

## Highlights

Thousands of Cdn\$, except volumetric and per-share amounts	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
<b>FINANCIAL</b>		
Gas sales	12,017	3,047
NGL sales	5,511	1,579
Oil sales	3,279	4,422
Revenue from product sales <sup>(1)</sup>	20,807	9,048
Funds from operations <sup>(2)</sup>	8,660	3,227
Per share - basic (\$)	0.09	0.05
Per share - diluted (\$)	0.08	0.05
Net income (loss)	206	(261)
Per share - basic (\$)	0.00	0.00
Per share - diluted (\$)	0.00	0.00
Operations capital expenditures	22,343	20,133
Acquisitions and dispositions	88,051	(19,496)
Debt including working capital deficiency	22,176	42,106
Weighted average common shares outstanding (000s)		
Basic	100,668	61,824
Diluted	102,413	61,824
Common shares outstanding (000s)		
Basic	109,612	61,824
Fully diluted	115,251	65,791
<b>OPERATIONS</b>		
Oil equivalent (6:1)		
Barrels of oil equivalent (000s)	456	224
Barrels of oil equivalent per day	5,068	2,488
Average selling price (Cdn\$ per Boe) <sup>(1)</sup>	45.62	40.37
Gas Production		
Thousand cubic feet (000s)	2,134	880
Thousand cubic feet per day	23,711	9,780
Average selling price (Cdn\$ per Mcf)	5.63	3.46
NGL production		
Barrels (000s)	65	24
Barrels per day	725	261
Average selling price (Cdn\$ per barrel)	84.49	67.08
Oil Production		
Barrels (000s)	35	54
Barrels per day	391	597
Average selling price (Cdn\$ per barrel) <sup>(1)</sup>	93.08	82.21
Wells drilled		
Gross	5.0	3.0
Net	5.0	2.6

(1) Excludes hedging gains and losses.

(2) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 9 of the attached Management's Discussion and Analysis ("MD&A") and the reconciliation of funds from operations to the most directly comparable measurement under GAAP, "Cash Flows from Operating Activities", on page 19 of the attached MD&A.

# President's Message

## FIRST QUARTER 2014 HIGHLIGHTS

- Production in the first quarter was 5,068 Boe per day (22% oil plus NGL), an increase of 104% from the same period last year and 6% from the prior quarter. On a per-share outstanding at quarter end basis, the year-over-year increase was 15%. The increase resulted from growth at Umbach where first quarter production was 3,559 Boe per day which represents growth of 565% from the first quarter of 2013.
- NGL production was 725 barrels per day in the first quarter, a year-over-year increase of 178%. NGL production increased as a result of production growth from the liquids-rich Montney formation at Umbach. The first quarter NGL price of \$84.49 per barrel was 84% of the average Edmonton Par light oil price.
- Activity in the first quarter of 2014 was focused on Storm's 100% working interest lands at Umbach South where four Montney horizontal wells (4.0 net) plus one Montney vertical delineation well (1.0 net) were drilled and two horizontal wells (2.0 net) were completed and pipeline connected. As the existing facility is at capacity, only one of the completed Montney horizontal wells started producing in late February with the average rate in March and April being restricted to 4.3 Mmcf per day gross raw gas. The remaining Montney horizontal wells will start producing in September when Storm's new facility at Umbach is operational.
- Funds from operations for the quarter totaled \$8.7 million or \$0.09 per basic share, a year-over-year increase of 80% on a per-share basis. The increase in funds from operations was the result of growth at Umbach where the field operating netback was \$27.03 per Boe which is higher than the corporate average.
- The funds from operations netback was \$18.99 per Boe in the quarter, an increase of \$4.58 per Boe or 32% from the prior year. The year-over-year improvement was primarily the result of lower operating costs and the first quarter natural gas price increasing to \$5.63 per Mcf from \$3.46 per Mcf in the prior year period. These gains were partially offset by a hedging loss of \$3.10 per Boe.
- The field operating netback, excluding hedging gains or losses, was \$25.47 per Boe for the quarter, an increase of 26% from \$20.14 per Boe in the previous year. The first quarter operating cost was \$10.88 per Boe, a decrease of 20% from the prior year. Operating costs are improving due to growth at Umbach where the first quarter operating cost was \$7.78 per Boe.
- Controllable cash costs (operating, transportation, cash G&A, interest expense) were \$15.97 per Boe in the quarter which is a decrease of \$4.84 per Boe, or 23%, from \$20.81 per Boe in the prior year.
- Capital investment was \$110.4 million in the first quarter which included \$88.0 million for an asset acquisition at Umbach. Operations capital expenditures totaled \$22.3 million and included \$3.4 million for facilities and pipelines plus \$17.8 million for drilling and completions.
- Debt plus working capital deficiency, net of investments, at the quarter end totaled \$22.2 million which is 0.6 times annualized first quarter cash flow. In May 2014, Storm's banker, ATB Financial, increased the revolving bank facility to \$90.0 million.
- On January 31, Storm closed the acquisition of a 100% working interest in 29 sections of land in the Umbach-Nig area, prospective for liquids-rich natural gas from the Montney formation. The acquisition included two horizontal wells producing 359 Boe net per day (19% NGL) from the Montney formation. The total cost of approximately \$88.0 million consisted of \$30.0 million in cash and 13.6 million common shares of Storm with a deemed value of \$4.25 per common share (closing price on the TSX Venture Exchange January 30, 2014).
- On February 14, a bought deal financing and non-brokered private placement of common shares were completed with 8.5 million common shares being issued at a price of \$4.10 per common share. Aggregate gross proceeds of \$34.9 million were used to fund the cash portion of the acquisition of land and production in the Umbach-Nig area that closed January 31, 2014.

## **OPERATIONS REVIEW**

Storm has a focused asset base with large land positions in resource plays at Umbach and in the Horn River Basin (“HRB”) which have multi-year drilling inventories while the Grande Prairie area, with its shallow decline, provides cash flow available for investment.

### **Umbach, Northeast British Columbia**

Storm's land position at Umbach is prospective for liquids-rich natural gas from the Montney formation and currently totals 140 net sections (168 gross sections), or 98,000 net acres. Including the lands acquired in January 2014, Storm has invested \$108.0 million to acquire this land position (\$2,750 per hectare or \$1,100 per acre) since entering the area in 2010. There are three project areas at Umbach:

- Umbach South with 87 net sections at a 100% working interest (includes the 29 sections recently acquired) where first quarter production averaged 2,676 Boe per day;
- Umbach North with 33 net sections of jointly owned lands (61 gross sections with Storm's working interest being 60% on most of the lands) where first quarter production averaged 883 Boe per day;
- Nig with 20 net sections at a 100% working interest.

To date, Storm has been focused on exploiting the upper Montney, although the middle and lower Montney may also be productive.

First quarter production at Umbach was 3,559 net Boe per day (18% NGL), a year-over-year increase of 565%. NGL recovery was 38 barrels per Mmcf sales or 656 barrels per day with approximately 60% being higher priced condensate plus pentanes. The operating netback was \$27.03 per Boe with revenue, after deducting transportation costs, of \$42.32 per Boe (\$5.56 per Mcf sales and \$81.65 per barrel of NGL), a royalty rate of 18%, and operating costs of \$7.78 per Boe. Operating costs at Umbach have improved significantly from \$11.48 per Boe in the first quarter of 2013. Notably, on the 100% working interest lands at Umbach South where Storm owns field compression, the operating cost was \$6.55 per Boe.

Activity in the first quarter included drilling four Montney horizontal wells (4.0 net) at Umbach South, drilling one Montney vertical delineation well (1.0 net) at Nig and completing two Montney horizontal wells (2.0 net). One Montney horizontal well commenced production in late February with the rate being restricted to 4.3 Mmcf per day gross raw gas in March and April as the existing facility is full. This horizontal well has averaged 6.0 Mmcf per day gross raw gas to date in May as a result of facility upgrades completed in early May. The vertical delineation well at Nig was cored in the upper, middle, and lower Montney and, after the core data has been analyzed, the wellbore will be re-entered and a horizontal well will be drilled into one of the three Montney intervals (likely in 2015). To date in the second quarter, an additional three Montney horizontal wells (3.0 net) have been drilled and two Montney horizontal wells (2.0 net) have been completed.

The existing Umbach South field compression facility has been full since December 2013 with throughput of approximately 17 Mmcf per day gross raw gas. As a result, a second field compression facility is being constructed with initial capacity of 24 Mmcf per day which is expected to be operational in September 2014. Cost of the new field compression facility is \$14.0 million and it is designed to be expandable to 48 Mmcf per day for an additional investment of \$9.0 million, with this expected to occur in mid-2015. Investment in infrastructure at Umbach in 2014 will also include installing 12 kilometers of larger diameter gathering pipelines at a cost of \$5.0 million.

Currently, there are 16 horizontal wells producing from the Montney formation at Umbach. Production performance of the most recent horizontal wells (Umbach South hz's 10 – 15) is significantly improved from earlier wells and is exceeding management's forecasts. Following is a comparison of calendar day rates for all of the producing Montney horizontal wells.

	Working Interest		Start of Production	Frac Stages	30 Cal Day Gross Raw Mmcf Per Day	90 Cal Day Gross Raw Mmcf Per Day	1 <sup>st</sup> Year Cal Day Gross Raw Mmcf Per Day
<b>HZ's 1 - 5</b>	60%	Umbach North	Mar/11 – Oct/12	7 - 11	2.8 Mmcf/d 5 hz's	1.8 Mmcf/d 5 hz's	1.3 Mmcf/d 5 hz's
<b>HZ's 6 – 8</b>	60%	Umbach North	Nov/12 – Aug/13	14 - 16	3.3 Mmcf/d 3 hz's	2.3 Mmcf/d 3 hz's	1.5 Mmcf/d 2 hz's
<b>HZ's 10 - 15</b>	100%	Umbach South	Apr/13 – Nov/13	17 - 18	4.2 Mmcf/d 6 hz's	3.6 Mmcf/d 5 hz's	2.8 Mmcf/d 1 hz

### Horn River Basin, Northeast British Columbia

Storm has a 100% working interest in 123 sections in the HRB (81,000 net acres) which is prospective for natural gas from the Muskwa, Otter Park and Evie/Klua shales. First quarter production averaged 380 Boe per day at an operating netback of \$17.03 per Boe. Production is from one horizontal well with 12 fracture stimulations which currently produces 2.5 Mmcf per day gross raw gas with cumulative production of 4.0 Bcf gross raw gas since start-up in March 2011.

A resource evaluation completed by InSite Petroleum Consultants Ltd. effective December 31, 2011 estimates that the best estimate of DPIIP in the core producing area is 3.1 Tcf gross raw gas with the best estimate of contingent resources being 616 Bcf. The evaluated area includes 30 sections at a 100% working interest and represents 24% of Storm's total land holdings in the HRB. Commerciality has been proven across the core producing area with a horizontal well that has been producing for 38 months plus two vertical wells that were completed and tested with final test rates of 900 Mcf per day over the final 24 hours of each flow test.

### Grande Prairie Area, Northwest Alberta and Northeast British Columbia

Production in the first quarter averaged 1,129 Boe per day (41% oil plus NGL) at an operating netback of \$23.43 per Boe. Production was reduced by approximately 115 Boe per day as a result of equipment failures on seven wells. The cost of repairing the wells increased the first quarter operating cost to \$21.10 per Boe (2013 average operating cost was \$14.72 per Boe). Production in April recovered to 1,260 Boe per day based on field estimates. Cash flow from this area continues to be re-invested to grow production at Umbach.

### HEDGING UPDATE

Current commodity price hedges, which comprise both swaps and collars, for the remainder of 2014 include 11,800 Mcf per day (14,200 GJ per day) of natural gas with an average floor price of approximately \$4.16 per Mcf and an average ceiling price of \$4.38 per Mcf (AECO monthly index \$3.38 per GJ for the floor and \$3.56 per GJ for the ceiling). In addition, an oil price of WTI Cdn\$102.43 per barrel (WTI price in \$US per barrel converted to \$Cdn per barrel) has been fixed on 450 barrels per day.

