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**STEALTH ENERGY INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED – PREPARED BY MANAGEMENT)

May 31, 2010

The accompanying unaudited interim consolidated financial statements for the three months ended May 31, 2010 have been prepared by management and approved by the Board of Directors of the Corporation. These financial statements have not been reviewed by the Corporation's auditors.

**STEALTH ENERGY INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(PREPARED BY MANAGEMENT)

	<b>May 31, 2010</b>	<b>February 28, 2010</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,253,057	\$ 24,605
Receivables (note 5)	38,589	9,087
Prepaid expenses and deposits	165,838	26,290
	<u>2,457,484</u>	<u>59,982</u>
<b>Oil and Gas Properties (Note 6)</b>	10,618,479	10,323,541
<b>Conservation Bond (Note 8)</b>	<u>60,711</u>	<u>36,795</u>
	\$ 13,136,674	\$ 10,420,318
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	438,765	275,967
Short term loans	-	503,968
Due to related parties (Note 10)	16,844	110,684
Share subscription advances (Note 9h)	-	321,112
	<u>455,609</u>	<u>1,211,731</u>
<b>Asset Retirement Obligations (Note 7)</b>	<u>65,041</u>	<u>63,084</u>
<b>Total Liabilities</b>	520,650	1,274,815
<b>Shareholders' Equity</b>		
Share capital (Note 9)	14,554,086	9,612,056
Contributed surplus (Note 9g)	1,265,360	2,224,190
Deficit	<u>(3,203,422)</u>	<u>(2,690,743)</u>
	12,616,024	9,145,503
	\$ 13,136,674	\$ 10,420,318

**Nature of Operations** (Note 1)

**Commitments** (Note 12)

**On behalf of the Board**

*Director*

"Robert Gardner"

Robert Gardner

*Director*

"John Campbell"

John Campbell

The accompanying notes are an integral part of these consolidated financial statements.

<b>STEALTH ENERGY INC.</b>			
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT FOR THE PERIODS			
(UNAUDITED - PREPARED BY MANAGEMENT)			
		<b>Three</b>	<b>Three</b>
		<b>Months Ended</b>	<b>Months Ended</b>
		<b>May 31,</b>	<b>May 31,</b>
		<b>2010</b>	<b>2009</b>
<b>Revenues</b>			
Petroleum and natural gas sales	\$	44,070	\$ 93,653
<b>Cost of revenues</b>			
Depletion and accretion expenses		(3,357)	(4,617)
Lease taxes recovery (expenses)		(10,154)	(9,530)
		(13,511)	(14,147)
<b>Expenses</b>			
Accounting and legal	\$	4,946	\$ 14,407
Consulting fees		262,635	77,689
Depreciation expenses		12,574	
Office and general		158,022	39,452
Stock based compensation		72,600	-
Travel expense		21,252	4,538
Transfer agent fees and filing fees		8,578	4,278
		(540,607)	(140,364)
<b>Other income (loss)</b>			
Gain (loss) on foreign exchange		(2,768)	25,540
Interest income		137	162
		(2,631)	25,702
Income (loss) before income taxes		(512,679)	(35,156)
Current income tax recovery		-	-
<b>Net loss and comprehensive loss for the period</b>		(512,679)	(35,156)
<b>DEFICIT, BEGINNING OF THE PERIOD</b>		(2,690,743)	(2,212,531)
<b>DEFICIT, END OF THE PERIOD</b>	\$	(3,203,422)	\$ (2,247,687)
<b>Basic and diluted loss per share</b>		(0.01)	(0.00)
<b>Weighted average number of common shares</b>		47,383,618	31,643,050
The accompanying notes are an integral part of these consolidated financial statements.			

