

# Stealth Ventures Ltd.

## Statements of Financial Position

(unaudited)

| <b>Assets</b>                            | Note | <b>June 30, 2011</b> | <b>December 31, 2010</b> |
|--|------|----------------------|--------------------------|
| <b>Current Assets</b>                    |      |                      |                          |
| Cash and cash equivalents                |      | \$ 963,169           | \$ 315,816               |
| Accounts receivable                      |      | 214,628              | 235,912                  |
| Prepaid expenses                         |      | 382,293              | 252,244                  |
|  |      | <b>1,560,090</b>     | <b>803,972</b>           |
| Computer and office equipment            | 6    | 111,869              | 129,226                  |
| Petroleum and natural gas properties     | 6    | 4,113,299            | 4,486,900                |
| Exploration and evaluation assets        | 7    | 750,000              | 750,000                  |
|  |      | <b>\$ 6,535,258</b>  | <b>\$ 6,170,098</b>      |
| <b>Liabilities</b>                       |      |                      |                          |
| <b>Current liabilities</b>               |      |                      |                          |
| Accounts payable and accrued liabilities |      | \$ 1,205,063         | \$ 1,262,159             |
| Loans and borrowings                     | 13   | 1,000,000            | 2,000,000                |
|  |      | <b>2,205,063</b>     | <b>3,262,159</b>         |
| Decommissioning liability                | 12   | 2,703,585            | 2,657,479                |
| <b>Shareholders' equity</b>              |      |                      |                          |
| Share capital                            | 9    | 67,959,801           | 67,959,801               |
| Purchase warrants                        | 9    | 2,248,893            | 7,227,893                |
| Share subscription receivable            |      | -                    | (2,480,852)              |
| Contributed surplus                      |      | 17,736,210           | 12,235,626               |
| Deficit                                  |      | (86,318,294)         | (84,692,008)             |
|  |      | <b>1,626,610</b>     | <b>250,460</b>           |
|  |      | <b>\$ 6,535,258</b>  | <b>\$ 6,170,098</b>      |

See accompanying notes to the financial statements

Future operations [Note 1]

Subsequent event [Note 15]

## Stealth Ventures Ltd.

### Statements of Operations and Comprehensive Loss

(unaudited)

|  | Note | <b>Three months<br/>ended June 30,<br/>2011</b> | Three months<br>ended June 30,<br>2010 | <b>Six months<br/>ended June<br/>30, 2011</b> | Six months<br>ended June 30,<br>2010 |
|--|------|---|--|---|--------------------------------------|
| <b>Revenue</b>                                     |      |   |  |   |                                      |
| Petroleum and natural gas sales                    |      | \$ 517,670                                      | \$ 684,450                             | \$ 988,218                                    | \$ 1,461,550                         |
| Royalties  |      | (30,438)  | 86,124                                 | (58,220)                                      | 23,704                               |
|  |      | <b>487,232</b>                                  | 770,574                                | <b>929,998</b>                                | 1,485,254                            |
| <b>Expenses</b>                                    |      |   |  |   |                                      |
| Oil and gas operating                              |      | 426,367   | 604,820                                | 754,924                                       | 928,033                              |
| Depletion and depreciation                         | 6    | 201,252   | 340,628                                | 387,560                                       | 741,354                              |
| General and administration                         |      | 218,500   | 407,718                                | 716,398                                       | 750,965                              |
| Stock based compensation                           | 10   | -   | -                                      | 521,584                                       | -                                    |
| Impairment of petroleum and natural gas properties | 8    | -   | 85,981                                 | 58,675  | 4,372,130                            |
|  |      | <b>846,119</b>                                  | 1,439,147                              | <b>2,439,141</b>                              | 6,792,482                            |
| Loss from operating activities                     |      | <b>(358,887)</b>                                | (668,573)                              | <b>(1,509,143)</b>                            | (5,307,228)                          |
| Financing income                                   | 4    | (3,661)   | (9)                                    | (4,693)                                       | (498)                                |
| Financing expense                                  | 4    | 49,749  | 56,542                                 | 121,836                                       | 109,531                              |
| Net finance costs                                  |      | <b>46,088</b>                                   | 56,533                                 | <b>117,143</b>                                | 109,033                              |
| Net loss and comprehensive loss                    |      | <b>\$ (404,975)</b>                             | \$ (725,106)                           | <b>\$ (1,626,286)</b>                         | \$ (5,416,261)                       |
| Loss per share – basic and diluted                 |      | <b>\$ (0.00)</b>                                | \$ (0.01)                              | <b>\$ (0.01)</b>                              | \$ (0.04)                            |
| Weighted average shares outstanding                |      | <b>161,002,686</b>                              | 125,786,686                            | <b>161,002,686</b>                            | 125,786,686                          |