In the first quarter of 2015, the price of 5,800 Mcf per day (7,000 GJ per day) of natural gas has been hedged with an average floor price of approximately \$4.92 per Mcf and an average ceiling price of \$6.25 per Mcf (AECO monthly index \$4.00 per GJ for floor and \$5.08 per GJ for ceiling).

The purpose of Storm's commodity price hedges is to ensure that a decrease in commodity prices does not have a significant impact on capital investment and growth over the next 12 to 18 months.

## OUTLOOK

Production in April averaged 5,350 Boe per day based on field estimates, and second quarter production is forecast to be 5,200 to 5,500 Boe per day. Corporate production will increase when the new field compression facility is operational at Umbach in September 2014.

As a result of a higher forecast natural gas price and the recent changes to British Columbia's Deep Well Royalty Credit Program, Storm is increasing 2014 capital investment from \$78.0 million to \$97.0 million. The incremental capital will be invested at Umbach to drill an additional four Montney horizontal wells (4.0 net) and complete four Montney horizontal wells (3.6 net). Forecast production for the fourth quarter of 2014 increases to 8,900 to 9,200 Boe per day which represents 90% growth on a year-over-year basis (55% growth on a per-share basis). Revised guidance is set forth below.

	<b>January 23, 2014 Original Guidance</b>	<b>May 14, 2014 Revised Guidance</b>
AECO natural gas price	\$3.35 per GJ	\$4.25 per GJ
Edmonton Par light oil price	Cdn \$89 per bbl	Cdn \$94 per bbl
Estimated year-end debt plus working capital deficiency <sup>(1)</sup>	\$50.0 million	\$57.0 million
Estimated average operating costs	\$8.00 - \$9.00 per Boe	\$8.00 - \$9.00 per Boe
Estimated average royalty rate (on production revenue before hedging)	14% - 15%	15% - 16%
Estimated operations capital, excluding acquisitions & dispositions	\$78.0 million	\$97.0 million
Estimated acquisitions	\$88.0 million	\$88.0 million
Estimated cash G&A net of recoveries	\$4.0 million	\$4.0 million
Forecast fourth quarter average production	7,500 – 7,900 Boe/d (20% oil + NGL)	8,900 – 9,200 Boe/d (20% oil + NGL)
Forecast average annual production	5,500 – 6,500 Boe/d (21% oil + NGL)	6,000 – 6,700 Boe/d (21% oil + NGL)
Umbach horizontal wells drilled	10 gross (10.0 net)	14 gross (14.0 net)
Umbach horizontal wells completed & tied in	9 gross (9.0 net)	13 gross (12.6 net)

(1) Includes value of publicly listed securities.

Adjusted net debt at the end of 2014 is forecast to be \$57.0 million (including public company investments), which would be approximately 0.9 times annualized funds from operations in the fourth quarter of 2014 (assumes fourth quarter AECO \$3.75 per GJ and Edmonton Par Cdn\$87.00 per barrel).

The recently announced changes to British Columbia's Deep Well Royalty Credit Program provides a royalty credit of approximately \$0.6 million for a Montney horizontal well with a 1,200 metre lateral drilled at Umbach after April 1, 2014. The royalty credit reduces the royalty rate to 6% until the credit is used up which is forecast to be approximately 14 months at an AECO natural gas price of \$3.75 per GJ. Eight of Storm's Montney horizontal wells being drilled at Umbach in 2014 will benefit from the royalty credit which will be re-invested to drill and complete additional horizontal wells at Umbach.

At Umbach, one drilling rig has been working since early December 2013 and has drilled eight Montney horizontal wells (8.0 net) with seven horizontal wells drilled as part of the 2014 program. Drilling operations have continued through spring break-up and the remaining seven Montney horizontal wells (7.0 net) in the 2014 program are expected to be drilled by the end of August. Four Montney horizontal wells (4.0 net) have been completed so far in 2014 with one well commencing production in late February. Horizontal well performance is exceeding management's forecast which has moderated declines. As a result, the existing facility is full and most of the newly drilled Montney horizontal wells will commence production once construction of the new 24 Mmcf per day field compression facility is completed in September 2014. The decision to expand the new facility to 48 Mmcf per day will likely be made in the fourth quarter

of 2014 with approximately six to eight months being required to order equipment and for construction of the expansion. With a growing inventory of horizontal wells to be turned on when the second field compression facility is completed, significant growth is expected at Umbach in the second half of 2014.

Storm's land position in the HRB continues to be a core, long-term asset with significant leverage to improving natural gas prices.

Respectfully,



Brian Lavergne,  
President and Chief Executive Officer

May 14, 2014

**Discovered-Petroleum-Initially-in-Place ("DPIIP")** - is defined in the Canadian Oil and Gas Evaluation Handbook ("COGEH") as the quantity of hydrocarbons that are estimated to be in place within a known accumulation. DPIIP is divided into recoverable and unrecoverable portions, with the estimated future recoverable portion classified as reserves and contingent resources. There is no certainty that it will be economically viable or technically feasible to produce any portion of this DPIIP except for those portions identified as proved or probable reserves.

**Contingent Resources** - are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project at an early stage of development. Estimates of contingent resources are estimates only; the actual resources may be higher or lower than those calculated in the independent evaluation. There is no certainty that the resources described in the evaluation will be commercially produced.

**Boe Presentation** - For the purpose of calculating unit revenues and costs, natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet ("Mcf") of natural gas equal to one barrel of oil unless otherwise stated. Boe may be misleading, particularly if used in isolation. A Boe conversion ratio of six Mcf to one barrel ("Bbl") is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All Boe measurements and conversions in this report are derived by converting natural gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil. Mboe means 1,000 Boe.

**Forward-Looking Statements** - Such statements made in this report are subject to the limitations set out in Storm's Management's Discussion and Analysis dated May 14, 2014 for the three months ended March 31, 2014.

# Management's Discussion and Analysis

## INTRODUCTION

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Resources Ltd. ("Storm" or the "Company") for the three months ended March 31, 2014. It should be read in conjunction with (i) the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2014, (ii) the Company's audited consolidated financial statements for the year ended December 31, 2013, and (iii) the press release issued by the Company on May 14, 2014, and other operating and financial information included in this report. All of these documents are filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and appear on the Company's website ([www.stormresourcesltd.com](http://www.stormresourcesltd.com)).

Readers are directed to the discussion below regarding Forward-Looking Statements, Boe Presentation and Non-GAAP Measurements.

The Company was incorporated on June 8, 2010 as 1541229 Alberta Ltd. with nominal share capital and was inactive until August 17, 2010 when the Company participated in a plan of arrangement (the "Arrangement") along with Storm Exploration Inc. ("SEO") and ARC Energy Trust ("ARC"). The Arrangement resulted in the sale of SEO to ARC and the spin out of the Company as a junior exploration and development company. The Company trades on the TSX Venture Exchange under the symbol "SRX".

This MD&A is dated May 14, 2014.

## LIMITATIONS

**Basis of Presentation** – Financial data presented below have largely been derived from the Company's unaudited condensed interim consolidated financial statements (the "financial statements") for the three months ended March 31, 2014, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are referred to in Note 3 to the audited consolidated financial statements for the year ended December 31, 2013. The reporting and the measurement currency is the Canadian dollar.

Changes to accounting policies, introduced effective January 1, 2014, are outlined in Note 2 to the Company's audited consolidated financial statements as at December 31, 2013 and for the year then ended. These changes to accounting policies have no effect on financial statements or the inter-period comparability of financial information.

Unless otherwise indicated, tabular financial amounts, other than per-share amounts, are in thousands. Comparative information is provided for the immediately prior three month period ended December 31, 2013 and for the three month period ended March 31, 2013.

**Forward-Looking Statements** – Certain information set forth in this document, including management's assessment of Storm's future plans and operations, contains forward-looking information (within the meaning of applicable Canadian securities legislation). Such statements or information are generally identifiable by words such as "anticipate", "believe", "intend", "plan", "expect", "estimate", "budget", "outlook", "forecast" or other similar words and include statements relating to or associated with individual wells, regions or projects. Without limitation, any statements regarding the following are forward-looking statements:

- future commodity prices;
- future production levels and production levels by commodity;
- future revenues and costs (including royalties) and revenues and costs per commodity unit;
- future capital expenditures and their allocation to specific exploration and development activities or periods;
- future drilling, completion and tie-in of wells;
- future facility access, acquisition or construction;

- future earnings or losses;
- future non-GAAP funds from operations and future cash flows;
- future availability of financing;
- future asset acquisitions or dispositions;
- intentions with respect to investments;
- future sources of funding for capital programs and future availability of such sources;
- future decommissioning costs and discount rates used to determine the net present value of such costs;
- development plans;
- estimates of value in use of property and equipment;
- future debt levels;
- availability of credit facilities;
- future tax liabilities and future use of tax pools and losses;
- measurement and recoverability of reserves or contingent resources including estimates of DPIIP and timing of such recoverability;
- estimates of ultimate recovery from wells;
- future finding and development costs;
- future royalties, operating costs, interest and general and administrative costs;
- future treatment under regulatory regimes and tax and royalty laws;
- future provisions for depletion and depreciation and accretion;
- expected share-based compensation charges;
- future interest rates and interest costs;
- estimates on a per-share basis and per-Boe basis;
- dates or time periods by which wells will be drilled, completed and tied in; facility and pipeline construction completed and geographical areas developed; and
- changes to any of the foregoing.

Statements relating to “reserves” or “resources” and related terms are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, including assumptions regarding future prices, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include the material uncertainties and risks described or incorporated by reference in this MD&A under “Critical Accounting Estimates”; “Risk Assessment” and the material assumptions described under the



headings “Overview”; “Production and Revenue”; “Hedging”; “Royalties”; “Production Costs”; “Transportation Costs”; “Field Netbacks”; “General and Administrative Costs”; “Share-Based Compensation”; “Depletion and Depreciation”; “Accretion”; “Interest”; “Gain (Loss) on Commodity Price Contracts”; “Income Taxes”; “Unrealized Revaluation Gain (Loss) on Investment”; “Other Comprehensive Income (Loss)”; “Financial Resources and Liquidity”; “Investments”; “Capital Expenditures”; “Accounts Payable and Accrued Liabilities”; “Decommissioning Liability”; “Shareholders’ Equity”; “Contractual Obligations”; industry conditions including commodity prices, facility and pipeline capacity constraints and access to market for production, volatility of commodity prices, currency fluctuations, imprecision of estimates of reserves and resources and related costs including royalties, production costs and future development costs, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, ability to access sufficient capital from internal and external sources and the ability of the Company to realize value from acquired assets and corporations. All of these caveats should be considered in the context of current economic conditions, in particular volatile pricing for natural gas, the attitude of lenders and investors towards corporations with a natural gas focus, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Readers are advised that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Storm’s actual results, performance or achievement, could differ materially from those expressed in, or implied by, these forward-looking statements. Storm disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under securities law. **The forward-looking statements contained therein are expressly qualified by this cautionary statement.**

**Boe Presentation** – Natural gas is converted to a barrel of oil equivalent (“Boe”) using six thousand cubic feet (“Mcf”) of natural gas equal to one barrel of oil unless otherwise stated. Boe may be misleading, particularly if used in isolation. A Boe conversion ratio of six Mcf to one barrel (“Bbl”) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All Boe measurements and conversions in this report are derived by converting natural gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil.

**Non-GAAP Measurements** - Within this MD&A, references are made to terms which are not recognized under Generally Accepted Accounting Principles (“GAAP”). Specifically, “funds from operations”, “funds from operations per share”, “netbacks”, “cash costs”, and measurements “per Boe” do not have any standardized meaning as prescribed by GAAP and are regarded as non-GAAP measures. These non-GAAP measures may not be comparable to the calculation of similar amounts for other entities and readers are cautioned that use of such measures to compare enterprises may not be valid. In particular, funds from operations is not intended to represent, or be equivalent to, cash flow from operating activities calculated in accordance with GAAP which is measured on the Company’s consolidated statements of cash flows. Funds from operations and similar non-GAAP terms are used to benchmark operations against prior periods and peer group companies and are widely used by investors, analysts and other parties. These measurements are also used by lenders to measure compliance with debt covenants and thus set interest costs. Reference is made to the discussion in this MD&A under “Non-GAAP Funds from Operations and Funds from Operations per Share” and to “Cash Flows from Operating Activities”.

## OPERATIONAL AND FINANCIAL RESULTS

### Overview

During the first quarter of 2014, Storm continued development of the liquids-rich natural gas property at Umbach. Production is from the Montney formation. First quarter production increased by 104% compared to the first quarter of 2013 and by 6% compared to the immediately preceding quarter. Five wells (5.0 net), including one vertical delineation well, were drilled and one was tied in at Umbach. At the end of the first quarter, four horizontal wells (3.6 net) await completion and tie-in, and one horizontal well is shut in due to lack of facility capacity. Storm expects that current facility constraints will be eliminated by September 2014 through the commissioning of a wholly owned compression facility.

In early 2014, Storm added to its Umbach position through the acquisition of lands adjacent to its existing 100% working interest lands at Umbach South. The acquisition was a 100% working interest in 29 sections of undeveloped land plus two horizontal Montney wells producing 359 net Boe per day. The total cost of the acquisition was approximately \$88.0 million, which consisted of \$30.0 million in cash plus issuance of 13.6 million common shares at a deemed value of \$4.25 per share. This acquisition results in the Company holding a total of 140 net sections of land at Umbach. At Umbach at the end of the first quarter, Storm had a total of 16 producing wells, one completed well shut in and four

standing wells to be completed. Profitability of natural gas production at Umbach is enhanced by associated NGL, currently approximating 40 barrels per Mmcf, of which 60% is high-value condensate and pentane, with the remaining amount being approximately equal volumes of butane and propane.

In the Horn River Basin (“HRB”) the Company’s one producing horizontal well continues to meet expectations and production is consistent with type curves in the region. At March 31, 2014 Storm had a net interest in 123 sections in the area.

Average daily production jumped 104% to 5,068 Boe per day from 2,488 Boe per day in the first quarter of 2013 and by 6% from 4,773 Boe per day in the immediately preceding quarter. Facility constraints limited production growth in the first quarter of 2014. Net production increases came from Umbach.

During the first quarter, Storm’s production mix was 78% natural gas, 14% NGL and 8% crude oil. Natural gas production increased by 142% relative to the first quarter of 2013 as production at Umbach averaged 17.4 Mmcf per day for the quarter compared to 2.2 Mmcf per day for the same quarter in 2013 and 15.8 Mmcf per day in the final quarter of 2013. Crude oil production dropped by 35% in the first quarter of 2014 relative to the first quarter of 2013 as a result of property disposals in the first quarter of 2013 and natural declines at Alberta oil properties. NGL production increased 178%, from 261 Bbls per day in the first quarter of 2013 to 725 Bbls per day in the first quarter of 2014, as a result of increased liquids volumes associated with natural gas production at Umbach. Prices increased from 2013 for all three commodities resulting in the overall realized price per Boe rising from \$40.37 to \$45.62. This was reduced by hedging losses of \$3.10 per Boe in the first quarter of 2014 as natural gas prices rose rapidly due to, amongst other factors, unusually cold winter weather.

In the first quarter, Storm spent \$22.3 million on field activities and approximately \$88.0 million on the acquisition of Umbach land and production. Major field spending included \$17.8 million on drilling and completions and \$3.4 million on equipping, tie-ins and gathering.

Increased production at Umbach and increased prices for all commodities resulted in an increase in funds from operations to \$8.7 million, up from \$3.2 million in the first quarter of 2013 and from \$7.5 million in the final quarter of 2013.

In February 2014, the Company closed an equity financing for estimated net proceeds of approximately \$33.0 million. In May 2014 Storm’s bank facility was increased from \$65.0 million to \$90.0 million in recognition of production and reserve growth at Umbach.

Expansion of Umbach infrastructure in the third quarter of 2014 will include a new field compression facility with 24 Mmcf per day of capacity which will enable Storm to tie in wells already drilled and completed and to further expand development in the area. The facility is scalable to 48 Mmcf per day, which will likely take place in 2015.

## Production and Revenue

### Production by Area

The Company reported production from the following areas:

Producing Area	Three Months Ended March 31, 2014			
	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Umbach – NE BC	17,413	656	-	3,559
Horn River Basin – NE BC	2,278	-	-	380
Grande Prairie Area - AB	4,020	69	391	1,129
Total	23,711	725	391	5,068

Three Months Ended March 31, 2013

Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	2,221	-	-	370
Umbach – NE BC	2,234	162	-	534
Grande Prairie Area – AB	5,325	99	597	1,584
<b>Total</b>	<b>9,780</b>	<b>261</b>	<b>597</b>	<b>2,488</b>

Three Months Ended December 31, 2013

Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Umbach – NE BC	15,797	629	-	3,262
Horn River Basin – NE BC	2,176	-	-	363
Grande Prairie – AB	3,925	66	428	1,148
<b>Total</b>	<b>21,898</b>	<b>695</b>	<b>428</b>	<b>4,773</b>

Production increases for natural gas and NGL are attributed to growth at Umbach where the Company tied in one well and acquired two 100% working interest wells at Umbach South. The drop in oil production is as a result of the disposition of oil properties during the first quarter of 2013 and natural declines, coupled with equipment failures on seven wells in the Grande Prairie area. Winter weather conditions also negatively affected first quarter production levels. Production to date in the second quarter is currently averaging approximately 5,400 Boe per day based on field estimates.

Daily production per million weighted average shares outstanding averaged 50 Boe per day for the first quarter of 2014, compared to 40 Boe per day for the first quarter of 2013 and 58 Boe per day for the final quarter of 2013.

In northeast British Columbia the Company has two producing natural gas areas: the HRB which produces dry gas, and Umbach which produces gas and associated NGL. Production in Alberta approximated 35% light oil, with an average API of 37 degrees, 59% natural gas and 6% NGL.

#### Average Daily Production

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Natural gas (Mcf/d)	23,711	9,780	21,898
Natural gas liquids (Bbls/d)	725	261	695
Crude oil (Bbls/d)	391	597	428
<b>Total (Boe/d)</b>	<b>5,068</b>	<b>2,488</b>	<b>4,773</b>

#### Production Profile and Per-Unit Prices<sup>(1)</sup>

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		Three Months Ended December 31, 2013	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Natural gas - Mcf	78%	\$ 5.63	66%	\$ 3.46	76%	\$ 3.88
Natural gas liquids - Bbl	14%	84.49	10%	67.08	15%	70.10
Crude oil - Bbl	8%	93.08	24%	82.21	9%	78.47
<b>Per Boe</b>	<b>100%</b>	<b>\$ 45.62</b>	<b>100%</b>	<b>\$ 40.37</b>	<b>100%</b>	<b>\$ 35.02</b>

(1) Before hedging loss of \$3.10 per Boe for the three months ended March 31, 2014 (2013 – gain of \$0.10 per Boe).

The Company's natural gas is produced in both British Columbia and Alberta and is sold at a price based on the Station 2 index in British Columbia and at the AECO index in Alberta. In the first quarter, approximately 42% of natural gas

sales were priced at the AECO monthly index price with the remaining 58% being sold at Station 2 daily index price. Equivalent percentages for the first quarter of 2013 were 54% at the AECO monthly index price and 46% at the Station 2 daily index price. Average index prices for each quarter are as follows:

(Cdn\$/GJ)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
AECO Monthly Index	\$ 4.51	\$ 2.92	\$ 2.99
AECO Daily Index	\$ 5.42	\$ 3.03	\$ 3.35
Station 2	\$ 4.94	\$ 2.86	\$ 3.22

A portion of Storm's natural gas is sold at the AECO monthly index price rather than the daily index price to ensure alignment with the Company's natural gas hedges which are priced in accordance with the monthly index.

Storm's realized price for the first quarter was \$5.63 per Mcf, with the price higher than index prices as a result of sales gas at Umbach and Grande Prairie having a higher heat content.

For the first quarter, WTI averaged US\$98.68 per barrel and Edmonton Par was Cdn\$99.80 per barrel, resulting in an exchange rate adjusted differential between WTI and Edmonton Par of Cdn\$9.10 per barrel compared to Cdn\$7.01 per barrel in the first quarter of 2013. The first quarter differential between Edmonton Par and WTI was generally consistent with the average 2013 differential which was Cdn\$7.80 per barrel. Due to quality and gravity differentials, Storm's average crude oil sales price for the first quarter of 2014, prior to the inclusion of hedging losses, was \$6.72 per barrel lower than the Edmonton Par reference price for light sweet crude oil.

The year-over-year increase in Storm's realized NGL sales price of \$17.41 per barrel was in part due to an increase in the proportion of higher priced condensate and pentanes in Storm's total NGL mix. As Storm continues to increase natural gas production at Umbach, high value condensate and pentane production should continue to increase.

#### Revenue from Product Sales<sup>(1)</sup>

(000s)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Natural gas (Mcf/d)	\$ 12,017	\$ 3,047	\$ 7,807
Natural gas liquids (Bbbls/d)	5,511	1,579	4,483
Crude oil (Bbbls/d)	3,279	4,422	3,090
Total	\$ 20,807	\$ 9,048	\$ 15,380

(1) Excludes hedging gains and losses.

Revenue from product sales for the first quarter of 2014 increased by 130% when compared to the first quarter of 2013 and increased by 35% when compared to the immediately preceding quarter. The average price per Boe for the first quarter of 2014 amounted to \$45.62, an increase of 13% compared to the first quarter of 2013 and 30% more than the final quarter of 2013 primarily as a result of a higher natural gas price.

#### Hedging

The following summarizes Storm's hedging arrangements, including arrangements entered into subsequent to March 31, 2014:

	Crude Oil		Natural Gas	
	Volume	Average Price (\$/Bbl)	Volume	Average Price (\$/GJ)
<b>Fixed Price</b>				
Q2 – 2014	450 Bbbls/day	\$102.38	9,500 GJ/day	\$3.46
Q3 – 2014	450 Bbbls/day	\$101.50	9,500 GJ/day	\$3.46
Q4 – 2014	300 Bbbls/day	\$103.65	10,500 GJ/day	\$3.51
Q1 – 2015	-	-	-	-
<b>Collars</b>				
		Average Range (\$/Bbl)		Average Range (\$/GJ)
Q2 – 2014	-	-	4,000 GJ/day	\$3.12 - \$3.75
Q3 – 2014	-	-	5,000 GJ/day	\$3.17 - \$3.77
Q4 – 2014	150 Bbbls/day	\$100.00 - \$107.20	4,000 GJ/day	\$3.12 - \$3.75
Q1 – 2015	-	-	7,000 GJ/day	\$4.00 - \$5.08

During the first quarter of 2014, the Company realized a cash loss from hedging contracts in the amount of \$1,414,000, compared to a gain of \$21,000 in the first quarter of 2013 and \$40,000 in the fourth quarter of 2013. The fair market value of hedges in place at March 31, 2014 was negative \$4.2 million.

For the natural gas volumes that have been hedged at AECO monthly index pricing, the equivalent volume of produced natural gas is sold at the AECO monthly index. For the remainder of 2014, approximately 11,800 Mcf per day (14,500 GJ per day) will be sold at AECO monthly index pricing with the remaining volumes of natural gas being sold at the daily spot price. In the first quarter, 42% of Storm's natural gas production was sold at the AECO monthly index price and the remainder was mainly production from northeast British Columbia that was sold at the Station 2 daily spot price.

