



stORM
RESOURCES

2012 YEAR-END REPORT



Highlights

Thousands of Cdn\$, except volumetric and per share amounts	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Year Ended December 31, 2012	Year Ended December 31, 2011
FINANCIAL				
Gas sales	3,416	1,160	8,054	3,404
NGL sales	1,597	594	4,466	1,020
Oil sales	5,399	739	19,793	2,468
Revenue from product sales ⁽¹⁾	10,412	2,493	32,313	6,892
Funds from operations ⁽²⁾	5,016	709	13,387	1,874
Per share - basic (\$)	0.08	0.03	0.24	0.07
Per share - diluted (\$)	0.08	0.03	0.24	0.07
Net income (loss)	(2,320)	(1,758)	(6,574)	(3,664)
Per share - basic (\$)	(0.04)	(0.07)	(0.12)	(0.14)
Per share - diluted (\$)	(0.04)	(0.07)	(0.12)	(0.14)
Field capital expenditures, net of dispositions	8,777	20,687	14,282	40,796
Net debt/working capital	44,696	15,171	44,696	15,171
Weighted average common shares outstanding (000s)				
Basic	61,824	26,377	56,067	26,377
Diluted	61,824	26,377	56,067	26,377
Common shares outstanding (000s)				
Basic	61,824	26,377	61,824	26,377
Fully diluted	64,547	28,355	64,547	28,355
OPERATIONS				
Oil equivalent (6:1)				
Barrels of oil equivalent (000s)	259	72	825	198
Barrels of oil equivalent per day	2,815	779	2,254	542
Average selling price (Cdn\$ per Boe) ⁽¹⁾	40.19	34.78	39.14	34.86
Gas production				
Thousand cubic feet (000s)	987	346	3,053	964
Thousand cubic feet per day	10,728	3,763	8,342	2,641
Average selling price (Cdn\$ per Mcf)	3.46	3.35	2.64	3.53
NGL Production				
Barrels (000s)	25	7	67	12
Barrels per day	274	72	185	32
Average selling price (Cdn\$ per barrel)	63.27	89.95	66.17	87.36
Oil Production				
Barrels (000s)	69	7	249	25
Barrels per day	753	80	679	69
Average selling price (Cdn\$ per barrel) ⁽¹⁾	77.93	100.05	79.53	97.39
Wells drilled				
Gross	2.0	1.0	6.0	4.0
Net	1.2	0.6	4.4	2.2

(1) Excludes hedging gains.

(2) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 14 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 24 of the attached MD&A.

President's Message

2012 FOURTH QUARTER AND YEAR-END HIGHLIGHTS

- Fourth quarter production averaged 2,815 Boe per day which is a year-over-year increase of 260% or 55% on a per-share basis. Oil plus NGL production grew to represent 36% of fourth quarter production versus 19% a year ago. Average 2012 production grew 95% on a per-share basis to 2,254 Boe per day with 38% being oil plus NGL. Increased production was the result of two corporate transactions that closed in the first quarter of 2012, Bellamont Exploration Ltd. ("Bellamont") and Storm Gas Resource Corp. ("SGR"), and also from new horizontal wells in the Montney formation at Umbach. The Bellamont transaction added 1,253 Boe per day to average 2012 production and the acquisition of SGR added 276 Boe per day. Increased oil plus NGL production in 2012 was primarily the result of the Bellamont transaction which added 668 barrels per day of oil plus NGL and from growth at Umbach where NGL production grew by 75 barrels per day.
- Capital investment totaled \$8.8 million in the fourth quarter and \$166.0 million for the year. The majority of 2012 capital investment related to acquisitions net of dispositions, which totaled \$139.2 million. Acquisitions were \$154.9 million which included the Bellamont transaction for \$96.6 million and the SGR acquisition for \$55.2 million. Dispositions totaled \$15.7 million from the sale of two non-core properties in the second half of 2012. Capital investment in operations was \$26.9 million for the year.
- During 2012, activity was primarily focused on delineating the resource in the Montney formation at Umbach. Drilling included six wells (4.4 net) with four horizontal wells (2.4 net) in the Montney at Umbach. Three horizontal wells (1.8 net) were completed and pipeline connected at Umbach. In the fourth quarter, two horizontal wells (1.2 net) were drilled at Umbach with completion and tie-in of both planned for 2013.
- Funds from operations in the fourth quarter was \$5.0 million, or \$0.08 per basic share, an increase of 165% from cash flow of \$0.03 per basic share in the prior year. For the year, funds from operations increased by 610% to \$13.4 million. The increase in quarterly and yearly funds from operations resulted primarily from the Bellamont transaction which increased higher priced oil plus NGL as a proportion of total production and added \$13.2 million of operating income in 2012.
- Funds from operations increased throughout 2012 and averaged \$19.37 per Boe in the fourth quarter. The 2012 average funds from operations per Boe was \$16.19, an increase of 70% from the prior year amount of \$9.48 per Boe. Total cash costs including operating expense, interest expense, transportation costs, and cash general and administrative costs were \$19.83 per Boe in 2012 and decreased to \$19.34 per Boe in the fourth quarter.
- Hedging gains from fixed price financial hedges put in place to protect capital investment were \$1.7 million in 2012. For 2013, commodity price hedges currently include 400 barrels of oil per day in the first quarter at an average floor price of Cdn \$91.08 per barrel, 300 barrels of oil per day in the second quarter at an average floor price of Cdn \$91.48 per barrel, and 8,000 GJ per day of natural gas in the first quarter at an average AECO floor price of \$3.16 per GJ.
- Net loss in the fourth quarter was \$2.3 million or \$0.04 per basic share, a decrease from the net loss of \$0.07 per basic share a year earlier. Net loss for the year was \$6.6 million or \$0.12 per basic share, a decrease from the prior year's net loss of \$0.14 per basic share. The net loss was primarily due to a \$1.3 million loss on the sale of investments, a write-down of investments of \$2.6 million, and a \$1.0 million loss on the disposition of oil and gas properties.
- Debt and working capital deficiency was \$44.7 million at year end. Including the \$4.3 million market value for Storm's investment in publicly listed companies at year end, adjusted net debt was \$40.4 million or 2.0 times annualized fourth quarter funds from operations. Including previously announced asset dispositions for proceeds totaling \$20.1 million which closed in the first quarter of 2013, pro-forma adjusted net debt decreases to \$20.3 million which is 1.0 times annualized fourth quarter funds from operations. Storm's bank credit facility is \$52.0 million after giving effect to asset sales in the first quarter of 2013.

- Total proved (“1P”) reserves increased 270% to 13.8 Mmboe with additions being 10.9 Mmboe. On a per-share basis using basic shares outstanding at year end, the increase was 59%. Delineation drilling in the Montney at Umbach added 4.1 Mmboe (38% of additions), the Bellamont transaction added 4.8 Mmboe, and the acquisition of SGR added 2.6 Mmboe.
- Total proved plus probable (“2P”) reserves grew 230% to 27.3 Mmboe with additions totaling 19.8 Mmboe. Growth on a per-share basis was 40% using basic shares outstanding at year end. Delineation drilling in the Montney at Umbach added 5.5 Mmboe (28% of additions), the Bellamont transaction added 8.0 Mmboe, and the acquisition of SGR added 6.7 Mmboe.
- The all-in cost to add 1P reserves was \$21.85 per Boe and for 2P reserves was \$16.26 per Boe. The all-in cost includes all capital expenditures, the change in future development costs, acquisitions, dispositions and revisions.
- The cost to add reserves per National Instrument 51-101 (“NI 51-101”), which excludes the effect of acquisitions, divestitures and revisions, was \$14.20 per Boe for 1P reserves and \$12.19 per Boe for 2P reserves. All reserves additions per NI 51-101 were at Umbach.
- Storm’s asset value is \$2.35 per share using the net present value of 2P reserves, discounted at 10% before tax, and after deducting adjusted net debt of \$40.4 million at the end of 2012. This excludes any value for Storm’s landholdings which totaled 310,000 net acres at year end.

OPERATIONS REVIEW

Storm has a focused asset base with large land positions in resource plays at Umbach and in the Horn River Basin (“HRB”) which have multi-year drilling upside.

Umbach, Northeast British Columbia

Storm’s land position at Umbach totals 99 net sections (126 gross sections) or 69,000 net acres. Two project areas have been identified with one area consisting of 63 gross sections of jointly owned lands (36 net sections with an average Storm working interest of 57%) and the other area containing 63 sections of land at a 100% working interest. Fourth quarter production averaged 564 Boe per day (29% NGL) with NGL recovery being 67 Bbls per Mmcf of natural gas sales. NGL included 50% condensate plus pentanes recovered during processing, 24% butane, and 26% propane. The fourth quarter operating netback was \$17.70 per Boe with revenue of \$31.28 per Boe, a royalty rate of 12%, and operating costs were \$9.80 per Boe.

Repeated outages and capacity constraints with third party field compression resulted in production from Umbach being reduced by 300 Boe per day in the fourth quarter. For most of the quarter, one to three horizontals were shut in and run time on the remaining horizontals was intermittent.

On the jointly owned lands, nine horizontal wells have been drilled all at a 60% working interest with seven of those having been completed and tied in. Initial production and flow test results from the last three horizontal wells that were drilled lower into the Montney formation and completed with larger water based fracture treatments are encouraging although additional uninterrupted production history is required to confirm the level of improvement. As production declines and as field compression capacity becomes available, the remaining two horizontal wells will be completed and tied in which is likely to be in the third and fourth quarters. From January 1st to February 25th, production has averaged 425 Boe per day net from one to four horizontal wells with third party field compression having been shut in for 17 days to complete repairs and modifications. Production is currently approximately 750 Boe per day net from four horizontal wells. Total sustainable productive capability of all seven horizontal wells is estimated at 1,500 Boe per day net to Storm. Production from the joint lands is expected to be restricted to 600 to 1,000 Boe per day net for the next three to six months.

On the 100% working interest lands, one horizontal well has been drilled and has been completed with first production expected early in the second quarter once an eight kilometre pipeline connection to an existing field compression facility is completed. Storm has entered into an agreement to acquire ownership in this existing facility for \$4.5 million with available capacity being approximately 20 Mmcf per day. Production from horizontal wells connected to this facility will be directed to the McMahon Gas Plant for processing which will reduce NGL recovery to 37 Bbls per Mmcf sales; however, the field netback will increase by \$2 per Boe at current commodity prices because eliminating third party fees for field compression will reduce operating costs by more than \$3 per Boe. In the second

half of 2013, it is expected that three to four more horizontal wells will be drilled on the 100% working interest lands and will be pipeline connected to this facility.

The gross cost to drill and complete the last two horizontal wells (the sixth and seventh) averaged \$4.8 million which is a significant improvement from the average cost of \$5.5 million for the first five horizontal wells. Both were drilled from existing pads. As the focus transitions from resource delineation to development in 2013, horizontal well costs are expected to decline as wells are drilled from common pads and further drilling and completion efficiencies are realized.

On the first four horizontal wells, first year average rates have been approximately 290 Boe per day (1.5 Mmcf raw gas per day) with estimated 2P reserves of 540 Mboe (2.8 Bcf gross raw gas) assigned to the Upper Montney formation only. This has generated a rate of return below Storm's targeted threshold of 20% to 25%. Completion techniques on the most recent horizontal wells have been modified to access the Upper and Middle Montney intervals to improve the first year average rate which is expected to result in the rate of return improving to meet or exceed the minimum targeted level.

Grande Prairie Area, Northwest Alberta and Northeast British Columbia

Production in this area comes from properties acquired through the transaction with Bellamont which closed in the first quarter of 2012. Production in the fourth quarter averaged 1,884 Boe per day (46% oil plus NGL) at an operating netback of \$25.40 per Boe. In early October, with natural gas prices at AECO recovering to \$3.00 per GJ, shut-in natural gas wells were reactivated which added 455 Boe per day in the fourth quarter. The sale of the Mica property was completed on October 18th with net proceeds at closing totaling \$13.3 million (145 Boe per day). During the first quarter of 2013, the Rycroft property was sold January 18th (30 Boe per day) and the Saddle Hills and Gold Creek properties were sold February 15th (275 Boe per day) with proceeds from both transactions totaling \$20.1 million. Current production after the recent dispositions is approximately 1,500 Boe per day (41% liquids).

There was minimal activity in the fourth quarter. A horizontal well drilled and completed in the Grande Prairie Dunvegan C light oil pool in the third quarter, was produced for a short period of time in November, and is now shut in as the production rate was below economic limits. The poor production rate was the result of problems casing the well which resulted in an open hole completion instead of the planned multi-stage fracture treatment. At Grimshaw, water injection commenced into a horizontal well in the Montney A pool in late August which has resulted in a flattening of the pool decline over the last four months. Significant progress was made on operating cost reductions in 2012 with realized savings totaling \$2.5 million per year from electrifying well sites, purchasing surface equipment to eliminate processing fees, shutting in or disposing of uneconomic wells, returning rental equipment and eliminating water trucking and disposal. Wells that were shut in or disposed had total cash flow of \$50,000 from April 2011 to March 2012.

Horn River Basin, Northeast 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. The resource in the Muskwa and Otter Park shales is large with the best estimate of DPIIP in the 30 section core producing area being 3.1 Tcf gross raw gas (evaluated by InSite Petroleum Consultants Ltd. December 31, 2011). Productivity has been proven across the core producing area with one horizontal well that has been producing for 23 months plus two completed and tested vertical wells.

During the fourth quarter, production in the HRB averaged 367 Boe per day at an operating netback of \$9.99 per Boe. All of Storm's production is from a horizontal well with 12 fracture stimulations that is currently producing 2.7 Mmcf per day gross raw gas with cumulative production of 2.8 Bcf gross raw gas since production commenced in March 2011. Field compression has not been installed so the flow rate since inception has been restricted by the high flowing pressure in the raw gas gathering pipeline (1,000 psig). 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.

INVESTMENTS

At the end of the fourth quarter, Storm owned 3 million shares in Chinook Energy Inc., a TSX-listed oil and gas exploration and production company (symbol 'CKE') based in Calgary with operations focused in Tunisia and western Canada. These shares had a value of \$4.3 million at the end of 2012. During the fourth quarter of 2012, Storm sold its remaining shares in Bridge Energy ASA for proceeds totaling \$1.8 million.

OUTLOOK

Results in 2012 were generally in line with guidance (year-end debt, operating costs, royalty rate, operations capital). Production in the fourth quarter of 2012 was below previous guidance (2,815 Boe per day versus previous guidance of 3,000 Boe per day) due to outages and capacity constraints with third party field compression at Umbach. Production in the first quarter of 2013 is expected to be 2,500 Boe per day and will increase to 3,000 Boe per day in the second quarter. This reflects the impact of the asset dispositions, continuing downtime with third party field compression at Umbach, and maintenance turnarounds at the Fort Nelson gas plant (HRB shut in for 28 days) and the Teepee gas plant (half of Grande Prairie area shut in for 15 days). Production growth is expected to resume in the second half of 2013 with additions at Umbach coming from expansion of the gathering system and as horizontal wells are drilled, completed and tied in on 100% working interest lands.

Preliminary 2013 guidance provided November 13, 2012 is being revised to reflect the recent asset dispositions that closed in the first quarter of 2013 (total proceeds \$20.1 million) and an increase in activity levels at Umbach. Net of acquisitions and dispositions, total capital investment is expected to be \$25 million. Updated guidance is provided below:

	2013 Guidance	2012 Actual
<i>Year-end adjusted debt plus working capital deficiency⁽¹⁾</i>	\$44.0 million	\$40.4 million
<i>Average operating costs</i>	\$10 - \$11 per Boe	\$11.48 per Boe
<i>Average royalty rate (on production revenue before hedging)</i>	11% - 12%	11.1%
<i>Operations capital, excluding dispositions</i>	\$40.0 million	\$26.9 million
<i>Property dispositions⁽²⁾</i>	\$20.0 million	\$15.7 million
<i>Corporate or property acquisitions</i>	\$4.5 million	\$154.9 million
<i>Cash G&A</i>	\$3.9 million	\$3.7 million
<i>Exit or fourth quarter average production</i>	4,000 – 4,500 Boe per day (25% oil + NGL)	2,815 Boe per day (36% oil + NGL)

(1) Includes value of publicly listed securities.