*See accompanying notes to the financial statements*

## Stealth Ventures Ltd.

### Statements Changes in Shareholders' Equity (unaudited)

|                                       | Note | Number of<br>Common<br>Shares | Number of<br>Warrants | Share capital | Purchase<br>Warrants | Share<br>subscription<br>receivable | Contributed<br>surplus | Deficit         | Total Equity  |
|---------------------------------------|------|-------------------------------|-----------------------|---------------|----------------------|-------------------------------------|------------------------|-----------------|---------------|
| Balance January 1, 2010               | 9    | 125,786,686                   | 41,911,418            | \$ 66,062,020 | \$ 9,202,031         | \$ (1,035,599)                      | \$ 8,725,946           | \$ (72,502,505) | \$ 10,451,893 |
| Receipt of subscription<br>receivable |      | -                             | -                     | -             | -                    | 1,035,599                           | -                      | -               | 1,035,599     |
| Loss for the period                   |      | -                             | -                     | -             | -                    | -                                   | -                      | (5,416,261)     | (5,416,261)   |
| Balance June 30, 2010                 |      | 125,786,686                   | 41,911,418            | \$ 66,062,020 | \$ 9,202,031         | \$ -                                | \$ 8,725,946           | \$ (77,918,766) | \$ 6,071,231  |
| Balance December 31, 2010             |      | 161,002,686                   | 50,300,800            | \$ 67,959,801 | \$ 7,227,893         | \$ (2,480,852)                      | \$ 12,235,626          | \$ (84,692,008) | \$ 250,460    |
| Receipt of subscription<br>receivable | 9    | -                             | -                     | -             | -                    | 2,480,852                           | -                      | -               | 2,480,852     |
| Share based payments                  | 10   | -                             | -                     | -             | -                    | -                                   | 521,584                | -               | 521,584       |
| Expiry of warrants                    |      | -                             | (14,863,478)          | -             | (4,979,000)          | -                                   | 4,979,000              | -               | -             |
| Loss for the period                   |      | -                             | -                     | -             | -                    | -                                   | -                      | (1,626,286)     | (1,626,286)   |
| Balance June 30, 2011                 |      | 161,002,686                   | 35,437,322            | \$ 67,959,801 | \$ 2,248,893         | \$ -                                | \$ 17,736,210          | \$ (86,318,294) | \$ 1,626,610  |

See accompanying notes to the financial statements

# Stealth Ventures Ltd.

## Statements of Cash Flows

(unaudited)

|  | Note | Six months ended<br>June 30, 2011 | Six months ended<br>June 30, 2010 |
|--|------|-----------------------------------|-----------------------------------|
| <b>Cash provided by (used in):</b>                       |      |                                   |                                   |
| <b>Operating activities</b>                              |      |                                   |                                   |
| Net loss   |      | \$ (1,626,286)                    | \$ (5,416,261)                    |
| <i>Items not involving cash</i>                          |      |                                   |                                   |
| Depletion and depreciation                               |      | 387,560                           | 741,354                           |
| Accretion  |      | 46,107                            | 52,856                            |
| Stock based compensation                                 |      | 521,584                           | -                                 |
| Impairment of oil and natural gas properties             |      | 58,675                            | 4,372,130                         |
|  |      | (612,360)                         | (249,921)                         |
| Change in non cash working capital related to operations | 5    | (165,861)                         | 1,447,235                         |
|  |      | (778,221)                         | 1,197,314                         |
| <b>Financing activities</b>                              |      |                                   |                                   |
| Share subscription receivable                            |      | 2,480,852                         | 1,035,599                         |
| Repayment of bank debt                                   |      | (1,000,000)                       | (1,244,610)                       |
|  |      | 1,480,852                         | (209,011)                         |
| <b>Investing activities</b>                              |      |                                   |                                   |
| Petroleum and natural gas properties                     |      | (55,778)                          | (403,217)                         |
| Furniture and fixtures                                   |      | 500                               | (1,755)                           |
|  |      | (55,278)                          | (404,972)                         |
| Increase in cash   |      | 647,353                           | 583,331                           |
| Cash and cash equivalents, beginning of period           |      | 315,816                           | 295,558                           |
| Cash and cash equivalents, end of period                 |      | \$ 963,169                        | \$ 878,889                        |

See accompanying notes to the financial statement

**STEALTH VENTURES LTD.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
Three and six months ended June 30, 2011 and 2010 (unaudited)

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Note 1: Reporting entity:

Stealth Ventures Ltd. (“Stealth” or “the Company”) is engaged 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 from Western Canada. The Company conducts some of its activities jointly with others; these financial statements reflect only the Company’s proportionate interest in such activities. For the six months ended June 30, 2011, the Company reported a net loss of \$1,626,286 and a working capital deficiency of \$644,973. 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. These financial statements have been prepared on a going concern basis which 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. 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.

