



STORM
RESOURCES

2011 YEAR-END REPORT



Highlights

Thousands of Cdn\$, except volumetric and per share amounts	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010 ⁽¹⁾
FINANCIAL				
Gas sales	1,160	-	3,404	-
NGL sales	594	-	1,020	-
Oil sales	739	-	2,468	-
Production revenue	2,493	-	6,892	-
Funds from operations ⁽²⁾	709	(708)	1,874	(956)
Per share - basic (\$)	0.03	(0.03)	0.07	(0.04)
Per share - diluted (\$)	0.03	(0.03)	0.07	(0.04)
Net income (loss)	(1,758)	(1,087)	(3,664)	(1,493)
Per share - basic (\$)	(0.07)	(0.04)	(0.14)	(0.09)
Per share - diluted (\$)	(0.07)	(0.04)	(0.14)	(0.09)
Capital expenditures, net of dispositions	20,687	13,373	40,796	16,797
(Debt) working capital	(15,171)	20,593	(15,171)	20,593
Weighted average common shares outstanding (000s)				
Basic	26,377	26,377	26,377	16,267
Diluted	26,377	26,377	26,377	16,267
Common shares outstanding (000s)				
Basic	26,377	26,377	26,377	26,377
Fully diluted	28,355	28,351	28,355	28,351
OPERATIONS⁽³⁾				
Oil equivalent (6:1)				
Barrels of oil equivalent (000s)	72	-	198	-
Barrels of oil equivalent per day	779	-	542	-
Average selling price (Cdn\$ per Boe)	34.78	-	34.86	-
Gas production				
Thousand cubic feet (000s)	346	-	964	-
Thousand cubic feet per day	3,763	-	2,641	-
Average selling price (Cdn\$ per Mcf)	3.35	-	3.53	-
NGL Production				
Barrels (000s)	7	-	12	-
Barrels per day	72	-	32	-
Average selling price (Cdn\$ per barrel)	89.95	-	87.36	-
Oil Production				
Barrels (000s)	7	-	25	-
Barrels per day	80	-	69	-
Average selling price (Cdn\$ per barrel)	100.05	-	97.39	-
Wells drilled				
Gross	1.0	-	4.0	-
Net	0.6	-	2.2	-

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

(2) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 18 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 26 of the attached MD&A.

(3) Storm had no production in 2010.

President's Message

2011 FOURTH QUARTER AND YEAR-END HIGHLIGHTS

- Production averaged 542 Boe per day in 2011 with significant growth in the second half of the year as evidenced by fourth quarter production averaging 779 Boe per day and production in December averaging 861 Boe per day. There are no prior year comparisons given that Storm commenced operations August 17, 2010 and had no production until January 2011. Growth in the second half of 2011 primarily resulted from the tie-in of two new horizontal wells in the Montney formation at Umbach, which added 300 net Boe per day in the fourth quarter, and the acquisition of a light oil property at Mica in north east British Columbia which closed on December 1, 2011 and added 145 net Boe per day in December.
- On December 1, 2011, Storm closed the acquisition of a light oil property at Mica in north east British Columbia which added 145 Boe per day of high netback production (current netback approximately \$50.00 per Boe) and 722 Mboe of proved plus probable reserves. The purchase price, net of adjustments, was \$15.4 million and was financed with existing cash resources plus an expanded credit facility.
- Storm entered into an arrangement agreement in the fourth quarter to acquire all of the outstanding common shares of Storm Gas Resource Corp. ("SGR"), its partner in the Horn River Basin of north east British Columbia ("HRB"). The arrangement closed on January 12, 2012 and added 360 Boe per day of production (100% natural gas) plus 81,400 net acres of undeveloped land including 58,400 net acres in the HRB. Based on an evaluation completed by InSite Petroleum Consultants Ltd. ("InSite") effective January 31, 2012, Storm acquired 2.6 Mmboe of proved reserves and 6.8 Mmboe of proved plus probable reserves. Excluding the 2.5 million SGR shares already owned by Storm, the final cost to acquire SGR was \$43.5 million which resulted in the issuance of 11.8 million Storm shares to SGR shareholders.
- On January 20, 2012, Storm announced that it had entered into an arrangement agreement with Bellamont Exploration Ltd. ("Bellamont") which will result in both companies being combined. This transaction will increase Storm's production by 2,250 Boe per day (48% liquids) at closing and adds light oil drilling inventory in the Grimshaw and Grande Prairie areas of north west Alberta. Under the terms of the arrangement agreement, Bellamont shareholders will receive, at their election, for each common share of Bellamont held: \$0.56 cash; or 0.1445 of a Storm common share; or a combination of cash and Storm shares. The cash amount payable to Bellamont shareholders is subject to a maximum total amount of \$20.0 million. Including estimated net debt of \$40.0 million at December 31, 2011, the total value of the transaction is \$110.2 million, using Storm's closing share price of \$3.00 per share on February 29, 2012.
- Storm's reserves grew significantly in 2011 with InSite estimating that proved reserves increased by 403% to total 3.7 Mmboe and proved plus probable reserves increased by 231% to total 8.3 Mmboe. The all-in cost to add reserves was \$20.87 per Boe for proved reserves and \$15.39 per Boe for proved plus probable reserves (includes all capital expenditures, the change in future development costs, acquisitions, dispositions and revisions).
- InSite completed a resource evaluation effective December 31, 2011 which confirms the significant resource and future drilling opportunity on Storm's lands in the Umbach area and in the HRB. The best estimate of contingent resources totals 51.2 Mmboe net sales for Umbach plus the HRB (116.8 Mmboe net sales including SGR). At Umbach, the best estimate of contingent resources was 14.1 Mmboe net sales to Storm (19% condensate plus natural gas liquids). In the HRB, the best estimate of contingent resources was 223 Bcf net sales to Storm and 393 Bcf net sales to SGR.
- Fourth quarter activity included drilling a fourth horizontal well at Umbach which was drilled and cased 2.5 miles south of the first horizontal well. Logs from the vertical pilot hole indicate 30 metres of net pay in the Montney formation which significantly expands the size of the exploitable area. In addition, two other horizontal wells (1.2 net) at Umbach were tied in and commenced production from the Montney formation.
- The operating netback averaged \$20.71 per Boe in the fourth quarter and was \$22.81 per Boe for the full year.
- Capital investment in the fourth quarter was \$20.7 million with major expenditures being \$15.4 million to acquire the Mica property and \$4.7 million for drilling and completions. Capital investment in 2011 totaled \$40.8 million.

- During 2011, Storm drilled four wells (2.2 net) with a 100% success rate including one horizontal well (0.4 net) in the Muskwa/Otter Park formation of the HRB and three horizontal wells (1.8 net) into the Montney formation at Umbach.
- At December 31, 2011, Storm's debt and working capital deficiency was \$15.2 million. After taking into account the value of Storm's investment in publicly listed companies (\$8.8 million at year end), net debt was \$6.3 million.

TRANSACTION WITH BELLAMONT EXPLORATION LTD.

On January 20, 2012, Storm announced that it had entered into an arrangement agreement with Bellamont which will result in both companies being combined. Under the terms of the arrangement agreement, Bellamont shareholders will receive, at their election, for each common share of Bellamont held: \$0.56 cash; or 0.1445 of a Storm common share; or a combination of cash and Storm shares. The cash amount payable to Bellamont shareholders is subject to a maximum total amount of \$20.0 million which, if elected, will result in 16.7 million Storm shares being issued. Bellamont's asset base is primarily operated, high working interest assets focused within the Grande Prairie area of north west Alberta which have a higher overall netback given that liquids are 48% of total production.

The transaction with Bellamont will be funded in part through a \$23.6 million private placement of common shares of Storm at a price of \$3.40 per Storm share (6,946,000 shares to be issued). Management, directors and employees are investing \$8.4 million to subscribe for 2,468,000 shares. Closing of the private placement occurred on February 22, 2012 and the funds are being held in escrow pending completion of the transaction with Bellamont (a condition of the private placement) which is expected to close on March 23, 2012.

Additional information regarding the arrangement with Bellamont:

- Bellamont's net debt at December 31, 2011 is estimated to be \$40.0 million (includes transaction costs plus employee severance);
- Including net debt of \$40.0 million, the total value of the transaction is \$110.2 million, using Storm's closing share price of \$3.00 per share on February 29, 2012;
- Storm's cost to acquire Bellamont's shares is \$65.9 million after deducting net debt and proceeds (\$4.25 million) from the recent sale by Bellamont of undeveloped lands;
- Annualized cash flow from Bellamont's assets is estimated to be \$23.0 million based on expected production at closing of 2,250 Boe per day (48% oil plus NGLs) with a \$28.00 per Boe operating netback which assumes Cdn\$100/Bbl Edmonton Par, Cdn\$2.40/GJ AECO, operating costs of \$13.50 per Boe, transportation cost of \$1.50 per Boe and an average royalty rate of 17%;
- Undeveloped land value of \$3.1 million which is internally estimated by Storm (previous estimate of \$7.35 million was adjusted lower to reflect recent sale of undeveloped lands for \$4.25 million);
- Annual production decline is relatively shallow at 20% to 25% (decline is less than 10% on older wells that came on production before January 2010, approximately half of Bellamont's current production);
- A new horizontal well at Grimshaw will begin producing in early March and is expected to add 50 to 100 barrels of oil per day;
- Current production is approximately 2,050 Boe per day with 300 net Boe per day currently shut in due to mechanical issues (pipeline failures at Saddle Hills and Grande Prairie, liquids rich Montney gas well at Grande Prairie awaiting installation of artificial lift); and,
- InSite is evaluating the reserves associated with Bellamont's asset base and results are expected to be released in late March 2012.

Combining Bellamont and Storm will result in a company with a more diversified, resource-oriented asset base. Near-term growth will primarily come from exploitation of Bellamont's Montney light oil pool at Grimshaw and from delineating Storm's liquids rich natural gas resource in the Montney formation at Umbach. Longer term, growth will come from improving natural gas prices and from further exploitation of Storm's large resource in the HRB. Bellamont shareholders retain exposure to upside associated with the Grimshaw Montney light oil pool and gain

asset diversification into much larger resource opportunities at Umbach (liquids rich Montney gas) and in the HRB (Muskwa and Otter Park shale gas). Storm shareholders benefit from higher netbacks, increased cash flow and relatively shallow decline associated with Bellamont's asset base, which will result in increased production growth as well as acceleration of resource delineation at Umbach.

At Grimshaw, there remains significant upside associated with further exploiting and delineating Bellamont's large Montney light oil pool. Bellamont has a 100% working interest in 17 sections of land at Grimshaw. Storm management estimates that DPIIP in the Montney pool ranges from 19 million barrels of oil to more than 35 million barrels of oil. Estimated DPIIP is based on an areal extent of 2.0 to 4.5 sections, net pay of 7 metres, average porosity of 17% and average oil saturation of 44%. In the second half of 2012, Storm plans to drill five horizontal wells which will include up to two step-out horizontals with logged vertical pilot holes. Bellamont recently drilled a vertical well which encountered a new pool to the west. This vertical well is expected to begin producing in the first quarter of 2012 and, this summer, a horizontal well with a logged vertical pilot hole is expected to be drilled offsetting the discovery well. Storm will continue to advance Bellamont's plans to initiate a waterflood in the pool which could materially increase oil recovery and reserves at minimal cost. New horizontal wells benefit from a 5% royalty rate under Alberta's New Well Royalty Rate program.

ACQUISITION OF STORM GAS RESOURCE CORP.

On November 11, 2011, Storm entered into a definitive arrangement agreement to acquire all of the outstanding shares of SGR, its partner in the HRB. On January 12, 2012, the transaction was completed with Storm issuing 1.33 common shares for each SGR common share not owned by Storm (Storm owned 2.5 million shares of SGR) which resulted in the issuance of 11.8 million Storm shares. The total value of the transaction was \$55.8 million using Storm's closing share price of \$3.70 per share on January 12, 2012.

The acquisition of SGR added approximately 360 Boe per day of production (100% natural gas) and 81,400 net acres of undeveloped land which includes 58,400 net acres in the HRB. Storm's undeveloped land holdings in the HRB now total 88,600 net acres at a 100% working interest.

InSite estimated DPIIP, contingent resources, and reserves for the Muskwa and Otter Park formations in SGR's HRB lands as of January 31, 2012. DPIIP was determined over 30 gross sections where both reserves and contingent resources were assigned and the best estimate was 3.1 Tcf gross raw gas. In terms of contingent resources, Storm acquired from SGR a best estimate of 393 Bcf net sales. Proved and probable reserves acquired from SGR totaled 41 Bcf net sales (6,831 Mboe) which includes \$74.2 million of associated future development capital to complete a standing horizontal gas well (0.6 net SGR:0.4 net Storm) and drill six horizontal gas wells (3.6 net SGR).

OPERATIONS REVIEW

Storm has a focused asset base with the majority of production coming from two large scale resource plays with multi-year drilling upside: liquids rich natural gas from the Montney formation at Umbach and shale gas from the Muskwa and Otter Park shales in the HRB.

Umbach, North East British Columbia

Storm's current land holdings at Umbach total 98 gross sections or 70 net sections at Umbach (53,800 net undeveloped acres), all of which are prospective for liquids rich natural gas from the Montney formation. Storm's lands are subdivided into a northern area, which consists of 60 gross sections at 53% working interest, and a southern area which consists of 38 gross sections at a 100% working interest. Production averaged 414 Boe per day in the fourth quarter while the operating netback was \$17.75 per Boe (17% condensate plus natural gas liquids).

In the fourth quarter, the third horizontal well (60% working interest) was completed with 11 fracture stimulations and began producing in November at an initial rate of approximately 2.0 Mmcf per day gross raw gas. A fourth horizontal well was drilled and cased 2.5 miles south of the first horizontal well and included a vertical pilot hole. Logs from the vertical pilot hole indicate 30 metres of net pay in the Montney formation which significantly expands the areal extent of the exploitable area.

Total production at Umbach from three horizontal wells (60% working interest) is currently 3.4 Mmcf per day gross raw gas (3.0 Mmcf per day gross sales gas plus 102 barrels per day gross condensate and natural gas liquids). Currently, production is processed at the McMahon Gas Plant with total condensate plus natural gas liquids production averaging 34 barrels per Mmcf of sales gas in the fourth quarter (62% condensate and pentane). In early

March, production will be re-directed to the Stoddart Gas Plant which will increase propane, butane, and pentane recovery resulting in condensate plus natural gas liquids production increasing to 40 to 50 barrels per Mmcf of sales gas (approximately 55% condensate and pentane).

Results to date from the first three horizontal wells have been very encouraging as evidenced by liquids recoveries and the rapid flattening of the decline after three to six months of production. After a year of production, the rate on the first horizontal well has stabilized at approximately 1.1 Mmcf per day gross raw gas or 1.0 Mmcf per day gross sales gas plus 34 barrels per day of condensate and natural gas liquids. Production history for each horizontal since inception is provided in the presentation on Storm's website www.stormresourcesltd.com. Different fracture treatments were conducted on each of the three producing horizontal wells in an attempt to improve productivity and reserves. Further optimization is planned in 2012 which will include varying the sand tonnage in fracture treatments, modifying the fluid system, and possibly lowering the wellbore so that the middle Montney is also accessed.

At the end of 2011, InSite's evaluation of the Montney formation on the northern lands results in the best case estimate of DPIIP to be 465 Bcf gross raw gas on 19.75 gross sections (average working interest 57%). DPIIP includes the producing area of 3.5 gross sections with proved plus probable reserves totalling 2,975 Mboe sales (19% condensate plus natural gas liquids) net to Storm and the area where contingent resources were assigned to 16.25 gross sections with the best estimate being 14,058 Mboe sales net to Storm (19% condensate plus natural gas liquids). Condensate plus natural gas liquids was estimated to be 40 barrels per Mmcf per day of gas sales. Based on existing vertical and horizontal well control in the northern area, more than 40 gross sections are likely to be productive in the Montney formation and Storm's 2012 activity will be focused on proving up the resource in this larger area.

Storm's activity in 2012 will be focused on increasing the size of the resource in the Montney formation by drilling step-out horizontal wells and optimizing completions to increase production rates and reserves. Activity will include:

- Drilling a vertical delineation well (100% working interest) in the southern area in the first quarter which will be re-entered and drilled horizontally in the third or fourth quarter if prospectivity of the Montney formation is confirmed by log analysis;
- Completing the fourth horizontal well (60% working interest) late in the second quarter; and
- Drilling and completing two to three additional horizontal wells (1.2 to 1.8 net) in the third and fourth quarters.

Horn River Basin, North East British Columbia

Storm's undeveloped land position in the HRB currently totals 135 gross sections at a 100% working interest (88,600 net acres) and is prospective for natural gas from the Muskwa, Otter Park, and Evie/Klua shales. During the fourth quarter, production from this area averaged 266 Boe per day at an operating netback of \$10.35 per Boe. On January 12, 2012, Storm completed the previously announced acquisition of SGR, its partner in the HRB, which added 360 Boe per day.

In the fourth quarter, completion operations on the second horizontal well (40% Storm, 60% SGR) began November 12 and were suspended November 29 following an unexpected operational problem. After the first fracture stimulation was pumped, the bridge plug required to isolate the first interval became stuck in the horizontal section while it was being moved into position. The bridge plug was retrieved; however, the delay resulted in the expiry of the window of availability for the fracturing crew.

Production performance of the first horizontal well (40% Storm, 60% SGR) with 12 fracture stimulations continues to exceed expectations with the current rate being approximately 3.9 Mmcf per day gross raw gas and cumulative production of 1.9 Bcf gross raw gas since production commenced on March 7, 2011. Compression has not yet been installed resulting in the flow rate being restricted. Productivity has been higher than expected and the decline rate has been relatively moderate which has resulted in performance to date exceeding the initial type curve which predicted recovery of 9 Bcf gross raw gas. InSite's amended type curve predicts ultimate production of 9.6 Bcf gross raw gas without field compression. 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. At current natural gas prices, Storm expects that no royalties will be paid on production from the first two horizontals in the next two to three years due to their qualification under British Columbia's Deep Royalty Credit and Infrastructure Royalty Credit Programs.

At the end of 2011, InSite's evaluation of the Muskwa and Otter Park shales resulted in the best estimate of DPIIP being 3.1 Tcf gross raw gas on 30 gross sections (Storm's working interest is 100% after the transaction with SGR closed). The producing area where proved plus probable reserves were assigned is 3.0 gross sections and the area where contingent resources were assigned is 27 gross sections.

Mica, North East British Columbia

The acquisition of the producing property at Mica closed December 1, 2011 and added 145 Boe per day of production (70% light oil and natural gas liquids, 30% natural gas). The purchase price, net of adjustments, was \$15.4 million and was financed with existing cash resources plus an expanded credit facility. Storm acquired a 100% working interest in seven producing oil wells. The field netback for the property is currently estimated to be \$49.00 per Boe with operating costs of \$14.30 per Boe and a royalty rate of 10%. The acquired asset contains an estimated 722 Mboe of proved plus probable reserves (70% light oil plus natural gas liquids) based on the year-end evaluation completed by InSite (reserve estimate is based on forecast decline from existing producing wells and does not include any upside from infill drilling or initiating a waterflood). Storm management estimates that DPIIP is approximately 7.0 million barrels of oil with recovery to date being 21% (average production of 210,000 barrels of oil from each producing well) and this could be improved to 35% to 40% by drilling six infill wells plus initiating a waterflood (future development capital internally estimated to be \$12.6 million). Near-term plans include initiating a waterflood in the first quarter and, in the second half of 2012, expanding the waterflood along with drilling up to two infill vertical wells.

INVESTMENTS

At the end of 2011, Storm had share ownership positions in one private company and two publicly traded companies. The value of the share positions in the two public companies totaled \$8.8 million at the end of the fourth quarter and these securities could possibly be sold in the future with the proceeds being used to finance the Company's capital programs.

Chinook Energy Inc. ("Chinook")

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

Bridge Energy ASA ("Bridge")

Storm holds 1.05 million common shares of Bridge (symbol 'Bridge' on the Oslo Stock Exchange), a Norwegian-based exploration and production company with production of approximately 1,400 Boe per day, several development opportunities in the UK sector of the North Sea, and a number of exploratory leads in the Norwegian sector of the North Sea.

Storm Gas Resource Corp. ("SGR")

At the end of 2011, Storm's share ownership position in SGR totaled 2.5 million shares, representing 22% ownership of SGR. On January 12, 2012, Storm completed the acquisition of SGR by issuing 11,761,190 common shares of Storm at a deemed issuance price of \$3.70 per Storm share in exchange for all of the issued and outstanding common shares of SGR that were not owned by Storm.

OUTLOOK

Based on field estimates, production in the first quarter to the end of February has averaged approximately 1,050 Boe per day with 18% liquids. Production is forecast to increase to 3,600 to 4,000 Boe per day (41% liquids) in the fourth quarter of 2012 after the transaction with Bellamont closes and including planned capital investment on operations of \$34.0 million. Capital investment includes \$27.0 million for drilling and completions and \$7.0 million for land, seismic and facilities. Drilling activity will include one vertical well (1.0 net) at Umbach, two horizontal wells (1.2 net) at Umbach, completing one standing horizontal well (0.6 net) at Umbach, five horizontal wells (5.0 net) at Grimshaw, and one to three horizontals or verticals (all 100% working interest) targeting light oil opportunities in the Grande Prairie or Mica area. In addition, \$5.0 million will be invested to initiate the waterflood at Mica, commence water disposal and injection at Grimshaw, and to modify two existing facilities in the Grande Prairie area. Further details regarding Storm's 2012 operating guidance is provided in the following table:

	Storm	Bellamont	Pro Forma Combined
Forecast daily production in Q2 2012 after deducting 5% for unplanned outages/failures:			
Natural gas (Mcf)	5,000	6,500	11,500
Crude oil and NGLs (Bbl)	200	1,040	1,240
Total Boe per day	1,035	2,125	3,160
Oil and liquids %	19%	49%	39%
Estimated field netback at \$2.40/GJ AECO, Cdn \$100/Bbl			
Edmonton Par ⁽¹⁾	\$23/Boe	\$28/Boe	\$26 - \$27/Boe
Undeveloped land – net acres	228,000	78,000	306,000
Indicated bank line			\$70.0 million
2012 average operating costs ⁽²⁾			\$10 to \$12 per Boe
2012 average royalty rate ⁽²⁾			12%
2012 operations capital			\$34.0 million
2012 cash G&A ⁽²⁾⁽³⁾			\$3.6 million
2012 exit or fourth quarter average production		3,600 to 4,000 Boe per day	(41% oil + NGLs)

(1) Using Storm and Bellamont 2011 average royalty rates, operating costs and deducted \$1.60 per Boe transportation costs.

(2) Assumes transaction with Bellamont closes prior to April 1, 2012.

(3) Excludes transaction costs associated with the SGR acquisition and Bellamont combination which are required to be expensed under IFRS.

After closing of the Bellamont transaction, Storm's near term objectives are to:

- Continue delineating and developing Bellamont's light oil Montney pool at Grimshaw by drilling five infill and step-out horizontals in the second half of 2012;
- Advance additional light oil opportunities on Bellamont's lands in the Grande Prairie area which will involve drilling one to three horizontal development wells (all 100% working interest);
- Initiate a waterflood at Mica;
- Implement operating cost reductions at Bellamont's properties which are expected to result in savings of more than \$2.0 million per year; and
- Further expand the liquids rich Montney gas resource at Umbach by completing the fourth horizontal well (0.6 net) on the northern lands, drilling and completing two to three additional horizontal wells (1.2 to 1.8 net) on the northern lands and drilling one vertical delineation well (1.0 net) on the southern lands.

The acquisition of the Mica light oil property in the fourth quarter of 2011, and the recently announced business combination with Bellamont, result from Storm's commitment to grow its business in an environment of low natural gas prices through commodity diversification which provides access to higher netback opportunities. In addition, both transactions add to Storm's opportunity base and provide additional financial capacity to support future growth. Storm retains significant leverage to improving natural gas prices through the large resource plays at Umbach and in the HRB where multi-year drilling upside has been identified. With results to date in Umbach and the HRB having met or exceeded expectations, we expect that the already significant resource we have identified to date on our lands will continue to expand with future activity. Success in converting only a portion of the best estimate of contingent resources at Umbach and in the HRB (116.8 Mmboe net sales including SGR) will result in significant future reserve growth.

Storm's efforts in 2012 will be primarily focused on growing liquids production in the Grande Prairie, Mica, and Grimshaw areas while also continuing to expand the identified liquids rich natural gas resource in the Montney formation at Umbach. Our disciplined approach to capital investment has resulted in significant growth for shareholders on a per-share basis since operations began at the 'first Storm' in November 1998. We will continue doing what has worked so well for us and are confident that it will carry us through the current low in the natural gas commodity price cycle.

In closing, I would like to thank the hard working and talented team of Storm employees for their efforts, our shareholders for their continued confidence and our Board of Directors for their invaluable advice and guidance.

Respectfully,



Brian Lavergne,
President and Chief Executive Officer

March 1, 2012

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

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

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

Forward-Looking Statements – Such statements made in this report are subject to the limitations set out in Storm’s Management’s Discussion and Analysis dated March 1, 2012 for the year ended December 31, 2011.

Reserves at December 31, 2011

Storm's year-end reserve and resource evaluations effective December 31, 2011 were prepared by InSite Petroleum Consultants Ltd. ("InSite") which was formerly Paddock Lindstrom & Associates Limited. InSite has evaluated all of Storm's crude oil, NGL and natural gas reserves. The InSite price forecast at December 31, 2011 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 reserves totaled 3,714 Mboe and proved plus probable reserves totaled 8,322 Mboe.
- The proved finding and development cost as per NI 51-101 requirements was \$20.32 per Boe and the proved plus probable finding and development cost, as per NI 51-101 requirements, was \$14.60 per Boe. This includes the change in future development costs ("FDC") and excludes the effect of acquisitions, divestitures, and revisions.
- The all-in cost to add proved reserves was \$20.87 per Boe and for proved plus probable reserves was \$15.39 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, dispositions, revisions, as well as the change in future development costs.
- The net present value of proved plus probable reserves, discounted at 10% before tax, amounted to \$54.5 million with the majority of this being attributed to the Umbach (50%) and Mica properties (30%). The InSite price forecast effective December 31, 2011 was used in the reserve evaluation.
- FDC was \$30.2 million on a proved basis and \$72.8 million on a proved plus probable basis.
- Drilling activity in 2011 resulted in the addition of 2,505 Mboe on a proved basis and 5,278 Mboe on a proved plus probable basis.
- In the HRB, proved plus probable reserves were 4,561 Mboe with 4,092 Mboe assigned to complete a standing horizontal shale gas well (0.4 net) and to drill six horizontal shale gas wells (2.4 net). Recoverable reserves assigned to each of the horizontal drilling locations was 9.6 to 10.4 Bcf of gross raw gas. Shrinkage of 12% was used to determine sales gas volumes. Proved plus probable FDC was \$123.8 million gross (\$49.5 million net) which includes \$14.8 million gross, or \$5.9 million net, being invested in associated infrastructure. In general, undrilled horizontal development wells are recognized as part of proved plus probable reserves if there is sufficient horizontal plus vertical well control and if they are likely to be drilled within three years.
- At Umbach, proved plus probable reserves were 2,975 Mboe with 2,336 Mboe assigned to complete a standing horizontal well (0.6 net) and to drill seven horizontal wells (4.2 net). Recoverable reserves assigned to each of the horizontal drilling locations was 2.6 Bcf of gross raw gas. Shrinkage of 11% was used as well as total liquids recovery of 40 barrels per Mmcf of sales gas. Proved plus probable FDC was \$38.8 million gross (\$23.3 million net). In general, undrilled horizontal development wells are recognized as part of proved plus probable reserves if there is sufficient horizontal plus vertical well control and if they are likely to be drilled within three years.
- At Mica, proved plus probable reserves totaled 722 Mboe (70% light oil plus natural gas liquids) and is based on forecast decline from existing producing wells; no reserves were included for infill drilling or initiating a waterflood.
- Based on an update completed by InSite effective January 31, 2012, the acquisition of SGR added 2,645 Mboe proved reserves and 6,831 Mboe proved plus probable reserves. Proved plus probable FDC was \$74.2 million net to SGR. Note that the acquisition of SGR closed on January 12, 2012.

- The resource opportunity on Storm's land base is significant. The best case estimate of DPIIP at Umbach in the liquids rich Montney formation is 465 Bcf gross raw gas over an area of 19.75 gross sections (13,762 gross acres, average Storm working interest of 57%). The evaluated area covers less than 20% of Storm's land position in the area. The best case estimate of DPIIP in the HRB is 3.1 Tcf gross raw gas over an area of 30 gross sections (19,463 gross acres) with Storm's average working interest being 100% (after closing the acquisition of SGR on January 12, 2012). The evaluated area covers less than 22% of Storm's land position in the area.
- Future reserve growth will come from converting contingent resources to proved plus probable reserves. The total best estimate of contingent resources is 116,800 Mboe net sales with 14,058 Mboe at Umbach and 102,752 Mboe in the HRB (223 Bcf net sales to Storm plus 393 Bcf net sales to SGR).

Gross Company Interest Reserves as at December 31, 2011 (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	476	5,893	110	1,568
Proved non-producing	-	-	-	-
Total proved developed	476	5,893	110	1,568
Proved undeveloped	-	12,038	140	2,146
Total proved	476	17,931	250	3,714
Probable additional	79	25,208	328	4,608
Total proved plus probable	555	43,139	578	8,322

Gross Company Reserve Reconciliation for 2011 (Gross company interest reserves before deduction of royalties payable)

	6:1 Oil Equivalent (Mboe)		
	Total Proved	Probable	Proved plus Probable
December 31, 2010 - opening balance	738	1,774	2,512
Acquisitions	634	92	726
Discoveries	-	-	-
Extensions	2,505	2,773	5,278
Dispositions	-	-	-
Technical revisions	35	(31)	4
Production	(198)	-	(198)
December 31, 2011 – closing balance	3,714	4,608	8,322

Future Development Costs

Proved		
HRB	1.2 net horizontals plus infrastructure	\$ 21.3 million
Umbach	1.8 net horizontals	\$ 8.9 million
Total		\$ 30.2 million
Proved Plus Probable Additional		
HRB	2.8 net horizontals plus infrastructure	\$ 49.5 million
Umbach	4.8 net horizontals	\$ 23.3 million
Total		\$ 72.8 million

	Proved Expenditures	Proved Plus Probable Additional Expenditures
2012	\$ 5.9 million	\$ 12.9 million
2013	\$ 16.0 million	\$ 29.2 million
2014	\$ 7.4 million	\$ 8.9 million
2015	\$ 0.8 million	\$ 16.4 million
2016	-	\$ 5.5 million

NI 51-101 Finding and Development Costs

	2011	2010
Total Proved Finding and Development Cost		
Capital expenditures excluding acquisitions and dispositions (000s)	\$ 25,360	\$ 16,800
Net change in FDC (000s)	25,541	4,679
Total capital including the net change in future capital (000s)	\$ 50,901	\$ 21,479
Reserve additions excluding acquisitions, dispositions and revisions (Mboe)	2,505	738
Total proved finding and development costs (per Boe)	\$ 20.32	\$ 29.10

	2011	2010
Total Proved Plus Probable Finding and Development Cost		
Capital expenditures excluding acquisitions and dispositions (000s)	\$ 25,360	\$ 16,800
Net change in FDC (000s)	51,725	21,057
Total capital including the net change in future capital (000s)	\$ 77,085	\$ 37,857
Reserve additions excluding acquisitions, dispositions and revisions (Mboe)	5,278	2,512
Total proved plus probable finding and development costs (per Boe)	\$ 14.60	\$ 15.07

All-In Finding, Development and Acquisition Costs

	2011	2010
Total Proved All-In Finding, Development and Acquisition Cost including FDC, Acquisitions, Dispositions, Revisions		
Capital expenditures including acquisitions and dispositions (000s)	\$ 40,795	\$ 16,800
Net change in FDC (000s)	25,541	4,679
Total capital including the net change in future capital (000s)	\$ 66,336	\$ 21,479
Reserve additions including acquisitions, dispositions and revisions (Mboe)	3,178	738
All-in total proved finding and development costs (per Boe)	\$ 20.87	\$ 29.10

	2011	2010
Total Proved Plus Probable All-In Finding, Development and Acquisition Cost including FDC, Acquisitions, Dispositions, Revisions		
Capital expenditures including acquisitions and dispositions (000s)	\$ 40,795	\$ 16,800
Net change in FDC (000s)	51,725	21,057
Total capital including the net change in future capital (000s)	\$ 92,520	\$ 37,857
Reserve additions including acquisitions, dispositions and revisions (Mboe)	6,012	2,512
All-In total proved plus probable finding and development costs (per Boe)	\$ 15.39	\$ 15.07

Net Present Value Summary (before tax) as at December 31, 2011

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	\$ 52,462	\$ 37,803	\$ 29,777	\$ 24,746	\$ 21,304
Proved non-producing	-	-	-	-	-
Total proved developed	\$ 52,462	\$ 37,803	\$ 29,777	\$ 24,746	\$ 21,304
Proved undeveloped	20,114	8,967	2,575	(1,282)	(3,694)
Total proved	\$ 72,576	\$ 46,770	\$ 32,352	\$ 23,464	\$ 17,609
Probable additional	82,519	41,976	22,153	11,392	5,113
Total proved plus probable	\$ 155,095	\$ 88,747	\$ 54,505	\$ 34,856	\$ 22,722

Numbers in this table may not add due to rounding.

Net Present Value Summary (after tax) as at December 31, 2011

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	\$ 52,462	\$ 37,803	\$ 29,777	\$ 24,746	\$ 21,303
Proved non-producing	-	-	-	-	-
Total proved developed	\$ 52,462	\$ 37,803	\$ 29,777	\$ 24,746	\$ 21,303
Proved undeveloped	20,114	8,967	2,575	(1,282)	(3,694)
Total proved	\$ 72,576	\$ 46,770	\$ 32,352	\$ 23,464	\$ 17,609
Probable additional	62,590	32,123	16,849	8,353	3,285
Total proved plus probable	\$ 135,166	\$ 78,893	\$ 49,201	\$ 31,817	\$ 20,894

InSite Escalating Price Forecast as at December 31, 2011

	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)
2012	100.00	98.00	3.90	3.45	58.80	73.50
2013	101.00	99.00	4.50	4.04	59.40	74.25
2014	102.00	99.96	5.00	4.53	59.98	74.97
2015	103.00	100.92	5.50	5.02	60.55	75.69
2016	104.00	101.88	6.00	5.51	61.13	76.41

InSite Summary of DPIIP and Contingent Resources for the Horn River Basin Effective December 31, 2011

Independent evaluator, InSite, completed an evaluation of Storm's DPIIP and contingent resources for the Muskwa and Otter Park formations. The evaluated area covers 30 gross sections, or 19,463 gross acres. The InSite evaluation was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook. The contingencies that prevent the contingent resources from being classified as reserves are associated with the early evaluation stage of these potential development opportunities. Additional drilling, completion and testing data is generally required before a commitment can be made to their development. There is no certainty that it will be commercially viable to produce any of the resources. The key findings of the evaluation are as follows:

	Low Estimate ⁽¹⁾	Best Estimate ⁽¹⁾	High Estimate ⁽¹⁾
Muskwa and Otter Park			
Average gross thickness	92 metres	92 metres	92 metres
Average porosity	3.5%	4.25%	5.0%
Gross DPIIP within evaluation area (gross raw Bcf) ⁽²⁾	2,836	3,117	3,398
DPIIP net to Storm's working interest (net raw Bcf) ⁽²⁾	1,039	1,141	1,244
Proved plus probable reserves net to Storm's working interest (net sales Bcf) ⁽³⁾⁽⁴⁾	27	27	27
Estimated economic contingent resources net to Storm's working interest (net sales Bcf) ⁽³⁾⁽⁴⁾⁽⁵⁾	161	223	295

Notes:

- (1) Numbers in this table are subject to rounding error.
(2) DPIIP has been estimated using the gross shale thickness, gas saturation of 78 percent, gas formation volume factor of 205 scf per ft³, gas Z of 0.98, reservoir temperature of 265 F, average reservoir pressure of 4,142 psig and adsorbed gas content of 69 scf per ton.
(3) Contingent resources do not include proved plus probable reserves that were assigned by InSite in the 2011 year-end reserve evaluation.
(4) Gas shrinkage of 12 percent is included in determining proved plus probable reserves plus contingent resources.
(5) Storm's net working interest proved plus probable reserves and contingent resources are before deducting royalties payable.

Proved plus probable reserves assigned in the 2011 year-end reserve evaluation were 27 Bcf sales gas net to Storm and were excluded from estimated contingent resources. The low estimate of contingent resources was 161 Bcf sales net to Storm. The low estimate is the most conservative estimate and carries the greatest level of confidence (at least 90 percent) that the resource will be recovered. The best estimate (50 percent confidence) of contingent resources was 223 Bcf sales net to Storm. The high estimate (less than 10 percent confidence) of contingent resources is 295 Bcf sales net to Storm. The remainder of the DPIIP beyond what has been cumulatively produced, classified as proved plus probable reserves, or classified as contingent resource, is currently considered to be the unrecoverable portion.

InSite Summary of DPIIP and Contingent Resources for the Umbach Area Effective December 31, 2011

InSite completed an evaluation of DPIIP and contingent resources for the Montney formation on the northern land block. The evaluated area was 19.75 gross sections (13,762 gross acres) with Storm's average working interest being 57%. The InSite evaluation was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook. The contingencies that prevent the contingent resources from being classified as reserves are associated with the early evaluation stage of these potential development opportunities. Additional drilling, completion, and testing data is generally required before a commitment can be made to their development. There is no certainty that it will be commercially viable to produce any of the resources. The key findings of the evaluation are as follows:

	Low Estimate ⁽¹⁾	Best Estimate ⁽¹⁾	High Estimate ⁽¹⁾
Montney			
Average net pay	26 metres	26 metres	26 metres
Average porosity	7%	7%	7%
Gross DPIIP within evaluation area (gross raw Bcf) ⁽²⁾	465	465	465
DPIIP net to Storm's working interest (net raw Bcf) ⁽²⁾	266	266	266
Proved plus probable reserves net to Storm's working interest (net sales Mboe) ⁽³⁾⁽⁴⁾	2,975	2,975	2,975
Estimated economic contingent resources net to Storm's working interest (net sales) ⁽³⁾⁽⁴⁾⁽⁵⁾			
Natural gas	58 Bcf	68 Bcf	78 Bcf
Natural gas liquids	2,309 Mbbls	2,694 Mbbls	3,078 Mbbls
Mboe	12,050 Mboe	14,059 Mboe	16,067 Mboe

Notes:

- (1) Numbers in this table are subject to rounding error.
(2) DPIIP has been estimated using a net pay cut-off of 20 metres, gas saturation of 80 percent, gas formation volume factor of 161 scf per ft³, gas Z of 0.8, reservoir temperature of 149 F and average reservoir pressure of 2,220 psia.