(2) Dispositions closed in February 2013.

The 2013 capital investment program will be focused on developing the resource in the Montney formation at Umbach. Major expenditures will include:

- \$20.0 million of proceeds from property dispositions;
- \$4.5 million to acquire a working interest in an existing facility at Umbach;
- \$10.0 million to drill five horizontal wells (4.6 net) at Umbach;
- \$15.0 million to complete and tie in seven horizontal wells (5.8 net) at Umbach;
- \$6.0 million for the purchase of undeveloped land;
- \$5.0 million to expand the gathering pipeline system at Umbach.

With a 2013 natural gas price at AECO of \$3 per GJ and an Edmonton Par oil price of \$87 per barrel, this program will be funded with cash flow, the sale of non-core assets, and with bank debt. Adjusted net debt is forecast to be unchanged at \$45 million at the end of 2013 (including public company investments) which is within Storm's current bank line of \$52 million and approximately two times forecast 2013 funds from operations.

Over the last year, Storm has gained critical mass and cash flow through two corporate transactions. Activity in 2012 was focused on drilling horizontal wells at Umbach to continue delineating the large, liquids-rich natural gas resource in the Montney formation. To date, Storm has delineated approximately 40% of its land position at Umbach with reserves assigned to only the Upper Montney formation on 11% of the land base. Well control confirms that there is a significant inventory of undrilled horizontal wells in the Upper and Middle Montney intervals. As a result, in 2013, the focus will transition to developing the resource and growing production and cash flow. NGL recovery of 67 barrels per Mmcf sales through a shallow-cut gas plant greatly improves the netback and economics at current natural gas prices. Modifications to the completion technique are expected to improve first year average rates and result in a rate

of return meeting or exceeding 20% to 25% at current commodity prices. If results at Umbach are supportive of doing so, development may be accelerated with funding being provided by additional asset sales.

Regarding the HRB property, the optionality of Storm's land position is confirmed by recent transactions involving major land positions either in the HRB or other large scale, gas-prone resource plays in British Columbia and Alberta. The HRB continues to offer significant leverage to improving natural gas prices and remains a long term, core asset for Storm.

I would like to thank Storm's employees for their effort and hard work in 2012 and our directors for their guidance and continued support. Our goal continues to be accretive growth in net asset value which will be achieved through development of the larger scale, liquids-rich resource in the Montney formation at Umbach. We look forward to providing updates on our progress throughout 2013.

Respectfully,



Brian Lavergne,
President and Chief Executive Officer

February 28, 2013

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

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

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

Forward-Looking Statements - Such statements made in this report are subject to the limitations set out in Storm's Management's Discussion and Analysis dated February 28, 2013 for the year ended December 31, 2012.

Reserves at December 31, 2012

Storm's year-end reserve evaluation effective December 31, 2012 was prepared by InSite Petroleum Consultants Ltd. ("InSite") under date of February 15, 2013. InSite has evaluated all of Storm's crude oil, NGL and natural gas reserves. The InSite price forecast at December 31, 2012 was used to determine all estimates of future net revenue (also referred to as net present value or NPV). Storm's Reserves Committee, comprised of independent and appropriately qualified directors, has reviewed and approved the evaluation prepared by InSite and the report of the Reserves Committee has been accepted by the Company's Board of Directors.

Summary

- Proved developed producing reserves increased 273% to total 5,860 Mboe, an increase of 59% per share.
- Total proved ("1P") reserves grew 272% to total 13,822 Mboe. This is an increase of 59% on a per-share basis.
- Total proved plus probable ("2P") reserves totaled 27,331 Mboe which is an increase of 228%. The increase is 49% on a per-share basis.
- Additions to 2P reserves were 19,828 Mboe with 40% from the Bellamont transaction, 34% from the SGR acquisition, and 28% from delineation drilling of the Montney formation at Umbach.
- The net present value of 2P reserves, discounted at 10% before tax, increased 238% to \$186 million with the majority of this being attributed to the Umbach property (39%).
- Storm's asset value is \$2.35 per share using the net present value of 2P reserves, discounted at 10% before tax, and after deducting adjusted net debt of \$40.4 million at the end of 2012. This excludes any value for Storm's landholdings which totaled 310,000 net acres at year end.
- The 1P finding and development cost as per NI 51-101 requirements was \$14.20 per Boe and the 2P finding and development cost, as per NI 51-101 requirements, was \$12.19 per Boe. This includes the change in FDC and excludes the effect of acquisitions, divestitures and revisions.
- The all-in cost to add 1P reserves was \$21.85 per Boe and for 2P reserves was \$16.26 per Boe. The all-in calculation reflects the result of Storm's entire capital investment program as it takes into account the effect of acquisitions (Bellamont and SGR), dispositions, revisions, as well as the change in future development costs.
- Recycle ratio was 1.4 for 2P reserve additions using the all-in cost of \$16.26 per Boe and the 2012 field netback of \$23.21 per Boe.
- Drilling activity in 2012 resulted in the addition of 4,067 Mboe on a 1P basis and 5,514 Mboe on a 2P basis with all additions being from the Montney formation at Umbach.
- The transaction with Bellamont added 4,784 Mboe 1P reserves and 7,972 Mboe 2P reserves. 2P FDC was \$40.2 million net to Bellamont. The all-in cost to add 1P reserves was \$22.40 per Boe and for 2P reserves was \$17.55 per Boe.
- The acquisition of SGR added 2,577 Mboe 1P reserves and 6,737 Mboe 2P reserves with 2P FDC of \$75.7 million net to SGR. The all-in cost to add 1P reserves was \$34.71 per Boe and for 2P reserves was \$19.42 per Boe. Cost to add reserves with the SGR acquisition is high as it does not reflect contingent resources with the best estimate being 393 Bcf sales net to SGR as evaluated by InSite effective December 31, 2011.
- FDC was \$103 million on a 1P basis and \$229 million on a 2P basis.
- At Umbach, 2P reserves were 8,679 Mboe (32% of total corporate) with 661 Mboe assigned to complete two standing horizontal wells (1.2 net) and to drill 19 horizontal wells (11.4 net). Recoverable reserves assigned to horizontal drilling locations averaged 2.9 Bcf of gross raw gas. Shrinkage of 15% was used along with NGL recovery of 61 barrels per Mmcf of sales. 2P FDC was \$63.6 million net. Reserves were assigned to

the Upper Montney formation only and no reserves were recognized on Storm's 100% working interest lands.

- In the HRB, 2P reserves were 11,128 Mboe (41% of total corporate) with 1,466 Mboe assigned to complete a standing horizontal shale gas well (1.0 net) and to drill six horizontal shale gas wells (6.0 net). Recoverable reserves assigned to each of the horizontal drilling locations averaged 10 Bcf of gross raw gas. Shrinkage of 12% was used to determine sales gas volumes. 2P FDC was \$125.1 million gross and includes \$12.1 million for associated infrastructure.
- Property dispositions in 2012 (Mica and Red Earth) reduced 1P reserves by 626 Mboe and 2P reserves by 735 Mboe.

Gross Company Interest Reserves as at December 31, 2012
(Before deduction of royalties payable, not including royalties receivable)

	Light Crude Oil (Mbbbls)	Sales Gas (Mmcf)	NGL (Mbbbls)	6:1 Oil Equivalent (Mboe)
Proved producing	2,049	19,535	555	5,860
Proved non-producing	-	397	8	74
Total proved developed	2,049	19,932	563	5,934
Proved undeveloped	300	39,068	1,077	7,888
Total proved	2,349	59,000	1,640	13,822
Probable additional	1,265	66,600	1,144	13,509
Total proved plus probable	3,614	125,600	2,784	27,331

Gross Company Reserve Reconciliation for 2012
(Gross company interest reserves before deduction of royalties payable)

	6:1 Oil Equivalent (Mboe)		
	Total Proved	Probable	Proved plus Probable
December 31, 2011 - opening balance	3,714	4,608	8,322
Acquisitions	7,361	7,348	14,709
Discoveries	-	-	-
Extensions	4,067	1,447	5,514
Dispositions	(626)	(109)	(735)
Technical revisions	126	216	342
Production	(819)	-	(819)
December 31, 2012 – closing balance	13,823	13,510	27,333

Future Development Costs

Proved

HRB	3.0 net horizontals plus infrastructure	\$ 55.5 million
Umbach	8.4 net horizontals	\$ 39.8 million
Grande Prairie	3.0 net horizontals	\$ 7.5 million
Total		\$ 102.8 million

Proved Plus Probable Additional

HRB	7.0 net horizontals plus infrastructure	\$ 125.1 million
Umbach	12.6 net horizontals	\$ 63.6 million
Grande Prairie	11.0 net horizontals	\$ 40.2 million
Total		\$ 229.0 million

	Proved Expenditures	Proved Plus Probable Additional Expenditures
2013	\$ 29.3 million	\$ 37.7 million
2014	\$ 18.0 million	\$ 33.2 million
2015	\$ 18.6 million	\$ 59.4 million
2016	\$ 34.9 million	\$ 43.0 million
2017	\$ 2.1 million	\$ 41.8 million
2018	\$ -	\$ 13.9 million

NI 51-101 Finding and Development Costs

	2012	2011	2010	3 Year Average
Total Proved Finding and Development Cost				
Capital expenditures excluding acquisitions and dispositions (000s)	\$ 26,868	\$ 25,360	\$ 16,800	\$ 69,028
Net change in FDC (000s)	30,863	25,541	4,679	61,083
Total capital including the net change in future capital (000s)	\$ 57,731	\$ 50,901	\$ 21,479	\$ 130,111
Reserve additions excluding acquisitions, dispositions and revisions (Mboe)	4,067	2,505	738	7,310
Total proved finding and development costs (per Boe)	\$ 14.20	\$ 20.32	\$ 29.10	\$ 17.80

	2012	2011	2010	3 Year Average
Total Proved Plus Probable Finding and Development Cost				
Capital expenditures excluding acquisitions and dispositions (000s)	\$ 26,868	\$ 25,360	\$ 16,800	\$ 69,028
Net change in FDC (000s)	40,341	51,725	21,057	113,123
Total capital including the net change in future capital (000s)	\$ 67,209	\$ 77,085	\$ 37,857	\$ 182,151
Reserve additions excluding acquisitions, dispositions and revisions (Mboe)	5,514	5,278	2,512	13,304
Total proved plus probable finding and development costs (per Boe)	\$ 12.19	\$ 14.60	\$ 15.07	\$ 13.69

All-In Finding, Development and Acquisition Costs

Total Proved All-In Finding, Development and Acquisition Cost including FDC, Acquisitions, Dispositions, Revisions	2012	2011	2010	3 Year Average
Capital expenditures including				
acquisitions and dispositions (000s)	\$ 166,076	\$ 40,795	\$ 16,800	\$ 223,671
Net change in FDC (000s)	72,655	25,541	4,679	102,875
Total capital including the net change in future capital (000s)	\$ 238,731	\$ 66,336	\$ 21,479	\$ 326,546
Reserve additions including acquisitions, dispositions and revisions (Mboe)	10,927	3,178	738	14,843
All-in total proved finding and development costs (per Boe)	\$ 21.85	\$ 20.87	\$ 29.10	\$ 22.00
Total Proved Plus Probable All-In Finding, Development and Acquisition Cost including FDC, Acquisitions, Dispositions, Revisions	2012	2011	2010	3 Year Average
Capital expenditures including				
acquisitions and dispositions (000s)	\$ 166,076	\$ 40,795	\$ 16,800	\$ 223,671
Net change in FDC (000s)	156,258	51,725	21,057	229,040
Total capital including the net change in future capital (000s)	\$ 322,334	\$ 92,520	\$ 37,857	\$ 452,711
Reserve additions including acquisitions, dispositions and revisions (Mboe)	19,828	6,012	2,512	28,352
All-In total proved plus probable finding and development costs (per Boe)	\$ 16.26	\$ 15.39	\$ 15.07	\$ 15.97

Capital Program Efficiency with All-In Finding, Development and Acquisition Costs

Based on the evaluation of our petroleum and natural gas reserves prepared by our independent reserve evaluator, InSite, the efficiency of our capital programs is summarized in the following table.

	2012	2011	2010
FD&A Costs – Proved (\$/Boe)			
Exploration and development ⁽¹⁾	\$ 13.77	\$ 20.04	\$ 29.10
Acquisitions (net of dispositions)	26.88	24.35	-
Total	\$ 21.85	\$ 20.87	\$ 29.10
FD&A Costs – Proved Plus Probable (\$/Boe)			
Exploration and development ⁽¹⁾	\$ 11.48	\$ 14.59	\$ 15.07
Acquisitions (net of dispositions)	18.26	21.26	-
Total	\$ 16.26	\$ 15.39	\$ 15.07
Operating netback per Boe ⁽²⁾	\$ 23.21	\$ 22.81	\$ -
Recycle ratio based on operating netback ⁽²⁾			
Proved plus probable	1.4	1.5	-

(1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

(2) Recycle ratio is calculated as operating netback divided by FD&A costs (proved plus probable including/excluding FDC). Operating netback is calculated as revenue (including realized hedging gains and losses) minus royalties, operating expenses and transportation expenses.

Net Present Value Summary (before tax) as at December 31, 2012

Benchmark oil and NGL prices used are adjusted for quality of oil or NGL produced and for transportation costs. The calculated NPVs include a deduction for estimated future well abandonment costs.

	Undiscounted (000s)	Discounted at 5% (000s)	Discounted at 10% (000s)	Discounted at 15% (000s)	Discounted at 20% (000s)
Proved producing	\$ 164,695	\$ 125,620	\$ 101,403	\$ 85,241	\$ 73,808
Proved non-producing	416	382	353	328	306
Total proved developed	\$ 165,111	\$ 126,002	\$ 101,756	\$ 85,569	\$ 74,114
Proved undeveloped	91,890	49,156	24,643	9,763	328
Total proved	\$ 257,002	\$ 175,159	\$ 126,399	\$ 95,333	\$ 74,442
Probable additional	226,565	113,694	59,667	31,173	15,027
Total proved plus probable	\$ 483,566	\$ 788,852	\$ 186,066	\$ 126,506	\$ 89,469

Numbers in this table may not add due to rounding.

Net Present Value Summary (after tax) as at December 31, 2012

Benchmark oil and NGL prices used are adjusted for quality of oil or NGL produced and for transportation costs. The calculated NPVs each include a deduction for estimated future well abandonment costs.

	Undiscounted (000s)	Discounted at 5% (000s)	Discounted at 10% (000s)	Discounted at 15% (000s)	Discounted at 20% (000s)
Proved producing	\$ 164,696	\$ 125,620	\$ 101,403	\$ 85,241	\$ 73,808
Proved non-producing	416	383	354	328	306
Total proved developed	\$ 165,112	\$ 126,003	\$ 101,757	\$ 85,569	\$ 74,114
Proved undeveloped	89,076	48,030	24,169	9,555	232
Total proved	\$ 254,188	\$ 174,033	\$ 125,926	\$ 95,124	\$ 74,347
Probable additional	170,535	85,623	44,517	22,510	9,841
Total proved plus probable	\$ 424,723	\$ 259,656	\$ 170,442	\$ 117,635	\$ 84,188

Numbers in this table may not add due to rounding.

InSite Escalating Price Forecast as at December 31, 2012

	WTI Crude Oil (US\$/Bbl)	Edmonton Light Crude Oil (Cdn\$/Bbl)	Henry Hub Natural Gas (US\$/Mmbtu)	AECO Natural Gas (Cdn\$/Mmbtu)	Propane (Cdn\$/Bbl)	Butane (Cdn\$/Bbl)
2013	92.00	90.00	3.75	3.34	36.00	76.50
2014	94.00	91.96	4.25	3.83	45.98	78.17
2015	96.00	93.92	4.75	4.33	56.35	79.83
2016	98.00	95.88	5.20	4.77	57.53	81.50
2017	100.00	97.84	5.55	5.11	58.70	83.16

Management's Discussion and Analysis

INTRODUCTION

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Resources Ltd. ("Storm" or the "Company") for the three months and year ended December 31, 2012. It should be read in conjunction with (i) the Company's audited consolidated financial statements for the year ended December 31, 2012, (ii) the Company's unaudited consolidated condensed interim financial statements for the three months ended March, June and September, 2012, (iii) the press release issued by the Company on February 28, 2013, 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 February 28, 2013.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's audited consolidated financial statements for the three months and year ended December 31, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are referred to in Note 3 to the audited consolidated financial statements for the year ended December 31, 2012. 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 year ended December 31, 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) and revenues or costs per commodity unit;
- future capital expenditures and their allocation to specific exploration and development activities or periods;
- future drilling, completion and tie-in of wells;
- future facility access or construction;
- future earnings;
- future non-GAAP funds from operations and future cash flows;

- future availability of financing;
- future asset acquisitions or dispositions;
- intentions with respect to investments;
- future sources of funding for capital programs;
- future decommissioning costs and discount rates used to determine the net present value of such costs;
- development plans;
- measurement and recoverability of reserves or resources;
- expected finding and development costs;
- future royalties, operating costs, interest and general and administrative costs;
- future provisions for depletion and depreciation and accretion;
- 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 uncertainties and risks described or incorporated by reference in this MD&A under “Critical Accounting Estimates”; “Risk Assessment” and the material assumptions described under the headings “Acquisitions in 2012”; “Overview”; “Hedging”; “Royalties”; “Production Costs”; “Acquisition Costs”; “General and Administrative Costs”; “Share-Based Compensation”; “Depletion and Depreciation”; “Accretion”; “Interest”; “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 and related costs including royalties, production costs and future development costs, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, ability to access sufficient capital from internal and external sources and the ability of the Company to realize value from acquired assets and corporations. All of these caveats should be considered in the context of current economic conditions, in particular 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”, “cash costs”, and measurements “per BOE” do not have any standardized meaning as prescribed by GAAP and are regarded as non-GAAP measures. These non-GAAP measures may not be comparable to the calculation of similar amounts for other entities and readers are cautioned that use of such measures to compare enterprises may not be valid. In particular, funds from operations is not intended to represent, or be equivalent to, cash flow from operating activities calculated in accordance with GAAP which is measured on the Company’s consolidated statements of cash flows. Funds from operations and similar non-GAAP terms are used to benchmark operations against prior periods and peer group companies and are widely used by investors and also by lenders to measure compliance with debt covenants and also set interest costs. Reference is made to the discussion in this MD&A under “Non-GAAP Funds from Operations and Funds from Operations per Share” and to “Cash Flows from Operating Activities”.

ACQUISITIONS IN 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.

The fair values of assets acquired, liabilities assumed and the consideration paid, measured at the date of closing, are as follows:

Assets Acquired and Liabilities Assumed	
Exploration and evaluation assets	\$ 42,677
Property and equipment	13,060
Decommissioning obligation	(556)
Net assets acquired	\$ 55,181
Consideration	
Shares issued ⁽ⁱ⁾	\$ 43,869
Carrying amount of existing 22% ownership	12,302
Working capital acquired ⁽ⁱⁱ⁾	(990)
Total cost⁽ⁱⁱⁱ⁾	\$ 55,181

(i) 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.

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

(iii) The above amounts do not include transaction costs, primarily legal and accounting fees incurred by the Company, estimated to be \$214,000, which were expensed in the first quarter of 2012.

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% and added an average of 276 Boe per day of production in 2012, all dry natural gas. The Company also assumed operatorship of the project. The acquisition enables the Company to control the operations, financing, cost and structure of development of the Horn River Basin property. Minor non-core undeveloped lands were also included with the SGR acquisition.

Acquisition of Bellamont Exploration Ltd.

On January 20, 2012 Storm announced that the Company and Bellamont Exploration Ltd. (“Bellamont”) 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 Bellamont 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 Bellamont from that date to December 31, 2012.

Under the Agreement shareholders of Bellamont received, at their election, for each Bellamont 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.

The fair values of assets acquired, liabilities assumed and the consideration paid, measured at the date of closing, are as follows:

Assets Acquired and Liabilities Assumed	
Exploration and evaluation assets	\$ 2,113
Property and equipment	102,805
Decommissioning liability	(8,305)
Net assets acquired	\$ 96,613

Consideration	
Cash paid to Bellamont shareholders ⁽ⁱ⁾	\$ 20,000
Shares of Storm issued ⁽ⁱⁱ⁾	39,674
Working capital deficiency assumed, including bank debt	36,939
Total cost ⁽ⁱⁱⁱ⁾	\$ 96,613

- (i) Under the Agreement, Bellamont shareholders could elect to receive cash on the basis of \$0.56 for each Bellamont share held, to a maximum amount of \$20 million. Bellamont shareholders elected for the maximum cash amount.
- (ii) A total number of 151.6 million Bellamont 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 Bellamont common share not acquired for cash, a total of 16.7 million Storm common shares were issued to former Bellamont shareholders. Using a Storm share price of \$2.37, which was the closing price at the time of acquisition, the Storm shares issued to Bellamont 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 \$426,000, which were expensed in the first quarter of 2012.

Commodity diversification and cash flow from the acquisition of Bellamont give Storm a more stable platform to expand its investment program and to pursue growth opportunities. In the near term, cash flow added from the Bellamont transaction is being directed to continue advancing exploitation of the large resource in the Montney formation at Umbach.

OPERATIONAL AND FINANCIAL RESULTS

Overview

The year ended December 31, 2012 was a year of material change for Storm. The Company began the year with production from four areas: the Horn River Basin, Umbach and Mica in northeast British Columbia and Red Earth in north central Alberta. By year end, production, using year-over-year fourth quarter averages as a proxy, had increased by 260%. Of this amount, 237% came from two acquisitions completed in the first quarter of 2012 and 23% through organic growth. Shares issued grew by 135% and Storm’s bank line increased from \$18 million to \$62 million at year end.

The acquisition of SGR in January 2012 resulted in Storm’s working interest in the Horn River Basin increasing from 40% to 100% and the Company assuming operatorship. However, low prices for natural gas which prevailed throughout 2012, coupled with the high cost of drilling and completing wells in a remote area, resulted in the Company deferring development activities until an improved gas pricing regime emerges. The Company’s one

producing horizontal well continues to meet expectations and production is consistent with type curves in the region. At December 31, 2012 Storm had a 100% working interest in 135 sections.

The acquisition of Bellamont in March 2012 introduced desirable product diversification and moved the Company's production mix from 80% natural gas: 20% oil and NGL in 2011, to 62% natural gas: 38% oil and NGL in 2012. Increased production plus the shift in product mix contributed to a considerable increase in cash flow with annualized fourth quarter cash flow amounting to \$20.0 million in 2012 compared to \$2.8 million in 2011. However, Storm incurred approximately \$10.0 million in post-acquisition costs on the Bellamont assets to bring production equipment and facilities up to an acceptable standard. This investment contributed in part to an approximate \$2.5 million annual reduction in operating costs for the Bellamont assets.

Storm's primary growth property is at Umbach in northeast British Columbia. Umbach is a liquids-rich natural gas property producing from the Montney formation. Storm drilled four horizontal wells and one vertical well at Umbach in 2012, and three horizontal wells were completed and tied in, for a total of six producing wells including those drilled and tied in during 2011. Profitability of natural gas production at Umbach is enhanced by associated natural gas liquids, approximating 63 barrels per Mmcf, of which 50% is high value condensate and pentane, with the remaining amount being approximately equal volumes of butane and propane. Results from development at Umbach have been encouraging and the Company has added to its already considerable land position throughout the year, now having a total of 124 gross, or 97 net sections. However, expansion of production in the area has been affected in recent weeks by capacity constraints and operational difficulties at a key third party compressor station.

The 25% decline in Storm's realized natural gas price in 2012 reduced the amount of cash flow available to advance the Umbach play. In response, the Company divested certain non-core assets. In 2012, the sale of the Red Earth and Mica assets realized \$15.8 million and an additional \$4.2 million came from the sale of certain passive corporate investments. In early 2013 an additional \$20.1 million was realized through the sale of properties in the Grande Prairie area, which produced approximately 300 Boe per day, largely light oil.

Production and Revenue

Production by Area

The Company reported production from the following areas:

Producing Area	Year Ended December 31, 2012			
	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	2,763	-	-	460
Umbach – NE BC	1,807	107	-	407
Grande Prairie Area – AB and BC:				
Mica – NE BC	257	2	72	117
Grimshaw - AB	170	-	251	280
Grande Prairie, Montney & Dunvegan – AB	3,342	76	209	843
Saddle Hills - AB	-	-	131	131
Other	3	-	16	16
Total	8,342	185	679	2,254

Producing Area	Year Ended December 31, 2011			
	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	1,547	-	-	258
Umbach – NE BC	1,068	32	-	210
Grande Prairie Area – AB and BC:				
Mica – NE BC	24	-	8	12
Grimshaw - AB	-	-	-	-
Grande Prairie, Montney & Dunvegan – AB	-	-	-	-
Saddle Hills - AB	-	-	-	-
Other	2	-	62	62
Total	2,641	32	70	542

Total Boe production in 2012 increased by 316% when compared to 2011. The year-over-year increase in production came largely from:

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

In early May, approximately 470 Boe per day of natural gas production was shut in due to low prices. In response to improved natural gas prices, shut-in wells returned to production largely in the fourth quarter of 2012 and by December 31, 2012 only 80 Boe per day remained shut in.

Daily production per million weighted average shares outstanding in 2012 averaged 40 Boe per day, compared to 21 Boe per day in 2011, an increase of 90%.

In northeast British Columbia the Company has two producing natural gas areas, one producing dry gas and the other producing gas and associated liquids. An oil property at Mica producing 150 Boe per day, which also produced associated natural gas, was sold on October 18, 2012. Production in Alberta approximates 48% light oil with an average API of 37 degrees, 46% natural gas and 6% natural gas liquids. In January and February 2013, the Company sold certain light oil Alberta properties producing approximately 300 Boe per day of which 77% was crude oil.

Average Daily Production

	Year Ended December 31, 2012	Year Ended December 31, 2011
Crude oil (Bbls/d)	679	69
Natural gas (Mcf/d)	8,342	2,641
Natural gas liquids (Bbls/d)	185	32
Total (Boe/d)	2,254	542

Production Profile and Per-Unit Prices⁽¹⁾

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	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	30%	\$ 79.53	13%	\$ 97.39
Natural gas - Mcf	62%	2.64	81%	3.53
Natural gas liquids - Bbl	8%	66.17	6%	87.36
Per Boe	100%	\$ 39.14	100%	\$ 34.86

(1) Before hedging gains of \$2.02 per Boe or \$6.64 per barrel of crude oil for the year ended December 31, 2012.

The Company's natural gas was produced in both British Columbia and Alberta and is sold at a price based on the Station 2 price in British Columbia and on the AECO index in Alberta. Approximately 58% of Storm's natural gas was sold at Station 2 in 2012 with the remaining 42% being sold at AECO. Equivalent percentages for the year ended December 31, 2011 were 99% and 1%. Storm's realized price for the year was \$2.63 per Mcf with the price higher than index prices as a result of sales gas at Umbach and Grande Prairie having a higher heat content, resulting in a higher price realized per Mcf. The Station 2 price for the year averaged \$2.17 per GJ, and the equivalent AECO price was \$2.26 per GJ. Storm's crude oil sales price in 2012, prior to the inclusion of hedging gains, was \$7.00 per barrel lower than the Edmonton Par reference price for light sweet crude oil which averaged \$86.53 per barrel for the year.

For the year, WTI averaged US\$94.19 per barrel, resulting in an exchange rate adjusted differential between WTI and Edmonton Par of Cdn\$7.66 per barrel compared to Cdn\$3.54 per barrel in 2011. In the last quarter of 2012 a widening differential between Edmonton Par and WTI began to emerge, largely related to market access difficulties faced by Canadian crude oil producers. Given uncertainty surrounding approval of the Keystone Pipeline project by the U.S. government and hostility to Canadian crude oil by environmental groups, it is uncertain when the Canadian-U.S. pricing differential will narrow, if at all.

The year-over-year reduction in Storm's realized NGL sales price of \$21.19 was a consequence of propane being a larger proportion of the NGL mix and the market for propane and butane being oversupplied due to high initial production rates coming from newly drilled high liquids content natural gas wells, both in Canada and the United States. This continent wide shift in drilling focus from dry gas to higher netback, liquids-rich natural gas wells is a direct result of lower natural gas prices.

Revenue from Product Sales⁽¹⁾

(000s)	Year Ended December 31, 2012	Year Ended December 31, 2011
Natural gas	\$ 8,054	\$ 3,404
Natural gas liquids	4,466	1,020
Crude oil	19,793	2,468
Total	\$ 32,313	\$ 6,892

(1) Excludes hedging gains.

Hedging

The Company has in place the following hedging arrangements:

Volume	Price (Cdn)	Inception	Expiry	Unrealized Gain at December 31, 2012
Crude Oil				
150 Bbls/day	\$96.20	January 1, 2013	March 31, 2013	\$ 55
150 Bbls/day	\$90.00 - \$93.00	January 1, 2013	March 31, 2013	(5)
100 Bbls/day	\$85.00 - \$89.05	January 1, 2013	March 31, 2013	(35)
Natural Gas				
4,000 GJ/day	\$3.325	January 1, 2013	March 31, 2013	155
4,000 GJ/day	\$3.00 - \$3.50	January 1, 2013	March 31, 2013	59
Total				\$ 229

During the year to December 31, 2012, the Company realized gains from hedges in place during the year in the amount of \$1.7 million.

No hedges were in place in 2011.

In January 2013 Storm entered into additional crude oil contracts with collars of Cdn\$90.00 - \$95.00 for 150 Bbls/day and Cdn\$90.00 - \$98.75 for 100 Bbls/day and a swap at Cdn\$98.85 for 50 Bbls/day for the term April - June 2013, and for a swap at Cdn\$99.05 for 100 Bbls/day for the term July - September 2013.

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

Royalties

	Year Ended December 31, 2012	Year Ended December 31, 2011
Charge for year	\$ 3,597	\$ 407
Percentage of production revenue before hedging gains	11.1%	5.9%
Per Boe	\$ 4.36	\$ 2.06

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

In the Horn River Basin, 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. The Company expects that future royalties will be reduced by an amount of \$350,000. Natural gas production at Umbach does not benefit from this program.

At Umbach, future production will benefit from British Columbia's Infrastructure Royalty Credit Program. During 2012, Storm received approval for \$2.08 million gross of credits (\$1.25 million net) for two pipeline projects. The credits will be used to reduce royalties payable on horizontal wells associated with the pipeline projects.

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 15% 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 NGL is subject to an effective royalty rate of 20% in British Columbia and approximately 26% in Alberta.

The British Columbia provincial government has recently proposed changes to the provincial royalty program. The proposed changes are subject to approval by the provincial legislature. The Company is reviewing the effect the changes, if any, may have on future capital programs.

Production Costs

	Year Ended December 31, 2012	Year Ended December 31, 2011
Charge for year	\$ 9,469	\$ 1,598
Percentage of production revenue before hedging gains	29.3%	23.2%
Per Boe	\$ 11.48	\$ 8.09

Production costs per barrel of crude oil averaged \$13.64 for 2012 and production costs per Mcf of natural gas averaged \$1.98, with total production costs averaging \$11.48 per Boe. The equivalent charges for 2011 were \$12.08 per barrel for crude oil and \$1.34 per Mcf of natural gas, with total production costs averaging \$8.09 per Boe. Production costs of natural gas liquids are included with natural gas costs.

The increase in total production costs for 2012 was a consequence of the inclusion of the Bellamont properties since March 23. Operating costs per Boe associated with pre-existing Storm properties approximated \$8.80 in 2012 and for the acquired Bellamont properties production costs were \$14.47 per Boe. Annualized production cost reductions totaling \$2.5 million have been realized to date on the Bellamont properties.

Transportation Costs

	Year Ended December 31, 2012	Year Ended December 31, 2011
Charge for year	\$ 1,743	\$ 376
Percentage of production revenue before hedging gains	5.4%	5.5%
Per Boe	\$ 2.11	\$ 1.90

Transportation costs largely comprise pipeline tariffs from the processing facility to the sales point for natural gas, and trucking costs for crude oil in Alberta. Transportation costs for 2012 were 11% higher than costs for 2011 primarily due to higher transportation costs associated with Bellamont oil properties. Increased natural gas production from the Umbach area in 2013 should result in a reduction in per-Boe transportation costs. Transportation costs decreased to \$1.66 per Boe in the fourth quarter.

Field Netbacks

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

	Year Ended December 31, 2012			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 79.53	\$ 66.17	\$ 2.64	\$ 39.14
Hedging gains	6.64	-	-	2.02
Royalties	(13.40)	(14.05)	0.23	(4.36)
Production	(13.64)	-	(1.98)	(11.48)
Transportation	(4.15)	(1.62)	(0.20)	(2.11)
Field netback per Boe	\$ 54.98	\$ 50.50	\$ 0.69	\$ 23.21
Total field netback (000s)	\$ 13,669	\$ 3,409	\$ 2,092	\$ 19,170

	Year Ended December 31, 2011			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 97.39	\$ 87.36	\$ 3.53	\$ 34.86
Royalties	(5.15)	(15.94)	(0.09)	(2.06)
Production	(12.08)	-	(1.34)	(8.09)
Transportation	(7.95)	(3.36)	(0.14)	(1.90)
Field netback per Boe	\$ 72.21	\$ 68.06	\$ 1.96	\$ 22.81
Total field netback (000s)	\$ 1,829	\$ 796	\$ 1,886	\$ 4,511

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

The realized price for natural gas for 2012 showed a continuing year-over-year decline, and remained at a level considerably below that required to provide an acceptable return on investment for most producers. However, for Storm, the recovery of higher priced NGL at Umbach serves to justify continued investment in this area. Realized prices for natural gas reached a nadir in the second quarter of 2012, and showed improvement in the second half of the year, as follows:

Realized Price for Natural Gas	2012	2011
Q1	\$ 2.24	\$ 3.65
Q2	\$ 2.04	\$ 3.76
Q3	\$ 2.49	\$ 3.48
Q4	\$ 3.46	\$ 3.35
Year	\$ 2.64	\$ 3.53

Nevertheless, the consequence is that although natural gas volumes sold by Storm in 2012 increased by 217% over the prior year, total field netback from natural gas increased by only 11% and per-Boe netback increased by an even more modest 2%. Thus the anticipated gains from the Bellamont acquisition were almost totally eliminated by the effect of declining natural gas prices.

In 2012, cash costs, comprising production, transportation, general and administrative and interest, amounted to \$19.83 per Boe. Comparability to 2011 is limited due to acquisitions in the first part of 2012.

Acquisition Costs

Acquisition costs relate to the Bellamont and SGR transactions which closed in the first quarter. Costs for the year ended December 31, 2012 were \$0.6 million. The Company does not anticipate incurring any material additional costs associated with the acquisitions in 2012 of SGR and Bellamont.

General and Administrative Costs

	Year Ended December 31, 2012	Year Ended December 31, 2011
Total Costs		
Charge for year – before recoveries	\$ 4,724	\$ 3,000
Overhead recoveries	(1,023)	(360)
Charge for year – net of recoveries	\$ 3,701	\$ 2,640
Per Boe	\$ 4.49	\$ 13.35

Compensation costs were consistent for each of the periods above, accounting for approximately 58% of the gross charge with office accommodation costs accounting for an additional 18% and external services and corporate costs accounting for 24%. Overhead recoveries from operations have increased from 2011 primarily as a result of inclusion of the Bellamont properties. As production grows in future periods, the Company should benefit from a reduction in per-Boe general and administrative costs. However, if the Company increases its share of 100% working interest operations, overhead recoveries will fall, possibly countering the effect of growing production on per-Boe costs.

Share-Based Compensation

	Year Ended December 31, 2012	Year Ended December 31, 2011
Charge for year	\$ 699	\$ 988

Share-based compensation is a non-cash charge which reflects the estimated value of stock options issued to Storm's directors, officers and employees. In 2012 options in respect of 140,000 shares were granted in the first quarter to new employees hired as a result of the Bellamont acquisition. In the second quarter, 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. In the second half of 2012 no options were granted or forfeited. Subsequent to December 31, 2012, 1,449,000 options were issued with an exercise price of \$1.75.

Depletion and Depreciation

	Year Ended December 31, 2012	Year Ended December 31, 2011
Depletion	\$ 12,633	\$ 3,165
Depreciation	941	262
Charge for year	\$ 13,574	\$ 3,427
Per Boe	\$ 16.45	\$ 17.30

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

The charge for depreciation for the year 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 per-Boe charge for depletion and depreciation for the year decreased by 5% from the equivalent charge for 2011, primarily due to reserve additions at Umbach.

In addition, management reviewed the carrying amounts of exploration and evaluation and property and equipment assets for indicators of impairment at December 31, 2012 and determined that no impairment adjustment was required.

Exploration and Evaluation Costs Expensed

	Year Ended December 31, 2012	Year Ended December 31, 2011
Charge for year	\$ 664	\$ -

In 2012, exploration and evaluation costs expensed is a non-cash charge representing the cost of undeveloped lands which have expired.

Accretion

	Year Ended December 31, 2012	Year Ended December 31, 2011
Charge for year	\$ 242	\$ 52

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 a property acquisition in December 2011. Subsequent borrowings were used to fund the Bellamont acquisition in late March 2012.

(000s)	Year Ended December 31, 2012	Year Ended December 31, 2011
Charge (income) for year	\$ 1,442	N/A
Percentage of production revenue before hedging gains	4.5%	N/A
Per Boe	\$ 1.75	N/A

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

(Loss) Gain on Sale of Investments

In 2012 the Company sold 1.5 million shares of Chinook Energy Inc. for proceeds of \$2.2 million, incurring a loss, measured against the transfer value under the Arrangement, of \$1.3 million. Also in 2012, the Company sold 1.1 million, or all of the shares of Bridge Energy ASA, for \$2.1 million, incurring a small loss.

In 2011, the Company sold 5.1 million shares of Bellamont for proceeds of \$3.2 million. A gain of \$0.5 million was realized. This transaction was unrelated to the subsequent acquisition of Bellamont.

Unrealized Impairment Loss on Investment

At December 31, 2012, an amount of \$2.6 million representing the mark-to-market reduction in the carrying amount of the Company's investment in Chinook Energy Inc. measured against the transfer amount under the Arrangement, was transferred from other comprehensive income to the statement of income. This transfer was mandated by GAAP which requires that if a prolonged or significant decline in value emerges, the mark-to-market loss has to be included in the determination of income or loss for the reporting period. The thresholds under GAAP for the determination of a prolonged or significant decline were met in the final quarter of 2012. The decline in value of this investment since the Arrangement corresponds to market conditions for junior exploration and development companies such as Chinook and does not reflect a fundamental and negative change to the assets, business opportunities or circumstances of Chinook.

Loss on Disposal of Oil and Gas Properties

During 2012, the Company sold largely oil producing properties in Alberta and British Columbia, incurring a loss on disposition of \$1 million, which was measured by applying proceeds on sale against the carrying amount of the properties. Proceeds on sale were used to reduce bank debt.

Gain (Loss) 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. The non-cash unrealized gain was \$0.2 million for the year ended December 31, 2012 and the realized gain for the year ended December 31, 2012 was \$1.7 million. There was no gain or loss in the year earlier periods as there were no hedging arrangements.

	Year Ended December 31, 2012		Year Ended December 31, 2011
Realized gains			
Crude oil	\$ 1,652	\$ 15.21/Bbl	N/A
Natural gas	14	\$ -	N/A
Total realized gains - cash	\$ 1,666	\$ 2.02/Boe	N/A

	Year Ended December 31, 2012		Year Ended December 31, 2011	
Unrealized gains				
Crude oil – change in fair value	\$	15	\$	1.13/Bbl
Natural gas – change in fair value		214	\$	0.59/GJ
Total unrealized gains - non-cash	\$	229		N/A

Change in Equity of Associate

Until acquisition of 100% of the share capital of SGR in January 2012, the Company accounted for its pre-existing 22% ownership position in 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 and consolidation 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. Details of Storm's tax pools are as follows:

Tax Pool	As at December 31, 2012	Maximum Annual Deduction
Canadian oil and gas property expense	\$ 45,958	10%
Canadian development expense	61,359	30%
Canadian exploration expense	21,669	100%
Undepreciated capital cost	29,126	20 – 100%
Operating losses	91,872	100%
Other	2,673	20%
Total	\$ 252,657	

Net Loss

	Year Ended December 31, 2012	Year Ended December 31, 2011
Net loss	\$ (6,574)	\$ (3,664)
Per basic and diluted share	\$ (0.12)	\$ (0.14)

Other Comprehensive Income (Loss)

Comprehensive income (loss) comprises net loss for the year plus unrealized gains and losses resulting from the mark-to-market valuation of certain assets and liabilities. For the year ended December 31, 2012, other comprehensive income represents the transfer of mark-to-market losses on listed securities, both realized and unrealized, to the statement of loss. For the year ended December 31, 2011, Storm's other comprehensive income comprised adjustments to reflect the year-end mark-to-market valuation of listed securities.

Listed Securities	Holding	Number of Shares	Year Ended December 31, 2012	Year Ended December 31, 2011
Bellamont Exploration Ltd. ⁽¹⁾	Class A Common Shares	-	\$ -	\$ (305)
Bridge Energy ASA ⁽²⁾	Common Shares	-	603	(2,295)
Chinook Energy Inc. ⁽³⁾	Common Shares	3,000,001	3,105	(1,193)
Other comprehensive income (loss) for year			\$ 3,708	\$ (3,793)

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

(2) 1.1 million shares of Bridge were sold in the second half of 2012. No Bridge shares were held at December 31, 2012.

(3) Shares owned at December 31, 2012.

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

	Year Ended December 31, 2012		Year Ended December 31, 2011	
		Per diluted share		Per diluted share
Funds from operations	\$ 13,387	\$ 0.24	\$ 1,874	\$ 0.07

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 debt to cash flow ratios and other measures of credit worthiness and thus determines interest rates on borrowings. The most directly comparable measure under GAAP is cash flows from operating activities, as set out below.

Cash Flows from Operating Activities

	Year Ended December 31, 2012		Year Ended December 31, 2011	
		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	\$ 13,387	\$ 0.24	\$ 1,874	\$ 0.07
Net change in non-cash working capital items	(1,962)	(0.03)	(1,753)	(0.07)
Cash from (applied to) operating activities	\$ 11,425	\$ 0.21	\$ 121	\$ -

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

Corporate Netbacks

(\$/Boe)	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenue from product sales	39.14	34.86
Hedging gains	2.02	-
Royalties	(4.36)	(2.06)
Production	(11.48)	(8.09)
Transportation	(2.11)	(1.90)
Acquisition costs	(0.78)	-
General and administrative	(4.49)	(13.35)
Interest	(1.75)	0.02
Funds from operations netback	16.19	9.48
Share-based compensation	(0.85)	(4.99)
Depletion, depreciation and accretion	(16.75)	(17.57)
Exploration and evaluation charges	(0.80)	-
(Loss) gain on disposal of investments	(1.63)	2.32
Unrealized impairment loss on investments	(3.20)	-
Loss on disposal of oil and gas properties	(1.25)	-
Unrealized gain on financial instruments	0.29	-
Change in equity of associate	-	(7.75)
Net loss per Boe	(8.00)	(18.51)

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 a producing property in northeast British Columbia, the facility was increased to \$18 million. In March 2012, the Company's facility was expanded to \$70 million with the Bellamont acquisition, which included the assumption of Bellamont bank debt in the amount of \$38.4 million. As a consequence of the sale in September 2012 of the Mica producing property, the banking facility was reduced to \$62 million and further reduced to \$52 million in the first quarter of 2013 following the sale of certain Alberta producing properties.

In quarters of high field activity, Storm operates with a working capital deficit, which will be reduced in quarters of lower field activity. The Company's capital budget is set by management at the beginning of the calendar year and

approved by the Board of Directors. It is updated regularly with major changes subject to approval by the Board of Directors.

Investments

The Company owns listed shares as set out below, which are valued at the closing price on the TSX at December 31, 2012. Proceeds from the possible future sale of this investment may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Dec. 31, 2012	Value at Dec. 31, 2012
Chinook Energy Inc.	Common Shares	3,000,001	TSX	\$ 1.44	\$ 4,320

During 2012, Storm sold 1.5 million shares of Chinook for net proceeds totaling \$2.1 million and also sold 1.1 million shares of Bridge Energy ASA for net proceeds totaling \$2.1 million.

Capital Investment

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
Land and lease	\$ 1,920	\$ 4,244
Seismic	208	508
Drilling	9,341	6,561
Completions	6,606	10,011
Facilities	4,756	4,001
Recompletions and workovers	3,956	47
Property acquisitions	3,083	15,436
Property dispositions	(15,669)	-
Other	81	(12)
Corporate acquisition - SGR	55,181	-
Corporate acquisition - Bellamont	96,613	-
Cash portion of 2012 capital expenditures	166,076	40,796
Non-cash portion		
Decommissioning liability	8,861	-
Other	-	-
Total capital expenditures including non-cash portion	\$ 174,937	\$ 40,796

In addition to the corporate acquisitions, major capital outlays in 2012 included the drilling of six wells (4.4 net), one at Dunvegan, Alberta and five at Umbach in northeast British Columbia. Five Umbach horizontal wells were completed in 2012. In addition, a small gas plant was purchased and installed at Grimshaw.

Capital expenditures in 2012 were allocated as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Exploration and evaluation	\$ 47,455	\$ 10,418
Property and equipment	127,482	30,378
Non-cash portion of corporate acquisitions	(160,655)	-
Total	\$ 14,282	\$ 40,796

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 December 31, 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, constructed or purchased by Storm. Changes in amount of the liability during the year ended December 31, 2012 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the year, the decommissioning obligations associated with the acquisitions of SGR and Bellamont, plus the time related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 2.5%. 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 December 31, 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	23,615
March 23, 2012	Issued to former Bellamont shareholders	16,740,096	\$ 2.37	39,674
Total		61,824,256	\$ 3.13	\$ 193,824

CONTRACTUAL OBLIGATIONS

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

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

All such contractual obligations reflect market conditions at the time of contract and do not involve related parties 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.

FOURTH QUARTER RESULTS

Storm's summarized financial and operating results for the fourth quarter of 2012, compared to the fourth quarter of 2011, are as follows:

(Unaudited)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Percentage Change
Financial			
Production revenue (\$000s) ⁽¹⁾	11,139	2,493	347%
Funds from operations (\$000s)	5,016	709	607%
Per share – basic (\$)	0.08	0.03	167%
Per share – diluted (\$)	0.08	0.03	167%
Net loss (\$000s)	(2,320)	(1,758)	32%
Per share – basic (\$)	(0.04)	(0.07)	(43%)
Per share – diluted (\$)	(0.04)	(0.07)	(43%)
Capital expenditures – net (\$000s)	8,777	20,687	(58%)
Debt, including working capital deficiency (\$000s)	44,696	15,171	195%
Operations			
Boe production per day (6:1)	2,815	779	261%
Gas production per day (Mcf)	10,728	3,763	185%
NGL production per day (Bbls)	274	72	281%
Oil production per day (Bbls)	753	80	841%
Gross wells drilled	2.0	1.0	100%
Net wells drilled	1.2	0.6	100%

(1) Includes hedging gains of \$0.7 million in 2012 (2011 – nil).