**STEALTH ENERGY INC.****INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS  
(UNAUDITED-PREPARED BY MANAGEMENT)**

	<b>Three Months</b>	
	<b>Ended May 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM (USED IN) OPERATING</b>		
Net loss for the period	\$ (440,078)	\$ (35,155)
Adjustment for item not involving cash:		
Depletion and depreciation expenses	13,975	2,597
Assets retirement obligation accretion	1,957	2,020
Stock based compensation	(72,600)	-
Foreign exchange loss	-	(29,260)
Changes in non-cash operating working capital:		
Decrease (increase) in receivables	(29,502)	(58,550)
Decrease (increase) in prepaid expenses and deposits	(139,548)	10,306
Increase(decrease) in accounts payable and accrued liabilities	153,157	(88,636)
Due to related parties	(93,840)	-
<b>Net cash flows from (used in) operating activities</b>	<b>(606,479)</b>	<b>(196,678)</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Short term investment	-	-
Conservation bond	(23,916)	-
Oil and gas properties	(308,912)	(130,418)
<b>Net cash flows (used in) investing activities</b>	<b>(332,828)</b>	<b>(130,418)</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Advance from related parties		12,151
Due to related parties	-	1,516
Short term loan	(620,329)	(130,600)
Shares issued for cash, net	3,240,000	882,600
Share subscription receivable	-	(12,000)
Share issued cost by cash	(181,900)	(11,000)
Share subscription advances	729,988	(434,900)
<b>Net cash flows from (used in) financing activities</b>	<b>3,167,759</b>	<b>307,767</b>
Effect of exchange rate changes on cash and cash equivalents		
<b>(Increase) in cash and cash equivalents</b>	<b>2,228,452</b>	<b>(19,329)</b>
Cash and cash equivalents, beginning of period	24,605	57,602
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,253,057</b>	<b>\$ 38,273</b>
<b>Supplemental disclosure with respect to cash flows:</b>		
<b>Interest paid in cash</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Income tax paid in cash</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these consolidated financial statements

## **1. NATURE OF OPERATIONS**

Stealth Energy Inc. (the “Company”) was incorporated on February 21, 2006 under the laws of British Columbia. The Company’s principal business activity is the acquisition of, exploration for and development of oil and gas properties. On May 17, 2006 the Company incorporated its subsidiary company, Stealth Energy USA, Inc.

The accompanying unaudited interim consolidated financial statements have been prepared on the basis of Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, and the ability of the Company to raise additional capital. Specifically, the recovery of the Company’s investment in resource properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop the properties and establish future profitable production from the properties, or from the proceeds of their disposition. The Company has incurred losses since its inception. As at May 31, 2010, the Company had a working capital of \$2,001,875 (February 28, 2010 – working capital deficiency of \$1,151,749), and has recorded a deficit of \$3,203,422 (February 28, 2010 - \$2,690,743).

These unaudited interim consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations or to continue to raise adequate financing.

## **2. CHANGES IN ACCOUNTING POLICIES**

In January 2006, the CICA’s Accounting Standards Board (“AcSB”) formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter 2011 filing, comparative financial statements in accordance with IFRS for the three months ended May 31, 2010.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company’s reported financial position and reported results of operations. During 2009, the Company will complete its changeover plan, identify specific Canadian GAAP and IFRS differences, and select ongoing IFRS policies. The Company will also monitor standards development as issued by the IASB and the AcSB as well as regulatory developments by the Canadian Securities Administrators (CSA), which may affect the timing, nature, or disclosure of the adoption of IFRS.

## **2. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition of, exploration for and development of oil and gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business.

Although the Company has oil production during the period ended May 31, 2010 and generated revenue and cash flows, the Company is still dependent on external financing to fund its future business plan until it achieves a profitable level of operations. The Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to explore its existing properties and will also look into new properties if it has adequate financial resources.

### **3. CAPITAL MANAGEMENT (Cont'd...)**

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended May 31, 2010. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

### **4. FINANCIAL INSTRUMENTS**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents, receivables, conservation bond, bank indebtedness, accounts payable and accrued liabilities and due to related parties.

The Company has classified its cash and cash equivalents, conservation bond and bank indebtedness as held for trading, which are measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

As at May 31, 2010, the carrying and fair value amounts of the Company's financial instruments related to cash and cash equivalents, receivable, conservation bond, bank indebtedness, accounts payable and accrued liabilities and due to related parties are the same due to their short terms to maturity.

The Company's risk management activities include the preservation of its capital by minimizing risk related to its cash and cash equivalents and bank indebtedness. The Company does not trade financial instruments for speculative purposes. The Company does not have a risk management committee or written risk management policies. The Company's financial instruments are exposed to the risks described below:

#### *(a) Credit risk*

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. The Company has no significant concentration of credit risk arising from operations. Receivables consist of accounts receivable and goods and services tax due from the Federal Government of Canada and interest receivable. Management believes that the credit risk concentration with respect to accounts receivable and other receivables is remote. Management does not believe the receivables are impaired.

#### *(b) 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 has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. The Company ensures that there is sufficient working capital to fund planned exploration work and ongoing operating expenditures. As at May 31, 2010, the Company had a working capital of \$2,001,875 (February 28, 2010 - working capital deficiency of \$1,151,749).

#### *(a) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash and cash equivalent balances. The Company has no significant cash balances and no interest-bearing debt.

**STEALTH ENERGY INC.**  
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**4. FINANCIAL INSTRUMENTS (Cont'd...)**

*(d) Foreign currency exchange rate risk*

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates.

The Company's functional currency is the Canadian dollars and major transactions are transacted in Canadian dollars and US dollars. The Company maintains US dollar bank accounts to support the cash needs of its operations. Management believes the foreign exchange risk related to currency conversions are minimal and therefore does not hedge its foreign exchange risk. As at May 31, 2010, approximately \$60,760 of the cash and cash equivalents were held in US dollars.

*(e) Price risk*

The Company is exposed to risk of commodity prices (i.e. crude oil prices). Commodity price risk is defined as the potential adverse impact on the Company's earnings due to movements in commodity prices or general movements in the level of the commodity market. The Company monitors the movements of the commodity market to determine the appropriate course of action to be taken by the Company.

**5. RECEIVABLES**

Receivables consist of the followings:

	May 31, 2010	February 28, 2010
Accounts receivable	\$ 26,935	\$ 792
GST receivable	10,370	7,102
Interest receivable	1,284	1,193
<b>Total</b>	<b>\$ 38,589</b>	<b>\$ 9,087</b>

**6. OIL AND GAS PROPERTIES**

A summary of the Company's oil and gas properties is as follows:

May 31, 2010	Balance as at February 28, 2010	Additions	Accumulated depletion and depreciation	Balance as at May 31, 2010
<b>USA:</b>				
Oil and gas properties	\$ 10,323,541	\$ 310,823	\$ (15,885)	\$ 10,618,479

February 28, 2010	Balance as at February 29, 2009	Additions	Accumulated depletion and depreciation	Balance as at February 28, 2010
<b>USA:</b>				
Oil and gas properties	\$ 9,737,883	\$ 597,599	\$ (11,941)	\$ 10,323,541

As at May 31, 2010, \$1,680,437 (February 28, 2010 - \$1,580,007) of undeveloped land costs have been excluded from the depletion base. Future development costs of \$19,000,000 (2010 - \$19,000,000) were included in the calculation of depletion.

The Company currently has interests in oil and gas properties in Montana and Wyoming. The Company's oil and gas properties were disclosed in Note 6 to the audited consolidated financial statements as at February 28, 2010

**6. OIL AND GAS PROPERTIES (Cont'd...)**

The Company has performed a ceiling test calculation at May 31, 2010 to assess the recoverable value of the oil and gas properties. The commodity price used in the calculation was \$65 per barrel. Based on these assumptions the undiscounted value of the future net revenues from the Company's proved reserves exceeded the carrying value of the oil and gas properties.

(1) Proved properties

*a) Natrona County, East Teapot Property*

During the period ended February 28, 2009, the Company exercised its option to acquire the Properties by payment of USD\$6,500,000. Since the Company commenced production in East Teapot Dome in March 2008, as at May 31, 2010, it has generated total petroleum revenues of \$712,531 by selling and shipping to Shell Oil. The Company generated revenues from operations of \$44,070 during the first quarter ended May 31, 2010.

(2) Unproved properties

*a) Property, Wyoming, USA*

*West Shannon Property*

On May 17, 2006, the Company signed an arms-length acquisition agreement to acquire a 100% working interest, subject to royalties of 32% (68% net revenue interest), in 100 acres of oil and gas leases with five substantially shut-in wells and two drilling locations paid by the issuance of 1,000,000 treasury shares of the Company valued at \$0.10 per share for total consideration of \$100,000. As at May 31, 2010, these shares are subject to escrow restriction, 10% is releasable on the date of listing (released) and 15% every 6 months.