Note 2: Basis of presentation:

(a) Statement of compliance:

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. These condensed interim financial statements are for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. They do not include all of the information required for full annual financial statements. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 14. This note includes reconciliations of equity and comprehensive income for comparative periods previously reported under Canadian GAAP. The interim financial statements were authorized for issuance by the Board of Directors on August 29, 2011.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- (i) derivative financial instruments are measured at fair value; and

**STEALTH VENTURES LTD.**  
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Note 2: Basis of presentation (continued):

- ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.
- (c) Functional and presentation currency:  
 These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.
- (d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Note 3: Significant Accounting Policies:

The accounting policies as set out in note 3 of the March 31, 2011 interim financial statements have been applied consistently to all periods presented in these interim financial statements.

Note 4: Finance income and expenses:

|  | <b>Three months ended June 30, 2011</b> | <b>Three months ended June 30, 2010</b> | <b>Six months ended June 30, 2011</b> | <b>Six months ended June 30, 2010</b> |
|--|---|---|---------------------------------------|---------------------------------------|
| Finance Income                           |   |   |                                       |                                       |
| Interest income on deposits              | \$ 3,661                                | \$ 9                                    | \$ 4,693                              | \$ 498                                |
|  | 3,661                                   | 9                                       | 4,693                                 | 498                                   |
| Financing expenses                       |   |   |                                       |                                       |
| Interest on loans and borrowings         | 26,344                                  | 29,837                                  | 75,730                                | 56,675                                |
| Accretion on decommissioning liabilities | 23,406                                  | 26,705                                  | 46,106                                | 52,856                                |
|  | 49,749                                  | 56,542                                  | 121,836                               | 109,531                               |
| Net finance expenses                     | \$ 46,088                               | \$ 56,533                               | \$ 117,143                            | \$ 109,033                            |

**STEALTH VENTURES LTD.**  
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Note 5: Supplemental cash flow information:

Changes in non cash working capital is comprised of:

|                      | June 30, 2011 | June 30, 2010 |
|----------------------|---------------|---------------|
| Source (use) of cash |               |               |
| Accounts receivable  | \$ 21,284     | \$ (190,274)  |
| Prepaid expenses     | (130,049)     | 161,601       |
| Accounts payable     | (57,096)      | 1,476,030     |
|                      | (165,861)     | 1,447,357     |
| Related to:          |               |               |
| Operating activities | (165,861)     | 346,915       |
| Investing activities | -             | 1,100,442     |
|                      | \$ (165,861)  | \$ 1,447,357  |

Note 6: Property and equipment:

|  | Oil and natural gas<br>assets | Computer and<br>office<br>equipment | Total           |
|--|-------------------------------|-------------------------------------|-----------------|
| <b>Cost or deemed cost:</b>                      |                               |                                     |                 |
| Balance at January 1, 2010                       | \$ 14,541,005                 | \$ 468,559                          | \$ 15,009,564   |
| Additions  | 305,593                       | -                                   | 305,593         |
| Disposals  | -                             | (69,129)                            | (69,129)        |
| Balance December 31, 2010                        | 14,846,598                    | 399,430                             | 15,246,028      |
| Additions  | 55,777                        | -                                   | 55,777          |
| Disposals  | -                             | (500)                               | (500)           |
| Balance June 30, 2011                            | \$ 14,902,375                 | \$ 398,930                          | \$ 15,301,305   |
| <b>Depletion, depreciation and amortization:</b> |                               |                                     |                 |
| Balance January 1, 2010                          | \$ -                          | \$ (246,143)                        | \$ (246,143)    |
| Depletion, depreciation and amortization         | (1,293,866)                   | (11,404)                            | (1,305,270)     |
| Impairment loss                                  | (9,065,832)                   | -                                   | (9,065,832)     |
| Loss on disposal                                 | -                             | (35,442)                            | (35,442)        |
| Disposals  | -                             | 22,785                              | 22,785          |
| Balance December 31, 2010                        | (10,359,698)                  | (270,204)                           | (10,629,902)    |
| Depletion, depreciation and amortization         | (370,703)                     | (16,857)                            | (387,560)       |
| Impairment loss                                  | (58,675)                      | -                                   | (58,675)        |
| Balance June 30, 2011                            | \$ (10,789,076)               | \$ (287,061)                        | \$ (11,076,137) |
| Net book value June 30, 2011                     | \$ 4,113,299                  | \$ 111,869                          | \$ 4,225,168    |
| Net book value December 31, 2010                 | \$ 4,486,900                  | \$ 129,226                          | \$ 4,616,126    |

a) Security:

At June 30, 2011 and December 31, 2010 all of the Company's properties are pledged as security for the term loan.

