price risk on the sale of natural gas. The Company entered into a fixed price physical sales contract with a well established counterparty, to protect a portion of its future earnings and cash flows from operations from the volatility of natural gas prices.

Natural Gas Period	Type	Daily Volume	Price (CAD)
November 1, 2009-December 31, 2010	Fixed price	800 GJ	\$4.90

Based on Stealth's reported sales volumes for 2009, a change of \$0.10 Cdn in natural gas prices at the wellhead would have the approximate effect of changing revenue for the year by \$80,000.

(c) Foreign currency risk:

While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

(d) Interest rate risk:

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's cash and cash equivalents that have a floating interest rate. The Company had no interest rate swaps or hedges at December 31, 2009.

(e) Fair value of financial instruments:

The Company's financial assets and liabilities consist of cash and cash equivalents, investments, accounts receivable, share subscription receivable, bank debt, accounts payable and accrued liabilities. Cash and cash equivalents are classified as held-for-trading financial assets. Accounts receivable and share subscription receivable are classified as loans and receivables and bank debt and accounts payable are classified as other financial liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities.

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet as at December 31, 2009 are as follows:

Cash and Cash Equivalents	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 295,558	\$ 295,558
Accounts receivable	517,564	517,564
Share subscription receivable	1,035,599	1,035,599
Accounts payable and accrued liabilities	578,254	578,254
Bank debt	3,195,725	3,195,725

11. Commitments:

(a) In October of 2007 Stealth signed a ten year production lease with the Province of Nova Scotia with the anniversary date of October 25th annually. On October 20, 2009 a formal request letter was submitted to the Province requesting an extension as the Company is seeking capital partners to help accelerate the development of the Cumberland Basin property and reduce its capital commitments. This agreement requires the Company to incur total expenditures of approximately \$2.0 million for the Cumberland Basin Production Permit for fiscal 2010. However, the asset with a carrying value of \$750,000 may be surrendered as an option. Nova Scotia commitments in future years increase with commercial development projections, but in each case the requirements are reviewed yearly.

(b) Office lease agreement:

The Company has entered into an agreement to lease office space until November 30, 2010. The future minimum lease payment is expected to be \$94,024 in 2010.

12. Capital disclosures:

Stealth defines capital as debt and shareholders' equity comprised of retained earnings and share capital. Stealth's primary capital management objective is to maintain a strong balance

STEALTH VENTURES LTD.

Notes to Financial Statements

Years ended December 31, 2009 and 2008

sheet affording the Company financial flexibility to achieve goals of continued growth and access to capital. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in the business environment.

The Company manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or repay existing debt. During the year the long-term debt of the Company increased, but it does not have any capital leases or any off-balance-sheet obligations. Subsequent to December 31, 2009 the Company's credit line was reduced from \$5.0 million to \$4.0 million. However, in December 2009, gross proceeds of \$2,496,105 were raised in a non-brokered private placement, with the funds to be used to manage working capital and pursue opportunities in India. Stealth's short term goal with respect to debt is limit its use as management pursues balance sheet strength.

The Company monitors working capital, cash flow per share and total shareholders' equity on a monthly basis and makes adjustments to its business plan and capital budget accordingly.

No dividends have been paid or declared on any of the Company's shares since the date of incorporation. This policy is based on operational results, financial policy and financing requirements and is continuously reviewed by the Company.

The Company is not subject to any externally imposed capital requirements. However, debt is subject to borrowing base reviews.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation.