

Financial Statements of

STEALTH VENTURES LTD.

Years ended December 31, 2010 and 2009

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, 2010.

(signed) "Subra Subramaniam"
Subra Subramaniam, Chief Executive
Officer

(signed) "Roger Harman"
Roger Harman, Chief Financial Officer

April 29, 2011



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Stealth Ventures Ltd.

We have audited the accompanying financial statements of Stealth Ventures Ltd. (the "Company"), which comprise the balance sheets as at December 31, 2010 and 2009, the statements of operations, comprehensive loss and deficit, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes that the Company incurred a net loss of \$14.1 million during the year ended December 31, 2010 and, as of that date, the Company had a working capital deficiency of \$2.5 million. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 20, 2011

Stealth Ventures Ltd.

Balance Sheets

Assets	December 31, 2010	December 31, 2009
Current Assets		
Cash and cash equivalents	\$ 315,816	\$ 295,558
Accounts receivable	235,912	517,564
Prepaid expenses	252,244	538,402
	803,972	1,351,524
Computer and office equipment (Note 5)	129,226	222,416
Petroleum and natural gas properties (Note 5)	7,599,200	19,708,005
	\$ 8,532,398	\$ 21,281,945
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,262,159	\$ 578,254
Term loan (Note 6)	2,000,000	-
Bank loan payable (Note 6)	-	3,195,725
	3,262,159	3,773,979
Asset retirement obligations (Note 7)	1,645,080	1,815,349
Shareholders' equity		
Share capital (Note 8b)	66,892,154	64,994,373
Purchase warrants (Note 8b)	7,227,893	9,202,031
Share subscription receivable (Note 8b)	(2,480,852)	(1,035,599)
Contributed surplus (Note 8c)	12,235,626	8,725,946
Deficit	(80,249,662)	(66,194,134)
	3,625,159	15,692,617
	\$ 8,532,398	\$ 21,281,945

See accompanying notes to the financial statements

Future operations [Note 1]

Commitments [Note 12]

Subsequent Event [Note 13]

Approved by the Board

[signed] "Subra Subramaniam"

Subra Subramaniam

Director

[signed] "Rudy Cech"

Rudy Cech

Director

Stealth Ventures Ltd.

Statements of Operations, Comprehensive Loss and Deficit

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue		
Petroleum and natural gas sales	\$ 2,688,655	\$ 3,511,075
Royalties	(31,201)	(178,894)
Interest and other income	1,702	27,959
	2,659,156	3,360,140
Expenses		
Oil and gas operating	1,760,283	1,599,065
Depletion, depreciation and accretion	2,787,508	4,153,010
General and administration	2,393,172	2,361,621
Interest expense	142,380	147,326
Stock based compensation (Note 8c)	-	817,691
Write down of property and equipment (Note 5)	9,631,341	33,061,168
	16,714,684	42,139,881
Gain on investments (Note 4)	-	75,500
Net loss and comprehensive loss	(14,055,528)	(38,704,241)
Deficit, beginning of year	(66,194,134)	(27,489,893)
Deficit, end of year	\$ (80,249,662)	\$ (66,194,134)
Loss per share – basic and diluted	\$ (0.11)	\$ (0.42)
Weighted average shares outstanding	129,530,215	91,408,235

See accompanying notes to the financial statements

Stealth Ventures Ltd.

Statements of Cash Flows

	Year ended December 31, 2010	Year ended December 31, 2009
Cash provided by (used in):		
Operating activities		
Net loss	\$ (14,055,528)	\$ (38,704,241)
<i>Items not involving cash</i>		
Depletion, depreciation and accretion	2,787,508	4,153,010
Stock based compensation	-	817,691
Gain on investment	-	(75,500)
Write down of property and equipment	9,631,341	33,061,168
	(1,636,679)	(747,872)
Change in non cash working capital related to operations	1,251,715	(5,922,241)
	(384,964)	(6,670,113)
Financing activities		
Issue of shares	425,528	647,234
Warrants issued with shares	1,535,542	713,351
Repayment of bank debt	(3,195,725)	3,195,725
Increase in term loan	2,000,000	-
	792,345	4,556,310
Investing activities		
Exploration and development expenditures	(394,653)	(1,192,824)
Furniture and fixtures	7,530	-
Property sale	-	600,000
Sale of marketable securities	-	868,500
Vehicle sale	-	15,929
Change in non cash working capital	-	1,572,812
	(387,123)	1,864,417
Increase in cash	20,258	(249,386)
Cash and cash equivalents, beginning of year	295,558	544,944
Cash and cash equivalents, end of year	\$ 315,816	\$ 295,558