**STEALTH VENTURES LTD.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
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Note 6: Property plant and equipment (continued):

b) Contingencies:

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

Note 7: Exploration and evaluation assets:

|                              | Exploration and evaluation assets |
|------------------------------|-----------------------------------|
| <b>Cost:</b>                 |                                   |
| Balance at January 1, 2010   | \$ 750,000                        |
| Additions                    | -                                 |
| Balance at December 31, 2010 | <u>750,000</u>                    |
| Additions                    | -                                 |
| Balance at June 30, 2011     | <u>\$ 750,000</u>                 |

Exploration and evaluation ("E&E") assets consist of the Corporation's exploration projects which are pending the determination of proved or probable reserves. The balance of E&E assets related to the Cumberland project in Nova Scotia.

Note 8: Impairment loss:

Due to the declines in the forward curve for natural gas prices the Company tested its CGU for impairment at March 31, 2010, June 30, 2010 and March 31, 2011. There were no indications of impairment, or indicators of reversals of impairments at June 30, 2011.

The recoverable amount of the CGU was estimated based on the higher of the value in use and the fair value less cost to sell. The estimate of the fair value less cost to sell was determined using a discount rate of 10 percent and forecast cash flows, with escalating prices and future development costs, as obtained from the reserve report. The prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers.

Based on this assessment, the carrying amount of the CGU was determined to be higher than its recoverable amount by \$4,286,149 for the three months ended March 31, 2010, \$85,987 for the three months ended June 30, 2010 and \$58,675 for the three months ended March 31, 2011 and thus an impairment was recorded in the periods.

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Note 9: Share Capital:

a) Authorized:

Unlimited number of common shares with no nominal or par value

Shares and warrants:

|   | Number       | Amount        |
|---|--------------|---------------|
| Voting common shares issued:                |              |               |
| Balance, January 1, 2010                    | 125,786,686  | \$ 66,062,020 |
| Private placement \$0.10 per unit (i)       | 6,716,000    | 511,536       |
| Private placement \$0.10 per unit (i)       | 3,500,000    | 271,242       |
| Private placement \$0.10 per unit (ii)      | 25,000,000   | 1,203,280     |
| Share issue costs                           |              | (88,277)      |
| Balance December 31, 2010 and June 30, 2011 | 161,002,686  | \$ 67,959,801 |
| Purchase warrants issued:                   |              |               |
| Balance January 1, 2010                     | 41,911,418   | \$ 9,202,031  |
| Expired                                     | (7,436,800)  | (2,868,180)   |
| Expired                                     | (1,781,818)  | (641,500)     |
| Private placement (i)                       | 3,358,000    | 160,064       |
| Private placement (i)                       | 1,750,000    | 78,758        |
| Private placement (ii)                      | 12,500,000   | 1,296,720     |
| Balance, December 31, 2010                  | 50,300,800   | 7,227,893     |
| Expired                                     | (14,863,478) | (4,979,000)   |
| Balance, June 30, 2011                      | 35,437,322   | 2,248,893     |
| Share capital, June 30, 2011                |              | \$ 70,208,694 |

As at June 30, 2011, purchase warrants outstanding are:

| Exercise Price | Expiry Date       | Fair Value | Number of Warrants | Amount       |
|----------------|-------------------|------------|--------------------|--------------|
| \$0.15         | December 31, 2011 | \$ 0.040   | 17,829,322         | \$ 713,351   |
| \$0.25         | July 12, 2012     | 0.048      | 3,358,000          | 160,064      |
| \$0.25         | October 26, 2012  | 0.045      | 1,750,000          | 78,758       |
| \$0.25         | December 24, 2012 | 0.104      | 12,500,000         | 1,296,720    |
|                |                   | \$ 0.063   | 35,437,322         | \$ 2,248,893 |

(i) The Company closed the initial tranche of the private placement announced on June 17, 2010. The initial tranche consisted of the sale of 6,716,000 units at a price of \$0.10 per unit, for gross proceeds of \$671,600, each unit consisting of one (1) common share and one-half (1/2) of a share

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Note 9: Share Capital (continued):

purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.25 until July 30, 2012. The second and final tranche of the private placement announced June 17, 2010 closed on October 26, 2010 and consisted of the sale of 3,500,000 units at a price of \$0.10 per unit for gross proceeds of \$350,000. Each unit consists of one (1) common share and one-half (1/2) of a share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.25 until October 26, 2012. (ii) The Company also closed a non-brokered private placement consisting of the sale of 25,000,000 units at a price of \$0.10 per unit for gross proceeds of \$2,500,000. Each unit consists of one (1) common share and one-half (1/2) of a share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.25 until December 24, 2012. Share subscription receivable was the balance of the funds from the private placement that closed December 24, 2010. All funds were received in the first quarter of 2011.

