STORM RESOURCES

2012 Q2 REPORT

Highlights

Thousands of Cdn$, except volumetric and per-share amounts	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
FINANCIAL				
Oil sales	6,954	748	8,613	1,231
Gas sales	1,648	1,011	2,803	1,412
NGL sales	1,205	177	1,781	274
Royalty income	12	-	12	-
Production revenue	9,819	1,936	13,209	2,917
Funds from operations(1)	3,669	710	3,606	769
Per share - basic ($)	0.07	0.03	0.07	0.03
Per share - diluted ($)	0.07	0.03	0.07	0.03
Net income (loss)	947	(562)	(668)	(883)
Per share - basic ($)	0.03	(0.02)	(0.01)	(0.03)
Per share - diluted ($)	0.03	(0.02)	(0.01)	(0.03)
Field capital expenditures, net of dispositions	7,223	2,012	9,430	11,714
Net (debt)/working capital	(53,667)	12,224	(53,667)	12,224
Weighted average common shares outstanding (000s)				
Basic	61,824	26,377	50,247	26,377
Diluted	61,847	26,377	50,247	26,377
Common shares outstanding (000s)				
Basic	61,824	26,377	61,824	26,377
Fully diluted	64,547	28,391	64,547	28,391
OPERATIONS				
Oil equivalent (6:1)				
Barrels of oil equivalent (000s)	235	54	347	79
Barrels of oil equivalent per day	2,584	595	1,906	436
Average selling price (Cdn$ per Boe)	41.71	35.74	38.03	36.93
Oil Production				
Barrels (000s)	83	7	102	13
Barrels per day	915	80	562	69
Average selling price (Cdn$ per barrel)	83.48	103.20	84.22	97.85
Gas production				
Thousand cubic feet (000s)	809	269	1,324	379
Thousand cubic feet per day	8,895	2,958	7,277	2,094
Average selling price (Cdn$ per Mcf)	2.04	3.76	2.12	3.72
NGL Production				
Barrels (000s)	17	2	24	3
Barrels per day	186	22	132	18
Average selling price (Cdn$ per barrel)	71.22	86.53	74.38	85.50
Wells drilled				
Gross	-	-	1.0	-
Net	-	-	1.0	-

(1) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 8 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 17 of the attached MD&A.

President's Message

SECOND QUARTER 2012 HIGHLIGHTS

- Production increased by 335% from the year ago period to average 2,584 Boe per day which included 1,101 barrels per day of oil plus natural gas liquids ("NGL") and 8.9 Mmcf per day of natural gas. Natural gas wells shut in during early May due to the decline in the price of natural gas reduced quarterly production by 360 Boe per day. Production was also reduced by 220 Boe per day due to the failure of a pipeline plus numerous mechanical failures on wells in the Grande Prairie area.

- As a result of the Bellamont Exploration Ltd. ("Bellamont") transaction completed on March 23rd, crude oil and NGL production increased to 43% of the production mix from 17% in the second quarter of 2011.

- On a per-share basis, quarterly production of 42 Boe per day per million shares outstanding is a year-over-year increase of 90%.

- The fourth horizontal well at Umbach was completed in June, tested at an average rate of 3.8 Mmcf per day, plus 40 barrels per day of condensate, over a 41-hour flow period and is expected to commence production in late August after the four kilometer pipeline tie-in is completed.

- Funds from operations totaled $3.7 million ($15.60 per Boe) or $0.07 per basic share which is a 415% improvement from the year earlier period where funds from operations was $0.7 million. This was primarily the result of the Bellamont transaction which increased total production and increased the proportion of higher priced crude oil and NGL production.

- Revenue was $41.71 per Boe, an increase of 17% from the year ago period which was due to the higher proportion of crude oil and NGL production which more than offset a 46% decrease in the wellhead price of natural gas.

- Field operating netback averaged $22.07 per Boe which includes a $1.60 per Boe hedging gain, operating costs of $11.56 per Boe, transportation costs of $2.97 per Boe and royalties of $5.16 per Boe (13% of total revenue).

- Capital investment totaled $7.2 million with $3.9 million invested in exploration and development activities plus $2.7 million to acquire a gas plant at Grimshaw.

- A hedging gain of $0.4 million was realized as a result of fixed price financial hedges that were put in place to protect the 2012 capital investment program. Commodity price hedges currently include 450 barrels of oil per day at Cdn $103.35 to $107.75 per barrel from April to December, 2012 and 4,500 GJ per day of natural gas (approximately 4 Mmcf per day) at $2.20 per GJ from July to September, 2012.

- At June 30, 2012, Storm's debt and working capital deficiency was $53.7 million. After including the value of Storm's investment in publicly listed companies ($7.5 million at June 30), net debt was $46.2 million. Storm's bank line is $70.0 million.

OPERATIONS REVIEW

Storm has a focused asset base with an inventory of light oil exploitation opportunities in the Grande Prairie Area and large land positions in resource plays at Umbach and in the Horn River Basin ("HRB") which have multi-year drilling upside.

Umbach, North East British Columbia

Storm's current land holdings at Umbach total 103 gross sections, or 79 net sections, (57,000 net undeveloped acres) all of which are prospective for liquids rich natural gas from the Montney formation. Production in the second quarter averaged 313 Boe per day (27% liquids) at an operating netback of $14.16 per Boe. Liquids recovery was 61 Bbls per Mmcf with approximately 45% being produced condensate plus pentanes recovered during processing.

The fourth horizontal well was completed in the second quarter with ten 100-tonne fracture stimulations. The flow test was 41 hours in duration with the average rate being 3.8 Mmcf per day gross raw gas plus 40 barrels per day of condensate at a final wellhead flowing pressure of 915 psig (cumulative gas produced during the flow period was 6.5 Mmcf). The test rate and flow period is generally consistent with earlier horizontal wells, however, the final wellhead flowing pressure was higher.

Storm's activity in 2012 is focused on drilling horizontal wells to continue delineating the areal extent of the resource in the Montney formation and to cost effectively increase rates and reserves per horizontal. Currently, three horizontal wells are producing from the Montney formation with production history for each horizontal being regularly updated and shown in the presentation on Storm's website www.stormresourcesltd.com. The fourth horizontal well is expected to begin producing in late August after construction of the 4 kilometer pipeline tie-in is completed. First year average rates are ranging from 0.7 to 1.6 Mmcf per day gross raw gas (145 to 330 Boe per day sales). To date, the gross cost to drill and complete each horizontal has averaged $5.3 million with tie-in costs averaging $0.6 million. Costs will decline on future horizontal wells as existing pads are used (reduces lease and pipeline construction costs) and as logged vertical pilot holes are eliminated. The fifth horizontal well (60% working interest) is currently being drilled and it is expected that a total of two to four horizontal wells (0.6 net to 1.8 net) will be drilled in the second half of 2012. Completion and tie-in of the fifth and sixth horizontal wells is planned for the second half of 2012 and, if additional horizontal wells are drilled, they would be completed in the first quarter of 2013. On the next horizontal wells, improvements in rates and reserves are expected from lowering the wellbore 10 to 15 metres to access more of the Montney formation and by increasing the intensity of the fracture stimulations (less sand tonnage on reduced spacing and a larger fluid volume by switching from emulsified CO_2 to slickwater).

Grande Prairie Area, North West Alberta and North East British Columbia

Production in this area comes from the Mica property in North East British Columbia and from the properties acquired through the transaction with Bellamont which closed March 23rd. Second quarter production averaged 1,716 Boe per day (58% oil plus NGL) with the operating netback averaging $24.60 per Boe. Production in the second quarter was impacted by numerous mechanical failures (loss of 220 Boe per day) and by the shut-in of natural gas wells in early May producing 3.0 Mmcf per day (loss of 360 Boe per day for the quarter). Current production capability totals approximately 2,300 Boe per day (150 Boe per day from Mica) which includes shut-in volumes.

A horizontal well was drilled into the Grande Prairie Dunvegan C light oil pool in July. It is expected that this well will be completed and tied in by the end of September.

At Grimshaw, a horizontal well was converted to an injector in the Montney in July and water injection will commence in late August once all regulatory approvals have been received. This will result in operating costs being reduced by approximately $0.5 million per year as produced water is re-injected instead of being trucked for disposal. The vertical well in the new Montney pool discovery drilled by Bellamont in late 2011 has averaged 18 barrels of oil per day since production began in mid-June. Solution gas conservation was initiated in early June which added 60 Boe per day at a cost of approximately $3 million to acquire a small gas plant and install a small choke plant to remove natural gas liquids.

The Grande Prairie area is relatively mature with shallower declines (approximately 20% per year) and a higher proportion of light oil and NGL production resulting in a higher operating netback. There is a large inventory of light oil opportunities in this area including 15 to 30 horizontal wells to be drilled targeting light oil in the Doe Creek, Dunvegan, Charlie Lake and Montney formations. There is additional upside associated with initiating waterfloods in the Montney formation at Grimshaw and in the Charlie Lake formation at Mica. Storm is planning to re-invest approximately 60% to 70% of cash flow from this area in maintaining production and the remaining 'free cash flow' will be directed to advancing exploitation of the Montney formation at Umbach, which is a larger scale growth opportunity. No further drilling activity is planned for this area in 2012. In 2013, drilling activity is expected to include four to six horizontal wells into the Montney at Grimshaw, the Montney I pool at Grande Prairie, and the Doe Creek and Charlie Lake formations at Saddle Hills.

Horn River Basin, North East British Columbia

Storm's undeveloped land position in the HRB totals 135 sections at a 100% working interest (87,700 net acres) and is prospective for natural gas from the Muskwa, Otter Park and Evie/Klua shales. During the second quarter, production in the HRB averaged 525 Boe per day at an operating netback of $3.88 per Boe. The resource in the Muskwa and Otter Park shales is large with the best estimate of DPIIP in the core producing area being 3.1 Tcf gross raw gas (evaluated by InSite Petroleum Consultants Ltd. December 31, 2011). The core producing area is 30 gross sections in size (22% of Storm's total land holdings in the HRB) and productivity has been proven across the area with one horizontal well that has been on production for 17 months and two vertical wells which were completed with

each well having a final test rate of 0.9 Mmcf per day over the last 24 hours (flow test durations totaled 370 and 279 hours with respective gas production totaling 16 Mmcf and 9 Mmcf).
Production performance of the first horizontal well (100% Storm) with 12 fracture stimulations continues to exceed expectations with the current rate being 3.0 to 3.5 Mmcf per day gross raw gas and cumulative production to date of 2.5 Bcf gross raw gas since production commenced on March 7, 2011. The flow rate is restricted since the pressure in the raw gas gathering pipeline is high and compression has not yet been installed. Significant improvements in productivity and reserves are expected on future horizontals by increasing fracture density (15 to 18 fracture stimulations per horizontal) and by installing field compression.

Activity in the HRB is being deferred until natural gas prices improve.

INVESTMENTS

At the end of first quarter, Storm had share ownership positions in two publicly traded companies. The value of the share positions in the two public companies totaled $7.5 million at the end of the quarter and these securities could possibly be sold in the future with the proceeds being used to finance the Company's capital programs.

Chinook Energy Inc. ("Chinook")
Storm holds 4.5 million shares of Chinook which is a TSX-listed oil and gas exploration and production company (symbol 'CKE') based in Calgary with operations focused in Tunisia and western Canada.

Bridge Energy ASA ("Bridge")
Storm holds 1.05 million common shares of Bridge (symbol 'Bridge' on the Oslo Stock Exchange), a Norwegian-based exploration and production company with production of approximately 1,500 Boe per day (33% light oil) from the UK sector of the North Sea.

OUTLOOK

Production in the third quarter is forecast to average 2,400 to 2,600 Boe per day (43% liquids) and this assumes 3 Mmcf per day of natural gas at Grande Prairie remains shut in until natural gas prices at AECO are greater than $2.75 to $3.00 per GJ. On July 25th, the sale of a 20% working interest in two producing wells at Red Earth (17 barrels per day light oil) was closed for proceeds totaling $2.4 million. Debt plus the working capital deficiency is targeted to be approximately $50 million at the end of 2012 (including the value of the publicly listed securities owned by Storm) which will result in capital investment being adjusted higher or lower depending on actual commodity prices and asset dispositions. Planned capital investment in 2012 is unchanged at approximately $28 million, however, due to unexpected capital expenditures on the properties acquired from Bellamont, drilling activity is being reduced to four to seven gross wells (3.2 to 5.4 net) from six to eight gross wells (5.2 to 7.2 net). Activity will now include one vertical delineation well (1.0 net) at Umbach, two to four horizontal wells (1.2 to 2.4 net) at Umbach, completing one standing horizontal well (0.6 net) at Umbach, and one to two horizontal wells (all 100% working interest) targeting light oil opportunities in the Grande Prairie Area. The reduction in drilling activity results in a reduction to fourth quarter production rates which are now forecast to average 2,600 to 2,800 Boe per day (41% liquids). This assumes 500 Boe per day remains shut in due to low natural gas prices and that the fifth and sixth horizontal wells at Umbach are completed and tied in before year end. Storm is currently forecasting commodity prices in 2012 average $2.20 per GJ at AECO for natural gas and Cdn $85.00 per barrel Edmonton Par for crude oil.

Updated 2012 Guidance

Forecast Q3 production after deducting 5% for unplanned outages	2,400 to 2,600 Boe per day (43% oil + NGLs)
Bank credit facility	$70.0 million
2012 average operating costs	$10 to $12 per Boe
2012 average royalty rate	12% to 15%
2012 operations capital, excluding dispositions	$28.0 million
2012 cash G&A[1]	$3.5 to $3.8 million
2012 exit or fourth quarter average production	2,600 to 2,800 Boe per day (41% oil + NGLs)

(1) Excludes transaction costs which are required to be expensed under IFRS.

Hedging will be done on a more regular basis going forward in order to smooth out commodity price volatility and protect capital investment. Early in the second quarter, Storm entered into financial hedges on 450 barrels of oil per day for April to December 2012 and on 4,500 GJ per day of natural gas for July to September 2012. It's unlikely that any further hedging will be done for 2012 volumes. In general, Storm's hedges will be done on a financial basis (won't require physical delivery), will be shorter term at 9 to 18 months duration and will cover 40% to 45% of current production.

During the second quarter, significant time and effort was expended on assimilating the properties acquired with the Bellamont transaction that closed on March 23rd. Numerous operational problems were encountered in the second quarter on the Bellamont properties which resulted in significant downtime and reduced production. The additional unplanned capital expenditures to fix the problems have impacted debt by approximately $10 million (assumed debt at closing was $4 million higher than expected plus $6 million has been spent to date on operational problems). In order to offset the financial impact of the incremental spending on the Bellamont properties, drilling activity has been reduced which will impact Storm's production growth in 2012. Offsetting this are operating cost reductions totaling $1.8 million per year that have been realized to date on the Bellamont properties as a result of a greater focus on cost control and profitability.

Although there have been many challenges associated with integrating the Bellamont properties, the addition of higher netback, light oil production with a relatively shallow decline provides us with the 'free cash flow' to continue delineation of the liquids rich Montney resource on Storm's large land position at Umbach. Initial results at Umbach have been very encouraging and improvement is expected on future horizontal wells by lowering the wellbore to access a thicker interval and by increasing the intensity of the fracture stimulation in the completions. With a 25% improvement in the first year average rate, horizontal wells are expected to generate a 20% to 25% rate of return using current forward strip pricing for oil and natural gas (approximately $3 per GJ at AECO and $85 per barrel Edmonton Par).

Near term, Storm is focused on advancing the Montney at Umbach which could generate significant economic growth in production at the current forward strip for crude oil and natural gas prices given liquids recovery of 60 barrels per Mmcf and lower capital costs associated with a shift to development drilling. Longer term, significant leverage to an improvement in natural gas prices is offered by the very large DPIIP in the Muskwa and Otter Park shales of the HRB. The hard work and effort of Storm's employees and the continued patience of Storm's shareholders is greatly appreciated and we look forward to providing updates on our progress over the remainder of this year and into 2013.

Respectfully,

B. Lavergne

Brian Lavergne,
President and Chief Executive Officer

August 13, 2012

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 described herein 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 August 13, 2012 for the three and six months ended June 30, 2012.

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 and six months ended June 30, 2012. It should be read in conjunction with (i) the Company's unaudited consolidated condensed interim financial statements for the three and six months ended June 30, 2012, (ii) the Company's audited financial statements for the year ended December 31, 2011, (iii) the press release issued by the Company on August 13, 2012, and other operating and financial information included in this report. All of these documents are filed on SEDAR (www.sedar.com) and appear on the Company's website (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 August 13, 2012.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's unaudited consolidated condensed interim financial statements for the three and six months ended June 30, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS") including IAS 34 which sets standards for interim financial reporting. Accounting policies adopted by the Company are referred to in Note 2 to the unaudited consolidated condensed interim financial statements for the three and six months ended June 30, 2012 and are set out in detail in Note 3 to the audited financial statements for the year ended December 31, 2011. The reporting and the measurement currency is the Canadian dollar.

Unless otherwise indicated, tabular financial amounts, other than per-share amounts, are in thousands. Comparative information is provided for the three and six month periods ended June 30, 2011.

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 crude oil, natural gas liquids and natural gas prices;
- future production levels and production levels by commodity;
- future revenues or costs (including royalties) or revenues or costs per commodity unit;
- future capital expenditures and their allocation to specific exploration and development activities or periods;
- future drilling;
- future earnings;
- future non-GAAP funds from operations and future cash flows;

- future asset acquisitions or dispositions;
- future intentions with respect to investments;
- future sources of funding for capital programs;
- future decommissioning costs and discount rates used to determine the net present value of such costs;
- estimates of costs associated with acquisitions;
- development plans;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- future royalties, operating costs, interest and general and administrative costs;
- expected share-based compensation charges;
- estimates on a per-share basis;
- dates or time periods by which certain geographical areas will be developed; and
- changes to any of the foregoing.

Statements relating to "reserves" or "resources" 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 risks described or incorporated by reference in this MD&A under "Critical Accounting Estimates" and the material assumptions described under the headings "Acquisitions in 2012"; "Overview"; "Royalties"; "Production Costs"; "Share-Based Compensation"; "Depletion and Depreciation"; "Accretion"; "Income Taxes"; "Other Comprehensive Income (Loss)"; "Financial Resources and Liquidity"; "Investments"; "Accounts Payable and Accrued Liabilities"; "Decommissioning Liability"; "Shareholders' Equity"; industry conditions including commodity prices, capacity constraints and access to market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, 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 low prices for natural gas, the attitude of lenders and investors towards natural gas assets, 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", and measurements "per BOE" do not have any standardized meaning as prescribed by GAAP and are regarded as non-GAAP measures. These non-GAAP measurements 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 appears on the Company's consolidated condensed interim 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 and also by lenders to measure compliance with debt covenants and 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".

ACQUISITIONS IN 2012

In late 2011 and early 2012 the Company entered into two acquisition agreements both of which were completed in the first quarter of 2012.

Acquisition of Storm Gas Resource Corp.

On January 12, 2012 the Company completed the acquisition of the 78% equity interest in Storm Gas Resource Corp. ("SGR") not already owned by Storm. The acquisition was effected by a plan of arrangement as set out in a Joint Information Circular dated December 13, 2011. Court approval and the approval of the shareholders of both the Company and SGR were received as required. The effective date of accounting for the acquisition was January 13, 2012.

Estimates of the fair values of assets acquired, liabilities assumed and the consideration paid to shareholders of SGR are as follows:

Assets Acquired and Liabilities Assumed (000's)		
Exploration and evaluation assets	$	42,677
Property and equipment		13,060
Decommissioning obligation		(556)
Net assets acquired	$	55,181

Consideration (000's)		
Shares issued	$	43,869
Carrying amount of existing 22% ownership		12,302
Working capital acquired		(990)
Total consideration	$	55,181

(i) Working capital includes cash of $2,405,000.

(ii) Common shares issued by the Company on closing to former SGR shareholders totaled 11,761,190. The closing price for the Company's shares at the time of acquisition was $3.73.

(iii) The above amounts do not include transaction costs, primarily legal and accounting fees incurred by the Company, estimated to be $277,000, which were expensed in the first quarter of 2012.

(iv) The Company has ceased to receive reimbursement of engineering and administrative costs from SGR which totaled $250,000 for the year ended December 31, 2011.

(v) The above amounts are estimates which were made by management at the time of the preparation of this MD&A based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

The acquisition of SGR resulted in an increase in the working interest in the Company's lands in the Horn River Basin from 40% to 100%. The Company also assumed operatorship of the project. Storm's production also increased by approximately 360 Boe per day, all dry natural gas. The acquisition enables the Company to control the operations, financing, cost and structure of development of the massive Horn River Basin resource. Minor non-core undeveloped lands were also acquired from SGR.

Acquisition of Bellamont Exploration Ltd.

On January 20, 2012 Storm announced that the Company and Bellamont Exploration Ltd. (“BMX”) a junior oil and gas exploration and production company listed on the TSX Venture Exchange, had entered into an arrangement agreement (the “Agreement”) under which the two companies would combine with the continuing entity being Storm. The combination was effected under a plan of arrangement which was subject to court approval and the approval of BMX shareholders, which occurred on March 23, 2012. The effective date of accounting for the acquisition was March 23, 2012; correspondingly, the Company’s operating results for 2012 include amounts in respect of BMX from March 23, 2012 to June 30, 2012.

Under the Agreement shareholders of BMX received, at their election, for each BMX common share: (i) cash of $0.56; (ii) 0.1445 common share of the Company; or (iii) a combination of cash and common shares. Cash paid under the arrangement was the maximum amount of $20 million.

Estimates of the fair values of assets acquired, liabilities assumed and the consideration paid are as follows:

Assets Acquired and Liabilities Assumed (000’s)		
Exploration and evaluation assets	$	2,113
Property and equipment		102,593
Decommissioning liability		(8,305)
Net assets acquired	$	96,401

Consideration (000’s)		
Cash paid to BMX shareholders	$	20,000
Shares of Storm issued		39,674
Working capital deficiency assumed, including bank debt		36,727
Total consideration	$	96,401

(i) Under the Agreement, BMX shareholders could elect to receive cash on the basis of $0.56 for each BMX share held, to a maximum amount of $20 million. BMX shareholders elected for the maximum cash amount.

(ii) A total number of 151.6 million BMX common shares were outstanding at the time of closing of the combination. Based on an exchange ratio of 0.1445 Storm common share for each BMX common share not acquired for cash, a total of 16.7 million Storm common shares were issued to former BMX shareholders. Based on Storm share price of $2.37, which was the closing price at the time of acquisition, the Storm shares issued to BMX shareholders were valued at $39.7 million.

(iii) The above amounts do not include transaction costs, primarily legal and accounting fees incurred by Storm, of approximately $333,000, which were expensed in the first quarter of 2012.

Commodity diversification and increased netbacks and cash flow from the acquisition of BMX gives Storm a more stable platform to expand its investment program and to pursue growth opportunities. In addition, BMX has an attractive inventory of development prospects, most related to light crude oil, which can be more aggressively pursued using the increased financial resources of the combined entities.

OPERATIONAL AND FINANCIAL RESULTS

Overview

The quarter ended June 30, 2012 was the first full quarter which included ownership of the assets of corporate acquisitions completed during the first quarter of 2012. The acquisition of SGR took place early in the prior quarter and production performance met expectations during the second quarter. The acquisition of BMX late in the prior quarter saw the Company’s production mix, measured on a Boe basis, change from 77% natural gas: 23% crude oil and NGL, to 57% natural gas: 43% crude oil and NGL. The shift in production mix was timely, as prices for natural gas continued to decline during the quarter. Absent the contribution from the acquired assets, the Company would have operated at a cash flow deficit. Nevertheless, production from the acquired assets did not meet expectations as the Company’s second quarter production was below guidance which was 2,700 to 2,800 Boe per day. When the transaction was announced on January 20, 2012, contribution from the Bellamont properties was expected to approximate 2,200 Boe per day, not including 200 Boe per day shut in for mechanical reasons. Total Company production was expected to approximate 3,300 Boe per day. However, contribution from the Bellamont assets for the second quarter was approximately 1,600 Boe per day, as collapsing natural gas prices resulted in the shut in of uneconomic gas wells, with shut-in production averaging approximately 360 Boe per day for the quarter and 500 Boe per day by the end of the quarter. Additional downtime due to mechanical failures reduced production by approximately 220 Boe per day. The result was that production for the second quarter approximated 2,600 Boe per day and anticipated cash flow for the quarter was similarly reduced.

The Company drilled no wells in the second quarter. One well, a high liquids content gas well at Umbach in North East BC, was completed during the quarter and is awaiting tie-in.

Funds from operations for the quarter totaled $3.7 million versus first quarter funds used in operations which were $0.1 million. The increase was due to a higher proportion of crude oil and NGL production which increased revenue by 38% to $41.71 per Boe from $30.31 per Boe in the first quarter. This offset the impact of low natural gas prices that averaged $1.80 per GJ at AECO in the second quarter. A hedging gain of $0.4 million also contributed to the increase.

Operating costs were within expectations at $11.56 per Boe as was cash G&A at $0.97 million for the quarter.

The Company is committed to the protection of its financial position and diminished cash flows will result in reduction of capital programs for the second half of 2012. The Company originally anticipated a capital program of $34 million for 2012; this has now been lowered to $28 million with exit production for the year being 2,700 Boe per day, compared to original expectations of 3,600 Boe per day. Increased commodity prices will see a corresponding increase in capital expenditures.

Production and Revenue

Production by Area

The Company reported production from the following areas:

				Three Months to June 30, 2012	
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d Three Months to June 30, 2012	Boe/d Three Months to June 30, 2011
Horn River Basin – NE BC	3,148	-	-	525	350
Umbach – NE BC	1,370	84	-	313	165
Grande Prairie Area – AB and BC					
Mica – NE BC	312	2	95	149	-
Grimshaw - AB	85	-	358	372	-
Grande Prairie, Montney & Dunvegan – AB	3,975	88	271	1,022	-
Saddle Hills - AB	-	-	173	173	-
Other	5	12	18	30	80
Total	8,895	186	915	2,584	595

				Six Months to June 30, 2012	
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d Three Months to June 30, 2012	Boe/d Three Months to June 30, 2011
Horn River Basin – NE BC	3,154	-	-	526	232
Umbach – NE BC	1,493	76	-	324	134
Grande Prairie Area – AB and BC					
Mica – NE BC	326	2	92	149	-
Grimshaw - AB	48	-	198	205	-
Grande Prairie, Montney & Dunvegan - AB	2,251	48	150	573	-
Saddle Hills - AB	-	-	95	95	-
Other	5	6	27	34	70
Total	7,277	132	562	1,906	436

The year-over-year increase in production came largely from acquisitions as follows:

- Acquisition of properties at Mica, effective December 1, 2011;
- Acquisition of SGR, effective January 12, 2012, resulting in the Company's share of Horn River Basin production rising from 40% to 100%;
- Acquisition of BMX, effective March 23, 2012, adding production at Grimshaw, Grande Prairie Montney and Dunvegan, Saddle Hills and from various minor properties.

In early May, approximately 500 Boe per day of natural gas production was shut in due to low prices. In addition, downtime due to maintenance and equipment and facility upgrades resulted in an additional 220 Boe per day of reduced production in the Grande Prairie area. As at June 30, 2012, total natural gas shut in remained at approximatey 500 Boe per day.

Daily production per million shares outstanding averaged 42 Boe per day for the second quarter of 2012, compared to 22 Boe per day for the second quarter of 2011, and 32 Boe per day for the immediately preceding quarter.

In North East British Columbia the Company has two producing natural gas areas, one producing dry gas and the other producing gas and associated liquids, as well as one oil property which also produces associated natural gas. Production in Alberta approximates 52% light oil with an average API of 37 degrees, 43% natural gas and 5% natural gas liquids.

Average Daily Production

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Crude oil (Bbls/d)	915	80	562	69
Natural gas (Mcf/d)	8,895	2,958	7,277	2,094
Natural gas liquids (Bbls/d)	186	22	132	18
Total (Boe/d)	2,584	595	1,906	436

Production Profile and Per-Unit Prices

	Three Months to June 30, 2012		Three Months to June 30, 2011		Six Months to June 30, 2012		Six Months to June 30, 2011	
	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	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Crude oil - Bbl	36%	$ 83.48	13%	$ 103.20	29%	$ 84.22	16%	$ 97.85
Natural gas - Mcf	57%	2.04	83%	3.76	64%	2.12	80%	3.72
Natural gas liquids - Bbl	7%	71.22	4%	86.53	7%	74.38	4%	85.50
Per Boe	100%	$ 41.71	100%	$ 35.74	100%	$ 38.03	100%	$ 36.93

For the second quarter, the Company's natural gas was produced in both British Columbia and Alberta and is sold at a price based on the Station 2 reference point in British Columbia and AECO in Alberta. Approximately 51% of Storm's natural gas was sold at Station 2 in the quarter to June 30, 2012 with the remaining 49% being sold at AECO. Equivalent percentages for the six months to June 30, 2012 were 64% and 36%. Storm's realized price for the second quarter of 2012 was $2.04 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 which results in a higher price per Mcf. The Station 2 price for the second quarter averaged $1.75 per GJ, and the equivalent AECO price was $1.80 per GJ. Storm's crude oil sales price in the second quarter was $0.91 per barrel lower than the Edmonton Par reference price for light sweet crude oil which averaged $84.39 per barrel for the second quarter.

For the quarter, WTI averaged US$93.51 per barrel resulting in an exchange rate adjusted differential of Cdn$10.33 per barrel. The differential averaged Cdn$10.62 per barrel in the first quarter and Cdn$1.44 per barrel in 2011.

Revenue from Product Sales[1]

(000's)	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Crude oil	$ 6,590	$ 748	$ 8,249	$ 1,231
Natural gas	1,648	1,011	2,803	1,412
Natural gas liquids	1,205	177	1,781	274
Total	$ 9,443	$ 1,936	$ 12,833	$ 2,917

(1) Before hedging gains.

Hedging

The Company has in place the following hedging arrangements:

Crude Oil:

Volume	Price (Cdn)	Inception	Expiry	Gain Realized Three Months to June 30, 2012	Unrealized Gain at June 30, 2012
100 Bbls/day	$107.75	April 1, 2012	December 31, 2012	$ 123,000	$ 433,000
100 Bbls/day	$103.70	May 1, 2012	December 31, 2012	82,000	346,000
100 Bbls/day	$103.35	May 1, 2012	December 31, 2012	80,000	339,000
150 Bbls/day	$105.00	June 1, 2012	December 31, 2012	91,000	561,000
Total				$ 376,000	$ 1,679,000

Natural Gas:

Volume	Price (Cdn)	Inception	Expiry	Gain Realized Three Months to June 30, 2012	Unrealized Gain at June 30, 2012
4,500 GJ/day	$ 2.20	July 1, 2012	September 30, 2012	$ -	$ 4,000

Royalties

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Charge for period	$ 1,212	$ 70	$ 1,519	$ 120
Percentage of production revenue before hedging gains	13%	4%	12%	4%
Per Boe	$ 5.16	$ 1.30	$ 4.38	$ 1.52

The Company has benefited from royalty incentive programs applicable to production from both British Columbia and Alberta.

The Company benefits 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 from the well. This program is applicable to the Company's producing well in the Horn River Basin and the Company expects that future royalties will be reduced by an amount of $0.5 million. Natural gas production at Umbach does not benefit from this program.

In Alberta, production from new wells is subject to a 5% royalty rate for the first 12 months of production, subject to a maximum volume of 50,000 Bbls of crude oil or 500 million cubic feet of natural gas. This benefit is extended for horizontal gas and oil wells where measured depth exceeds 2,000 and 2,500 metres respectively. Approximately 24% of Storm's current production in Alberta benefits from these favourable royalty rates.

Natural gas production in Alberta does not benefit from the favourable 5% royalty because of the age of the wells.

Production of natural gas liquids does not benefit from any favourable royalty programs and is subject to an effective royalty rate of approximately 18%.

Production Costs

(000's)	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Charge for period	$ 2,719	$ 403	$ 3,809	$ 627
Percentage of production revenue before hedging gains	29%	21%	30%	21%
Per Boe	$ 11.56	$ 7.46	$ 10.98	$ 7.95

Production costs per barrel of crude oil averaged $12.97 for the second quarter of 2012 and production costs per Mcf of natural gas averaged $2.02, with total production costs averaging $11.56 per Boe. The equivalent charges for the second quarter of 2011 were $10.79 for crude oil and $1.27 per Mcf of natural gas, with total production costs averaging $7.46 per Boe. Production costs of natural gas liquids are included with natural gas costs.

The increase in total production costs for the quarter to June 30, 2012 was a consequence of the inclusion of former BMX production for the full quarter. Operating costs associated with existing Storm properties approximated $5.92 for the second quarter and $15.04 for the acquired BMX properties for the same period. A priority for the remainder of 2012 will be to reduce operating costs of the acquired assets; however, production performance and optimization activities may result in short-term cost increases.

Transportation Costs

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Charge for period	$ 700	$ 55	$ 933	$ 82
Percentage of production revenue before hedging gains	7%	3%	7%	3%
Per Boe	$ 2.97	$ 1.02	$ 2.69	$ 1.04

Transportation costs largely comprise pipeline tariffs from the processing facility to the sales point for natural gas and pipeline and trucking costs for crude oil in Alberta. Transportation costs for the second quarter of 2012 were higher due to the inclusion of a full quarter's production from the BMX assets. Transportation costs are expected to be unchanged in future quarters.

Field Netbacks

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

	Three Months to June 30, 2012			
	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 78.97	$ 71.22	$ 2.04	$ 40.11
Hedging gains	4.51	-	-	1.60
Royalties	(13.11)	(12.91)	0.13	(5.11)
Production costs	(12.97)	-	(2.01)	(11.56)
Transportation	(5.39)	(4.71)	(0.21)	(2.97)
Field netback	$ 52.01	$ 53.60	$ (0.05)	$ 22.07
Field netback ($000s)	$ 4,333	$ 906	$ (50)	$ 5,189

The anomalous royalty charge for the quarter is due to gas cost allowance credits.

Three Months to June 30, 2011	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 103.20	$ 86.53	$ 3.76	$ 35.74
Royalties	(5.65)	(13.41)	(0.01)	(1.30)
Production costs	(10.79)	-	(1.21)	(7.46)
Transportation	(1.60)	(3.44)	(0.14)	(1.02)
Field netback	$ 85.16	$ 69.68	$ 2.40	$ 25.96

Six Months to June 30, 2012	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 80.54	$ 74.38	$ 2.12	$ 36.95
Hedging gains	3.67	-	-	1.08
Royalties	(12.51)	(14.19)	0.08	(4.34)
Production costs	(13.13)	-	(1.86)	(10.98)
Transportation	(5.56)	(4.10)	(0.19)	(2.69)
Field netback	$ 53.01	$ 56.09	$ 0.15	$ 20.02
Field netback ($000s)	$ 5,421	$ 1,343	$ 184	$ 6,948

Six Months to June 30, 2011	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 97.85	$ 85.50	$ 3.72	$ 36.93
Royalties	(5.44)	(14.39)	(0.01)	(1.52)
Production costs	(12.96)	-	(1.23)	(7.95)
Transportation	(1.63)	(3.26)	(0.14)	(1.04)
Field netback	$ 77.82	$ 67.85	$ 2.34	$ 26.42

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

General and Administrative Costs

Total Costs	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Charge for period – before recoveries	$ 1,281	$ 749	$ 2,251	$ 1,472
Overhead recoveries	(311)	(15)	(367)	(53)
Charge for period – net of recoveries	$ 970	$ 734	$ 1,884	$ 1,419
Per Boe	$ 4.13	$ 13.59	$ 5.42	$ 17.96

Compensation costs were consistent for each of the periods above, accounting for approximately 56% of the gross charge with office accommodation costs accounting for an additional 25% and public company costs accounting for 10%. Overhead recoveries increased primarily as a result of inclusion of the Bellamont properties.

Share-Based Compensation

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Charge for period	$ 205	$ 309	$ 368	$ 597

Share-based compensation is a non-cash charge which reflects the estimated value of stock options issued to Storm's directors, officers and employees. The value of the award is recognized as an expense over the expected life of the award. In August 2010, options in respect of 1,974,000 shares were issued with an exercise price of $3.28. This grant of options formed part of the initial compensation program put in place for directors, officers and staff of the then newly established business. An additional 40,000 options were issued to a new employee in the first quarter of

2011 and 36,000 were forfeited later in 2011. Further options in respect of 140,000 shares were granted in the first quarter of 2012 to new employees hired as a result of the BMX acquisition. In the second quarter of 2012, 130,000 options were allocated to new employees, 514,500 options were granted to existing non-executive employees of Storm, and 40,000 options were forfeited.

Depletion and Depreciation

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Depletion	$ 3,799	$ 809	$ 5,036	$ 1,207
Depreciation	240	66	457	89
Charge for period	$ 4,039	$ 875	$ 5,493	$ 1,296
Per Boe	$ 17.18	$ 16.20	$ 16.41	$ 16.40

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 period by proved plus probable reserves at the beginning of the period.

The charge for depreciation for the period relates to tangible equipment costs and office equipment included with property and equipment costs. Such costs are depreciated over the useful life of the asset. The increase in the charge for depletion and depreciation for the quarter to June 30, 2012, when compared to the charge for the first half of 2012, corresponds to producing assets being acquired at a higher per-unit cost than the Company's existing assets.
In addition, management reviewed the carrying amounts of exploration and evaluation and property and equipment assets for indicators of impairment at June 30, 2012 and determined that no adjustment to such carrying amounts at that date was required.

Accretion

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Charge for period	$ 75	$ 12	$ 96	$ 24

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

Interest

The Company's initial bank borrowings were used to fund the Mica acquisition in December 2011. Subsequent borrowings were used to fund the BMX acquisition in late March 2012.

(000's)	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Charge (income) for period	$ 519	$ (36)	$ 818	$ (100)
Percentage of production revenue before hedging gains	5%	N/A	6%	N/A
Per Boe	$ 2.21	$ N/A	$ 2.36	$ N/A

Gain on Sale of Investments

The Company's investment positions in Chinook Energy Inc. and Bridge Energy ASA did not change in the quarter or six months ended June 30, 2012. In the first half of 2011 the Company sold its interest of 5.1 million shares of BMX for proceeds of $3.2 million. A gain of $0.5 million was realized. This transaction was unrelated to the subsequent acquisition of BMX.

Unrealized Gain on Financial Instruments

The unrealized gain on financial instruments represents the gain on the mark-to-market valuation of the unexpired portion of hedging positions outstanding at the end of the reporting period.

Change in Equity of Associate

As described in Note 5 to the audited financial statements for the year ended December 31, 2011, the Company accounted for its 22% ownership position in an associated company, SGR, using the equity method, where the Company's pro rata share of changes in SGR's equity was included in the determination of the Company's net loss for the period. Due to the acquisition of SGR in early 2012, this measurement ceased to apply.

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 for the period. Details of Storm's tax pools are as follows:

Tax Pool	As at June 30, 2012	Maximum Annual Deduction
Canadian oil and gas property expense	$ 61,000	10%
Canadian development expense	58,000	30%
Canadian exploration expense	23,000	100%
Undepreciated capital cost	34,000	20 – 100%
Operating losses	78,000	100%
Total	$ 254,000	

Net Income (Loss)

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Net income (loss)	$ 947	$ (562)	$ (668)	$ (883)
Per basic and diluted share	$ 0.03	$ (0.02)	$ (0.01)	$ (0.03)

Other Comprehensive Income (Loss)

Comprehensive loss comprises net loss for the period plus unrealized gains and losses resulting from the mark-to-market valuation of certain assets and liabilities. For the periods presented below, Storm's other comprehensive income included adjustments to reflect the period end mark-to-market valuation of listed securities.

Listed Securities	Holding	Number of Shares	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Bellamont Exploration Ltd.	Class A Common Shares	(1)	$ -	$ (40)	$ -	$ (305)
Bridge Energy ASA	Common Shares	1,052,910	(82)	(10)	160	(718)
Chinook Energy Inc.	Common Shares	4,500,001	(675)	(1,620)	(1,485)	(2,025)
Total comprehensive loss for period			$ (757)	$ (1,670)	$ (1,325)	$ (3,048)

(1) The investment in BMX was sold during 2011 in a transaction unrelated to the subsequent acquisition.

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

	Three Months to June 30, 2012		Three Months to June 30, 2011		Six Months to June 30, 2012		Six Months to June 30, 2011	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Funds from (applied to) operations	$3,669	$ 0.07	$ 710	$ 0.03	$3,606	$ 0.07	$ 769	$ 0.03

Non-GAAP funds from operations is not a measure recognized by GAAP in Canada, although it is widely used by analysts and other financial statement users. It is also used by lending institutions to determine cash flow to debt 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 to June 30, 2012		Three Months to June 30, 2011		Six Months to June 30, 2012		Six Months to June 30, 2011	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	$3,669	$ 0.07	$ 710	$ 0.03	$3,606	$ 0.07	$ 769	$ 0.03
Net change in non-cash working capital items	2,161	0.02	930	0.03	(316)	(0.01)	(325)	(0.01)
Cash from (applied to) operating activities	$5,830	$ 0.09	$1,640	$ 0.06	$3,290	$ 0.06	$ 444	$ 0.02

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

INVESTMENT AND FINANCING

Financial Resources and Liquidity

In October 2011 the Company set up a revolving borrowing base bank credit facility, subject to semi-annual review, with an initial term to April 30, 2012. On December 15, 2011, concurrent with the acquisition of producing properties in the Mica area of North East British Columbia, the facility was increased to $18 million. The Company's banking facility was expanded to $70 million in March 2012 with the BMX acquisition which included the assumption of BMX bank debt in the amount of $38.4 million.

Future acquisitions may be funded by a combination of debt and equity. 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 securities as set out below which are valued at the closing price on the relevant stock exchange at June 30, 2012. Proceeds from the possible future sale of these securities may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price June 30, 2012	Value at June 30, 2012
Bridge Energy ASA(1)	Common Shares	1,052,910	Oslo Børs Axess	$1.58(1)	$ 1,663
Chinook Energy Inc.	Common Shares	4,500,001	TSX	$1.30	5,850
Total					$ 7,513

(1) Canadian dollar equivalent – share trading is in Norwegian Kroner.

Capital Outlays

Additions to exploration and evaluation assets and property and equipment were as follows:

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Land and lease	$ 260	$ 440	$ 738	$ 2,958
Seismic	200	-	208	510
Drilling	57	677	1,338	1,307
Completions	1,543	434	1,982	3,186
Facilities	4,442	295	1,650	3,079
Recompletions and workovers	721	-	1,453	-
Corporate acquisitions	(273)	-	151,582	-
Corporate acquisitions – decommissioning liability	-	-	8,861	-
Property acquisitions (dispositions)	-	166	2,061	674
Total capital expenditures in period	$ 6,950	$ 2,012	$ 169,873	$ 11,714

Major field expenditures in the second quarter of 2012 included $1.6 million on completions spent at Umbach and $2.7 million to acquire a facility at Grimshaw, Alberta in order to secure long-term compliance with gas conservation regulations.

Capital expenditures in the reporting periods were allocated as follows:

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Exploration and evaluation	$ 341	$ 1,815	$ (47)[(i)]	$ 10,508
Property and equipment	6,882	197	9,477	1,206
	$ 7,223	$ 2,012	$ 9,430	$ 11,714
Non-cash portion of corporate acquisitions	(273)	-	160,443	-
Total	$ 6,950	$ 2,012	$ 169,873	$ 11,714

(i) Net of dispositions.

Investment in Associate

In late 2011, the Company entered into an arrangement agreement with its 22% owned associate, SGR, which resulted in the Company purchasing all outstanding common shares of SGR not already owned, or a total of 8.9 million SGR common shares. The acquisition closed on January 12, 2012. The Company ceased to account for its equity interest in SGR effective January 1, 2012.

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 June 30, 2012 corresponds to the seasonality of the Company's operations.

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, either drilled or constructed by Storm, or already existing on lands transferred to the Company under the Arrangement. Changes in amount of the liability during the period ended June 30, 2012 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the period, the decommissioning obligation associated with the acquisition of BMX, plus the time related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 2.6%. 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 June 30, 2012 are as follows:

	Nature of Transaction	Number of Shares	Price per Share	Gross Proceeds
June 8, 2010	Issued upon incorporation	1	$ 1.00	$ -
August 17, 2010	Issued to ARC Resources Ltd.	884,173	$ 3.28	2,900
August 17, 2010	Issued under the Arrangement	16,631,240	$ 3.28	54,700
August 17, 2010	Issued under private placement	2,300,000	$ 3.28	7,544
September 22, 2010	Issued upon exercise of warrants	6,561,556	$ 3.28	21,522
January 12, 2012	Issued on acquisition of shares of SGR	11,761,190	$ 3.73	43,869
March 23, 2012	Issued under private placement	6,946,000	$ 3.40	23,616
March 23, 2012	Issued to former Bellamont shareholders	16,740,096	$ 2.37	39,674
Total		61,824,256	$ 3.13	$ 193,825

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; and
- lease obligations for accommodation, office equipment and automotive equipment.

All such contractual obligations reflect market conditions at the time of contract and do not involve related parties except that SGR subleased office space from the Company at the same rate as the Company's head lease. At present the Company has no material obligations with a term longer than twelve months.

QUARTERLY RESULTS

Summarized information for the eight reporting quarters since inception are as follows:

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Production revenue ($000s)	9,819	3,390	2,493	1,482	1,936	981	-	-
Non-GAAP funds from (applied to) operations ($000s)(1)	3,669	(63)	709	396	710	59	(708)	(248)
Per share								
- basic ($)	0.07	0.00	0.03	0.02	0.03	0.00	(0.03)	(0.03)
- diluted ($)	0.07	0.00	0.03	0.02	0.03	0.00	(0.03)	(0.03)
Net loss ($000s)	947	(1,615)	(1,758)	(1,023)	(562)	(321)	(1,087)	(406)
Per share								
- basic ($)	0.03	(0.04)	(0.07)	(0.04)	(0.02)	(0.01)	(0.04)	(0.05)
- diluted ($)	0.03	(0.04)	(0.07)	(0.04)	(0.02)	(0.01)	(0.04)	(0.05)
Other comprehensive income (loss) ($000s)	(757)	(568)	217	(962)	(1,670)	(1,378)	(834)	919
Capital expenditures ($000s)	7,224	162,922	20,687	8,394	2,012	9,702	13,373	3,424
Average daily production - Boe	2,584	1,229	779	511	595	276	-	-
Net (debt)/working capital ($000s)	(53,667)	(50,300)	(15,171)	4,806	12,805	13,688	20,593	34,679
Available for sale investments	7,513	8,270	8,838	8,621	9,583	11,611	15,324	16,158

(1) See Non-GAAP Measurements on page 16 of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the unaudited consolidated condensed interim financial statements for the three and six months ended June 30, 2012 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain financial amounts 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, are based on estimations using information involving a high degree of measurement uncertainty which could have a material effect on Storm's operating results and financial position. Information with respect to such amounts is described in the MD&A for the year ended December 31, 2011, or is described below to the extent that such estimations were first made in the six months ended June 30, 2012.

Accounting for Acquisitions

The purchase of SGR and BMX in the quarter ended March 31, 2012 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.

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 30, 2012 for the year ended December 31, 2011 under the heading "Risk Factors" and in Storm's MD&A for the period ended December 31, 2011 under the heading "Risk Assessment".

ADDITIONAL INFORMATION

Additional information relating to the Company can be viewed at www.sedar.com or on the Company's website at www.stormresourcesltd.com. Information can also be obtained by contacting the Company at Storm Resources Ltd., 1208, 250 – 2nd Street SW, Calgary, Alberta, T2P 0C1.

Financials

Consolidated Condensed Interim Statements of Financial Position

(Canadian $000s) (unaudited)	June 30, 2012	December 31, 2011
ASSETS		
Current		
Cash	$ -	$ 7,423
Accounts receivable (Note 13)	4,899	4,064
Prepaids and deposits	1,707	793
Fair value of financial instruments (Note 13)	1,683	-
	8,289	12,280
Investments (Note 4)	7,513	8,838
Investment in associate (Note 3)	-	12,302
Exploration and evaluation (Note 5)	70,899	26,156
Property and equipment (Note 6)	169,367	49,507
	$ 256,068	$ 109,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Current portion of bank indebtedness (Note 7)	$ -	$ 3,000
Accounts payable and accrued liabilities	9,590	11,461
	9,590	14,461
Bank indebtedness (Note 7)	50,683	12,990
Decommissioning liability (Note 8)	11,712	2,532
	71,985	29,983
Shareholders' equity		
Share capital (Note 10)	193,184	86,576
Contributed surplus (Note 11)	1,757	1,389
Deficit	(5,825)	(5,157)
Accumulated other comprehensive income (loss)	(5,033)	(3,708)
	184,083	79,100
	$ 256,068	$ 109,083

See accompanying notes to the consolidated condensed interim financial statements.

On behalf of the Board:

Director

Director

Consolidated Condensed Interim Statement of Income (Loss) and Comprehensive Income (Loss)

(Canadian $000s except per-share amounts) (unaudited)	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Revenue				
Revenue from product sales	$ 9,443	$ 1,936	$ 12,833	$ 2,917
Realized gain on financial instruments (Note 13)	376	-	376	-
Royalties	(1,212)	(70)	(1,519)	(120)
	$ 8,607	$ 1,866	$ 11,690	$ 2,797
Expenses				
Production	2,719	403	3,809	627
Transportation	700	55	933	82
Acquisition costs (Note 3)	30	-	640	-
General and administrative	970	734	1,884	1,419
Share-based compensation (Note 11)	205	309	368	597
Depletion and depreciation	4,039	875	5,493	1,296
Accretion	75	12	96	24
	8,738	2,388	13,223	4,045
Loss before the following:	(131)	(522)	(1,533)	(1,248)
Interest income (expense) - net	(519)	36	(818)	100
Gain on disposal of investments (Note 4)	-	60	-	463
Unrealized gain on financial instruments	1,597	-	1,683	-
Changes in equity of associate	-	(136)	-	(198)
Net income (loss) for the period	947	(562)	(668)	(883)
Other comprehensive loss – unrealized loss on investments available for sale (Note 4)	(757)	(1,670)	(1,325)	(3,048)
Comprehensive income (loss) for the period	$ 190	$ (2,232)	$ (1,993)	$ (3,931)
Net income (loss) per share (Note 12)				
- basic	$ 0.03	$ (0.02)	$ (0.01)	$ (0.03)
- diluted	$ 0.03	$ (0.02)	$ (0.01)	$ (0.03)

See accompanying notes to the consolidated condensed interim financial statements.