Production

In the fourth quarter of 2012, average Boe per day volumes increased by 261% when compared to the fourth quarter of 2011, and by 18% when compared to the third quarter of 2012. Production of natural gas amounted to 64% of total Boe production in the fourth quarter of 2012, up from earlier quarters as a result of increased production from new wells at Umbach and from the disposition of the Mica oil property.

Production in the fourth quarter of 2012 was affected by third party field compression problems at Umbach where downtime resulted in a loss of 300 Boe per day for the quarter. In addition, the sale of the Mica property, which produced 150 Boe per day, took place close to the beginning of the final quarter of 2012.

Producing Area	Quarter Ended December 31, 2012			
	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	2,200	-	-	367
Umbach – NE BC	2,414	162	-	564
Grande Prairie Area – AB and BC:				
Mica – NE BC	63	-	16	27
Grimshaw - AB	290	1	308	358
Grande Prairie, Montney & Dunvegan – AB	5,761	123	270	1,353
Saddle Hills - AB	-	-	158	158
Other	-	(12)	1	(12)
Total	10,728	274	753	2,815

Quarter Ended December 31, 2011

Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	1,597	-	-	266
Umbach – NE BC	2,064	71	-	414
Grande Prairie Area – AB and BC:				
Mica – NE BC	95	1	32	49
Grimshaw - AB	-	-	-	-
Grande Prairie, Montney & Dunvegan – AB	-	-	-	-
Saddle Hills - AB	-	-	-	-
Other	7	-	48	50
Total	3,763	72	80	779

Production Revenue

Production revenue for the fourth quarter of 2012 increased by 347% when compared to the fourth quarter of 2011 and increased by 16% when compared to the immediately preceding quarter. The average price per Boe for the quarter amounted to \$40.19, an increase of 16% over the equivalent amount for the final quarter of 2011, and 3% less than the third quarter of 2012, as a result of the increase in natural gas production as a percentage of total production. The sale of the Mica property, which largely produced light oil, at the beginning of the quarter, contributed to the increase in natural gas in the overall product mix.

Although the price for natural gas was nearly 40% higher in the final quarter of 2012 when compared to the third quarter of the year, quarter-over-quarter prices for crude oil and NGL fell, which largely negated the increased natural gas price. Production revenue was also affected by the above mentioned shut-in of production at Umbach.

Hedging

Realized hedging gains during the fourth quarter totaled \$0.7 million which added \$2.80 per Boe to the field netback.

Royalties

Royalties for the fourth quarter of 2012 amounted to \$1.3 million, an increase of 454% when compared to the same quarter of 2011 and an increase of 60% compared to the third quarter of 2012. Production increases, both organic and through acquisition, largely account for the changes. The royalty rate in the fourth quarter of 2012 was 12.3%; for the fourth quarter of 2011, 9.3%; and for the third quarter of 2012, 8.8%. Increased natural gas and NGL from Umbach contributed to the increase. The increased royalty rate in the final quarter of 2012 will likely continue into future quarters.

At Umbach, future production will benefit from British Columbia's Infrastructure Royalty Credit Program. During 2012, Storm received approval for \$2.08 million gross of credits (\$1.25 million net) for two pipeline projects. The credits will be used to reduce royalties payable on horizontal wells associated with the pipeline projects.

Production Costs

Production costs for the quarter increased by 369% to \$3.0 million when compared to the final quarter of 2011 and by 14% when compared to the third quarter of 2012. The year-over-year increase in production costs is due largely to the acquisition of higher cost Bellamont properties in the first quarter of 2012. The quarter-over-quarter increase is due to increased production. For the final quarter of 2012, production costs per Boe amounted to \$11.68, compared to \$8.98 for the same quarter of 2011 and to \$12.05 per Boe in the third quarter of 2012. Cost reduction programs applied to the Bellamont properties are benefitting financial results.

Transportation Costs

Transportation costs for the final quarter of 2012 amounted to \$0.4 million, an increase of 220% over the same quarter of 2011, and an increase of 13% over the immediately preceding quarter. Costs per Boe amounted to \$1.66 in the fourth quarter of 2012, compared to \$1.87 in the same quarter of 2011 and to \$1.74 in the third quarter of 2012. There is limited comparability year over year due to the acquisition of Bellamont in the first quarter of 2012. Within 2012, increased gas production in the final quarter results in lower per-unit transportation costs when compared to the third quarter.

Field Netbacks

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

	Three Months Ended December 31, 2012			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 77.93	\$ 63.27	\$ 3.46	\$ 40.19
Hedging gains	10.49	-	-	2.80
Royalties	(14.64)	(16.12)	0.15	(4.92)
Production costs	(14.37)	-	(2.06)	(11.68)
Transportation	(3.48)	(0.30)	(0.18)	(1.66)
Field netback	\$ 55.93	\$ 46.85	\$ 1.37	\$ 24.73
Field netback (000s)	\$ 3,872	\$ 1,182	\$ 1,354	\$ 6,408

	Three Months Ended December 31, 2011			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 100.05	\$ 89.95	\$ 3.35	\$ 34.78
Royalties	(5.94)	(17.31)	(0.21)	(3.22)
Production costs	(12.08)	-	(1.60)	(8.98)
Transportation	(8.13)	(3.46)	(0.15)	(1.87)
Field netback	\$ 73.90	\$ 69.18	\$ 1.39	\$ 20.71
Field netback (000s)	\$ 547	\$ 456	\$ 482	\$ 1,485

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

Field netbacks per Boe for the final quarter of 2012 were 20% higher than the same quarter of 2011 largely due to increased oil and NGL production from the Bellamont acquisition; however, netbacks per Boe were 7% lower than the third quarter of 2012. Although prices for natural gas strengthened in the final quarter, greater volumes of low netback natural gas in the overall product mix, combined with lower prices for crude oil and NGL, resulted in a lower netback when compared to the third quarter of the year.

Cash costs per Boe, comprising production costs, transportation, interest and general and administrative costs, amounted to \$19.34 for the final quarter of 2012, \$21.63 for the equivalent quarter of 2011 and \$18.58 for the third quarter of 2012. Year-over-year reductions in per-unit transportation, interest and general and administrative costs more than offset production cost increases. In 2012, fourth quarter production, transportation and interest costs were lower when compared to the third quarter, but general and administrative costs were higher.

General and Administrative Costs

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Total Costs		
Charge for period – before recoveries	\$ 1,397	\$ 832
Overhead recoveries	(295)	(175)
Charge for period – net of recoveries	\$ 1,102	\$ 657
Per Boe	\$ 4.25	\$ 9.13

Gross general and administrative costs for the final quarter of 2012 increased by 67% when compared to the final quarter of 2011 and increased by 54% compared to the third quarter of 2012, but fell by 53% on a per-Boe basis compared to the fourth quarter of 2011. The year-on-year increase in general and administrative costs is largely attributable to increases in personnel, accommodation and external costs as a result of the corporate acquisitions in early 2012. The increase in the final quarter of 2012, when compared to the third quarter, is due to the inclusion in the final quarter of certain costs related to the Company's year end, including external services; however, core general and administrative costs, post the Bellamont acquisition, were largely consistent throughout the year.

Share-Based Compensation

Share-based compensation fell by 5% in the final quarter of 2012 compared to the same quarter of 2011 and fell by 26% when compared to the third quarter of 2012. The decrease in share-based compensation in 2012 is attributable to a portion of the stock options granted in 2010 being fully expensed.

Depletion and Depreciation

Higher production resulted in the total charge for depletion and depreciation increasing year over year by 278% in the final quarter of 2012. Compared to the immediately prior quarter, the charge for the fourth quarter of 2012 increased by 9%, with higher production being offset by a decrease in the per-unit rate resulting from the application of the 2012 year-end reserve report to the depletion calculation for the final quarter of the year. Per Boe, depletion and depreciation amounted to \$16.31 in the final quarter of 2012; the charge for the final quarter of 2011 amounted to \$15.55 and for the third quarter of 2012, \$17.62. The third to fourth quarter reduction in the per-Boe rate was 7%.

Accretion

The increased year-over-year change for accretion is due to additional liabilities assumed through acquisitions. There was little change in accretion expense between the third and fourth quarters of 2012.

Interest

Interest costs for the final quarter of 2012 increased by 144% compared to the equivalent period in 2011, due to post acquisition debt increases, but decreased by 14% compared to the third quarter of 2012 as a result of decreased debt consequent on the Mica disposition. Interest costs per Boe amounted to \$1.75 in the fourth quarter of 2012 compared to \$1.65 in the final quarter of 2011 and \$1.53 in the third quarter of 2012.

Unrealized Impairment Loss on Investment

At December 31, 2012 an amount of \$2.6 million was transferred from other comprehensive income to the statement of loss, representing the mark-to-market loss in value of the investment in Chinook Energy Inc. measured against the transfer value under the Arrangement.

Net Income (Loss)

Loss for the fourth quarter of 2012 was \$2.3 million compared to a loss of \$1.8 million in the same quarter in 2011 and a loss of \$3.6 million in the third quarter of 2012. Per diluted share amounts were a loss of \$0.04 for the final quarter of 2012, a loss of \$0.07 for the final quarter of 2011, and a loss of \$0.07 for the third quarter of 2012.

Other Comprehensive Income (Loss)

Other comprehensive income for the final quarter of 2012 represents the transfer to the statement of loss of the mark-to-market loss on the investment in Chinook Energy Inc. when compared to the transfer value under the Arrangement. The amount of the mark-to-market loss is measured against the transfer amount under the Arrangement and is adjusted quarterly.

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

Non-GAAP funds from operations for the fourth quarter of 2012 increased by 607% to \$5.0 million from \$0.7 million in the fourth quarter of 2011, and increased by 5% compared to the third quarter 2012 amount of \$4.8 million. Per diluted share amounts were \$0.08 for the final quarter of 2012, \$0.03 for the final quarter of 2011, and \$0.08 for the third quarter of 2012.

Non-GAAP funds from operations is not a measure recognized by GAAP in Canada. The most directly comparable measure under GAAP is cash flows from operating activities.

Cash Flows from Operating Activities

Cash flows from operating activities for the quarter ended December 31, 2012 amounted to \$6.2 million, compared to \$2.5 million for the same quarter in 2011, and to \$1.9 million for the third quarter of 2012.

Non-GAAP funds from operations differs from cash flows from operating activities by the amount of the change in non-cash working capital between the end of the third and fourth quarters. The amount of the change in non-cash working capital was an increase of \$1.2 million for the fourth quarter of 2012, an increase of \$18.0 million in the fourth quarter of 2011, and a decrease of \$2.9 million in the third quarter of 2012.

Capital Investment

Capital expenditures for the final quarter of 2012 amounted to \$8.8 million, compared to \$20.7 million in 2011, and to \$11.7 million in the third quarter of 2012, prior to dispositions in that quarter of \$15.6 million.

	Quarter Ended December 31, 2012	Quarter Ended December 31, 2011
Land and lease	\$ 1,449	\$ 128
Drilling	2,933	1,366
Completions	1,861	3,357
Facilities	1,557	369
Recompletions and workovers	687	31
Property acquisitions	290	15,436
Total capital expenditures	\$ 8,777	\$ 20,687

Quarterly Results

Summarized information by quarter for the two years ended December 31, 2012 appears below:

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production revenue (\$000s) ⁽¹⁾	11,139	9,631	9,819	3,390	2,493	1,482	1,936	981
Non-GAAP funds from (applied to) operations (\$000s) ⁽²⁾	5,016	4,765	3,669	(63)	709	396	710	59
Per share								
- basic (\$)	0.08	0.08	0.07	0.00	0.03	0.02	0.03	0.00
- diluted (\$)	0.08	0.08	0.07	0.00	0.03	0.02	0.03	0.00
Net income (loss) (\$000s)	(2,320)	(3,586)	947	(1,615)	(1,758)	(1,023)	(562)	(321)
Per share								
- basic (\$)	(0.04)	(0.07)	0.03	(0.04)	(0.07)	(0.04)	(0.02)	(0.01)
- diluted (\$)	(0.04)	(0.07)	0.03	(0.04)	(0.07)	(0.04)	(0.02)	(0.01)
Net capital expenditures (\$000s)	8,777	(3,925)	7,224	162,922	20,687	8,394	2,012	9,702
Average daily production - Boe	2,815	2,380	2,584	1,229	779	511	595	276
Net (debt)/working capital (\$000s)	(44,696)	(42,511)	(53,667)	(50,300)	(15,171)	4,054	12,805	13,688
Available for sale investments	4,320	6,374	7,513	8,270	8,838	8,621	9,583	11,611

(1) Includes hedging gains.

(2) See Non-GAAP Measurements on page 23 of this MD&A.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year Ended December 31, 2012	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010 ⁽¹⁾
Production revenue (\$000s) ⁽²⁾	33,979	6,892	-
Funds from operations (\$000s)	13,387	1,874	(956)
Per share – basic (\$)	0.24	0.07	(0.04)
Per share – diluted (\$)	0.24	0.07	(0.04)
Net loss (\$000s)	(6,574)	(3,664)	(1,493)
Per share – basic (\$)	(0.12)	(0.14)	(0.09)
Per share – diluted (\$)	(0.12)	(0.14)	(0.09)
Total assets (\$000s)	248,792	109,083	98,273
Debt, including working capital deficiency (\$000s)	(44,696)	(15,171)	20,593
Average daily production (Boe)	2,254	542	-
Field netback (\$/Boe)	23.21	22.81	-

(1) Storm Resources Ltd. was incorporated on June 8, 2010 and was inactive until August 17, 2012 when it participated in a plan of arrangement along with Storm Exploration Inc., ARC Energy Trust and ARC Resources Ltd.

(2) Includes hedging gains.

Share Trading

Set out below is share trading activity for Storm for 2012 and 2011.

	2012					2011				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
High (\$)	3.75	2.34	1.80	1.98	3.75	4.80	5.50	5.25	4.00	5.50
Low (\$)	2.28	1.05	1.45	1.51	1.05	3.86	4.39	3.75	3.41	3.41
Close (\$)	2.31	1.55	1.57	1.93	1.93	4.80	5.00	3.75	3.74	3.74
Volume traded (000s)	1,745	2,734	1,790	2,832	9,102	2,278	249	665	176	3,368
Value traded (\$000s)	5,183	5,121	2,797	4,897	17,998	9,439	1,218	2,772	662	14,092
Weighted average trading price (\$)	2.97	1.88	1.57	1.73	1.98	4.14	4.90	4.17	3.77	4.18

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the audited consolidated financial statements for the year ended December 31, 2012 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain amounts in the financial statements are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts, as described below, are based on estimations using information involving a high degree of measurement uncertainty. Variations between amounts estimated and actual results could have a material effect on Storm's operating results and financial position.

Accounting for Acquisitions

The purchase of SGR and Bellamont 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.

Decommissioning Liability

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

Income Taxes

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

Share-Based Compensation

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

Exploration and Evaluation Assets

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

Property and Equipment and Depletion and Depreciation

Generally, upon commencement of production, the Company must transfer from exploration and evaluation assets to property and equipment assets on the Company's statement of financial position an amount representing the accumulated costs associated with the property. The measure of the amount to be transferred involves estimation and judgment by management, and the estimates used could differ from similar estimates developed by other parties. The amount transferred to property and equipment assets is subject to depletion and depreciation; correspondingly, charges for depletion and depreciation are also subject to measurement uncertainty. Such charges also include estimates of the useful economic life for assets subject to depletion and depreciation, the quantities of oil and gas reserves used in the depletion calculation, the future prices that such reserves may be sold for, and future costs to develop such reserves. All of these involve assumptions regarding future events and circumstances.