See accompanying notes to the financial statement

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

(Tabular amounts in thousands except per share amounts)

Note 1: Future Operations

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 financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

For the year ended December 31, 2010, the Company reported a net loss of \$14,055,528 and a working capital deficiency of \$2,458,187. 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 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. 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: Significant Accounting Policies

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

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, 2010 and 2009

Note 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, 2010 and 2009

Note 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 and only if collection is reasonably assured.

(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

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

Note 2: Significant Accounting Policies (continued)

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.

(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 as held for trading which are measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities, term loan and bank loan payable are classified as other liabilities which are measured at amortized cost, which is determined using the effective interest method. Investments in private company are classified as available for sale which are measured at cost.

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.

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

Note 2: Significant Accounting Policies (continued)

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

Note 3: Changes in and Future Accounting Policies

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year.

Note 4: Investments

During the year ended December 31, 2009 the Company sold 4,766,000 shares of a publicly traded company at an average price of \$0.064 per share for proceeds of \$305,300 resulting in a gain of \$43,170. The Company also sold 8,234,000 shares of the publicly traded company at an average price of \$0.049 per share for proceeds of \$399,777 resulting in a loss of \$39,670. The Company currently holds no shares in this company.

During 2008 the Company acquired 6 million shares of a foreign unlisted private company. During the year ended December 31, 2009, the Company sold its entire investment for \$150,000 and recognized a gain of \$72,000 from the sale.

Note 5: Property and Equipment

December 31, 2010	Cost	Accumulated depletion and amortization	Net book value
Computer and office equipment	\$ 399,429	270,203	\$ 129,226
Petroleum and natural gas properties	71,012,093	63,412,893	7,599,200
	<u>\$ 71,411,522</u>	<u>63,683,096</u>	<u>\$ 7,728,426</u>
December 31, 2009			
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>

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

Note 5: Property and Equipment (continued)

At December 31, 2010, petroleum and natural gas properties included \$750,000 (December 31, 2009 - \$750,000) relating to unproved properties which have been excluded from the depletion calculation, and future development costs of \$5,017,300 (2009 - \$11,004,000) were included in the depletion calculation. No general and administrative costs were capitalized during the year ended December 31, 2010 or 2009.

For purposes of ceiling test calculations, the following forecast gas prices have been used in estimating future cash flows from proved and probable reserves as at December 31, 2010:

	Alberta AECO Spot Price \$CAD / MMBtu
2011	4.25
2012	4.90
2013	5.40
2014	5.90
2015	6.35
2016	6.75
2017	7.10
2018	7.40
2019	7.60
2020	7.75
2021	7.85
2022	8.05
2023	8.20
2024	8.40
2025	8.50
Escalates at 2% per year thereafter	

Impairment was recognized on the full cost pool at December 31, 2010 of \$9.6 million (December 31, 2009 \$33.1 million). This impairment was realized mainly due to the lower pricing. In 2009, the Company sold its interest in the Stellarton property for one million shares in a private company called East Coast Energy. As of December 31, 2010 and 2009, the carrying value of the investment was nil.

Note 6: Term Loan and Bank Loan

During the year the Company's bank review was completed. The result was a reduction in the operating facility from \$4.0 million to \$2.5 million and subsequent to that the Company secured a term loan arrangement from a private group in the amount of \$2.0 million and settled, in full, all outstanding amounts with the bank. This term loan arrangement is six month renewable increments and pays a flat 10% interest per annum. The term loan arrangement is secured by a first, fixed and specific mortgage and charge over all land, oil and gas properties and petroleum substances of the Company.

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

Note 7: Asset Retirement Obligation

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites and gathering systems. The Company estimates the total undiscounted amount of cash flows required to settle its retirement obligations is approximately \$2,960,650 as at December 31, 2010 (2009 - \$2,951,750), which will be incurred between 2016 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.