Consolidated Condensed Interim Statements of Changes in Shareholders' Equity

(Canadian $000s) (unaudited)	Six Months to June 30, 2012				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of period	$ 86,576	$ 1,389	$ (5,157)	$ (3,708)	$ 79,100
Net loss for the period	-	-	(668)	-	(668)
Issue of common shares under private placement	23,616	-	-	-	23,615
Issue of common shares to shareholders of SGR	43,869	-	-	-	43,869
Issue of common shares to shareholders of Bellamont	39,674	-	-	-	39,674
Share issue costs	(551)	-	-	-	(550)
Share-based compensation (Note 11)	-	368	-	-	368
Unrealized loss on investments available for sale (Note 4)	-	-	-	(1,325)	(1,325)
Balance, end of period	$193,184	$ 1,757	$ (5,825)	$ (5,033)	$184,083

(Canadian $000s) (unaudited)	Six Months to June 30, 2011				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of period	$ 86,576	$ 401	$ (1,493)	$ 85	$ 85,569
Net loss for the period	-	-	(883)	-	(883)
Share-based compensation (Note 11)	-	597	-	-	597
Transfer of accumulated other comprehensive income on disposition of assets available for sale	-	-	-	(463)	(463)
Unrealized loss on investments available for sale (Note 4)	-	-	-	(2,585)	(2,585)
Balance, end of period	$ 86,576	$ 998	$ (2,376)	$ (2,963)	$ 82,235

See accompanying notes to the consolidated condensed interim financial statements.

Consolidated Condensed Interim Statements of Cash Flows

(Canadian $000s) (unaudited)	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Operating activities				
Net income (loss) for the period	$ 947	$ (562)	$ (668)	$ (883)
Non-cash items:				
Gain on disposal of investment (Note 4)	-	(60)	-	(463)
Changes in equity of associate (Note 4)	-	136	-	198
Depletion, depreciation and accretion	4,114	887	5,589	1,320
Unrealized loss (gain) on financial instruments (Note 13)	(1,597)	-	(1,683)	-
Share-based compensation (Note 11)	205	309	368	597
	3,669	710	3,606	769
Net change in non-cash working capital items (Note 15)	2,161	930	(316)	(325)
	5,830	1,640	3,290	444
Financing activities				
Proceeds from private placement of common shares – net of expenses (Note 10)	-	-	23,065	-
Increase (decrease) in bank indebtedness	3,128	-	(3,423)	-
	3,128	-	19,642	-
Investing activities				
Proceeds on sale of investment (Note 4)	-	418	-	3,156
Cash acquired on acquisition of SGR (Note 3)	-	-	2,405	-
Cash paid to shareholders of Bellamont (Note 3)	-	-	(20,000)	-
Additions to property and equipment (Note 6)	(6,882)	(197)	(9,477)	(1,206)
Disposal of exploration and evaluation assets (Note 5)	-	-	1,009	-
Additions to and acquisitions of exploration and evaluation assets (Notes 3 and 5)	(341)	(1,815)	(962)	(10,508)
Net change in non-cash working capital items (Note 15)	(1,735)	(7,316)	(3,330)	(9,633)
	(8,958)	(8,910)	(30,355)	(18,191)
Change in cash during the period	-	(7,270)	(7,423)	(17,747)
Cash, beginning of period	-	20,247	7,423	30,724
Cash, end of period	$ -	$ 12,977	$ -	$ 12,977

See accompanying notes to the consolidated condensed interim financial statements.

Three and six months ended June 30, 2012 and 2011

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 1208, 250 – 2nd Street S.W., Calgary, Alberta T2P 0C1.

The Company became a reporting issuer subsequent to a plan of arrangement (the “Arrangement”) involving ARC Energy Trust (“ARC”), ARC Resources Ltd., Storm Exploration Inc. (“SEO”) and the Company. Under the Arrangement, which was completed on August 17, 2010, 884,173 common shares were issued to ARC and 16,631,241 common shares and 6,653,161 warrants to purchase common shares of the Company were issued to shareholders of SEO in exchange for undeveloped lands and facility interests in North East British Columbia and Alberta, various corporate investments and $9.4 million in cash.

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

2. BASIS OF PRESENTATION

Statement of Compliance

The unaudited consolidated condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, following the same accounting policies and methods of computation used in the audited financial statements for the year ended December 31, 2011. The unaudited consolidated condensed interim financial statement note disclosures do not include all disclosures applicable for annual audited financial statements. Accordingly, the unaudited consolidated condensed interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2011.

The consolidated condensed interim financial statements were authorized for issue by the Board of Directors on August 13, 2012.

Basis of Measurement

The Company’s consolidated condensed interim financial statements have been prepared on the historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair value, as explained in Note 13.

Use of Estimates and Judgements

The preparation of the consolidated condensed interim financial statements in accordance with IFRS requires management to make judgements, 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated condensed interim financial statements is included in the following notes to the consolidated condensed interim financial statements:

- Note 3 – Allocation of fair values to corporate acquisitions
- Note 5 – Classification and valuation of exploration and evaluation assets
- Note 6 – Valuation of property and equipment

- Note 8 – Decommissioning liability
- Note 9 – Valuation and utilization of tax assets
- Note 11 – Measurement of share-based compensation
- Note 13 – Valuation of financial instruments

3. CORPORATE ACQUISITIONS

a) Storm Gas Resource Corp.

Pursuant to the acquisition of Storm Gas Resource Corp. ("SGR") which closed on January 12, 2012, Storm acquired all of the issued and outstanding shares of SGR not already owned by the Company for consideration of $43.9 million, consisting of the issuance of 11,761,190 common shares. The common shares issued were valued at $3.73 per share, being the closing share price of Storm at the time of acquisition. Storm's existing ownership position in SGR totaled 2,500,000 common shares, an approximate 22% interest, and was carried at an amount of $12.3 million at December 31, 2011. SGR was a private junior oil and gas exploration company which had interests in natural gas properties, primarily in the Horn River Basin. Total transaction costs of approximately $0.3 million were incurred by Storm and charged to earnings.

Storm's consolidated condensed interim statement of income (loss) and comprehensive income (loss) includes the results of operations for the business of SGR for the period following the close of the transaction. Net loss for the six month period ended June 30, 2012 includes $1.2 million of petroleum and natural gas revenue and $0.9 million of net loss generated from the SGR assets since the acquisition on January 12, 2012. If SGR had been acquired on January 1, 2012, an additional $62,000 of petroleum and natural gas revenue and a loss of approximately $4,000 would have been included on the consolidated condensed interim statement of income (loss) and comprehensive income (loss) for the six month period ended June 30, 2012.

The transaction has been accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired and the liabilities assumed are recorded at estimated fair value on the date of acquisition. The following table summarizes the net assets acquired pursuant to the acquisition:

Consideration		
Issuance of share capital	$	43,869
Carrying value of existing 22% ownership		12,302
Total consideration	$	56,171

Fair value of net assets acquired		
Property and equipment	$	13,060
Exploration and evaluation assets		42,677
Working capital (Includes cash acquired of $2,405)		990
Decommissioning liability		(556)
Net assets acquired	$	56,171

b) Bellamont Exploration Ltd.

Pursuant to the acquisition of Bellamont Exploration Ltd. ("Bellamont") which closed on March 23, 2012, Storm acquired all of the issued and outstanding shares of Bellamont for total consideration of $59.7 million, consisting of $20.0 million in cash and the issuance of 16,740,096 common shares. The common shares issued were valued at $2.37 per share, being the closing share price of Storm at the time of acquisition. Bellamont was a public junior oil and gas exploration company with interests in crude oil and natural gas properties primarily in the Peace River Arch area of Alberta. Total transaction costs of approximately $0.3 million were incurred by Storm and charged to earnings.

The consolidated condensed interim statement of income (loss) and comprehensive income (loss) includes the results of operations for the period following the close of the transaction on March 23, 2012. The Company's net loss for the six month period ended June 30, 2012 includes $7.8 million of petroleum and natural gas revenue and $0.4 million of net income generated from the Bellamont assets since the acquisition on March 23, 2012. If Bellamont had been acquired on January 1, 2012, an additional $7,467,000 of petroleum and natural gas revenue and $335,000 of net loss would have been included on the consolidated condensed interim statement of income (loss) and comprehensive income (loss) for the six month period ended June 30, 2012.

The transaction has been accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

Consideration		
Issuance of share capital	$	39,674
Cash		20,000
Total consideration	$	59,674

Fair Value of Net Assets Acquired		
Property and equipment	$	102,593
Exploration and evaluation assets		2,113
Working capital deficiency (Includes debt acquired of $38,388)		(36,727)
Decommissioning liability		(8,305)
Net assets acquired	$	59,674

4. INVESTMENTS

	June 30, 2012		December 31, 2011	
Bridge Energy ASA (“Bridge”)	$	1,663	$	1,503
Chinook Energy Inc. (“Chinook”)		5,850		7,335
	$	7,513	$	8,838

Unrealized revaluation loss for the six months ended June 30, 2012, in the amount of $1.3 million (2011 – loss of $3.0 million), is recognized in other comprehensive income (loss). During 2011 the Company sold 5.1 million shares of Bellamont for proceeds of $3.2 million and recognized a gain on disposition of $0.5 million in the six months ended June 30, 2011.