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. The following reviews a number of the identifiable business risks faced by the Company. Business risks evolve constantly and additional risks emerge periodically. The risks below are those identified by management at the date of completion of this report, and may not describe all of the material business risks faced by the Company.

Exploration

Storm's exploration program requires sophisticated and scarce technical skills as well as capital and access to land and oilfield service equipment to generate and test exploration ideas. Further, the drilling of an exploratory prospect frequently does not result in the discovery of economical reserves. Storm endeavours to minimize finding risk by ensuring that:

- Where possible, prospects have multi-zone potential, or zones have a large pay column;
- Activity is focused in core regions where expertise and experience can be leveraged;
- Prospects are internally generated; and
- Geophysical techniques such as seismic are utilized where appropriate and available.

Commodity Price Fluctuations

When the Company identifies hydrocarbons of sufficient quantity and quality and successfully brings them on stream, it faces a pricing environment which is volatile and subject to a myriad of factors, largely out of the Company's control. Low prices for the Company's expected primary products will have a material effect on the Company's re-investment capacity, and hence ultimate growth potential and profitability. Low prices will also limit access to capital, both equity and debt. The Company may mitigate the risk of pricing volatility through the use of financial instruments, such as fixed priced sales, swaps and similar contracts. However, access to such price protection instruments may not be available in future periods, or available only at a cost considered to be uneconomic. Such financial instruments tend to be for short periods and the pricing protection this provides is ineffective against medium and long term pricing trends, for example the pricing trend for natural gas over the last several years.

Adverse Well or Reservoir Performance

Changes in productivity in wells and pools developed and brought on stream by the Company in future periods could result in termination or limitation of production, or acceleration of decline rates, resulting in reduced overall corporate volumes and revenues. In addition, new wells tend to produce at high initial rates followed by rapid declines until a flattening decline profile emerges. There is a risk that the sustainable decline profile which eventually emerges for newly drilled wells is sub-economic. In addition, the Company's properties in the Horn River Basin and at Umbach are in the early stage of development and there is a risk that unforeseeable circumstances may emerge which will adversely affect reservoir performance.

Field Operations

Storm's current and future exploration, development and production activities involve the use of heavy equipment and the handling of potentially volatile liquids and gases. Catastrophic events such as well blowouts, explosions and fires within pipeline, gathering, or facility infrastructure, as well as failure of mechanical equipment, could lead to releases of liquids or gases, spills, personal injuries and damage to the environment, as well as uncontrolled cost escalation. With support from suitably qualified external parties, the Company has developed and implemented policies and procedures to mitigate environmental, health and safety risks. These policies and procedures include the use of formal corporate policies, emergency response plans, and other policies and procedures reflecting best oil field practices. These policies and procedures are subject to periodic review. Storm also manages environmental and safety risks by maintaining its operations to a high standard and complying with all provincial and federal environmental and safety regulations. Nevertheless, application of best practices to field operations serves only to mitigate, not eliminate, risk.

The Company's areas of activity, particularly the Horn River Basin in northeast British Columbia, are remote and climatically hostile. In any new area of activity for the oil and gas industry in Canada, property access and production require considerable additional investment, for example, road construction, processing facilities, pipelines and other transportation arrangements, which is not necessarily applicable to more mature producing areas. In addition, supervision and maintenance of production facilities is likely to be more expensive than in existing and more accessible producing areas.

Storm maintains industry-specific insurance policies, including business interruption, on production facilities. Although the Company believes its current insurance coverage corresponds to industry standards, there is no guarantee that such coverage will be available in the future, and if it is, at a cost acceptable to the Company, or that existing coverage will necessarily extend to all circumstances or incidents resulting in loss.

Environmental

The Company's operations are subject to extensive environmental regulations which are addressed through formal policies and procedures and application of best field practices. In addition, the Company's approach to property development frequently involves horizontal drilling and fracturing applications. Fracturing involves the use of large quantities of liquids and chemicals, whose use and subsequent disposal has resulted in the emergence of environmental concerns, primarily in more heavily populated areas elsewhere in North America. In addition, exploitation of shale gas in the Horn River Basin may cause management of carbon dioxide volumes produced concurrently with natural gas to become an operational issue.

The evolution of environmental regulation, in particular as it relates to fracturing applications, cannot be predicted at this stage. Nevertheless it is reasonable to expect that management of environmental issues and related societal expectations will become an increasingly important part of the Company's business, with a corresponding effect on costs.

In addition to Company-specific environmental concerns, increasing public and political focus on climate change and its possible amelioration, may cause changes in demand for the Company's products and the introduction of regulations which may result in changes to the Company's operating practices as well as additional and unforeseeable costs. Changes in public policy over the next several years, and the effect on the Company, cannot be determined at this stage, but given that the Company is a producer of primary hydrocarbons it is likely that its business will be subject to increased regulation and potentially subject to additional taxes and costs.

Industry Capacity Constraints

High levels of field activity can result in shortages of services, products, equipment, or manpower in many or all necessary components of the exploration and development cycle. Increased demand leads to higher land and service costs during peak activity periods. In addition, access to transportation and processing facilities may be difficult or expensive to secure. Although demand for services has eased somewhat in recent months, activity continues at a high level in spite of continuing depressed prices for natural gas. Storm's competitors include companies with far greater resources, including access to capital and the ability to secure oilfield services at more favourable prices and to build out operations on a scale which lowers the economic threshold for exploitation of a resource. Storm competes by maintaining a large inventory of self-generated exploration and development locations, by acting as operator where possible, and through facility access and ownership. Storm also seeks to mitigate such risks through careful management of key supplier relationships where appropriate.

Capital Programs

Capital expenditures are designed to accomplish two main objectives, being the generation of short and medium term cash flow from development activities, and expansion of future cash flow from the discovery or further development of reserves through exploration. The Company focuses its activity in core areas, which allows it to leverage its experience and knowledge, and acts as operator wherever possible. The Company uses farm-outs to minimize risk on plays it considers higher risk or where total capital invested exceeds an acceptable level. In addition, Storm may enter into hedging agreements in support of capital programs, particularly when cash flow for any period is anticipated to be lower than capital expenditures. Generally, capital programs are financed from cash flow and disciplined use of debt. Failure to develop producing wells and an acceptable level of cash flow will result in the exhaustion of available financial resources and will require the Company to seek additional capital which may not be available, or only available on terms dilutive to existing shareholders. In addition, future credit availability from the Company's bankers is also necessary to support capital programs and any changes to credit arrangements may have an effect on both the size of the Company's future capital program and the timing of expenditures.

Acquisitions

The Company's objectives are, in part, supported through carefully selected and managed acquisitions. Acquisitions have to be acceptably priced and production should provide acceptable netbacks, or provide identifiable opportunities to increase value. In the current pricing environment, natural gas properties providing a reasonable netback are difficult to identify. An acquisition should also offer potential for near and medium term development and be in areas where the Company can readily add to the acquired land position. Processing and transportation infrastructure must also be in place, or within the Company's financial capacity to construct or acquire.

The acquisitions of SGR and BMX in 2012 involved assumptions about future revenues, costs, operations and reserves which will inevitably be invalidated by future circumstances. Properties owned by SGR were known to the Company through the existing joint venture relationship; however, future exploitation is challenged by current natural

gas prices. Although Storm has familiarity with the geology and development potential of the BMX assets, the core properties are new to Storm and geological interpretation and development plans may change. In addition, as BMX is a corporate acquisition, unforeseen liabilities and obligations may still emerge which would not be part of an acquisition of property.

Reserve Estimates

Estimates of economically recoverable oil and natural gas reserves and natural gas liquids, and related future net cash flows, are based upon a number of variable factors and assumptions. These include commodity prices, production, future development and operating costs and potential changes to the Company's operations arising from regulatory or fiscal changes. All of these estimates may vary from actual results, with the result that estimates of recoverable oil and natural gas reserves attributable to any property are subject to revision. In future, the Company's actual production, revenues, taxes, development and operating expenditures associated with its reserves may vary from such estimates, and such variances may be material.

Production

Production of oil and natural gas reserves at an acceptable level of profitability may not be possible during periods of low commodity prices. The Company will attempt to mitigate this risk by focusing on higher netback opportunities and will act as operator where possible, thus allowing the Company to manage costs, timing, method and marketing of production. Production risk is also addressed by concentrating exploration efforts in regions where infrastructure is or will be Storm owned or readily accessible at an acceptable cost. In periods of low commodity prices the Company will shut in production, either temporarily or permanently, if netbacks are sub-economic.

Financial and Liquidity Risks

The Company faces a number of financial risks over which it has no control, such as commodity prices, exchange rates, interest rates, access to credit and capital markets, as well as changes to government regulations and tax and royalty policies. The Company uses the guidelines below to address financial exposure. Although these guidelines result in conservative management of the Company's finances, they cannot eliminate the financial risks the Company faces.

- Internal cash flow provides the initial source of funding on which the Company's capital expenditure program is based.
- Debt, if available, may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be controlled.
- Equity, if available on acceptable terms, may be raised to fund acquisitions and exploration expenditures.
- Farm-outs of projects may be arranged if management considers that a project requires too much capital or where the project affects the Company's risk profile.
- Financial instruments may be used to manage commodity price volatility when the Company has capital programs, including acquisitions, whose cost exceeds near-term projected cash flows and where capital programs involve longer term commitments.
- The Company will also sell assets if the proceeds can be redeployed in properties offering a higher netback or greater development potential.

Marketing Risks

Markets for future production of crude oil and natural gas are outside the Company's capacity to control or influence and can be affected by events such as weather, climate change, regulation, regional, national and international supply and demand imbalances, facility and pipeline access, geopolitical events, currency fluctuation, introduction of new or termination of existing supply arrangements, as well as downtime due to facility maintenance or damage. The Company will attempt to mitigate these risks as follows:

- Properties are developed in areas where there is or will be suitable processing and pipeline or other transportation infrastructure, and, where possible, owned by the Company.
- The Company will delay tie-in of new wells or shut in production if an acceptable netback cannot be realized.

Access to Debt and Equity

The Company's cash flow and borrowing capacity is sufficient to fund its existing capital budget. Nevertheless, funding is finite and investment must result in production being brought on stream, followed by the generation of cash

flow and the identification of proved and probable reserves. Bank financing, which for junior oil and gas companies like Storm, is conventionally a loan, renewable annually but subject to semi-annual review, is based on anticipated future cash flows. Thus, bank financing is short term only and availability is likely to be reduced in response to prolonged lower commodity prices.

Although equity is another source of financing, the Company is exposed to changes in the equity markets, which could result in equity not being available, or only available under conditions which are dilutive to existing shareholders. The inability of the Company to develop profitable operations, with the consequent exclusion from debt and equity markets, may result in the Company curtailing or suspending operations.

Political Risk

In both Canada and the United States the energy industry is subject to scrutiny, frequently hostile, by political and environmental groups. In particular, horizontal drilling and hydraulic fracturing procedures have been subject to criticism, largely on environmental grounds. This may lead to increased regulation and increased compliance costs. In addition, the strained financial circumstances of the provincial governments of both Alberta and British Columbia, may lead to the termination or amendment of existing royalty incentive programs, or increases in royalty and income tax rates.

Extraordinary Circumstances

Storm's operations and its financial condition may be affected by uncontrollable and unpredictable circumstances such as weather patterns, changes in contractual, regulatory or fiscal terms, exclusion from third party pipelines or facilities, or actions by certain groups such as industry organizations, local communities, militant groups, or other so-called black swan events.

FINANCIAL REPORTING UPDATE

Future Accounting Changes

Storm has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may affect Storm.

In May 2011, the International Accounting Standards Board ("IASB") released the following new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" and IFRS 13, "Fair Value Measurement". Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below:

- IFRS 10, "Consolidated Financial Statements" supercedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard is not expected to have any effect on Storm's financial statements;
- IFRS 11, "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard is not expected to have any effect on Storm's financial statements;
- IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities. The adoption of this standard is not expected to have any effect on Storm's financial statements;
- IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Storm does not expect this standard to have any effect on its financial statements.

As of January 1, 2015, Storm will be required to adopt IFRS 9 "Financial Instruments", which is the first phase of the IASB project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single

model that has only two classification categories: amortized cost and fair value. Portions of this standard remain in development and the full effect of the standard on Storm's financial statements will not be known until the project is complete.

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

MANAGEMENT'S REPORT

To the Shareholders of Storm Resources Ltd.

The financial statements of Storm Resources Ltd. were prepared by management in accordance with International Financial Reporting Standards ("IFRS") as adopted by the Canadian Institute of Chartered Accountants ("CICA"). Management has used estimates and careful judgment, particularly in those circumstances where transactions affecting current periods are dependent on information not known for certain until a future period. The financial and operational information contained in this year-end report is consistent with that reported in the financial statements.

Management is responsible for the integrity of the financial and operational information contained in this report. The Company has designed and maintains internal controls to provide reasonable assurance that assets are properly safeguarded and that the financial records are well maintained and provide relevant, timely and reliable information to management. The financial statements have been prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in the notes to the financial statements.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.



Donald McLean
Chief Financial Officer



John Devlin
Vice President, Finance

February 28, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Storm Resources Ltd.

We have audited the accompanying financial statements of Storm Resources Ltd., which comprise the statements of financial position as at December 31, 2012, and the statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the year ended December 31, 2012 and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Storm Resources Ltd. as at December 31, 2012 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP is written in a black, cursive script font. The words "Ernst & Young" are connected, and "LLP" is written in a slightly different, more upright cursive style at the end.