Asset retirement obligations	Year ended December 31, 2010	Year ended December 31, 2009
Beginning of year	\$ 1,815,349	\$ 1,924,456
Change in estimate	(292,127)	-
Liabilities disposed	-	(231,067)
Accretion expense	121,858	121,960
Asset retirement obligations, end of year	<u>\$ 1,645,080</u>	<u>\$ 1,815,349</u>

Note 8: Share Capital

a) Authorized:

Unlimited number of common shares with no nominal or par value

b) Shares and warrants:

	Number	Amount
Voting common shares issued:		
Balance, December 31, 2008	90,128,043	\$ 63,311,540
Private placement, \$0.07 per unit (i)	35,658,643	1,782,753
Share issue costs	-	(99,920)
Balance, December 31, 2009	<u>125,786,686</u>	<u>64,994,373</u>
Private placement \$0.10 per unit (ii)	6,716,000	511,536
Private placement \$0.10 per unit (ii)	3,500,000	271,242
Private placement \$0.10 per unit (iii)	25,000,000	1,203,280
Share issue costs		(88,277)
Balance December 31, 2010	<u>161,002,686</u>	<u>\$ 66,892,154</u>

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

Note 8: Share Capital (continued)

Purchase warrants issued:		
Balance, December 31, 2008	24,082,096	8,488,680
Private placement (i)	17,829,322	713,351
Balance December 31, 2009	<u>41,911,418</u>	<u>9,202,031</u>
Expired	(7,436,800)	(2,868,180)
Expired	(1,781,818)	(641,500)
Private placement (ii)	3,358,000	160,064
Private placement (ii)	1,750,000	78,758
Private placement (iii)	12,500,000	1,296,720
Warrant equity December 31, 2010	<u>50,300,800</u>	<u>7,227,893</u>
Share capital, December 31, 2010		<u>\$ 74,120,047</u>

As at December 31, 2010, purchase warrants outstanding are:

Exercise Price	Expiry Date	Fair Value	Number of Warrants	Amount
\$0.85	May 30, 2011	\$ 0.335	14,863,478	\$ 4,979,000
\$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
		<u>\$ 0.144</u>	<u>50,300,800</u>	<u>\$ 7,222,893</u>

(i) In December 2009, the Company closed a non-brokered private placement, consisting of the sale of 35,658,643 units at a price of \$0.07 per unit to raise gross proceeds of \$2,496,104. Each unit consisted of one (1) common share and one-half (1/2) of a non-transferable share purchase warrant, with each whole warrant entitling 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.

(ii) 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 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

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

Note 8: Share Capital (continued)

entitling the holder to purchase one additional common share at a price of \$0.25 until October 26, 2012. (iii) 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. All of the securities issued in connection with this

placement are subject to a hold period in Canada until April 24, 2011. Cash from the private placement that closed December 24, 2010 was received in January 2011 and therefore a share subscription receivable was recorded in the amount of \$2,480,852 representing the net amount to be received.

c) Contributed Surplus

	Contributed Surplus
Balance December 31, 2008	\$ 7,908,255
Stock Based compensation	817,691
Balance December 31, 2009	8,725,946
Expiry of warrants	3,509,680
Balance December 31, 2010	\$ 12,235,626

d) Stock options:

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

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2010 and 2009

Note 8: Share Capital (continued)

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). There were no options issued in 2010.

	Number of options	Weighted average exercise price
Balance December 31, 2008	5,229,000	\$ 0.52
Cancelled	(390,000)	0.59
Expired	(543,000)	0.42
Balance December 31, 2009	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

The following table summarizes information about the stock options outstanding at December 31, 2010:

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
\$ 0.25	1,346,000	2.93	\$ 0.25	1,346,000	\$ 0.25
0.98	550,000	2.42	0.98	550,000	0.98
\$ 0.25-0.98	1,896,000	2.79	\$ 0.45	1,896,000	\$ 0.46

Note 9: Income Taxes

a) Summary of temporary differences giving rise to future income tax liability:

	December 31, 2010	December 31, 2009
Future tax liabilities (assets)		
Oil and gas assets in excess of tax balances	\$ (14,745,760)	\$ (11,599,050)
Share issue costs	(392,239)	(682,830)
Asset retirement obligation	(411,270)	(453,837)
Non capital losses	(2,878,504)	(2,199,338)
Capital losses	(310,432)	(309,497)
Valuation allowance	18,738,205	15,244,552
Net future income tax liabilities (assets)	\$ -	\$ -

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Note 9: Income Taxes (continued)