All crude oil contracts are based on a WTI price in US\$ per barrel which is then converted to Cdn\$ using the foreign exchange rate when the contract is executed. Crude oil contracts do not reflect wellhead prices, as quality adjustments, market differentials and transportation tariffs are not included. Natural gas price hedges are based on pricing at Storm's physical delivery point for natural gas sales and are directly related to wellhead prices.

The Company's hedging program is not based on a speculative assessment of the direction of commodity prices. The program's purpose is to reduce the effect of commodity price volatility on cash flow to enable the Company to maintain a disciplined and sustainable development program. This is of particular importance at Umbach, where exploitation of the resource is at an early stage and capital programs necessary to delineate the scope and scale of a potentially decades-long project have to be insulated from the effects of near-term price movements.

## Royalties

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period	\$ 3,449	\$ 1,181	\$ 1,161
Percentage of revenue from product sales	16.6%	13.1%	7.5%
Per Boe	\$ 7.56	\$ 5.25	\$ 2.65

Total royalties in the first quarter of 2014 increased by 192% when compared to the same quarter of 2013, and increased by 197% compared to the final quarter of 2013. Increased production revenue was the primary driver of increased royalties; however, royalties also increased as a result of the expiry of the 5% new well royalty incentive on certain horizontal wells in the Grande Prairie area during the first half of 2013 and from the expiry of a Deep Well Royalty Credit in the HRB during the first quarter of 2014. Also, the receipt of an infrastructure royalty credit at Umbach reduced fourth quarter 2013 royalties by \$0.7 million.

At Umbach, future production will benefit from British Columbia's Infrastructure Royalty Credit Program. During 2012 and 2013, Storm received approval for \$4.3 million gross of credits (\$3.4 million net) for three pipeline projects. In late 2013, \$745,000 of this amount was applied in reduction of royalties and the Company expects to receive approximately \$1.7 million in 2014 and the remaining amount of \$1.0 million in 2015 as the related pipeline projects are completed and incremental revenue eligible for royalty reduction is generated. The timing of receipt of future credits cannot be forecasted; correspondingly, royalty rates reported in future quarters could vary considerably.

In the HRB, the Company benefited from British Columbia's Deep Well Royalty Credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on production. The Company has received the full entitlement of \$1.1 million and HRB production no longer benefits from royalty credits under this program.

In March 2014, the British Columbia provincial government announced the expansion of the Deep Well Royalty Credit Program by extending royalty credits to all horizontal wells with a vertical depth of less than 1,900 metres. Wells spud after April 1, 2014 will benefit from these changes. Umbach wells generally did not meet the prior 1,900 metre depth threshold. As a result, Storm expects that future horizontal wells at Umbach will receive a royalty credit of \$0.5 million to \$0.7 million per well, depending on the total measured depth of the well. In conjunction with this change, wells that are eligible for this expanded credit program will bear a minimum royalty payable of 6%.

In Alberta, production from new wells is subject to a 5% royalty rate for the first 12 months of production, to a maximum volume of 50,000 Bbls of crude oil or 500 million cubic feet of natural gas. Lack of corporate drilling activity in Alberta has resulted in the expiry of this program's benefits to Storm.

Production of NGL is subject to an effective royalty rate of 20% in British Columbia and approximately 30% in Alberta.

## Production Costs

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period	\$ 4,962	\$ 3,032	\$ 4,273
Percentage of revenue from product sales	23.8%	33.5%	27.8%
Per Boe	\$ 10.88	\$ 13.54	\$ 9.73

Total production costs for the quarter increased by 16% when compared to the final quarter of 2013 and by 64% when compared to the first quarter of 2013. The increase in production costs is largely aligned with increased production at Umbach. Production costs per barrel of crude oil averaged \$23.34 for the first quarter and production costs per Mcf of natural gas averaged \$1.94, with total production costs averaging \$10.88 per Boe. The equivalent charges for the first quarter of 2013 were \$15.31 per barrel for crude oil and \$2.51 per Mcf of natural gas, with total production costs averaging \$13.54 per Boe. Per-Boe production costs for the final quarter of 2013 averaged \$12.53 for crude oil and \$1.88 for natural gas with total production costs averaging \$9.73. Production costs of natural gas liquids are included with natural gas costs.

The decrease in total per-Boe costs relative to the first quarter of 2013 is attributable to the increase in production of lower cost natural gas of total corporate volumes, from 66% in the first quarter of 2013 to 78% in the first quarter of 2014, a trend expected to continue. The increase in total per-Boe costs relative to the final quarter of 2013 is primarily due to higher repair and maintenance costs in the Grande Prairie area plus invoices related to prior periods, with both adding approximately \$0.6 million or \$1.22 per Boe.

## Transportation Costs

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period	\$ 782	\$ 323	\$ 801
Percentage of revenue from product sales	3.8%	3.6%	5.2%
Per Boe	\$ 1.71	\$ 1.44	\$ 1.82

Total transportation costs largely comprise pipeline tariffs to the processing facility from the sales point for natural gas, and trucking costs for crude oil in Alberta and wellhead condensate in British Columbia. Total transportation costs for the first quarter of 2014 increased by 142% over the same quarter of 2013, and decreased 2% over the immediately preceding quarter, both consistent with increased production and the shift in commodity mix.

Year-over-year, there were increases in total transportation costs for all three commodities. Higher volumes of field condensate at Umbach increased NGL trucking charges.

Increased production of natural gas in future periods should result in a reduction in per-Boe transportation costs.

## Field Netbacks

Details of field netbacks per commodity unit produced are as follows:

	Three Months Ended March 31, 2014			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 93.08	\$ 84.49	\$ 5.63	\$ 45.62
Realized hedging gains (losses)	(8.28)	-	(0.53)	(3.10)
Royalties	(18.97)	(15.00)	(0.84)	(7.56)
Production costs	(23.34)	-	(1.94)	(10.88)
Transportation costs	(4.16)	(2.85)	(0.21)	(1.71)
Field operating income per Boe	\$ 38.33	\$ 66.64	\$ 2.11	\$ 22.37
Total field operating income (000s)	\$ 1,349	\$ 4,347	\$ 4,504	\$10,200

Three Months Ended March 31, 2013

	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 82.21	\$ 67.08	\$ 3.46	\$ 40.37
Realized hedging gains (losses)	(1.30)	-	0.10	0.10
Royalties	(15.94)	(17.42)	0.10	(5.25)
Production costs	(15.31)	-	(2.51)	(13.54)
Transportation costs	(3.72)	(0.21)	(0.13)	(1.44)
Field operating income per Boe	\$ 45.94	\$ 49.45	\$ 1.02	\$ 20.24
Total field operating income (000s)	\$ 2,469	\$ 1,164	\$ 900	\$ 4,533

Three Months Ended December 31, 2013

	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 78.47	\$ 70.10	\$ 3.88	\$ 35.02
Realized hedging gains (losses)	(4.01)	-	0.10	0.09
Royalties	(20.52)	(5.03)	(0.02)	(2.65)
Production costs	(12.53)	-	(1.88)	(9.73)
Transportation costs	(5.44)	(2.77)	(0.20)	(1.82)
Field operating income per Boe	\$ 35.97	\$ 62.30	\$ 1.88	\$ 20.91
Field operating income (000s)	\$ 1,417	\$ 3,983	\$ 3,785	\$ 9,185

Production costs of natural gas liquids are included with natural gas costs.

Field operating income per Boe for the first quarter of 2014 was 11% higher than the same quarter of 2013 primarily due to higher prices for all commodities. Compared to the final quarter of 2013, higher royalties, production and transportation costs were more than offset by higher pricing, resulting in a netback increase of 7%. Excluding the effect of hedging, field netback per Boe in the first quarter of 2014 was higher by 26% year over year and by 22% quarter over quarter.

Cash costs per Boe, comprising production costs, transportation, interest and general and administrative costs, amounted to \$15.97 for the first quarter of 2014, \$20.81 for the equivalent quarter of 2013 and \$15.38 for the final quarter of 2013. Year-over-year per-Boe reductions in production, interest and general and administrative costs more than offset transportation cost increases. First quarter 2014 production costs were higher when compared to the final quarter of 2013, but transportation, general and administrative costs and interest were lower.

### General and Administrative Costs

Total Costs	Three Months Ended March 31, 2013	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period – before recoveries	\$ 1,746	\$ 1,371	\$ 1,740
Overhead recoveries	(419)	(397)	(312)
Charge for period – net of recoveries	\$ 1,327	\$ 974	\$ 1,428
Per Boe	\$ 2.91	\$ 4.35	\$ 3.25

Gross general and administrative costs for the first quarter of 2014 increased by 27% when compared to the first quarter of 2013 and were flat compared to the final quarter of 2013. The year-on-year increase in general and administrative costs is largely attributable to increases in personnel and accommodation costs.

On a per-Boe measure, net general and administrative costs fell by 33% compared to the first quarter of 2013 due to increased production. The Company expects that increased production volumes in future periods will result in this favourable trend continuing.

## Share-Based Compensation

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period	\$ 257	\$ 167	\$ 217
Per Boe	\$ 0.56	\$ 0.74	\$ 0.49

Share-based compensation is a non-cash charge which reflects the estimated value of stock options issued to Storm's directors, officers and employees. Share-based compensation increased by 54% in the first quarter of 2014 compared to the same quarter of 2013 and increased by 18% when compared to the immediately prior quarter. The increase in share-based compensation in the first quarter of 2014 is attributable to the grant of 1,742,000 stock options in the quarter.

## Depletion and Depreciation

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Depletion	\$ 5,018	\$ 3,385	\$ 5,218
Depreciation	681	267	494
Charge for period	\$ 5,699	\$ 3,652	\$ 5,712
Per Boe	\$ 12.49	\$ 16.30	\$ 13.01

Property and equipment assets are subject to depletion and depreciation charges. Depletion is calculated using unit-of-production methodology under which intangible costs plus future development costs associated with individual cash generating units are depleted using a factor calculated by dividing production for the reporting period by proved plus probable reserves at the beginning of the period.

The charge for depreciation for the period relates to tangible field and office equipment costs included as part of total property and equipment costs. Such costs are depreciated over the useful life of the asset.

Higher production resulted in the total charge for depletion and depreciation increasing year over year by 56% in the first quarter of 2014.

The year-over-year per-Boe charge fell by 23%, a reflection of reserve growth driven by the Company's successful drilling program.

In addition, management reviewed the carrying amounts of exploration and evaluation and property and equipment assets for indicators of impairment at March 31, 2014 and determined that no impairment adjustment was required.

## Exploration and Evaluation Costs Expensed

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period	\$ 152	\$ -	\$ 265
Per Boe	\$ 0.33	\$ -	\$ 0.60

Exploration and evaluation costs expensed is a non-cash charge representing the cost of undeveloped lands which have expired.

## Accretion

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period	\$ 67	\$ 61	\$ 56

Accretion represents the time value increase for the period of the Company's decommissioning liability.



## Interest

(000s)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Charge for period	\$ 213	\$ 332	\$ 256
Percentage of revenue from product sales	1.0%	3.7%	1.7%
Per Boe	\$ 0.47	\$ 1.48	\$ 0.58

Interest costs for the first quarter of 2014 decreased by 36% compared to the equivalent period in 2013, and decreased by 17% compared to the final quarter of 2013, as a result of reduced debt levels due largely to issue of equity which was used initially to reduce bank debt. Expanded use of the Company's credit facility in future quarters will result in increased interest costs.

The interest rate is based on guaranteed notes acceptance rates, which are equivalent to bankers acceptances, plus a stamping fee which is amended each quarter in response to changes in the Company's debt-to-cash-flow ratio.

## Gain on Disposal of Investments

In the first quarter of 2014, the Company sold 1.0 million shares of Chinook Energy Inc. ("Chinook") for proceeds of \$1.5 million and recognized a gain of \$0.3 million measured against the carrying value at December 31, 2013.

## Gain (Loss) on Disposal of Oil and Gas Properties

In the first quarter of 2013, the Company sold land and largely oil producing properties in Alberta and British Columbia, realizing a gain of \$0.7 million on disposition, which was measured by applying proceeds on sale against the carrying amount of the properties. Proceeds on sale were initially used to reduce bank debt which was subsequently redrawn and used to fund development at Umbach.