Note 10: Share based payments:

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 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).

# STEALTH VENTURES LTD.

## NOTES TO INTERIM FINANCIAL STATEMENTS

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Note 10: Share based payments (continued):

|                           | Number of options | Weighted average exercise price |
|---------------------------|-------------------|---------------------------------|
| Balance January 1, 2010   | 4,296,000         | \$ 0.50                         |
| Expired                   | (350,000)         | 0.67                            |
| Forfeited                 | (2,050,000)       | 0.50                            |
| Balance December 31, 2010 | 1,896,000         | 0.46                            |
| Granted                   | 5,350,000         | 0.15                            |
| Forfeited                 | (946,000)         | 0.44                            |
| Balance June 30, 2011     | 6,300,000         | \$ 0.20                         |

The following table summarizes information about the stock options outstanding at June 30, 2011:

|                |                   | Options Outstanding                                    |                                 |                   | Options Exercisable             |  |  |
|----------------|-------------------|--|---------------------------------|-------------------|---------------------------------|--|--|
| Exercise Price | Number of options | Weighted Average of Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |  |  |
| \$ 0.98        | 300,000           | 1.93   | \$ 0.98                         | 300,000           | \$ 0.98                         |  |  |
| 0.25           | 650,000           | 2.43   | 0.25                            | 650,000           | 0.25                            |  |  |
| 0.15           | 5,350,000         | 4.63   | 0.15                            | 5,350,000         | 0.15                            |  |  |
| \$ 0.15-0.98   | 6,300,000         | 4.27   | \$ 0.20                         | 6,300,000         | \$ 0.20                         |  |  |

The fair value of the options was estimated using the Black-Scholes model with the following weighted average inputs:

|                          | 2011       |
|--------------------------|------------|
| Fair value at grant date | \$ 0.09749 |
| Share price              | 0.15       |
| Exercise price           | 0.15       |
| Volatility               | 129%       |
| Option life              | 5 years    |
| Expected life            | 2 years    |
| Dividends                | 0          |
| Risk free interest rate  | 2.8%       |

As the options were immediately vested, no forfeiture rate was used as all expense was incurred immediately. Stock based compensation of \$521,584 was expensed in the three months ended March 31, 2011 (Year ended December 31, 2010 – nil). There were no options granted in 2010 or the second quarter of 2011.

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Note 11: Loss per share:

Basic and diluted loss per share was calculated as follows:

|  | <b>Three months<br/>ended June<br/>30, 2011</b> | <b>Three months<br/>ended June<br/>30, 2010</b> | <b>Six months<br/>ended June<br/>30, 2011</b> | <b>Six months<br/>ended June<br/>30 2010</b> |
|--|---|---|---|--|
| Loss for period                                  | \$ (404,975)                                    | \$ (725,106)                                    | \$(1,629,942)                                 | \$(5,416,261)                                |
| Common shares outstanding at January 1           | 161,002,686                                     | 125,786,686                                     | 161,002,686                                   | 125,786,686                                  |
| Common shares outstanding end of period          | 161,002,686                                     | 125,786,686                                     | 161,002,686                                   | 125,786,686                                  |
| Weighted average number of common shares (basic) | 161,002,686                                     | 125,786,686                                     | 161,002,686                                   | 125,786,686                                  |
| Basic and diluted loss per share                 | \$ (0.00)                                       | \$ (0.01)                                       | \$ (0.01)                                     | \$ (0.04)                                    |

Note 12: Decommissioning liability:

The Company's decommissioning liability results from net ownership interests in oil and gas assets including well sites and gathering systems. The Company estimated the net present value of the decommissioning obligations to be \$2,703,585 at June 30, 2011 (December 31, 2010 - \$2,657,479), which will be incurred between 2016 and 2023. A risk-free rate of 3.51% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligations.

| Asset retirement obligations                | <b>June 30, 2011</b> | <b>Year ended<br/>December 31, 2010</b> |
|---|----------------------|---|
| Beginning of year                           | \$ 2,657,479         | \$ 2,639,073                            |
| Change in estimate                          | -                    | (89,268)                                |
| Accretion expense                           | 46,106               | 107,674                                 |
| Asset retirement obligations, end of period | <u>\$ 2,703,585</u>  | <u>\$ 2,657,479</u>                     |

Note 13: Loans and borrowings:

At June 30, 2011 the Company had a \$1.5 million term loan from a private group with only \$1.0 million drawn on it (December 2010 \$2.0 million). The term loan bears a fixed interest rate of 9%.