*b) Central Montana Leasing Property, USA*

*(i) BLM Leases, Stillwater and Wheatland Counties, Montana*

During fiscal 2007, the Company acquired five oil and gas leases from the U.S. Bureau of Land Management ("BLM") covering 3,014 acres for an aggregate cost of US\$11,203 (C\$13,009), which includes the first year lease payment of US\$4,521 (C\$5,250) and acquisition cost of US\$6,683 (C\$7,759). The term of each lease is ten years. The annual rental is US\$1.50 per acre for the first five years commencing July 1, 2007. Thereafter the annual rental is US\$2.00 per acre. The royalty rate is 12.5% of production removed or sold, provided that the minimum royalty is not less than the annual rental. During the fiscal year 2008, the Company paid the second year lease payment of US\$4,521 (C\$4,602). During the fiscal year 2009, the Company paid the third year lease rental of US\$4,523 (C\$4,601). During the fiscal year 2010, the Company paid the fourth year lease rental of US\$4,523 (C\$5,036). As at May 31, 2010, the Company had a payable of the fifth year lease rental of \$4,523 (C\$4,631). As of this filing date, the Company paid the amount in full.

**6. OIL AND GAS PROPERTIES (Cont'd...)**

*b) Central Montana Leasing Property, USA (cont'd...)*

(ii) Independent Leases, Yellowstone County, Montana

On May 11, 2010, the Company paid US\$2,259 (C\$2,313) to renew a portion of its independent leases in Yellowstone County, Montana.

On May 21, 2010, the Company entered into a Letter Of Intent to acquire 8,500 acres of oil leases in Montana (Trailblazer project and Winnett project) with Flint Energy LLC (“Flint”). On June 11, 2010, the Company formalized the agreements and on June 15, 2010 made first payment of US\$471,900 (C\$485,585) to Flint (\$219,000 for Trailblazer and \$252,900 for Winnett). Under the agreement the Company is obligated to drill 3 wells on the Trailblazer project (first well no later than September 1, 2010, second no later than November 1, 2010 and third no later than July 1, 2011). Second and final payment of US\$252,900 for Winnett is due on September 15, 2010. Second and final payment of US\$219,000 for Trailblazer is due within 30 days after third well reaches total depth.

(iii) Drilling agreements, Stillwater County, Montana

On March 19, 2009, the Company entered into a joint venture with Seven Oceans Ltd. (“Seven”) of Hong Kong to develop gas wells for production into the Company’s pipeline in Stillwater County, Montana. The overall commitment is to drill and develop 24 wells over a four year period. Pursuant to the agreement, Seven will pay for 100% of the drilling on a turnkey basis. After initial payback, Seven will participate in 50% of the net revenue with the Company. On May 1, 2009, the Company amended this contract and agreed to develop four natural gas wells on Stealth’s property in Montana at a cost of US\$200,000 per well. The Company will commence drilling the first two wells upon receipt of US\$400,000 in funds from Seven. As at May 31, 2010, the Company has received US\$245,000 of the above agreement.

(iv) Surface Use Agreement

On April 1, 2010, the Company signed a (5) five year Surface Use Agreement (“SUA”) with Staple Three Sheep Co., Inc. (“Owner”) in regards to the Company’s East Teapot project in Wyoming. A payment is due on April 1 of each year for purposes of conducting oil and gas operations. Payments are calculated on an agreed set schedule based on number of: wells, tank batteries, rods and other general charges based on cleanliness and reclamation. The Company made the payment of US\$28,348 in full for 2010.

On April 1, 2010, the Company signed a (5) five year Surface Use Agreement (“SUA”) with Meadow Creek, LLC (“Owner”) in regards to the Company’s East Teapot project in Wyoming. A payment is due on April 1 of each year for purposes of conducting oil and gas operations. Payments are calculated on an agreed set schedule based on number of: wells, tank batteries, rods and other general charges based on cleanliness and reclamation. The Company made the payment of US\$7,425 in full for 2010.

On 1 April 2010 the Company signed a (5) five year Surface Use Agreement (“SUA”) with Meadow Creek, LLC (“Owner”) in regards to the Company’s Antelope field in the East Teapot project in Wyoming. A payment is due on April 1 of each year for purposes of conducting oil and gas operations. Payments are calculated on an agreed set schedule based on number of: wells, tank batteries, rods and other general charges based on cleanliness and reclamation. As at May, 31, 2010, the Company paid US\$15,000 towards the total payment of US\$25,578 for 2010, leaving a balance owing of US\$10,578. As of this filing date, the Company made the payment in full for 2010.