## Gain (Loss) on Commodity Price Contracts

The unrealized gain (loss) on commodity price contracts results from the mark-to-market valuation of the unexpired portion of hedging positions outstanding at the end of the reporting period. Details of hedging positions completed during the reporting period and quarter-end valuation of contracts in place at the end of the reporting period and which relate to future periods are as follows:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Realized gain (loss)			
Crude oil	\$ (292) \$ (8.28)/Bbl	\$ (70) \$ (1.30)/Bbl	\$ (158) \$(4.01)/Bbl
Natural gas	(1,122) \$ (0.53)/Mcf	91 \$ 0.10/Mcf	198 \$ 0.10/Mcf
Total realized gain (loss) - cash	\$(1,414) \$(3.10)/Boe	\$ 21 \$ 0.10/Boe	\$ 40 \$ 0.09/Boe
Unrealized gain (loss)			
Crude oil – change in fair value	\$ (467) \$(13.26)/Bbl	\$(108) \$ (2.01)/Bbl	\$ 46 \$ 1.17/Bbl
Natural gas – change in fair value	(2,470) \$ (1.16)/Mcf	(214) \$ (0.24)/Mcf	(1,310) \$ (0.65)/Mcf
Total unrealized gain (loss) - non-cash	\$(2,937) \$(6.44)/Boe	\$(322) \$ (1.44)/Boe	\$(1,264) \$(2.88)/Boe

## Income Taxes

Due to uncertainty of realization, no deferred income tax asset has been set up in respect of potential future income tax reductions resulting from the use of accumulated tax losses. In the first quarter of 2014, the Company acquired wells and undeveloped land at Umbach for approximately \$88.0 million and received associated tax pools of \$50.0 million.

Details of Storm's tax pools are as follows:

Tax Pool	As at March 31, 2014	Maximum Annual Deduction
Canadian oil and gas property expense	\$ 72,000	10%
Canadian development expense	78,000	30%
Canadian exploration expense	22,000	100%
Undepreciated capital cost	52,000	20 - 100%
Operating losses	117,000	100%
Other	6,000	20 - 100%
<b>Total</b>	<b>\$ 347,000</b>	

### Unrealized Revaluation Gain (Loss) on Investment

For the three months ended March 31, 2014, a gain of \$0.4 million (2013 – nil) was recognized in the consolidated statement of loss, representing the mark-to-market increase in value of the investment in Chinook measured against the value at the end of 2013.

### Net Income (Loss)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Net income (loss)	\$ 206	\$ (261)	\$ (25,174)
Per basic and diluted share	\$ 0.00	\$ 0.00	\$ (0.34)

### Other Comprehensive Income (Loss)

Other comprehensive income comprises net income (loss) for the period plus unrealized gains and losses resulting from the mark-to-market valuation of certain assets and liabilities. In the first quarter of 2013, Storm's other comprehensive income comprised adjustments to reflect the period-end mark-to-market valuation of listed securities. In subsequent reporting periods, IFRS required that mark-to-market declines be included in the determination of income or loss.

Listed Securities	Holding	Number of Shares	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Chinook Energy Inc. <sup>(1)</sup>	Common Shares	2,000,000	\$ -	\$ (870)	\$ -
Other comprehensive income (loss) for period			\$ -	\$ (870)	\$ -

(1) Shares owned at March 31, 2014.

### Non-GAAP Funds from Operations and Funds from Operations Per Share

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		Three Months Ended December 31, 2013	
	\$	Per diluted share	\$	Per diluted share	\$	Per diluted share
Funds from operations	\$ 8,660	\$ 0.08	\$ 3,227	\$ 0.05	\$ 7,501	\$ 0.09

Non-GAAP funds from operations for the first quarter of 2014 increased by 168% from the first quarter of 2013, and increased by 15% compared to the final quarter of 2013.

Non-GAAP funds from operations is not a measure recognized by GAAP in Canada, although it is widely used by investors, analysts and other financial statement users. It is also used by lending institutions to determine debt to cash flow ratios and other measures of credit worthiness and thus determines interest rates on borrowings. The most directly comparable measure under GAAP is cash flows from operating activities, as set out below.

## Cash Flows from Operating Activities

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		Three Months Ended December 31, 2013	
		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from operations	\$ 8,660	\$ 0.08	\$ 3,227	\$ 0.05	\$ 7,501	\$ 0.10
Net change in non-cash working capital items	(855)	(0.00)	19	0.00	(550)	(0.01)
Cash from operating activities	\$ 7,805	\$ 0.08	\$ 3,246	\$ 0.05	\$ 6,951	\$ 0.09

The reconciling item between funds from operations and cash flows from operating activities is the change in non-cash operating working capital items.

## Corporate Netbacks

(\$/Boe)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Revenue from product sales	45.62	40.37	35.02
Hedging gains	(3.10)	0.10	0.09
Royalties	(7.56)	(5.25)	(2.65)
Production	(10.88)	(13.54)	(9.73)
Transportation	(1.71)	(1.44)	(1.82)
General and administrative	(2.91)	(4.35)	(3.25)
Interest	(0.47)	(1.48)	(0.58)
Funds from operations netback	18.99	14.41	17.08
Share-based compensation	(0.56)	(0.74)	(0.49)
Depletion, depreciation and accretion	(12.64)	(16.58)	(13.14)
Exploration and evaluation costs expensed	(0.33)	-	(0.60)
Gain on disposal of investments	0.64	-	-
Unrealized revaluation gain on investments	0.83	-	1.91
Reduction of carrying amount of property and equipment	-	-	(59.21)
Gain (loss) on disposal of oil and gas properties	(0.03)	3.18	-
Unrealized loss on commodity price contracts	(6.44)	(1.44)	(2.88)
Net income (loss) per Boe	0.46	(1.17)	(57.33)

## INVESTMENT AND FINANCING

### Financial Resources and Liquidity

The Company began 2013 with a bank line of \$62.0 million. The facility was reduced to \$52.0 million in the first quarter of 2013 following the sale of certain Alberta producing properties. In the fourth quarter of 2013, the facility credit limit was increased to \$65.0 million in recognition of production and reserve growth at Umbach. Subsequent to March 31, 2014, the facility credit limit was increased to \$90.0 million, further recognizing production and reserve growth at Umbach.

The Company is in compliance with all covenants under the credit facility, the sole financial covenant being that net debt including working capital deficiency not exceed the facility credit limit.

In quarters of high field activity, Storm operates with a working capital deficit, which will be reduced in quarters of lower field activity. The Company's capital budget is set by management at the beginning of the calendar year and approved by the Board of Directors. It is updated regularly with major changes subject to approval by the Board of Directors.

## Investments

The Company owns listed shares as set out below, which are valued at the closing price on the TSX at March 31, 2014. Proceeds from the possible future sale of this investment may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Mar. 31, 2014	Value at Mar. 31, 2014
Chinook Energy Inc.	Common Shares	2,000,000	TSX	\$ 1.35	\$ 2,700

In early 2014, the Company sold 1.0 million shares of Chinook for net proceeds of \$1.5 million and recognized a gain of \$0.3 million.

## Capital Expenditures

In the first quarter of 2014, the Company spent \$110.4 million, further adding to and developing the high liquids content natural gas play at Umbach. This included approximately \$88.0 million to acquire 29 sections of undeveloped land directly adjacent to Storm's 100% working interest lands at Umbach South along with two 100% working interest horizontal wells producing 359 Boe net per day.

During the quarter, the Company drilled 4.0 gross (4.0 net) horizontal wells and one vertical delineation well, completed two wells and tied in one well at Umbach. Major field capital outlays in the first quarter include \$17.8 million on drilling and completions and \$3.4 million on facilities, equipping and tie-ins, all in the Umbach area.

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Land and lease	\$ 295	\$ 6,654	\$ 473
Drilling	12,327	5,054	3,925
Completions	5,467	3,851	3,548
Facilities	3,378	3,454	2,654
Recompletions and workovers	876	1,120	816
Proceeds on disposition of oil and gas properties	-	(18,105)	-
Property acquisition, adjustments and administrative assets	88,051	(1,391)	(36)
Total	\$ 110,394	\$ 637	\$ 11,380

Capital expenditures in the reporting periods were allocated as follows:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Three Months Ended December 31, 2013
Exploration and evaluation	\$ 79,527	\$ 5,876	\$ 901
Property and equipment	30,867	(5,239)	10,479
Total – net of dispositions	\$ 110,394	\$ 637	\$ 11,380

The expenditures above include the non-cash common share consideration of \$57.9 million included in the \$88.0 million asset acquisition at Umbach in the first quarter of 2014.

## Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include operating, administrative and capital costs payable. Net payables in respect of cash calls issued to partners regarding capital projects and estimates of amounts owing but not yet invoiced to the Company have been included in accounts payable. The level of accounts payable and accrued liabilities at March 31, 2014 corresponds to the seasonality of the Company's operations and to the active field program at Umbach.

## Decommissioning Liability

The Company's decommissioning liability represents the present value of estimated future costs to be incurred to abandon and reclaim wells and facilities, drilled, constructed or purchased by Storm. Changes in the amount of the liability during the period ended March 31, 2014 reflect (i) additional liabilities accruing to the Company as a result of field activity and acquisitions, (ii) revisions of estimates of future costs and timing of incurrence of such costs, (iii) less the decommissioning obligations associated with dispositions of oil and gas properties, (iv) actual disposition costs

incurred, (v) plus the time-related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 3.0%. Future costs to abandon and reclaim the Company's properties are based on an internal evaluation, supported by external data from industry sources.

## Shareholders' Equity

Details of share issuances from inception to March 31, 2014 are as follows:

		Number of Shares (000s)	Price per Share	Gross Proceeds <sup>(1)</sup> (\$000s)
June 8, 2010	Issued upon incorporation		\$ 1.00	\$ -
August 17, 2010	Issued under the Arrangement	17,515	\$ 3.28	57,600
August 17, 2010	Issued under private placement	2,300	\$ 3.28	7,544
September 22, 2010	Issued upon exercise of warrants	6,562	\$ 3.28	21,522
		26,377		86,666
January 12, 2012	Issued on acquisition of SGR	11,761	\$ 3.73	43,869
March 23, 2012	Issued under private placement	6,946	\$ 3.40	23,615
March 23, 2012	Issued on acquisition of Bellamont	16,740	\$ 2.37	39,674
		35,447		107,158
May 1, 2013	Issued under private placement	12,580	\$ 1.88	23,650
May 1, 2013	Issued under insider private placement	3,000	\$ 1.88	5,640
June 30, 2013	Shares cancelled	(21)	\$ 2.37	(50)
November 19, 2013	Issued under private placement	9,000	\$ 3.35	30,150
November 19, 2013	Issued under insider private placement	1,100	\$ 3.35	3,685
		25,659		63,075
January 31, 2014	Issued pursuant to Umbach acquisition	13,629	\$ 4.25	57,925
February 14, 2014	Issued under private placement	7,250	\$ 4.10	29,725
February 14, 2014	Issued under insider private placement	1,250	\$ 4.10	5,125
		22,129		92,775
Total		109,612	\$ 3.19	\$ 349,674

(1) Before share issue costs.

In April 2013 the Company entered into a bought deal financing for aggregate gross proceeds of \$23,650,400. Pursuant to this financing, the Company issued 12,580,000 common shares at a price of \$1.88 per share. Concurrently with the bought deal financing, the Company issued 3,000,000 common shares also at a price of \$1.88 per share to certain directors, officers and employees of the Company for gross proceeds of \$5,640,000. Both of these financings closed on May 1, 2013. Net proceeds received totaled \$27.8 million.

In October 2013 the Company entered into a bought deal financing for aggregate gross proceeds of \$30,150,000. Pursuant to this financing, the Company issued 9,000,000 common shares at a price of \$3.35 per share. Concurrently with the bought deal financing, the Company issued 1,100,000 common shares, also at a price of \$3.35 per share, to certain directors, officers and employees of the Company for gross proceeds of \$3,685,000. Both of these financings closed on November 19, 2013. Net proceeds received totaled \$31.9 million.