Note 14: Adoption of International Financial Reporting Standards:

The accounting policies in Note 3 have been applied in preparing the interim financial statements for the three and six months ended June 30, 2011 and the comparative information for the three and six months ended June 30 2010. In preparing the condensed interim financial statements for the three and six months ended June 30, 2011 the comparative information for the three and six

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**NOTES TO INTERIM FINANCIAL STATEMENTS**  
Three and six months ended June 30, 2011 and 2010 (unaudited)

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Note 14: Adoption of International Financial Reporting Standards  
(continued):

months ended June 30, 2010 have been adjusted from the amounts previously reported in the financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables.

# STEALTH VENTURES LTD.

## NOTES TO INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2011 and 2010 (unaudited)

### Reconciliation of shareholders' equity from Canadian GAAP to IFRS as at June 30, 2010

| <b>Assets</b>                                       | <i>Note</i>    | <i>Canadian<br/>GAAP</i> | <i>Impairment</i> | <i>Exploration &amp;<br/>evaluation<br/>assets</i> | <i>Decommissioning<br/>liabilities</i> | <i>Depletion</i> | <i>Flow<br/>through<br/>shares</i> | <i>IFRS</i>   |
|---|----------------|--------------------------|-------------------|--|--|------------------|------------------------------------|---------------|
| <b>Current Assets</b>                               |                |                          |                   |  |  |                  |                                    |               |
| <i>Cash and cash equivalents</i>                    |                | \$ 878,889               | \$ -              | \$ -   | \$ -                                   | \$ -             | \$ -                               | \$ 878,889    |
| <i>Accounts receivable</i>                          |                | 707,838                  | -                 | -  | -                                      | -                | -                                  | 707,838       |
| <i>Prepaid expenses</i>                             |                | 376,797                  | -                 | -  | -                                      | -                | -                                  | 376,797       |
|   |                | 1,963,524                | -                 | -  | -                                      | -                | -                                  | 1,963,524     |
| <i>Computer and office equipment</i>                |                | 199,726                  | -                 | -  | -                                      | -                | -                                  | 199,726       |
| <i>Petroleum and natural gas<br/>properties</i>     | <i>a,b,c,d</i> | 18,818,365               | (8,789,130)       | (750,000)  | -                                      | 576,074          | -                                  | 9,855,309     |
| <i>Exploration and evaluation assets</i>            | <i>b</i>       | -                        | -                 | 750,000  | -                                      | -                | -                                  | 750,000       |
|   |                | 20,981,615               | (8,789,130)       | -  | -                                      | 576,074          | -                                  | 12,768,559    |
| <b>Liabilities</b>                                  |                |                          |                   |  |  |                  |                                    |               |
| <b>Current liabilities</b>                          |                |                          |                   |  |  |                  |                                    |               |
| <i>Accounts payable and accrued<br/>liabilities</i> |                | 2,054,284                | -                 | -  | -                                      | -                | -                                  | 2,054,284     |
| <i>Bank loan payable</i>                            |                | 1,951,115                | -                 | -  | -                                      | -                | -                                  | 1,951,115     |
|   |                | 4,005,399                | -                 | -  | -                                      | -                | -                                  | 4,005,399     |
| <i>Decommissioning liability</i>                    | <i>e</i>       | 1,876,329                | -                 | -  | 815,600                                | -                | -                                  | 2,691,929     |
| <b>Shareholders' equity</b>                         |                |                          |                   |  |  |                  |                                    |               |
| <i>Share capital</i>                                |                | 64,994,373               | -                 | -  | -                                      | -                | 1,067,647                          | 66,062,020    |
| <i>Purchase warrants</i>                            |                | 9,202,031                | -                 | -  | -                                      | -                | -                                  | 9,202,031     |
| <i>Contributed surplus</i>                          |                | 8,725,946                | -                 | -  | -                                      | -                | -                                  | 8,725,946     |
| <i>Deficit</i>                                      |                | (67,822,463)             | (8,789,130)       | -  | (815,600)                              | 576,074          | (1,067,647)                        | (77,918,766)  |
|   |                | 15,099,887               | (8,789,130)       | -  | (815,600)                              | 576,074          | -                                  | 6,071,231     |
|   |                | \$ 20,981,615            | \$ (8,789,130)    | \$ -   | \$ -                                   | \$ 576,074       | \$ -                               | \$ 12,768,559 |