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**7. ASSET RETIREMENT OBLIGATIONS**

The total future asset retirement obligations were estimated by management based on the Company’s net working interest in all wells and facilities, estimated costs to reclaim abandoned wells and facilities and the estimated timing of the costs to be incurred in future periods. By their nature, these estimates are always subject to measurement uncertainty because there could be significant effect on the financial statements. The total undiscounted amount of the estimated cash flows to settle the asset retirement obligation is approximately US\$224,000 which will be incurred over the next fifteen years. A credit adjusted risk-free rate of 15% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation as at May31, 2010.

Balance, beginning of period	\$	-
Obligation – initial measurement		49,688
Accretion expense		6,154
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Balance, period end of February 28, 2009	\$	55,842
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Accretion expense		7,242
Balance, period end of February 28, 2010	\$	63,084
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Accretion expense		1,957
Balance, period end of May 31, 2010	\$	65,041
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**8. CONSERVATION BOND**

Conservation bond (the “Bond”) represents a reclamation bond, which is required by the Board of Oil and Gas Conservation (the “Board”) in the Department of Natural Resources and Conservation of USA and United States Department of the Interior, Bureau of Land Management (the “BLM”). On May 19, 2008, the Company had deposited \$10,645 (US\$10,000) into the Stockman Bank of Montana and the Bond is subject to a written demand by the Board for delivery of the proceeds pursuant to the conditions of the Bond. This assignment to the Board remains in effect until revoked in writing by the Board. The Bond is interest bearing at annual yield of 2.65%. On June 10, 2008, the Company deposited a US\$25,000 cash bond with BLM. The bond constitutes coverage of all operations conducted by or on behalf of the Company, on Wyoming Federal oil and gas leases issued under the authority of Mineral Lands Leasing Act. Termination of the period of liability under this bond will be permitted only after this office is satisfied that there is no outstanding liability on the bond or until satisfactory replacement bond coverage is furnished. On May 4, 2010, the Company deposited a non interesting bearing US\$25,000 cash bond with State of Wyoming. As at May 31, 2010, the Company had conservation bonds of \$60,711 (US\$60,000) (February 28, 2010 - \$36,795 (US\$35,000)).

**9. SHARE CAPITAL**

a) **Authorized:** Unlimited common shares with no par value.

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**9. SHARE CAPITAL (Cont'd...)**

**b) Issued and Outstanding:**

	Number of Shares	Value
Balance, February 28, 2007	8,188,332	848,667
Shares issued at \$0.23 per share	2,200,000	506,000
Shares issued at \$0.25 per share	5,000,000	1,250,000
Shares issuance cost	-	(161,940)
Balance, February 29, 2008	15,388,332	2,442,727
Shares issued at \$0.50 per share	14,655,000	5,857,310
Shares issued at \$0.50 per share, agent's commission in kind	45,150	22,575
Shares issuance cost	-	(193,018)
Exercise of agent's options at \$0.23 per share	34,020	11,566
Balance, February 28, 2009	30,122,502	8,141,160
Shares issued at \$0.10 per share, net of measurement of warrants issued	15,000,000	1,425,000
Shares issued at \$0.10 per share, agent's commission in kind	10,500	1,050
Shares issuance cost	-	(12,050)
Expired of agent's options at \$0.23 per share	-	56,896
Balance, February 28, 2010	45,133,002	9,612,056
Expired warrants value from \$0.50 private placement	-	1,470,190
Warrants exercised at \$0.15 per share	50,000	7,500
Shares issued at \$0.20 per share, net of measurement of warrants	21,025,000	3,784,500
Shares issuance cost	-	(320,160)
Balance, May 31, 2010	66,208,002	14,554,086

During the year ended February 28, 2007, the Company initially issued 14,100,000 common shares at \$0.0001 per share, 1 common share at \$0.01, 1,575,000 common shares at \$0.10 per share and 596,667 common shares at \$0.15 per share for a total of 16,271,668 common shares for a total cash of \$248,310.

On February 28, 2007, the Company returned the 14,100,001 issued common shares back to treasury and issued in replacement 6,016,665 common shares. 4,516,665 common shares were issued at a price of \$0.025 per share, 350,000 common shares were issued at a price of \$0.05 per share and 1,150,000 common shares were issued at a price of \$0.10 per share. All of these shares are subject to escrow restriction and are deemed as if they have been issued at \$0.10 per share. As a result, these common shares were re-valued at \$0.10 per share and the Company recognized a stock based compensation of \$356,250.