5. EXPLORATION AND EVALUATION

	June 30, 2012		December 31, 2011	
Balance, beginning of period	$	26,156	$	36,944
Corporate acquisitions		44,790		-
Additions		962		10,418
Disposals		(1,009)		-
Future decommissioning costs		-		(358)
Transfers to property and equipment		-		(20,848)
Balance, end of period	$	70,899	$	26,156

6. PROPERTY AND EQUIPMENT

	June 30, 2012		December 31, 2011	
Balance, beginning of period	$	49,507	$	-
Corporate acquisitions		115,653		-
Additions		9,477		30,378
Future decommissioning costs		223		1,717
Transfers from exploration and evaluation assets		-		20,848
Balance, end of period		174,860	$	52,943
Accumulated depletion and depreciation		(5,493)		(3,436)
Balance, end of period	$	169,367	$	49,507

7. BANK INDEBTEDNESS

The Company has an extendible revolving bank facility in the amount of $70 million (December 31, 2011 – $18 million) based on the Company’s producing reserves. The revolving facility is available to the Company until April 30, 2013, subject to the bank’s semi-annual review of the Company’s reserve lending base. If the revolving facility is not renewed at the end of the current revolving phase, the facility moves into a term phase whereby the loan is to be retired with one payment on the 366th day following the last day of the revolving phase, in an amount equal to the outstanding principal. Interest is paid on the revolving facility at guaranteed notes' acceptance rates plus a stamping fee. Security comprises a floating charge demand debenture on the assets of the Company.

8. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production facilities, including well sites and gathering systems. 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 $17.7 million, which is expected to be paid over the next 17 years. A risk-free discount rate of 2.6% (2011 – 2.65%) and an inflation rate of 1.9% (2011 – 1.5%) was used to calculate the present value of the decommissioning obligation, amounting to $11.7 million.

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

	Six Months Ended June 30, 2012	Year Ended December 31, 2011
Balance, beginning of period	$ 2,532	$ 1,121
Additions	100	1,253
Acquisitions	8,861	-
Obligations disposed	-	(30)
Change in estimate[1]	123	136
Accretion expense	96	52
Balance, end of period	$ 11,712	$ 2,532

(1) Relates to the change in discount and inflation rates used.

9. 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 fair market gains and losses on investments.

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately $176 million as well as non-capital losses of approximately $78 million. The tax losses begin to expire in 2026. A deferred tax asset has not been recognized due to uncertainty as to future realization.

10. SHAREHOLDERS' EQUITY

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 preferred shareholders, participate in any distribution in equal amounts per share.

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2010 and 2011	26,377	$ 86,576
Shares issued on acquisition of SGR[1]	11,761	43,869
Shares issued under private placement[2]	6,946	23,616
Shares issued on acquisition of Bellamont[3]	16,740	39,674
Share issue costs[2]	-	(551)
Balance as at June 30, 2012	61,824	$ 193,184

(1) On January 12, 2012 the Company issued 11,761,190 common shares, valued at $3.73 per share, to acquire all of the issued and outstanding shares of SGR not already owned by the Company. See also Note 3.

(2) On March 23, 2012 the Company issued 6,946,000 common shares at a price of $3.40 per share, under a private placement, for proceeds of $23.6 million before related transaction costs of approximately $551,000.

(3) On March 23, 2012 the Company issued 16,740,096 common shares and paid cash of $20 million to acquire all of the issued and outstanding shares of Bellamont. The shares issued by the Company were valued at $2.37 per share. See also Note 3.

11. 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 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 6,182,425 common shares are available for issuance. Options in respect of 2,722,500 common shares have been issued, of which all are unexercised. As at June 30, 2012, options remain in respect of 3,459,925 common shares which are available for further option grants under the stock option plan.

Details of the options outstanding at June 30, 2012 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2011	1,978	$ 3.28
Granted during the period	785	$ 2.17
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period	40	$ 2.52
Outstanding at June 30, 2012	2,723	$ 2.96
Number exercisable at June 30, 2012	659	$ 3.29

		Outstanding Options	
Range of Exercise Price	Number of Options Outstanding (000s)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$1.83 - $2.75	705	3.9	$ 2.00
$2.75 - $3.96	2,018	2.2	$ 3.29
Total	2,723	2.6	$ 2.96

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 behavior), 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 period ended June 30, 2012 of $0.68 per share (2011 - nil) include the following:

Share price	$	2.17
Exercise price	$	2.17
Volatility		40%
Forfeiture rate		10%
Expected option life		3.7
Dividends		-
Risk-free interest rate		1.5%

The initial forfeiture rate was estimated to be 10%. This estimate will be adjusted to the actual forfeiture rate. Share-based compensation expense of $368,000 was charged to the statement of loss during the six months to June 30, 2012 (2011 - $597,000) with an equivalent offset to contributed surplus.

12. NET INCOME (LOSS) PER SHARE

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

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Net income (loss) for the period	$ 947	$ (562)	$ (668)	$ (883)
Weighted average number of common shares outstanding – basic:				
Common shares outstanding at beginning of period	61,824	26,377	26,377	26,377
Stock options exercised	-	-	-	-
Effect of shares issued	-	-	23,870	-
Weighted average number of common shares outstanding - basic	61,824	26,377	50,247	26,377
Effect of outstanding options	23	-	-	-
Weighted average number of common shares outstanding - diluted	61,847	26,377	50,247	26,377
Net loss per share				
- basic	$ 0.03	$ (0.02)	$ (0.01)	$ (0.03)
- diluted	$ 0.03	$ (0.02)	$ (0.01)	$ (0.03)

The dilutive factor is the stock options described in Note 11.

13. FINANCIAL INSTRUMENTS

The following table sets out, for each class of financial asset and financial liability, the carrying amount and fair value as at June 30, 2012. The carrying value of cash, accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness included on the consolidated condensed interim statements of financial position approximate their fair values due to the short-term nature of those instruments and are not included in the table below.

		June 30, 2012	
	Classification	Carrying Amount	Fair Value
Investments in publicly traded companies(1)	Available for sale	$ 7,513	$ 7,513

(1) The fair value of the Company's investments in Chinook and Bridge are determined with reference to published share prices and are therefore classified as Level 1 financial instruments. The fair value of the Company's commodity contracts is based on forward prices of commodities available in the market place and 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, 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 such instruments.

The Company may choose to enter into contracts, including 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.

As at June 30, 2012, Storm has the following derivative contracts in place. The fair market value of these contracts of $1,683,000 (December 31, 2011 – nil) is included in current assets and the resulting unrealized mark-to-market gain of $1,683,000 (2011 – nil) is recognized in the consolidated condensed interim statement of income (loss) and comprehensive income (loss) for the six months to June 30, 2012.

Volume	Price	Term
Crude Oil Swap		
100 Bbls/day	$107.75	July 2012 – December 2012
100 Bbls/day	$103.70	July 2012 – December 2012
100 Bbls/day	$103.35	July 2012 – December 2012
150 Bbls/day	$105.00	July 2012 – December 2012
Natural Gas Swap		
4,500 GJ/day	$ 2.20	July 2012 – September 2012

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 to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Salaries and short-term benefits	$ 239	$ 201	$ 443	$ 398
Share-based compensation	91	170	179	331
	$ 330	$ 371	$ 622	$ 729

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months to June 30, 2012	Three Months to June 30, 2011	Six Months to June 30, 2012	Six Months to June 30, 2011
Accounts receivable	$ 4	$ 1,080	$ 4,466	$ (500)
Prepaids and deposits	55	49	177	91
Accounts payable and accrued liabilities	367	(7,515)	(8,289)	(9,549)
Change in non-cash working capital	$ 426	$ (6,386)	$ (3,646)	$ (9,958)
Relating to:				
Operating activities	$ 2,161	$ 930	$ (316)	(325)
Financing activities	-	-	-	-
Investing activities	(1,735)	(7,316)	(3,330)	(9,633)
	$ 426	$ (6,386)	$ (3,646)	$ (9,958)
Interest paid during the period	$ 364	$ -	$ 668	$ -
Income taxes paid during the period	$ -	$ -	$ -	$ -

Corporate Information

Officers

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Chief Financial Officer

Daniel J. Fitzgerald
Vice President, Corporate Development

John Devlin
Vice President, Finance

Directors

Matthew J. Brister (2)

John A. Brussa (3)

Mark A. Butler (1)(3)

Stuart G. Clark (1)
Chairman

Brian Lavergne
CEO

Gregory G. Turnbull (3)

P. Grant Wierzba (2)

James K. Wilson (1)

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

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

Suite 1208, 250 – 2nd Street S.W.
Calgary, Alberta, T2P 0C1 Canada
Tel: (403) 817-6145 Fax: (403) 817-6146
www.stormresourcesltd.com

Abbreviations

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

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