- b) Reconciliation of income taxes calculated at the Canadian statutory rate of 28% with actual income taxes:

	Year ended December 31, 2010	Year ended December 31, 2009
Loss before income taxes	\$ (14,055,528)	\$ (38,704,241)
Combined federal and provincial income tax rate	28%	29%
Computed income tax recovery	\$ (3,935,548)	\$ (11,219,792)
Decrease in recovery resulting from:		
Stock based compensation	-	237,130
Other non-deductible expenses	3,330	(10,948)
Expired non capital losses	25,437	-
Tax rate adjustments	421,309	1,515,627
Change in valuation allowance	3,471,584	9,459,663
Other adjustments	13,888	18,320
Future income tax recovery	\$ -	\$ -

The Company currently has tax pools of \$66,711,465 and non capital losses of \$11,514,017 expiring from 2011 to 2030 and net capital losses of \$1,241,726.

Note 10: Financial Instruments and Risk Management

- (a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion 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 \$3,999 over 90 days and \$231,913 less than 90 days. \$220,255 in the less than 90 days category is from the Company's gas purchaser. 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:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The Company is subject to commodity price risk on the sale of natural gas. The Company may enter into fixed price physical sales contracts with well established counterparties, to protect a portion of its future earnings and cash flows from operations from the volatility of natural gas prices. At December 31, 2010 the Company had no outstanding future contracts in place.

STEALTH VENTURES LTD.
NOTES TO FINANCIAL STATEMENTS
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Note 10: Financial Instruments and Risk Management (continued)

(c) Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. 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. The Company had no outstanding forward rate contracts in place at December 31, 2010.

(d) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's debt that has a floating interest rate. At December 31, 2010 interest rate on the Company's term loan is fixed at 10%. The Company had no interest rate swaps or hedges at December 31, 2010.

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company actively manages its liquidity through daily and longer-term cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through its bank or other credit facilities, estimating future cash generated from operations based on reasonable production and pricing assumptions, analysis of economic risk management opportunities, and maintaining sufficient cash flows for compliance with debt covenants if they are applicable. The Company is fully compliant with all of its operating debt covenants.

The Company relies on operating cash flows, credit facilities and periodic share issues to fund capital requirements and provide liquidity. Future liquidity depends primarily on cash flow generated from operations, existing credit facilities and the ability to access debt and equity markets. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs. While The Company completed equity offerings in 2010 and secured private financing, there can be no assurance that future debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to The Company.

(f) Fair value of financial instruments:

The Company's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, term loan and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities.

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Note 11: Capital Management

The capital structure of the Company is as follows:

	December 31, 2010	Change %	December 31, 2009
Total shareholders' equity	\$ 3,625,159	(76.9)	\$ 15,692,617
Total shareholders' equity as a % of total capital	64%		83%
Short and long term debt	2,000,000	(37.4)	3,195,725
Total debt as a % of total capital	36%		17%
Total capital	<u>\$ 5,625,159</u>		<u>\$ 18,888,342</u>

Stealth's primary capital management objective is to maintain a strong balance 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 Company paid off the entire bank line and arranged private financing to cover part of the repayment. Overall credit was reduced from \$3,195,725 at December 31, 2009 to \$2,000,000 at December 31, 2010. During 2010, gross proceeds of \$3,521,600 were raised in two non-brokered private placements. The Company does not have any capital leases or any off balance sheet arrangements. 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.

Note 12: Commitments

a) The Company has executed various farm-in and permit agreements. These agreements require Stealth to incur total expenditures of \$3.0 million which is for the Cumberland Basin Production Permit for fiscal 2011; however, the asset with a carrying value of \$750,000 may be surrendered as an alternative to meeting the obligation. Nova Scotia commitments in future years increase with commercial development projections, but in each case the requirements are reviewed yearly.

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Note 12: Commitments (continued)

b) Office lease agreement:

The Company has entered into an agreement to lease office space until November 30, 2011. The future minimum lease payment is expected to be \$62,500 in 2011.

Note 13: Subsequent event

Subsequent to the end of the year the Company granted 2,350,000 stock options to directors and officers of the Company.

Subsequent to the end of the year the Company entered into a firm Letter of Intent for the acquisition of a working interest in certain producing oil and gas fields in SE Asia. The acquisition is subject to various approvals and consents, including regulatory approvals.