On January 31, 2014, the Company issued 13,629,442 common shares at a fair value under IFRS of \$4.25 per share, as partial consideration for the acquisition of two producing horizontal wells, producing 359 Boe net per day, and 29 sections of undeveloped land directly adjacent to Storm's 100% working interest lands in Umbach South. The total cost of the acquisition was approximately \$88.0 million including \$30.0 million in cash.

In February 2014, the Company issued 7,250,000 common shares pursuant to a bought deal financing at a price of \$4.10 per common share for gross proceeds of \$29,725,000. At the same time, the Company issued to certain directors, officers and employees of the Company 1,250,000 common shares pursuant to a non-brokered financing at a price of \$4.10 per common share for gross proceeds of \$5,125,000. Both of these financings closed on February 14, 2014. Net proceeds received totaled \$33.0 million.

## CONTRACTUAL OBLIGATIONS

In the course of its business, Storm enters into various contractual obligations, including the following:

- purchase of services;
- royalty agreements;
- operating agreements;
- processing agreements;
- right of way agreements;
- lease obligations for accommodation, office equipment and automotive equipment;
- banking agreement; and
- hedging agreements.

All such contractual obligations reflect market conditions at the time of contract and do not involve related parties. At present the Company has no material obligations with a term longer than twelve months except for a lease of office premises for a period of five years commencing October 1, 2013 for a base rent, not including operating costs, totaling approximately \$3.0 million over the term of the lease. Current monthly operating costs amount to \$27,300.

## QUARTERLY RESULTS

Summarized information by quarter for the two years ended March 31, 2014 appears below:

	2014				2013			2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Production revenue (\$000s) <sup>(1)</sup>	19,393	15,420	13,093	11,960	9,069	11,139	9,631	9,819
Non-GAAP funds from (applied to) operations (\$000s) <sup>(2)</sup>	8,660	7,501	6,144	5,077	3,227	5,016	4,765	3,669
Per share								
- basic (\$)	0.09	0.09	0.08	0.07	0.05	0.08	0.08	0.07
- diluted (\$)	0.08	0.09	0.08	0.07	0.05	0.08	0.08	0.07
Net income (loss) (\$000s)	206	(25,174)	(1,429)	661	(261)	(2,320)	(3,586)	947
Per share								
- basic (\$)	0.00	(0.34)	(0.02)	0.01	0.00	(0.04)	(0.07)	0.03
- diluted (\$)	0.00	(0.34)	(0.02)	0.01	0.00	(0.04)	(0.07)	0.03
Net capital expenditures (\$000s)	110,394	11,380	23,717	16,710	637	8,777	(3,925)	7,224
Average daily production - Boe	5,068	4,773	3,800	3,460	2,488	2,815	2,380	2,584
Net (debt)/working capital (\$000s) <sup>(3)</sup>	(22,176)	(12,059)	(40,968)	(22,671)	(38,656)	(40,376)	(36,137)	(46,154)

(1) Includes hedging gains and losses.

(2) See Non-GAAP Measurements on page 9 of this MD&A.

(3) Includes investments.

## CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the financial statements for the period ended March 31, 2014 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain amounts in the financial statements are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts, as described below, are based on estimations using information involving a high degree of measurement uncertainty. Variations between amounts estimated and actual results could have a material effect on Storm's operating results and financial position.

### Accounting for Acquisitions

Acquisitions completed in earlier reporting periods necessitated the allocation of fair values to the assets acquired and the liabilities assumed as a result of the acquisitions. The determination of fair values was made by management of Storm and involved measurements, estimations and judgments which could differ from similar determinations made by

other parties. Further, fair values were set using management's knowledge of the assets and liabilities of the acquired companies at the time of acquisition or subsequently, and information and circumstances may emerge that could result in changes to the fair values set by management. The allocation of fair values thus involves measurement uncertainty and changes thereto could have a material effect on operations and financial position.

### **Accounts Payable and Accrued Liabilities**

At the end of each reporting period, the Company estimates the cost of goods and services provided during the reporting period when the cost has not been invoiced to the Company by the reporting date. The Company estimates and recognizes the cost of such unbilled goods and services using well established measurement procedures. Nonetheless, such procedures are subject to measurement uncertainty.

### **Decommissioning Liability**

Storm records as a liability the discounted estimated fair value of obligations associated with the decommissioning of field assets. The carrying amount of exploration and evaluation assets and property and equipment is increased by an amount equivalent to the liability. The decommissioning liability reflects estimated costs to complete the abandonment and reclamation of field assets as well as the estimated timing of the costs to be incurred in future periods. The liability is increased each reporting period to reflect the passage of time, with the charge for accretion charged to earnings. The liability is also adjusted to reflect changes in the amount and timing of future retirement obligations as well as asset dispositions and is reduced by the amount of any costs incurred in the period. The amount of future decommissioning costs, the timing of incurrence of such costs, the discount rate and, correspondingly, the charge for accretion, are subject to uncertainty of estimation.

### **Income Taxes**

The measurement of Storm's tax pools, losses and deferred tax assets and liabilities requires interpretation of complex laws and regulations. All tax filings and compliance with tax regulations are subject to audit and reassessment, potentially several years after the initial filing. Accordingly, the amounts of tax pools available for future use may differ significantly from the amounts initially estimated.

### **Share-Based Compensation**

To determine the charge for share-based compensation, the Company estimates the fair value of stock options at the time of issue using assumptions regarding the life of the option, dividend yields, interest rates and the volatility of the security under option. Although the assumptions used to value a specific option remain unchanged throughout the life of the option, assumptions may change with respect to subsequent option grants. In addition, the assumptions used may not properly represent the fair value of stock options at any time; as no alternative valuation model is applied, the difference between the Company's estimation of fair value and the actual value of the option is not measurable.

### **Exploration and Evaluation Assets**

Costs incurred by the Company in the initial assessment phase of a property offering development potential are categorized as exploration and evaluation assets. Such costs are transferred to CGUs, generally when production commences, or are expensed if the Company determines that the costs so incurred will yield no future economic benefit. The amounts transferred to property and equipment or written off, and the timing of the decisions relative to each, are subject to measurement uncertainty. Furthermore, the residual balance of exploration and evaluation assets at the end of each reporting period represents an asset whose value can only be established in future periods.

### **Property and Equipment and Depletion and Depreciation**

Generally, upon commencement of production, the Company transfers from exploration and evaluation assets to property and equipment assets on the Company's statement of financial position an amount representing the accumulated net costs associated with the property. The measure of the amount to be transferred involves estimation and judgment by management, and the estimates used could differ from similar estimates developed by other parties.

Property and equipment assets are subject to depletion and depreciation, and charges for depletion and depreciation are based on estimates which may only be validated in future periods, if ever. Such charges involve estimates of the useful economic life for assets subject to depletion and depreciation, the quantities of oil and gas reserves used in the depletion calculation, the future prices that such reserves may be sold, and future costs to develop such reserves. Further, property and equipment is subject each reporting period to a measurement test under which the carrying

amount of property and equipment, as allocated to CGUs, is compared to the greater of its value in use and its fair value plus costs to sell. All of these involve assumptions regarding future events and circumstances and involve a high degree of uncertainty.

## **RISK ASSESSMENT**

There are a number of risks facing participants in the Canadian oil and gas industry. Some risks are common to all businesses while others are specific to the industry. Information with respect to such risks is set out in Storm's Annual Information Form dated March 31, 2014 for the year ended December 31, 2013 under the heading "Risk Factors" and in Storm's MD&A for the period ended December 31, 2013 under the heading "Risk Assessment".

## **FINANCIAL REPORTING UPDATE**

There were no significant accounting policy developments during the first quarter of 2014.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company can be viewed at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.stormresourcesltd.com](http://www.stormresourcesltd.com). Information can also be obtained by contacting the Company at Storm Resources Ltd., Suite 200, 640 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3G4.



# Condensed Interim Consolidated Financials

## Interim Consolidated Statements of Financial Position

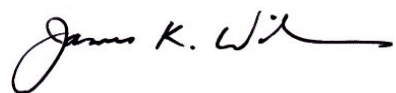
(Canadian \$000s) (unaudited)	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	\$ 8,466	\$ 6,185
Prepays and deposits	785	1,017
Investments (Note 3)	2,700	3,480
	11,951	10,682
Exploration and evaluation (Note 4)	167,106	87,396
Property and equipment (Note 5)	180,029	152,472
	\$ 359,086	\$ 250,550
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 28,853	\$ 12,114
Fair value of commodity price contracts (Note 12)	4,185	1,248
	33,038	13,362
Bank indebtedness (Note 6)	5,274	10,627
Decommissioning liability (Note 7)	11,493	8,689
	49,805	32,678
<b>Shareholders' equity</b>		
Share capital (Note 9)	343,783	252,837
Contributed surplus (Note 10)	3,226	2,969
Deficit	(37,728)	(37,934)
	309,281	217,872
Commitments (Note 16)		
	\$ 359,086	\$ 250,550

See accompanying notes to the condensed interim consolidated financial statements.

On behalf of the Board:



Director



Director

## Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Canadian \$000s except per-share amounts) (unaudited)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
<b>Revenue</b>		
Revenue from product sales	\$ 20,807	\$ 9,048
Realized gain (loss) on commodity price contracts (Note 12)	(1,414)	21
Royalties	(3,449)	(1,181)
	<b>\$ 15,944</b>	<b>\$ 7,888</b>
<b>Expenses</b>		
Production	4,962	3,032
Transportation	782	323
General and administrative	1,327	974
Share-based compensation (Note 10)	257	167
Depletion and depreciation	5,699	3,652
Exploration and evaluation costs expensed (Note 4)	152	-
Accretion	67	61
	<b>13,246</b>	<b>8,209</b>
<b>Income (loss) before the following:</b>	<b>2,698</b>	<b>(321)</b>
Interest expense	(213)	(332)
Gain on disposal of investments (Note 3)	291	-
Unrealized revaluation gain on investments (Note 3)	380	-
Gain (loss) on disposal of oil and gas properties (Note 5)	(13)	714
Unrealized loss on commodity price contracts (Note 12)	(2,937)	(322)
<b>Net income (loss) for the period</b>	<b>206</b>	<b>(261)</b>
<b>Other comprehensive loss</b>	<b>-</b>	<b>(870)</b>
<b>Comprehensive income (loss) for the period</b>	<b>\$ 206</b>	<b>\$ (1,131)</b>
<b>Net income (loss) per share (Note 11)</b>		
- basic	\$ 0.00	\$ 0.00
- diluted	\$ 0.00	\$ 0.00

See accompanying notes to the condensed interim consolidated financial statements.

## Interim Consolidated Statements of Changes in Shareholders' Equity

(Canadian \$000s) (unaudited)	Three Months Ended March 31, 2014			
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance, beginning of period	\$252,837	\$ 2,969	\$(37,934)	\$217,872
Net income for the period	-	-	206	206
Issue of common shares (Note 9)	92,775	-	-	92,775
Share issue costs (Note 9)	(1,829)	-	-	(1,829)
Share-based compensation (Note 10)	-	257	-	257
Balance, end of period	\$343,783	\$ 3,226	\$(37,728)	\$309,281

(Canadian \$000s) (unaudited)	Three Months Ended March 31, 2013				
	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance, beginning of period	\$193,184	\$ 2,088	\$(11,731)	\$ -	\$183,541
Net loss for the period	-	-	(261)	-	(261)
Share-based compensation (Note 10)	-	167	-	-	167
Unrealized loss on investments (Note 3)	-	-	-	(870)	(870)
Balance, end of period	\$193,184	\$ 2,255	\$(11,992)	\$ (870)	\$182,577

See accompanying notes to the condensed interim consolidated financial statements.