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**NOTES TO INTERIM FINANCIAL STATEMENTS**  
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**Reconciliation of total comprehensive income for the three months ended June 30, 2010**

|   | <i>Note</i> | <i>Canadian GAAP</i> | <i>Impairment</i> | <i>Decommissioning liabilities</i> | <i>Depletion</i> | <i>IFRS</i>      |
|---|-------------|----------------------|-------------------|------------------------------------|------------------|------------------|
| <b>Revenue</b>                              |             |                      |                   |                                    |                  |                  |
| <i>Petroleum and natural gas sales</i>      |             | \$ 684,450           | \$ -              | \$ -                               | \$ -             | \$ 684,450       |
| <i>Royalties</i>                            |             | 86,124               | -                 | -                                  | -                | 86,124           |
|   |             | <u>770,574</u>       | <u>-</u>          | <u>-</u>                           | <u>-</u>         | <u>770,574</u>   |
| <b>Expenses</b>                             |             |                      |                   |                                    |                  |                  |
| <i>Oil and gas operating</i>                |             | 604,820              | -                 | -                                  | -                | 604,820          |
| <i>Depletion and depreciation</i>           | <i>c</i>    | 679,020              | -                 | -                                  | (338,392)        | 340,628          |
| <i>General and administration</i>           |             | 407,718              | -                 | -                                  | -                | 407,718          |
| <i>Impairment of oil and gas properties</i> | <i>d</i>    | -                    | 85,981            | -                                  | -                | 85,981           |
|   |             | <u>1,691,558</u>     | <u>85,981</u>     | <u>-</u>                           | <u>(338,392)</u> | <u>1,439,147</u> |
| <i>Net loss from operating activities</i>   |             | (920,984)            | (85,981)          | -                                  | 338,392          | (668,573)        |
| <i>Financing income</i>                     |             | (9)                  | -                 | -                                  | -                | (9)              |
| <i>Financing expense</i>                    |             | 60,327               | -                 | (3,785)                            | -                | 53,542           |
| <i>Net finance costs</i>                    |             | 60,318               | -                 | (3,785)                            | -                | 56,533           |
| <i>Net loss and comprehensive loss</i>      |             | \$ (981,302)         | \$ (85,981)       | \$ 3,785                           | \$ 338,392       | \$ (725,106)     |

# STEALTH VENTURES LTD.

## NOTES TO INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2011 and 2010 (unaudited)

### Reconciliation of total comprehensive income for the six months ended June 30, 2010

|                                      | Note | Canadian GAAP  | Impairment     | Decommissioning liabilities | Depletion  | IFRS           |
|--------------------------------------|------|----------------|----------------|-----------------------------|------------|----------------|
| <b>Revenue</b>                       |      |                |                |                             |            |                |
| Petroleum and natural gas sales      |      | \$ 1,461,550   | \$ -           | \$ -                        | \$ -       | \$ 1,461,550   |
| Royalties                            |      | 23,704         | -              | -                           | -          | 23,704         |
|                                      |      | 1,485,254      | -              | -                           | -          | 1,485,254      |
| <b>Expenses</b>                      |      |                |                |                             |            |                |
| Oil and gas operating                |      | 928,033        | -              | -                           | -          | 928,033        |
| Depletion and depreciation           | c    | 1,317,428      | -              | -                           | (576,074)  | 741,354        |
| General and administration           |      | 750,965        | -              | -                           | -          | 750,965        |
| Impairment of oil and gas properties | D    | -              | 4,372,130      | -                           | -          | 4,372,130      |
|                                      |      | 2,996,426      | 4,372,130      | -                           | (576,074)  | 6,792,482      |
| Net loss from operating activities   |      | (1,511,172)    | (4,372,130)    | -                           | 576,074    | (5,307,228)    |
| Financing income                     |      | (498)          | -              | -                           | -          | (498)          |
| Financing expense                    |      | 117,665        | -              | (8,124)                     | -          | 109,531        |
| Net finance costs                    |      | 117,157        | -              | (8,124)                     | -          | 109,033        |
| Net loss and comprehensive loss      |      | \$ (1,628,329) | \$ (4,372,130) | \$ 8,124                    | \$ 576,074 | \$ (5,416,261) |

**STEALTH VENTURES LTD.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
 Three and six months ended June 30, 2011 and 2010 (unaudited)

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Note 14: Adoption of International Financial Reporting Standards (continued):