**9. SHARE CAPITAL (Cont'd...)**

**b) Issuing and Outstanding (cont'd...)**

On February 25, 2008, the Company completed the offering of 5,000,000 units at a price of \$0.25 per unit, each unit consisting of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one common share at a price of \$0.30 per common share for a period of two years. The Company applied the residual approach which allocates the net proceeds to the common shares up to their fair value and the balance to the attached warrants. All of the proceeds from the above private placement have been allocated to the common shares and \$nil was allocated to share purchase warrants.

On March 12, 2008, the Company issued 34,020 common shares in connection with the exercise of options at \$0.23 per share for total proceeds of \$7,824.

On May 1, 2008, The Company completed a non brokered private placement consisting 14,655,000 units at a price of \$0.50 per unit for gross proceeds of \$7,327,500. Each unit is comprised of one common share and one non transferable two year warrant, which entitles the warrant holder to buy one common share at \$0.60 in the first year and \$0.75 in the second year. This private placement was subject to a maximum of 7% commission in whole or in part and in cash or in kind. The Company paid commissions on a portion of the funds raised which amounted to \$170,443 in cash, and \$22,575 in kind (45,150 same units). All of the securities issued pursuant to the private placement will be subject to a four-month hold period.

On April 24, 2009, the Company completed a non-brokered private placement consisting of 15,000,000 units at \$0.10 per unit, for gross proceeds of \$1,500,000. Of this amount, 8,826,000 units (\$882,600) were issued for cash, and 6,174,000 units (\$617,400) were issued in satisfaction of an account payable outstanding balance to a minority shareholder of the Company. A commission on a portion of the proceeds raised was paid in the amount of \$11,000 in cash and 10,500 (\$1,050) in units. Each unit is comprised of one common share and one-half of a non transferable share purchase warrant. Each whole warrant entitles the holder thereof to purchase an additional common share at \$0.15 per share for a period of 24 months. All of the securities issued pursuant to the private placement will be subject to a four-month hold period.

On April 21, 2010, the Company issued 50,000 common shares in connection with the exercise of warrants exercise at \$0.15 per share for total proceeds of \$7,500.

On April 22, 2010, the Company completed a private placement consisting of 21,025,000 units at \$0.20 per unit, for a total value of \$4,205,000. Each unit consisted of one common share and one common share warrant. Each warrant can be exercised to purchase one additional common share at \$0.25 for a period of 2 years. Of this amount, 16,600,000 units (\$3,240,000) were issued for cash, and 4,825,000 units (\$965,000) were issued in satisfaction of outstanding accounts payable to a shareholder and minority shareholder of the Company. A commission on a portion of the proceeds raised was paid in the amount of \$181,600 and payable in the amount of \$120,000 in cash and 200,000 (\$18,260) broker warrants at \$0.25 for a period of 2 years. The net cash proceeds will be used for development of the Company's oil and gas properties, and for general working capital.

**c) Escrow Shares**

As at May 31, 2010, the Company has 917,500 (February 28, 2010 – 1,835,000) common shares held in escrow by the Company's transfer agent. All of the common shares in escrow will be released as follows: 10% on the date the Company's securities are listed on a Canadian exchange (already released) and 15% every six months thereafter.

**9. SHARE CAPITAL (Cont'd...)**

**d) Stock Options**

The Company has a stock option plan whereby the Company is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

On May 26, 2008, the Company granted 2 million share options under its stock option plan at an exercise price of \$0.65, to its officers, directors, employees and consultants. The options vested immediately. The weighted average fair value of the options granted on May 26, 2008 was estimated at \$0.3395 per share using the Black-Scholes option-pricing model, using the following assumptions: risk-free interest rate of 3.29%, dividend yield of 0%, volatility of 98.8250% and expected life of approximately 2½ years. During the period ended May 31, 2010, stock based compensation of \$nil was recognized (February 28, 2010 - \$0).