## Interim Consolidated Statements of Cash Flows

(Canadian \$000s) (unaudited)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
<b>Operating activities</b>		
Net income (loss) for the period	\$ 206	\$ (261)
Non-cash items:		
Share based compensation (Note 10)	257	167
Depletion, depreciation and accretion	5,766	3,713
Exploration and evaluation costs expensed (Note 4)	152	-
Gain on disposal of investment (Note 3)	(291)	-
Unrealized revaluation loss on investments	(380)	-
(Gain) loss on disposal of oil and gas properties	13	(714)
Unrealized loss on commodity price contracts (Note 12)	2,937	322
	8,660	3,227
Net change in non-cash working capital items (Note 15)	(855)	19
	7,805	3,246
<b>Financing activities</b>		
Proceeds from issue of common shares – net of share issue costs (Note 9)	33,021	-
Decrease in bank indebtedness	(5,353)	(8,553)
	27,668	(8,553)
<b>Investing activities</b>		
Additions to exploration and evaluation assets (Note 4)	(21,602)	(7,270)
Additions to property and equipment (Note 5)	(30,867)	(12,866)
Proceeds on disposal of exploration and evaluation assets (Note 4)	-	1,394
Proceeds on disposal of property and equipment (Note 5)	-	18,105
Proceeds on disposal of investments (Note 3)	1,451	-
Net change in non-cash working capital items (Note 15)	15,545	5,944
	(35,473)	5,307
Change in cash during the period	-	-
Cash, beginning of period	-	-
Cash, end of period	\$ -	\$ -

See accompanying notes to the condensed interim consolidated financial statements.

# Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2014 and 2013

Tabular amounts in thousands of Canadian dollars, except per-share amounts (unaudited)

## 1. REPORTING ENTITY

Storm Resources Ltd. (the "Company" or "Storm"), is an oil and gas exploration and development company incorporated in the province of Alberta, Canada on June 8, 2010 and is listed on the TSX Venture Exchange under the symbol "SRX". The Company operates in the provinces of Alberta and British Columbia and its head office is located at Suite 200, 640 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3G4. The Company became a reporting issuer in August 2010.

These unaudited condensed interim consolidated financial statements (the "financial statements") include the accounts of Storm and its wholly owned subsidiary.

## 2. BASIS OF PRESENTATION

### *Statement of Compliance*

The financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, based on International Financial Reporting Standards ("IFRS") as issued and amended from time to time by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and adopted by the Canadian Institute of Chartered Accountants ("CICA"), following the same accounting policies and methods of computation as used in the audited consolidated financial statements for the years ended December 31, 2013 and 2012, except as noted below. The financial statement note disclosures do not include all disclosures applicable to annual audited consolidated financial statements. Accordingly, the financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto as at and for the years ended December 31, 2013 and 2012.

These financial statements were authorized for issue by the Board of Directors on May 14, 2014.

### *Basis of Measurement*

The Company's financial statements have been prepared on a going concern basis consistent with prior periods, under the historical cost convention, except for certain financial assets and financial liabilities, which are measured at fair value, as explained in Note 12.

### *Use of Estimates and Judgments*

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continuously reviewed. Changes to accounting estimates are recognized in the period in which the estimates are revised.

Critical judgments applied by management to accounting policies that have the most significant effect on the amounts in the financial statements are reflected in the following notes:

- Note 3 – Measurement of fair value of investments
- Note 4 – Classification and measurement of exploration and evaluation assets
- Note 5 – Classification and measurement of property and equipment
- Note 7 – Measurement of decommissioning liability
- Note 8 – Measurement and utilization of tax assets
- Note 10 – Measurement of share-based compensation
- Note 12 – Measurement of fair value of commodity price contracts

### Significant accounting policies

During the period, the Company adopted IFRIC 21 Levies, which clarifies that an entity recognizes a liability for a levy when the activity that triggers payment occurs, effective January 1, 2014. No liability should be recognized before the specified minimum threshold to trigger that levy is reached. The Company concluded that the application of the standard has no impact on the Company.

Future accounting standards issued, but not yet effective, are described in Note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2013.

### 3. INVESTMENTS

	March 31, 2014	December 31, 2013
Chinook Energy Inc. ("Chinook")	\$ 2,700	\$ 3,480

The investment in Chinook was transferred to Storm from a predecessor company in August 2010 and at March 31, 2014 the Company held a total of 2.0 million common shares.

Unrealized revaluation gain for the quarter ended March 31, 2014, in the amount of \$0.4 million (2013 – loss of \$0.9 million) was recognized in the consolidated statement of income (loss).

In January 2014 the Company sold 1.0 million shares of Chinook for net proceeds of \$1.5 million and recognized a gain of \$0.3 million measured against the carrying amount at December 31, 2013.

### 4. EXPLORATION AND EVALUATION

	Three Months Ended March 31, 2014	Year ended December 31, 2013
Balance, beginning of period	\$ 87,396	\$ 72,947
Acquisitions	78,925	-
Additions	602	16,863
Disposals	-	(755)
Exploration and evaluation expenditures expensed	(152)	(480)
Future decommissioning costs	769	812
Transfer to property and equipment	(434)	(1,991)
Balance, end of period	\$ 167,106	\$ 87,396

In the first quarter, the Company acquired two producing horizontal wells and 29 sections of undeveloped land at Umbach South for approximately \$88.0 million consisting of \$30.0 million in cash and 13,629,442 common shares at a deemed price of \$4.25 per share. This transaction does not constitute a business combination as only assets were acquired with no related infrastructure or personnel.

## 5. PROPERTY AND EQUIPMENT

	Three Months Ended March 31, 2014	Year ended December 31, 2013
Net book value, beginning of period	\$ 152,472	\$ 161,665
Cost		
Balance, beginning of period	\$ 211,024	\$ 176,990
Acquisitions	9,080	-
Additions	21,774	55,076
Disposals	-	(19,763)
Change in future decommissioning costs	1,968	(3,270)
Transfer from exploration and evaluation assets	434	1,991
Balance, end of period	\$ 244,280	\$ 211,024
Accumulated depletion and depreciation		
Balance, beginning of period	\$ (58,552)	\$ (15,325)
Depletion and depreciation	(5,699)	(18,935)
Reduction in carrying amount of property and equipment	-	(26,000)
Disposals	-	1,708
Balance, end of period	\$ (64,251)	\$ (58,552)
Net book value, end of period	\$ 180,029	\$ 152,472

## 6. BANK INDEBTEDNESS

As at March 31, 2014, the Company had an extendible revolving bank facility in the amount of \$65.0 million (December 31, 2013 – \$65.0 million) based on the Company's producing reserves. Subsequent to the end of the quarter, the facility was increased to \$90.0 million. The revolving facility is available to the Company until April 30, 2015. At that time the Company has the option to extend the facility for an additional year. If the revolving facility is not extended by that date, the facility moves into a term phase whereby the loan is to be retired with one payment one year later, in an amount equal to the outstanding principal. Interest is paid on the revolving facility at guaranteed notes acceptance rates, which are equivalent to bankers acceptances, plus a stamping fee. Security comprises a floating charge demand debenture on the assets of the Company. The Company is in compliance with all covenants under the credit facility. The only financial covenant is that net debt including working capital deficiency not exceed the facility credit line.

## 7. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production assets, including well sites, gathering systems and facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately \$17.5 million, which is expected to be paid over the next 25 years. A risk-free discount rate of 3.0% (2013 – 3.0%) and an inflation rate of 1.2% (2013 – 1.2%) was used to calculate the present value of the decommissioning obligation, amounting to \$11.5 million.

The following table provides a reconciliation of the carrying amount of the obligation associated with the decommissioning of oil and gas properties:

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
Balance, beginning of period	\$ 8,689	\$ 10,924
Obligations incurred	171	997
Obligations acquired	280	-
Obligations disposed	-	(2,515)
Obligations settled	34	(397)
Change in estimate <sup>(1)</sup>	2,252	(543)
Accretion expense	67	223
Balance, end of period	\$ 11,493	\$ 8,689

(1) Relates to changes in cost estimates in 2014 and a change to the discount rate in 2013.

## 8. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are based on the differences between the accounting amounts and the related tax bases of the Company's property and equipment assets, exploration and evaluation assets, decommissioning liability, share capital and unrealized gains and losses on investments.

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately \$230.0 million as well as non-capital losses of approximately \$117.0 million. The non-capital losses begin to expire in 2023. A deferred tax asset has not been recognized due to uncertainty as to future realization.

## 9. SHARE CAPITAL

### Authorized

An unlimited number of voting common shares without nominal or par value

An unlimited number of first preferred shares without nominal or par value

Common shareholders are entitled to receive dividends if, as and when declared by the Board of Directors. In the event of liquidation, dissolution or winding up of the Company, common shareholders shall, subject to the priority of any preferred shareholders, participate in any distribution in equal amounts per share.

### Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2012	61,824	\$ 193,184
Shares issued pursuant to private placement <sup>(1)</sup>	15,580	29,290
Shares cancelled	(21)	(50)
Shares issued pursuant to private placement <sup>(2)</sup>	10,100	33,835
Share issue costs <sup>(1)(2)</sup>	-	(3,422)
Balance as at December 31, 2013	87,483	\$ 252,837
Shares issued pursuant to Umbach acquisition <sup>(3)</sup>	13,629	57,925
Shares issued pursuant to private placement <sup>(4)</sup>	8,500	34,850
Share issue costs <sup>(3)(4)</sup>	-	(1,829)
Balance as at March 31, 2014	109,612	\$ 343,783

- (1) On May 1, 2013 the Company issued, under private placement agreements, 15,580,000 common shares at a price of \$1.88 per share for proceeds of \$29.3 million before related transaction costs of approximately \$1.5 million.
- (2) On November 19, 2013 the Company issued, under private placement agreements, 10,100,000 common shares at a price of \$3.35 per share for proceeds of \$33.8 million before issue costs of approximately \$1.9 million.
- (3) On January 31, 2014 the Company issued 13,629,442 common shares, with a deemed value of \$4.25 per common share, and paid cash of approximately \$30.0 million to acquire undeveloped land and natural gas wells in the Umbach area of northeast British Columbia.
- (4) On February 14, 2014 the Company issued, under private placement agreements, 8,500,000 common shares at a price of \$4.10 per common share for proceeds of approximately \$34.9 million before issue costs of approximately \$1.8 million.

## 10. SHARE-BASED COMPENSATION

The Company has a stock option plan under which it may grant, at the Company's discretion, options to purchase common shares to directors, officers, employees and consultants. Options are granted at the market price of the shares on the last business day prior to the date of grant, have a four-year term and vest in one-third tranches over three years. Under the stock option plan, a total of 10,961,231 common shares are available for issuance. At March 31, 2014 options in respect of 5,638,500 common shares had been issued, all of which are unexercised, and options remained in respect of 5,322,731 common shares which are available for further grants under the stock option plan.



Details of the options outstanding at March 31, 2014 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2013	3,897	\$ 2.47
Granted during the period	1,742	\$ 4.68
Outstanding at March 31, 2014	5,639	\$ 3.15
Number exercisable at March 31, 2014	2,454	\$ 2.84

Range of Exercise Price	Outstanding Options			Exercisable Options	
	Number of Options Outstanding (000s)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Outstanding (000s)	Weighted Average Exercise Price
\$1.75 - \$2.63	2,174	2.6	\$ 1.83	744	\$ 1.85
\$2.64 - \$3.95	1,723	0.4	\$ 3.27	1,710	\$ 3.28
\$3.96 - \$4.68	1,742	3.9	\$ 4.68	-	\$ -
Total	5,639	2.4	\$ 3.15	2,454	\$ 2.84

The fair value of employee stock options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, exercise price of the instrument, expected volatility, forfeiture rate, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the three months ended March 31, 2014 of \$1.99 per share (2013 - \$0.82) include the following:

	2014	2013
Share price	\$ 4.68	\$ 1.75
Exercise price	\$ 4.68	\$ 1.75
Volatility	56%	63%
Forfeiture rate	10%	10%
Expected option life (years)	3.7	3.7
Dividends	-	-
Risk-free interest rate	1.4%	1.3%

Share-based compensation expense of \$257,000 was charged to the consolidated statement of income (loss) during the three months to March 31, 2014 (2013 - \$167,000) with an equivalent offset to contributed surplus.