Chartered Accountants
Calgary, Canada

February 28, 2013

Consolidated Statements of Financial Position

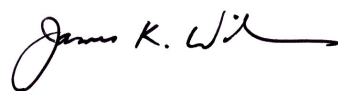
(Canadian \$000s)	December 31, 2012	December 31, 2011
ASSETS		
Current		
Cash	\$ -	\$ 7,423
Accounts receivable	8,816	4,064
Prepays and deposits	815	793
Fair value of financial instruments (Note 14)	229	-
	9,860	12,280
Investments (Note 5)	4,320	8,838
Investment in associate (Note 4)	-	12,302
Exploration and evaluation (Note 6)	72,947	26,156
Property and equipment (Note 7)	161,665	49,507
	\$ 248,792	\$ 109,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Current portion of bank indebtedness (Note 8)	\$ -	\$ 3,000
Accounts payable and accrued liabilities	12,615	11,461
	12,615	14,461
Bank indebtedness (Note 8)	41,712	12,990
Decommissioning liability (Note 9)	10,924	2,532
	65,251	29,983
Shareholders' equity		
Share capital (Note 11)	193,184	86,576
Contributed surplus (Note 12)	2,088	1,389
Deficit	(11,731)	(5,157)
Accumulated other comprehensive loss	-	(3,708)
	183,541	79,100
	\$ 248,792	\$ 109,083

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



Director



Director

Consolidated Statements of Loss and Comprehensive Loss

(Canadian \$000s except per-share amounts)	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenue		
Revenue from product sales	\$ 32,313	\$ 6,892
Realized gain on financial instruments (Note 14)	1,666	-
Royalties	(3,597)	(407)
	\$ 30,382	\$ 6,485
Expenses		
Production	9,469	1,598
Transportation	1,743	376
Acquisition costs (Note 4)	640	-
General and administrative	3,701	2,640
Share-based compensation (Note 12)	699	988
Depletion and depreciation	13,574	3,427
Exploration and evaluation costs expensed (Note 6)	664	-
Accretion	242	52
	30,732	9,081
Loss before the following:	(350)	(2,596)
Interest income (expense) - net	(1,442)	3
(Loss) gain on disposal of investments (Note 5)	(1,342)	463
Unrealized impairment loss on investments (Note 5)	(2,640)	-
Loss on disposal of oil and gas properties (Note 7)	(1,029)	-
Unrealized gain on financial instruments	229	-
Change in equity of associate (Note 4)	-	(1,534)
Net loss for the year	(6,574)	(3,664)
Other comprehensive income (loss)		
Reversal of unrealized prior year (gain) loss on investments (Note 5)	1,068	(85)
Unrealized loss on investments	-	(3,708)
Transfer to the statement of loss of unrealized impairment loss on investments	2,640	-
Comprehensive loss for the year	\$ (2,866)	\$ (7,457)
Net loss per share (Note 13)		
- basic	\$ (0.12)	\$ (0.14)
- diluted	\$ (0.12)	\$ (0.14)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(Canadian \$000s)	Year Ended December 31, 2012				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of year	\$ 86,576	\$ 1,389	\$ (5,157)	\$ (3,708)	\$ 79,100
Net loss for the year	-	-	(6,574)	-	(6,574)
Issue of common shares to shareholders of SGR	43,869	-	-	-	43,869
Issue of common shares to shareholders of Bellamont	39,674	-	-	-	39,674
Issue of common shares under private placement	23,615	-	-	-	23,615
Share issue costs	(550)	-	-	-	(550)
Share-based compensation (Note 12)	-	699	-	-	699
Reversal of unrealized prior year loss on investments (Note 5)	-	-	-	1,068	1,068
Transfer to the statement of loss of unrealized impairment loss on investments	-	-	-	2,640	2,640
Balance, end of year	\$ 193,184	\$ 2,088	\$ (11,731)	\$ -	\$ 183,541

(Canadian \$000s)	Year Ended December 31, 2011				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of year	\$ 86,576	\$ 401	\$ (1,493)	\$ 85	\$ 85,569
Net loss for the period	-	-	(3,664)	-	(3,664)
Share-based compensation (Note 12)	-	988	-	-	988
Realization of accumulated other comprehensive income on disposition of investments	-	-	-	(463)	(463)
Unrealized loss on investments (Note 5)	-	-	-	(3,330)	(3,330)
Balance, end of year	\$ 86,576	\$ 1,389	\$ (5,157)	\$ (3,708)	\$ 79,100

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(Canadian \$000s)	Year Ended December 31, 2012	Year Ended December 31, 2011
Operating activities		
Net loss for the year	\$ (6,574)	\$ (3,664)
Non-cash items:		
Loss/(gain) on disposal of investments (Note 5)	1,342	(463)
Unrealized impairment loss on investments	2,640	-
Loss on disposal of oil and gas properties	1,029	-
Change in equity of associate (Note 4a)	-	1,534
Depletion, depreciation and accretion	13,816	3,479
Exploration and evaluation costs expensed (Note 6)	664	-
Unrealized gain on financial instruments (Note 14)	(229)	-
Share-based compensation (Note 12)	699	988
	13,387	1,874
Net change in non-cash working capital items (Note 17)	(1,962)	(1,753)
	11,425	121
Financing activities		
Proceeds from private placement of common shares – net of expenses (Note 11)	23,065	-
Increase (decrease) in bank indebtedness	(12,666)	15,990
	10,399	15,990
Investing activities		
Proceeds on disposal of investments (Note 5)	4,244	3,156
Cash acquired on acquisition of SGR (Note 4)	2,405	-
Cash paid to shareholders of Bellamont (Note 4)	(20,000)	-
Proceeds on disposal of exploration and evaluation assets (Note 6)	2,060	-
Additions to exploration and evaluation assets (Note 6)	(4,725)	(10,418)
Additions to property and equipment (Note 7)	(27,444)	(30,378)
Proceeds on disposal of property and equipment (Note 7)	15,827	-
Net change in non-cash working capital items (Note 17)	(1,614)	(1,772)
	(29,247)	(39,412)
Change in cash during the year	(7,423)	(23,301)
Cash, beginning of year	7,423	30,724
Cash, end of year	\$ -	\$ 7,423

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2012 and 2011

Tabular amounts in thousands of Canadian dollars, except per share amounts

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.

In August 2010 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. The Company was an early adopter of International Financial Reporting Standards ("IFRS"); accordingly, net assets transferred to the Company under the Arrangement, comprised of undeveloped lands and facility interests in northeast British Columbia, related decommissioning obligations, various corporate investments and cash, were transferred at estimated fair values at the time of the Arrangement.

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

2. BASIS OF PRESENTATION

Statement of Compliance

The financial statements have been prepared in accordance with IFRS as issued and amended from time to time by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and adopted by the Canadian Institute of Chartered Accountants ("CICA"). Prior to the introduction of IFRS, certain accounting standards had international application, identified as International Accounting Standards ("IAS"). Certain of these standards have been replaced under IFRS, while others continue to have application.

These financial statements were authorized for issue by the Board of Directors on February 28, 2013.

Basis of Measurement

The Company's financial statements have been prepared on a basis consistent with prior years, under the historical cost convention, except for certain financial assets and financial liabilities, which are measured at fair value, as explained in Note 14.

Use of Estimates and Judgments

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

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

Future Accounting Policies

Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements was issued in May 2011 and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is effective for reporting periods commencing January 1, 2013.

Joint Arrangements

IFRS 11 Joint Arrangements was issued in May 2011 and addresses two forms of joint arrangements where there is joint control: joint operations and joint ventures. In a joint operation, each venturer will recognize its share of the operation's assets, liabilities, revenues and expenses. Joint ventures will be required to use the equity method of accounting. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-Controlled Entities Non-Monetary Contributions from Venturers. The new standard is effective for the Company's interim and annual financial statements commencing January 1, 2013.

Disclosure of Interest in Other Entities

IFRS 12 Disclosure of Interests in Other Entities was issued in May 2011. It is a comprehensive standard addressing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, subsidiaries, special purpose entities and unconsolidated structured entities. The standard aims to provide information to enable users to evaluate the nature of an entity's interest in other entities and the associated risks. IFRS 12 is effective for the Company's interim and annual financial statements commencing January 1, 2013.

Fair Value Measurements

IFRS 13 Fair Value Measurement, which was also issued in May 2011, replaces fair value measurement and disclosure guidance throughout individual IFRS standards with one comprehensive source of fair value measurement guidance. IFRS 13 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The standard also provides a framework for measurement of fair value and establishes required disclosures. It is effective for the Company's interim and annual financial statements commencing January 1, 2013.

The Company does not expect these standards to have any effect on its financial statements.

Financial Instruments

IFRS 9 Financial Instruments, which was issued in October 2010, is the first phase in the replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 revises the current multiple classification and measurement models for financial assets and liabilities and limits the measurement models to two: amortized cost or fair value. The new standard is effective for the Company's interim and annual financial statements commencing on or after January 1, 2015. Portions of the standard remain in development and the full effect of the standard on Storm's consolidated financial statements, if any, will not be known until the project is complete.

3. SIGNIFICANT ACCOUNTING POLICIES

Jointly Controlled Assets and Operations

Certain of the Company's exploration and production activities are conducted under joint operating agreements, whereby two or more parties jointly control the assets. These financial statements reflect only the Company's share of these jointly controlled assets and, once production commences, a proportionate share of the relevant revenue and related costs.

Business Combinations

Business combinations are accounted for at fair value using the acquisition method of accounting. The fair value of the net assets acquired and the consideration transferred is measured at the acquisition date. Transaction costs are expensed when incurred. Any excess of the cost of an acquisition over the net fair value of the identifiable net assets acquired is recognized as goodwill. If the consideration is less than the fair value of the net identifiable assets acquired, the difference is recognized as a gain in the consolidated statement of income (loss).

After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed annually for impairment. Impairment losses on goodwill are not reversed.

Investment in Associate

An associate is an entity over which the Company has significant influence, but not control, over financing and operations. The investment in an associate is initially recognized at cost and is subsequently accounted for using the

equity method, with the Company's share of changes in equity of the investee company recognized in the statement of income (loss).

This accounting policy applied to the Company's investment in Storm Gas Resource Corp. ("SGR"), until January 2012 when the Company acquired 100% of the outstanding shares of SGR. Thereafter the accounts of SGR have been consolidated with those of the Company.

Oil and Gas Exploration and Evaluation Expenditures

Oil and gas exploration and evaluation ("E&E") expenditures are accounted for in accordance with IFRS 6 - *Exploration for and Evaluation of Mineral Resources*, whereby costs associated with the exploration for and evaluation of oil and gas reserves are accumulated on an area-by-area basis and are capitalized as E&E assets when incurred. Future decommissioning costs relating to exploration and evaluation activities are also included. Costs incurred in advance of land acquisition are charged to the statement of income (loss); however, all other costs, including directly attributable general and administrative costs, are added to E&E assets.

At each reporting date, E&E assets are reviewed for indicators of impairment and, if circumstances suggest that the carrying amount of a particular area exceeds its recoverable amount, the associated cost is written down to its estimated recoverable amount and the difference is accounted for as impairment expense on the statement of income (loss). Once commercial production commences in a specific area, the associated E&E assets are tested for impairment and the estimated recoverable amount is transferred to property and equipment. If, at any time, it is determined that the Company has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount or fully de-recognized and the amount of the write-down is expensed as impairment on the statement of income (loss).

No depletion or depreciation is provided for exploration and evaluation assets.

Property and Equipment

Property and equipment, which includes oil and natural gas development and production assets, represents costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning costs, related to producing assets, are also capitalized to property and equipment. Property and equipment is carried at cost, less accumulated depletion and depreciation and accumulated impairment losses. Gains and losses on disposal of property and equipment are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and are recognized in the statement of income (loss).

Depletion and Depreciation

The net carrying amount of the intangible oil and gas assets, categorized as property and equipment, is depleted using the unit-of-production method based on estimated proved and probable oil and natural gas reserves, taking into account the future development costs required to produce the reserves.

Year-end proved and probable reserves are determined by independent engineers in accordance with Canadian National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations, do not give rise to prior year adjustments and are dealt with prospectively. Proved and probable reserves at the end of each interim reporting period are based on reserves determined at the immediately prior year end, adjusted for production and internal estimates of changes to reserves since the prior reporting date.

Processing facilities and well equipment are depreciated on a straight-line basis over the estimated useful life of the facilities and equipment. Where facilities and equipment includes major components having different useful lives, they are depreciated separately.

Depreciation rates, useful lives and residual values are reviewed at each reporting date.

Impairment

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, property and equipment assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or group of assets (the "cash

generating unit” or “CGU”). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assumptions. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. An impairment loss is recognized in the statement of income (loss) if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Impairment losses previously recognized are assessed at each reporting date for indications that the loss has decreased or no longer exists. If there has been an increase in the estimate of the recoverable amount an impairment loss is reversed to the extent that the asset’s new carrying amount does not exceed the original carrying amount, net of related accumulated depletion and depreciation.

Decommissioning Liability

Decommissioning liabilities are measured as the present value of management’s best estimate of the expenditure required to settle the decommissioning liability at the reporting date using a risk-free discount rate. This estimate is recognized when a legal or constructive obligation arises and is capitalized as part of E&E assets or property and equipment. The amount capitalized to property and equipment is amortized on a unit-of-production basis as part of depreciation and depletion. Subsequent to the initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future costs underlying the obligation. The increase in the obligation due to the passage of time is charged as accretion expense whereas increases or decreases due to changes in the estimated future costs are capitalized. Actual costs incurred upon settlement of decommissioning obligations are charged against the liability, or expensed if greater than the liability.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and NGL is recognized when title is transferred from Storm to its customers. Revenue is measured at the fair value of the consideration received. Revenue is recognized when all of the following conditions have been satisfied:

- The significant risks and rewards of ownership of the goods have been transferred to the buyer;
- Storm retains no managerial involvement or effective control over the goods sold;
- The amount of revenue can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to Storm.

Share-Based Compensation

The Company has issued options to acquire common shares to directors, officers and employees of the Company. These options are accounted for using the fair-value method which estimates the value of the options at the date of the grant using the Black-Scholes option pricing model. The fair value of each tranche of options thus established is recognized as compensation expense over the vesting period of the related options, with an equivalent increase to contributed surplus. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest. The effect of any revision in forfeiture rates is recognized in the consolidated statement of income (loss) with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds, together with the amounts recorded in contributed surplus, are recorded in share capital.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognized when the rights to receive cash flows from the assets have expired, or when the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments. Due to the short-term nature of cash and cash equivalents, its carrying amount approximates fair value.

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables which are non-derivative financial assets that have fixed or determinable payment terms and are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. The Company's loans and receivables comprise accounts receivable relating to the Company's operations.

Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or significant delinquency in payments are considered indicators that a trade receivable is impaired.

Investments

The Company's investments in publicly-listed companies are classified as available-for-sale investments. Available-for-sale financial investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Investments in publicly-listed companies are recognized initially at fair value and subsequently are fair valued using the closing price on the reporting date of the financial statement. Gains or losses arising from changes in fair value are recognized in the statement of comprehensive income (loss).

The investment in the associate was initially recognized at cost and subsequently accounted for using the equity method of accounting, with the Company's share of the investee's equity changes for the period recorded as change in equity of associate on the statement of income (loss).

Available-for-sale investments are classified as non-current assets, as management does not expect to dispose of the investments within twelve months. When an available-for-sale investment is sold or deemed to be impaired, the accumulated gains or losses are transferred from accumulated other comprehensive income to the statement of income (loss) and included in other gains and losses.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers or under joint ventures or similar arrangements. Accounts payable are classified as current liabilities if payment is due within one year or less.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes, on the statement of income (loss), an impairment loss, as follows:

- (i) Financial assets carried at amortized cost: The amount of any impairment is the difference between the amortized cost of the loan or receivable and the lesser amount of present value of the estimated future cash inflows, discounted using the original effective interest rate. The carrying amount of the asset is reduced and the amount of any loss is recognized in the statement of income (loss).
- (ii) Available-for-sale financial assets: Any impairment loss is the difference between the original cost of the asset and the lesser amount of its fair value at the reporting date, less any impairment losses previously recognized in the statement of income (loss).

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or development of assets that require a considerable period of time to be ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of income (loss) in the period in which they are incurred.

Income Tax

Income tax comprises current and deferred taxes. Income tax is recognized in the statement of income (loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or elsewhere in shareholders' equity, in which case the related income tax expense or recovery is also recognized directly in other comprehensive income (loss) or elsewhere in shareholders' equity.

Current tax expense is the expected cash tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax expense and related liability is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to continue to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Share Capital

Proceeds from the issuance of common shares are classified as shareholders' equity. Costs directly attributable to the issuance of shares are recognized as a deduction from shareholders' equity.

Net Income (Loss) Per Share

Net income (loss) per share is calculated by dividing the net income (loss) attributable to equity owners for the period by the weighted average number of common shares outstanding during the period.

Diluted net income (loss) per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive common shares comprise stock options granted to employees and directors. The number of shares included with respect to options is computed using the treasury stock method.

Use of Judgments and Estimates in Application of Accounting Policies

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

Note 4 – Allocation of fair values to corporate acquisitions

In a business combination accounted for as an acquisition, fair value measurements are used to determine the carrying amounts of assets received, liabilities assumed and consideration given. The date of measurement is the date of closing of the transaction. In the acquisitions described in Note 4, the assets acquired were primarily oil and gas property and equipment and exploration and evaluation assets. The carrying amount of property and equipment was measured using the present value of anticipated future cash flows from acquired reserves, the amount of such reserves being determined by the Company's engineers. Future commodity prices were based on third party estimates. Future development costs were based on estimates of the acquired company's independent engineer, amended by Storm to accommodate future development plans for the acquired assets. The allocation of oil and gas assets acquired between property and equipment and exploration and development assets was based on Storm's knowledge of the acquired properties and future exploration and development plans for the assets. Decommissioning costs relating to the acquired assets were measured using the same judgments and estimates applicable to the Company's existing assets. Other assets and liabilities, largely working capital components and debt, were valued at the carrying amount on the acquired company's accounts. Consideration paid in the form of share capital was measured using the closing price on the date of closing of the transaction.