**Notes to reconciliation:**

- a) Property Plant and Equipment ("PP&E") – The Company's PP&E assets were allocated to its CGU's unlike under Canadian GAAP where all oil and natural gas assets are accumulated into one cost centre. The deemed cost of the Company's oil and natural gas assets were allocated to its defined CGU's based on the Company's total proved plus probable reserve values as at January 1, 2010, in accordance with IFRS 1. These CGU's were aligned with the major regions in which the Company operates and could change in the future as a result of a significant acquisition or disposition activity. With all of the Company's assets that are associated with proved and probable located in the Wildemere area of Alberta all of the reserves are located within the Wildmere CGU, resulting in no change in the transition from Canadian GAAP to IFRS.
- b) Exploration and Evaluation ("E&E") expenditures – Upon transition to IFRS, the Company reclassified all E&E expenditures that were included in the PP&E balance on the statement of financial position. The only E&E expenditures that the Company holds are the assets in the Cumberland CGU, the assets in Nova Scotia. E&E assets will not be depleted and will be assessed for impairment when indicators of impairment exist. At June 30, 2010 and June 30, 2011 the only assets in E&E are the assets in the Cumberland CGU located in Nova Scotia.
- c) Depletion expense – The Company has chosen to calculate its depletion using a reserve base of total proved plus probable reserves as compared to using only proved reserves under Canadian GAAP. As a result, the depletion expense decreased as compared to its current calculation under Canadian GAAP.

|                       | <b>Three months<br/>ended June 30<br/>2010</b> | <b>Six months<br/>ended June 30<br/>2010</b> |
|-----------------------|--|--|
| Decrease in depletion | \$ (389,392)                                   | \$ (576,074)                                 |
| Decrease deficit      | \$ 389,392                                     | \$ 576,074                                   |

**STEALTH VENTURES LTD.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
Three and six months ended June 30, 2011 and 2010 (unaudited)

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Note 14: Adoption of International Financial Reporting Standards  
(continued):

- d) Impairment of PP&E assets – Under IFRS, an impairment test of PP&E is performed at the CGU level as opposed to the entire PP&E balance, which was required under Canadian GAAP through the full cost ceiling test. Under IFRS the Company used a discount rate of 10% rather than the 5% used under Canadian GAAP.
- e) Decommissioning liabilities – Under IFRS the Company re-measured its liabilities for asset retirement obligations using the risk free rate of interest. IFRS requires that asset retirement obligations be re-measured each reporting period for changes in the discount rate with a corresponding adjustment to the cost of property, plant and equipment. At June 30, 2010 the Company's total decommissioning liabilities increased by \$815,600 to \$2,639,073 as the liability was revalued to reflect the estimated risk free rate of 4.08% as compared to the credit adjusted risk free rate of 8% used previously under GAAP. At December 31, 2010 the Company changed the risk free rate to 3.51% based on the long term bond rate.

|   | <b>As at June 30, 2010</b> |           |
|---|----------------------------|-----------|
| Increase in decommissioning liabilities | \$                         | 815,600   |
| Increase deficit                        | \$                         | (815,600) |

- f) Flow Through Shares. Under Canadian GAAP, the Company recorded the deferred tax impact on renouncement of flow through shares against share capital. Under IFRS, the Company is required to record a premium liability when the flow through shares are issued, which is relieved upon the Company incurring qualifying expenditures, with the difference going to deferred tax expense. As a result of this change in the treatment of deferred taxes, at transition, the Company recorded an additional \$1,067,647 to share capital with a corresponding reduction in retained earnings.
- g) Adjustments to the Company's cash flows under IFRS – the reconciling discussed above between Canadian GAAP and IFRS policies have no material impact on the cash flows generated by the Company or the presentation of total operating, financing or investing cash flows.

STEALTH VENTURES LTD.  
NOTES TO INTERIM FINANCIAL STATEMENTS  
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Note 15: Subsequent event:

Subsequent to the end of the quarter the Company announced a convertible debenture offering of a minimum of 250 and a maximum of 500 of \$10,000 principal amount debentures (the "Debentures") for total gross proceeds of a minimum \$2,500,000 and a maximum \$5,000,000. The Debentures will bear interest at the rate of ten per cent (10%) per annum. The Debentures will have a term of 24 months. The Debentures will be convertible at the holder's option into units of the Corporation ("Units") at any time prior to the maturity date at a conversion price of \$0.12 per Unit. Each Unit will comprise one Common Share and one warrant ("Warrant"). Each Warrant will entitle the holder to acquire one Common Share at a price of \$0.15 for a period of two years from the original issuance date of the Debentures. The Corporation may force conversion of the Debentures into Units of the Corporation if the common shares trade, on a 21 day volume weighted average basis, at or above \$0.20 per Common Share. The Corporation will have the right to repay the Debentures at the end of the first year or in advance of this date in exchange for payment of interest through the first twelve months.