## 11. NET INCOME (LOSS) PER SHARE

Basic and diluted net loss per share were calculated as follows:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income (loss) for the period	\$ 206	\$ (261)
Weighted average number of common shares outstanding – basic		
Common shares outstanding at beginning of period	87,483	61,824
Effect of shares issued	13,185	-
Weighted average number of common shares outstanding – basic	100,668	61,824
Effect of outstanding options	1,745	-
Weighted average number of common shares outstanding - diluted	102,413	61,824
Net income (loss) per share		
- basic	\$ -	\$ -
- diluted	\$ -	\$ -

The dilutive factors are 1.7 million of the stock options described in Note 10. The diluted weighted average number of shares is calculated by assuming the proceeds that arise from the exercise of outstanding and in-the-money stock options are used to purchase common shares at the average market price during the period.

## 12. FINANCIAL INSTRUMENTS

Storm classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of the Company's investment in Chinook is determined with reference to published share prices and is therefore classified as a Level 1 financial instrument. The Company's investment in Chinook is carried at the March 31, 2014 fair value of \$2.7 million.

The fair value of the Company's commodity contracts described below is based on forward prices of commodities available in the market place and they are therefore classified as Level 2 financial instruments. The Company has no Level 3 financial instruments.

### **Risk Management**

#### *Commodity prices*

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for crude oil, natural gas and natural gas liquids are affected by many known and unknown factors such as demand and supply imbalances, market access, the relationship between the Canadian and United States dollar as well as national and international economic and geopolitical events.

The Company is exposed to the risk of declining prices for production resulting in a corresponding reduction in projected cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. Bank financing available to the Company is in the form of a production loan, which is reviewed semi-annually, and which is based on future cash flows and commodity price expectations. Changes to commodity prices will have an effect on credit available to the Company under its banking agreement.

The Company enters into contracts which may involve financial instruments, in order to reduce the fluctuation in production revenue by fixing prices of future deliveries of crude oil and natural gas and thus provide stability of future cash flow. The Company will not use these instruments for trading or speculative purposes.

Fair values for commodity price contracts are based on quotes received from financial institution counter parties and are calculated using current market rates and prices and option pricing models using forward pricing curves and implied volatility.

As at March 31, 2014, Storm has the undernoted commodity price contracts in place. The fair market value loss of these contracts of \$4,185,000 (December 31, 2013 – loss of \$1,248,000) is included in current liabilities and the resulting unrealized mark-to-market loss of \$2,937,000 (2013 – loss of \$322,000) is recognized in the consolidated statement of income (loss) for the period ended March 31, 2014.

Volume	Price (Cdn)	Term
<b>Crude Oil Swaps</b>		
100 Bbls/day	\$103.85	April 2014 – June 2014
100 Bbls/day	\$101.60	April 2014 – June 2014
100 Bbls/day	\$102.20	April 2014 – June 2014
150 Bbls/day	\$102.05	April 2014 – June 2014
100 Bbls/day	\$100.20	July 2014 – September 2014
100 Bbls/day	\$ 99.65	July 2014 – September 2014
150 Bbls/day	\$102.10	July 2014 – September 2014
100 Bbls/day	\$103.75	July 2014 – September 2014
150 Bbls/day	\$102.65	October 2014 – December 2014
150 Bbls/day	\$104.65	October 2014 – December 2014
<b>Crude Oil Collar</b>		
150 Bbls/day	\$100.00 - \$107.20	October 2014 – December 2014
<b>Natural Gas Swaps</b>		
3,000 GJ/day	\$ 3.43	April 2014 – December 2014
2,000 GJ/day	\$ 3.36	April 2014 – December 2014
2,000 GJ/day	\$ 3.445	April 2014 – December 2014
2,500 GJ/day	\$ 3.59	April 2014 – December 2014
1,000 GJ/day	\$ 3.97	October 2014 – December 2014
<b>Natural Gas Collars</b>		
2,000 GJ/day	\$3.00 - \$3.87	April 2014 – December 2014
2,000 GJ/day	\$3.25 - \$3.62	April 2014 – December 2014
1,000 GJ/day	\$3.35 - \$3.88	July 2014 – September 2014
3,000 GJ/day	\$4.00 - \$5.01	January 2015 – March 2015
2,000 GJ/day	\$4.00 - \$5.12	January 2015 – March 2015
2,000 GJ/day	\$4.00 - \$5.15	January 2015 – March 2015

During the quarter ended March 31, 2014, the Company realized a loss from hedges in place in the amount of \$1,414,000 (2013 – gain of \$21,000).

All crude oil contracts are based on a WTI price in US\$ per barrel which is then converted to Cdn\$ using the foreign exchange rate when the contract is executed.

#### *Prices of listed securities*

The value of the investment in Chinook held by the Company is affected by price fluctuations as the shares of Chinook are listed on the Toronto Stock Exchange.

#### *Interest rates*

Interest on the Company's revolving bank facility varies with changes in core interest rates and is most commonly based on guaranteed notes issued by the Company's bank, which are equivalent to bankers' acceptance rates, plus a stamping fee. The Company is thus exposed to increased borrowing costs during periods of increasing interest rates, with a corresponding reduction in both cash flows and project economics.

#### *Foreign exchange rates*

Prices for crude oil are determined in global markets and generally denominated in US dollars. Natural gas prices are largely influenced by both US and Canadian supply and demand structures. Changes in the Canadian dollar relative to the US dollar have no direct effect on the Company's results; nevertheless, there is indirect linkage and variation in the Canadian-US dollar exchange rate will affect Canadian dollar prices for the Company's production.

## Sensitivities

Using the Company's actual production volumes, royalty rates and debt levels for the first quarter of 2014, the estimated after-tax effect that changes in certain factors would have on net income and net income per share is set out below:

Factor	2014	
	Change in Net Income	Change in Net Income Per Share
US\$1.00/Bbl change in the price of WTI	\$ 90,000	\$ -
\$0.10/Mcf change in the price of natural gas	\$ 180,000	\$ -
1% change in the interest rate	\$ 80,000	\$ -

The Company's income tax assets are sufficient to eliminate taxes payable on any increases to income resulting from above; accordingly, before and after tax amounts are the same.

## Liquidity risk

Liquidity difficulties would emerge if the Company is unable to establish a profitable production base and thus generate sufficient cash flow to cover both operating and capital requirements. This may be the consequence of insufficient cash flows resulting from low product prices; production interruptions; operating or capital cost increases; or unsuccessful investment programs. These risks cannot be eliminated; however, the Company uses the following guidelines to address financial exposure:

- internal cash flow provides the initial source of funding on which the Company's capital expenditure program is based;
- debt, if available, may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be controlled;
- equity, if available on acceptable terms, may be raised to fund acquisitions and exploration expenditures;
- farm-outs of projects may be arranged if management considers that a project requires too much capital or where the project affects the Company's investment risk profile.

## 13. CAPITAL MANAGEMENT

The Company's capital structure is comprised of shareholders' equity and bank indebtedness. The Company's objective when managing capital is to maintain financial flexibility to support capital programs that will replace production sold as well as production declines and provide a base for future production expansion. Capital management involves the preparation of an annual budget, which is implemented after approval by the Company's Board of Directors. As the Company's business evolves, the budget will be amended; however, any changes are again subject to approval by the Board of Directors.

Cash flow, bank financing and potential proceeds from the issue of equity and the sale of assets will be invested in exploration and development operations with the intent of growing short and medium term operating cash flow. It may be that capital currently available to the Company is insufficient to adequately grow cash flow, thus requiring additional capital which may be available only on terms dilutive to existing shareholders, if available at all. Increased cash flow enables the Company to expand bank or other debt financing, an additional source of investment capital.

## 14. RELATED PARTY TRANSACTIONS

The remuneration of the key management personnel of the Company, which includes directors and officers, is set out below in aggregate:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Salaries and short-term benefits	\$ 465	\$ 320
Share-based compensation	103	17
	\$ 568	\$ 337

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in non-cash working capital

	Three months Ended March 31, 2014	Three Months Ended March 31, 2013
Accounts receivable	\$ (2,281)	\$ 481
Prepays and deposits	233	(342)
Accounts payable and accrued liabilities	16,738	5,824
Change in non-cash working capital	\$ 14,690	\$ 5,963
Relating to:		
Operating activities	\$ (855)	\$ 19
Investing activities	15,545	5,944
	\$ 14,690	\$ 5,963
Interest paid during the period	\$ 210	\$ 342
Income taxes paid during the period	\$ -	\$ -

## 16. COMMITMENTS

The Company has an office lease commencing October 1, 2013 and extending to September 30, 2018. Rental payments over the next five years are estimated as follows:

(\$000s)	2014	2015	2016	2017	2018
	684	916	928	928	696

In addition, the Company has provided letters of guarantee totaling \$213,000 to provincial governments in lieu of security deposits.

# Corporate Information

## Officers

Brian Lavergne  
President & CEO

Robert S. Tiberio  
Chief Operating Officer

Donald G. McLean  
Chief Financial Officer

John Devlin  
Vice President, Finance

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## Directors

Matthew J. Brister <sup>(2)(3)</sup>

John A. Brussa

Mark A. Butler <sup>(1)(3)</sup>

Stuart G. Clark <sup>(1)</sup>  
Chairman

Brian Lavergne  
CEO

Gregory G. Turnbull <sup>(2)</sup>

P. Grant Wierzba <sup>(2)(3)</sup>

James K. Wilson <sup>(1)</sup>

*(1) Member, Audit Committee (2) Member, Reserves Committee (3) Member, Compensation, Governance and Nomination Committee*

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## Stock Exchange Listing

TSX Venture Exchange  
Trading Symbol "SRX"

## Solicitors

McCarthy Tétrault LLP  
Burnet Duckworth & Palmer LLP  
Calgary, Alberta

## Auditors

Ernst & Young LLP  
Calgary, Alberta

## Registrar & Transfer Agent

Alliance Trust Company  
Calgary, Alberta

## Bankers

ATB Financial  
Calgary, Alberta

## Executive Offices

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[www.stormresourcesltd.com](http://www.stormresourcesltd.com)

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## Abbreviations

3-D	Three-dimensional	Mcf/d	Thousands of cubic feet per day
API	American Petroleum Institute	Mmbbls	Millions of barrels
Bbls	Barrels of oil or natural gas liquids	Mmboe	Millions of barrels of oil equivalent
Bbls/d	Barrels per day	Mmbtu	Millions of British Thermal Units
Bcf	Billions of cubic feet	Mmbtu/d	Millions of British Thermal Units per day
Bcfe	Billions of cubic feet equivalent	Mmcf	Millions of cubic feet
Boe	Barrels of oil equivalent	Mmcf/d	Millions of cubic feet per day
Boe/d	Barrels of oil equivalent per day	Mstb	Thousand stock tank barrels
Bopd	Barrels of oil per day	NAV	Net Asset Value
Btu	British thermal unit	NGL	Natural gas liquids
Cdn\$	Canadian dollar	NPV	Net present value
DPIIP	Discovered Petroleum Initially in Place	OGIP	Original Gas in Place
GJ	Gigajoules	OPEC	Organization of Petroleum Exporting Countries
GJ/d	Gigajoules per day	psig	pounds per square inch gage pressure
kPa	One thousand pascals	Scf/ton	Standard cubic foot per ton
LNG	Liquefied natural gas	STOOIP	Stock Tank Original Oil in Place
Mbbls	Thousands of barrels	Tcf	Trillions of cubic feet
Mboe	Thousands of barrels of oil equivalent	TSX	Toronto Stock Exchange
Mcf	Thousands of cubic feet	US\$	United States dollar
		WTI	West Texas Intermediate

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