On March 1, 2010, the Company granted 1 million share options under its stock option plan at an exercise price of \$0.25, to its officers, directors, employees and consultants. The options vested immediately. The weighted average fair value of the options granted on March 1, 2010 was estimated at \$0.0725 per share using the Black-Scholes option-pricing model, using the following assumptions: risk-free interest rate of 2.52%, dividend yield of 0%, volatility of 93.156% and expected life of approximately 5 years. During the period ended May 31, 2010, stock based compensation of \$72,600 was recognized (February 28, 2010 - \$0).

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessary provide reliable measure of the far value of the Company's stock options.

A summary of stock option activity for the years is as follows:

	Number of options	Weighted- average exercise price
Balance, February 29, 2008	-	\$ -
Options granted	2,000,000	0.65
Balance, February 28, 2009	2,000,000	\$ 0.65
Options granted	-	-
Balance, February 28, 2010	2,000,000	\$ 0.65
Options granted	1,000,000	\$ 0.25
Balance, May 31, 2010	3,000,000	\$ 0.51

As at May 31, 2010, all of the above outstanding stock options were exercisable.

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**9. SHARE CAPITAL (Cont'd...)**

**e) Share Purchase Warrants**

At May 31, 2010 there were 28,475,000 (February 28, 2010 – 27,200,150) share purchase warrants outstanding:

Expiry	Exercise Price	Number
Balance, February 28, 2010		27,200,150
March 4, 2010 (Expired)	\$ 0.30	5,000,000 (5,000,000)
April 29, 2010 (Expired)	\$ 0.75	14,700,150 (14,700,150)
April 23, 2011 (Exercised)	\$ 0.15 \$ 0.15	7,500,000 (50,000)
April 23, 2012	\$ 0.25	21,025,000
Balance, May 31, 2010		28,475,000

**f) Broker Warrants**

As at May 31, 2010 there were 200,000 (February 28, 2010 - 0) broker warrants outstanding.

The Company granted 550,000 Broker Warrants to the agent that acted in the Company's IPO at an exercise price of \$0.23; the warrants expired 24 months from closing of the IPO, on October 24, 2009. On March 12, 2008, the Company issued 34,020 common shares in connection with the exercise of warrants at \$0.23 per share. On October 2009, the outstanding broker warrants expired.

On April 22, 2010, the Company granted 200,000 Broker Warrants to the agent that acted in the Company's private placement at an exercise price of \$0.25; the warrants expired 24 months from completion of the private placement, on April 23, 2012.

As at May 31, 2010, there were no broker warrants outstanding and exercisable:

	Exercise Price	Number
Balance at February 29, 2008	\$ 0.23	550,000
Exercised	\$ 0.23	(34,020)
Balance at February 28, 2009	\$ 0.23	515,980
Expired	-	(515,980)
Balance at February 28, 2010	-	-
Broker warrants granted	\$ 0.25	200,000
Balance at May 31, 2010	\$ 0.25	200,000

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**9. SHARE CAPITAL (Cont'd...)**

**g) Contributed Surplus**

A reconciliation of contributed surplus is provided below:

	Amount
Balance, February 28, 2007	\$ -
Agent options for IPO	60,637
Balance, February 29, 2008	\$ 60,637
Exercise of agent's options	(3,741)
Options granted	43,174
Measurement of shares and warrants issued	1,470,190
Options granted	679,000
Balance, February 28, 2009	\$ 2,206,086
Agent options expired	(56,896)
Measurement of shares and warrants issued	75,000
Balance, February 28, 2010	\$ 2,224,190
Expired warrants value from 50c private placement	(1,470,190)
Options granted	72,600
Broker warrants granted	18,260
Measurement of shares and warrants issued	420,500
Balance, May 31, 2010	\$ 1,265,360

**10. RELATED PARTY TRANSACTIONS**

During the three months period ended May 31, 2010, the Company was charged the following amounts of consulting fees by entities controlled by directors of the Company:

	May 31, 2010	May 31, 2009
Consulting fee	\$ 36,000	36,000
Total	\$ 36,000	36,000

Included in prepaid expenses and deposits is an amount of \$36,991 (February 29, 2010 - \$21,703) prepaid to a director of the Company.

Account payables and accrued liabilities include amounts of \$0 and \$16,844 (February 29, 2010- \$110,684 and \$18,788) due to a director of the Company, entities controlled by directors of the Company respectively.

Included in the short term loans, \$0 (February 29, 2010 - \$63,077, \$86,249 and \$354,643) were due to a director of the Company, a shareholder of the Company and entities owned by directors of the Company, respectively represent loans from a director, a shareholder of the Company and entities owned by directors of the Company which were unsecured, non-interest bearing and due on demand.