Note 6 - Classification and carrying amount of exploration and evaluation assets

Each reporting period, exploration and evaluation assets are subject to an impairment review, conducted internally, corresponding to the Company's view as to the recoverability of the asset. Factors brought into the consideration of impairment include the Company's future plans for the property, lease expiries, drilling and development results on proximate or analogous properties, facility and pipeline access, views as to future commodity prices, operating and

development costs and availability of capital for exploration and development programs. An impairment review is also completed when exploration and evaluation assets are transferred to property and equipment.

Note 7 – Classification and carrying amount of property and equipment

Each reporting period, property and equipment is subject to an internal impairment review applied at the CGU level. The impairment review gives recognition to changes in geological interpretation or development plans, drilling results, development costs, changes to estimates to reserve estimates, future commodity prices, facility and pipeline access, operating and future development costs, industry activity in the area, access to markets and availability of investment capital.

Note 9 - Decommissioning liability

Measurement of the Company's decommissioning liability involves estimates as to the cost and timing of incurrence of future decommissioning programs. It also involves assessments of appropriate discount rates, rates of inflation applicable to future costs and the rate used to measure the accretion charge for each reporting period.

Note 10 – Measurement and utilization of tax assets

The Company does not recognize any tax asset due to uncertainty as to future realization. However, the Company has tax pools which may be applied in reduction of future income. The amount of such pools is subject to audit by taxing authorities, possibly several years after the initial measurement. In addition, future changes to tax laws may result in the loss or limitation of use of such pools.

Note 12 – Measurement of share-based compensation

The charge for share-based compensation involves the estimate of the fair value of stock options at time of issue. The estimate involves assumptions regarding the life of the option, dividend yields, interest rates, and volatility of the security subject to the option. The charge is measured using the Black-Scholes option pricing model, which is potentially replaceable by a pricing model producing different results.

Note 14 – Carrying amounts of financial instruments

Financial instruments are subject to valuation at the end of each reporting period. Generally the valuation is based on active and efficient markets. However, certain financial instruments may not be traded on an efficient market, or the market may disappear or be subject to controls that impede the efficiency of the market.

4. CORPORATE ACQUISITIONS

a) Storm Gas Resource Corp.

Pursuant to the acquisition of 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 a total cost of \$42.9 million, consisting of the issuance of 11,761,190 common shares offset by positive working capital of \$1.0 million. 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 in northeast British Columbia. Total transaction costs of approximately \$0.2 million were incurred by Storm and expensed.

Storm's statement of loss and comprehensive loss includes the results of operations for the business of SGR for the period following the close of the transaction. Net loss for the year ended December 31, 2012 includes \$1.6 million of petroleum and natural gas revenue and \$1.1 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 statement of loss and comprehensive loss for the year ended December 31, 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 estimated net assets acquired pursuant to the acquisition:

Consideration		
Issuance of share capital	\$	43,869
Carrying amount 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 a total cost of \$96.6 million, consisting of \$20.0 million in cash, the assumption of a \$36.9 million working capital deficiency 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 \$0.4 million were incurred by Storm and expensed.

The statement of loss and comprehensive 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 year ended December 31, 2012 includes \$23.1 million of petroleum and natural gas revenue and \$2.9 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 \$7.5 million of petroleum and natural gas revenue and \$0.3 million of net loss would have been included on the statement of loss and comprehensive loss for the year ended December 31, 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 estimated 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	\$	102,805
Exploration and evaluation assets		2,113
Working capital deficiency (Includes debt acquired of \$38,388)		(36,939)
Decommissioning liability		(8,305)
Net assets acquired	\$	59,674

5. INVESTMENTS

	December 31, 2012	December 31, 2011
Bridge Energy ASA ("Bridge")	\$ -	\$ 1,503
Chinook Energy Inc. ("Chinook")	4,320	7,335
	\$ 4,320	\$ 8,838

During the year the Company sold 1.5 million shares of Chinook for net proceeds of \$2.1 million and recognized a loss of \$1.3 million measured against the transfer value under the Arrangement. In addition, the Company sold 1.1 million shares of Bridge for net proceeds of \$2.1 million and recognized a loss of \$22,000. In the year ended December 31, 2011, in a transaction unrelated to the subsequent corporate acquisition, 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.

At December 31, 2012, an impairment loss of \$2.6 million (2011 – nil) was recognized on the investment in Chinook and was transferred from other comprehensive loss to the statement of loss. In addition, an unrealized revaluation loss of \$1.1 million related to 2011 was reversed in 2012 in other comprehensive loss.

6. EXPLORATION AND EVALUATION

	December 31, 2012	December 31, 2011
Balance, beginning of year	\$ 26,156	\$ 36,944
Corporate acquisitions	44,790	-
Additions	4,725	10,418
Disposals	(2,060)	-
Exploration and evaluation expenditures expensed	(664)	-
Future decommissioning costs	-	(358)
Transfer to property and equipment	-	(20,848)
Balance, end of year	\$ 72,947	\$ 26,156

7. PROPERTY AND EQUIPMENT

	December 31, 2012	December 31, 2011
Net book value, beginning of year	\$ 49,507	\$ -
Cost		
Balance, beginning of year	\$ 52,943	\$ -
Corporate acquisitions	115,865	-
Additions	27,444	30,378
Disposals	(18,553)	-
Change in future decommissioning costs	(709)	1,717
Transfer from exploration and evaluation assets	-	20,848
Balance, end of year	\$ 176,990	\$ 52,943
Accumulated depletion and depreciation		
Balance, beginning of year	\$ 3,436	\$ -
Depletion and depreciation	13,574	3,436
Disposals	(1,685)	-
Balance, end of year	\$ 15,325	\$ 3,436
Net book value, end of year	\$ 161,665	\$ 49,507

During 2012 the Company sold certain land and oil and gas properties producing approximately 165 Boe per day, primarily light crude oil, for net proceeds of \$17.9 million. These disposals resulted in the recognition of a net loss of \$1.0 million which has been recorded on the statement of loss.

8. BANK INDEBTEDNESS

As at December 31, 2012, the Company had an extendible revolving bank facility in the amount of \$62 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. 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. (See Note 19 – Subsequent Events)

9. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production assets, including well sites, gathering systems and facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately \$15.1 million, which is expected to be paid over the next 25 years. A risk-free discount rate of 2.5% (2011 – 2.65%) and an inflation rate of 1.2% (2011 – 1.5%) was used to calculate the present value of the decommissioning obligation, amounting to \$10.9 million.

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
Balance, beginning of year	\$ 2,532	\$ 1,121
Additions	303	1,253
Acquisitions	8,861	-
Obligations disposed	(1,225)	(30)
Change in estimate ⁽¹⁾	211	136
Accretion expense	242	52
Balance, end of year	\$ 10,924	\$ 2,532

(1) Relates to changes in cost estimates and discount and inflation rates.

10. DEFERRED INCOME TAXES

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

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately \$161 million as well as non-capital losses of approximately \$92 million. The non-capital losses begin to expire in 2026. A deferred tax asset has not been recognized due to uncertainty as to future realization.

The provision for deferred income taxes is different from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to pre-tax income for the period.

The differences are as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Loss for the year	\$ (6,574)	\$ (3,664)
Statutory combined federal and provincial income tax rate	25.0%	26.5%
Expected income taxes	\$ (1,644)	\$ (971)
Add (deduct) the income tax effect of:		
Share-based compensation	175	262
Changes in equity of associate	-	134
Deferred income tax asset not recognized due to uncertainty of realization of loss carry forwards	268	630
Non-taxable portion of capital loss (gain)	498	(61)
Change in estimated tax pool balances	703	6
Deferred income taxes	\$ -	\$ -

11. SHARE CAPITAL

Authorized

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

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

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

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 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	23,615
Shares issued on acquisition of Bellamont ⁽³⁾	16,740	39,674
Share issue costs ⁽²⁾	-	(550)
Balance as at December 31, 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 4.
- (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 \$550,000.
- (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 4.

12. 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. At December 31, 2012 options in respect of 2,722,500 common shares were issued, all of which are unexercised, and options remained in respect of 3,459,925 common shares which are available for further grants under the stock option plan. (See Note 19 – Subsequent Events)

Details of the options outstanding at December 31, 2012 and December 31, 2011 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2010	1,974	\$ 3.28
Granted during the year	40	\$ 3.96
Forfeited during the year	(36)	\$ 3.28
Outstanding at December 31, 2011	1,978	\$ 3.28
Granted during the year	785	\$ 2.17
Exercised during the year	-	-
Expired during the year	-	-
Forfeited during the year	(40)	\$ 2.52
Outstanding at December 31, 2012	2,723	\$ 2.96
Number exercisable at December 31, 2012	1,305	\$ 3.29

Range of Exercise Price	Number of Options Outstanding (000s)	Outstanding Options	
		Weighted Average Remaining Life (years)	Weighted Average Exercise Price
\$1.83 - \$2.75	705	3.4	\$ 2.00
\$2.76 - \$3.96	2,018	1.7	\$ 3.29
Total	2,723	2.1	\$ 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 behaviour), expected dividends and the risk-free interest rate (based on government bonds).

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the year ended December 31, 2012 of \$0.68 per share (2011 - \$1.29) include the following:

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

Share-based compensation expense of \$699,000 was charged to the statement of loss and comprehensive loss during the year ended December 31, 2012 (2011 - \$988,000) with an equivalent offset to contributed surplus.

13. NET LOSS PER SHARE

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
Net loss for the year	\$ (6,574)	\$ (3,664)
Weighted average number of common shares outstanding – basic		
Common shares outstanding at beginning of year	26,377	26,377
Effect of shares issued	29,690	-
Weighted average number of common shares outstanding – basic	56,067	26,377
Effect of outstanding options	-	-
Weighted average number of common shares outstanding - diluted	56,067	26,377
Net loss per share		
- basic	\$ (0.12)	\$ (0.14)
- diluted	\$ (0.12)	\$ (0.14)

As the Company has experienced losses in the years presented, there are no dilutive factors.

14. FINANCIAL INSTRUMENTS

The following table sets out, for each class of financial asset and financial liability, the carrying amount and fair value as at December 31, 2012. The carrying value of cash, accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness included on the 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.

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

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

	Classification	December 31, 2012	
		Carrying Amount	Fair Value
Investments	Available for sale	\$ 4,320	\$ 4,320

The fair value of the Company's investment in Chinook is determined with reference to published share prices and is therefore classified as a Level 1 financial instrument. The fair value of the Company's commodity contracts described

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

Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, marketing and financing activities such as:

- credit risk;
- market risk; and
- liquidity risk.

Management has primary responsibility for monitoring and managing financial risks under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at year end is as follows:

	Carrying Amount as at December 31, 2012	
Accounts receivable	\$	8,816
Derivative contracts		229
	\$	9,045

Cash

When the Company has a cash surplus, it limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating or are supported by provincial government guarantees.

Derivative Contracts

The Company enters into derivative contracts with counterparties with an acceptable credit rating and with a demonstrated capability to execute such contracts. The contracts are short term and are subject to the limitations established by the Board of Directors and the Company's bankers

Accounts receivable

The Company's accounts receivable tend to be concentrated with a limited number of marketers of the Company's production as well as joint venture partners and are subject to normal industry credit risk. The Company's production is sold to organizations whose credit worthiness is assessable from publicly available information. The Company attempts to mitigate the risk from joint venture receivables by obtaining pre-approval and cash call deposits from its partners in advance of significant capital expenditures. The Company does not typically obtain collateral from joint venture partners.

No default on outstanding receivables is anticipated and, as such, no provision for doubtful accounts has been recorded.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices, the quoted price of listed securities, interest rates and foreign exchange rates, will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Market risks are as follows and are largely outside the control of the Company:

- commodity prices;
- prices of listed securities;
- interest rates; and
- foreign exchange rates.

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 its banking agreement.

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

As at December 31, 2012, Storm has the following derivative contracts in place. The fair market value of these contracts of \$229,000 (December 31, 2011 – nil) is included in current assets and the resulting unrealized mark-to-market gain of \$229,000 (2011 – nil) is recognized in the statement of loss for the year ended December 31, 2012.

Volume	Price (Cdn)	Term
Crude Oil Swap 150 Bbls/day	\$96.20	January 2013 – March 2013
Crude Oil Collars 150 Bbls/day	\$90.00 - \$93.00	January 2013 – March 2013
100 Bbls/day	\$85.00 - \$89.05	January 2013 – March 2013
Natural Gas Swap 4,000 GJ/day	\$3.325	January 2013 – March 2013
Natural Gas Collar 4,000 GJ/day	\$3.00 - \$3.50	January 2013 – March 2013

During the year ended December 31, 2012, the Company realized gains, from hedges in place during the year, in the amount of \$1.7 million (2011 – nil).

In January 2013 Storm entered into additional crude oil contracts with collars of Cdn\$90.00 - \$95.00 for 150 BBls/day and Cdn\$90.00 - \$98.75 for 100 Bbls/day and a swap at Cdn\$98.85 for 50 Bbls/day for the term April - June 2013, and for a swap at Cdn\$99.05 for 100 Bbls/day for the term July – September 2013.

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

Recent years have seen increasing divergence in various international pricing indices used to set the price of crude oil. In addition, pricing for Canadian crude oil has been affected by increasing production of crude oil in the United States and also difficulties in shipping crude oil from Canada to key markets in the United States.

Prices of listed securities

The value of the investments held by the Company is affected by fluctuations in the price of these securities, which are listed on public stock exchanges. Reduced prices of these securities could result in lower levels of capital being available for future field activity.

Interest Rates

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

Foreign exchange rates

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

Sensitivities

Using the Company's actual production volumes, royalty rates, income tax rates and debt levels for the year ended December 31, 2012, the estimated after-tax effects that changes in certain factors would have on net income and net income per share is as follows:

Factor	2012	
	Change in Net Income	Change in Net Income Per Share
US\$ 1.00/Bbl change in the price of WTI	\$ 260,000	\$ 0.01
\$0.10/Mcf change in the price of natural gas	\$ 310,000	\$ 0.01
1% change in the interest rate	\$ 300,000	\$ 0.01

Liquidity risk

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

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

15. CAPITAL MANAGEMENT

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

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

16. RELATED PARTY TRANSACTIONS

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
Salaries and short-term benefits	\$ 985	\$ 789
Share-based compensation	286	538
	\$ 1,271	\$ 1,327

17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Year Ended December 31, 2012	Year Ended December 31, 2011
Accounts receivable	\$ 548	\$ (3,283)
Prepays and deposits	1,069	(121)
Accounts payable and accrued liabilities	(5,193)	(121)
Change in non-cash working capital	\$ (3,576)	\$ (3,525)
Relating to:		
Operating activities	\$ (1,962)	\$ (1,753)
Financing activities	-	-
Investing activities	(1,614)	(1,772)
	\$ (3,576)	\$ (3,525)
Interest paid during the year	\$ 1,325	\$ 29
Income taxes paid during the year	\$ -	\$ -

18. COMMITMENTS

The Company has an office lease that extends to August 31, 2013. Payments under this lease are estimated to total \$376,000.

19. SUBSEQUENT EVENTS

In the first quarter of 2013 the Company sold certain oil and gas properties, producing approximately 300 Boe per day, for net proceeds of \$20.1 million. These disposals are expected to result in a net loss of approximately \$0.2 million. Consequent on the sale of the producing properties, the Company's bank facility has been reduced from \$62 million to \$52 million.

Also in the first quarter of 2013, the Company granted stock options to employees, officers and directors, to purchase an aggregate of up to 1,449,000 common shares of the Company. The options have an exercise price of \$1.75 per share, vest over three years and expire in 2017.

Corporate Information

Officers

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Chief Financial Officer

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

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Abbreviations

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



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