All transactions have been completed on the basis of general market terms and conditions and been recorded at the exchange amount.

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**11. SEGMENTED INFORMATION**

The Company operates in one business segment, the exploration of oil and gas properties. All of the Company's oil and gas properties are located in the United States.

As at May 31, 2010, the Company's assets are located in the following geographic locations:

		Current	Long Term	Total
Canada	\$	2,306,914	\$ -	\$ 2,306,914
USA		150,570	10,679,190	10,829,760
	\$	2,457,484	\$ 10,679,190	\$ 13,136,674

As at February 28, 2010, the Company's assets are located in the following geographic locations:

		Current	Long Term	Total
Canada	\$	5,774	\$ -	\$ 45,774
USA		14,208	10,360,336	10,374,544
	\$	59,982	\$ 10,360,336	\$ 10,420,318

**12. COMMITMENTS**

On February 15, 2010, the Company entered into an IR/PR Service Agreement with Delphina Group Corp. ("Delphina") a Company in Toronto, Ontario to provide consulting services, including but not limited to advice regarding various additional supportive; advising and assisting client in its current financing activities and organization of road show meetings in Germany and other countries for a period of three months. The Company agreed to pay US\$60,000 per month for a total of US\$180,000. The Company also agreed to pay a commission or success fee to Delphina in connection with any financing, credit lines, stock loans, acquisition projects etc as set in the agreement. The commission paid will be 8% on any amount raised up to \$1,000,000; 7.5% between \$1,000,001 and 3,000,000; 7% between \$3,000,000 and \$4,000,000 and 6% on \$4,000,001 and greater. As of May 31, 2010, the Company made the payment \$180,070 (US\$180,000) in full.

On February 15, 2010, the Company signed an office lease agreement with Polaris Realty (Canada) Limited ("Landlord") for a period of (5) five years, starting September 1, 2010 and ending August 31, 2015, comprising of approximately 2,637 square feet of rentable area. The Company delivered a refundable security deposit of \$11,000 to the Landlord upon execution of the lease agreement. The Company has agreed to pay the landlord, on the first day of each month, \$10,696.99 (total rent plus GST) for the first 2 years, \$10,927.73 per month for the third year and \$11,158.47 per month for the fourth and fifth years.

On January 1, 2010, the Company signed an office lease agreement with Makenna Hotel Investments, LLC (Makenna) located in Billing Montana for a period of (5) five years commencing on June 1, 2010 and expiring on December 31, 2015. The Company agreed to pay \$2,274.64 USD from months 6 to 24, \$2,340.54 USD from months 25 to 48 and \$2,412.82 from months 49 to 60 based on 2,551 square feet of rental area.

In the prior year, the Company entered a lease agreement for office space commencing January 1, 2008 having a three-year term that commits the Company to the basic and in the current year, the Company entered an additional lease agreement and a sub-lease agreement as described below:

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**12. COMMITMENTS (Cont'd...)**

Year ended	Amount
2011	\$132,156
2012	\$179,494
2013	\$152,976
2014	\$156,479
2015	\$156,479

On April 20, 2010, the Company entered into a fourteen week service agreement with Accelerize New Media, Inc. (“ACLZ”), a company in Los Angeles, California, to provide marketing solutions and strategies. In consideration of the services provided, the Company agreed to make three payments totalling \$36,000. The first payment is \$15,000 due upon signing, the second is \$15,000 due May 15, 2010 and the last payment is \$6,000 due June 15, 2010. The Agreement can be renewed for additional twelve week term if both parties sign a renewal agreement. As of the filing of these financial statements, the Company has paid the total of \$36,000 in full.

On April 28, 2010, the Company signed an office sublease agreement with Genco Resources Ltd. (the “Landlord”) for a period of (4) four months, starting 1 May 2010 and ending August 31, 2010, comprising approximately 1,337 square feet of rentable area. The Company delivered a refundable construction security deposit of \$4,000 to the Landlord upon execution of the lease. The Company has agreed to pay the landlord, on the first day of each month, \$5,412 (total rent plus GST) for the months of: May, June, July and August 2010. As of May 31, 2010, the Company paid \$21,648 to the Landlord and amortized \$16,236 to rent pursuant to the agreement.