- (3) Contingent resources do not include proved plus probable reserves that were assigned by InSite in the 2011 year-end reserve evaluation.
- (4) Gas shrinkage of 11 percent and 40 barrels of natural gas liquids per Mmcf sales gas was used in determining proved plus probable reserves and contingent resources.
- (5) Storm's net working interest proved plus probable reserves and contingent resources are before deducting royalties payable.

Proved plus probable reserves assigned in the 2011 year-end reserve evaluation were 2,975 Mboe sales net to Storm and were excluded from estimated contingent resources. The low estimate of contingent resources was 12,050 Mboe sales net to Storm. The low estimate is the most conservative estimate and carries the greatest level of confidence (at least 90 percent) that the resource will be recovered. The best estimate (50 percent confidence) of contingent resources was 14,059 Mboe sales net to Storm. The high estimate (less than 10 percent confidence) of contingent resources is 16,067 Mboe sales net to Storm. The remainder of the DPIIP beyond what has been cumulatively produced, classified as proved plus probable reserves, or classified as contingent resource, is currently considered to be the unrecoverable portion.

RESERVES AND CONTINGENT RESOURCES ADDED AS A RESULT OF THE ACQUISITION OF SGR, AS AT JANUARY 31, 2012

InSite evaluated the reserves and resources added as a result of the acquisition of SGR, which closed on January 12, 2012. Note that the effective date of this evaluation was January 31, 2012.

Gross SGR Interest Reserves as at January 31, 2012 (Before deduction of royalties payable)

	Light Crude Oil (Mbbls)	Sales Gas (Mmcf)	NGL (Mbbls)	6:1 Oil Equivalent (Mboe)
Proved producing	-	3,121	-	520
Proved non-producing	-	-	-	-
Total proved developed	-	3,121	-	520
Proved undeveloped	-	12,746	-	2,124
Total proved	-	15,868	-	2,645
Probable additional	-	25,116	-	4,186
Total proved plus probable	-	40,984	-	6,831

Numbers in this table may not add due to rounding.

Future Development Costs Net to SGR

Proved		
HRB	1.8 net horizontals plus infrastructure	\$ 31.9 million
Total		\$ 31.9 million

Proved Plus Probable Additional		
HRB	4.2 net horizontals plus infrastructure	\$ 74.2 million
Total		\$ 74.2 million

	Proved Expenditures	Proved Plus Probable Additional Expenditures
2012	-	\$ 7.1 million
2013	\$ 19.5 million	\$ 21.0 million
2014	\$ 11.1 million	\$ 13.3 million
2015	\$ 1.2 million	\$ 24.6 million
2016	-	\$ 8.2 million

**InSite Summary of SGR's DPIIP and Contingent Resources for the Horn River Basin
Effective January 31, 2012**

	Low Estimate ⁽¹⁾	Best Estimate ⁽¹⁾	High Estimate ⁽¹⁾
Gross DPIIP within evaluation area (gross raw Bcf)	2,836	3,117	3,398
DPIIP net to SGR's working interest (net raw Bcf)	1,797	1,976	2,154
Proved plus probable reserves net to SGR's working interest (net sales Bcf)	41	41	41
Estimated economic contingent resources net to SGR's working interest (net sales Bcf) ⁽²⁾⁽³⁾	283	393	519

Notes:

- (1) Numbers in this table are subject to rounding error.
- (2) DPIIP has been estimated using the gross shale thickness, gas saturation of 78 percent, gas formation volume factor of 205 scf per ft³, gas Z of 0.98, reservoir temperature of 265 F, average reservoir pressure of 4,142 psig and adsorbed gas content of 69 scf per ton.
- (3) Contingent resources do not include proved plus probable reserves that were assigned by InSite in the 2011 year-end reserve evaluation.
- (4) Gas shrinkage of 12 percent is included in determining proved plus probable reserves plus contingent resources.
- (5) SGR's net working interest proved plus probable reserves and contingent resources are before deducting royalties payable.

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, 2011. It should be read in conjunction with (i) the Company's audited financial statements for the year ended December 31, 2011, (ii) the Company's unaudited condensed interim financial statements for the three months ended March, June and September, 2011, (iii) the press release issued by the Company on March 1, 2012, and other operating and financial information included in this report. All of these documents are filed on SEDAR (www.sedar.com) and appear on the Company's website (www.stormresourcesltd.com). In addition, 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"), ARC Energy Trust ("ARC") and ARC Resources Ltd. The Arrangement resulted in the sale of SEO to ARC and the spin out of the Company as a junior exploration and development company. As part of the series of transactions associated with the Arrangement, the Company issued shares in exchange for certain assets formerly owned by SEO, as more fully described in Note 4 to the audited financial statements for the period from June 8, 2010 to December 31, 2010. The Company trades on the TSX Venture Exchange under the symbol "SRX".

Subsequent to year-end 2011, the Company completed or entered into two separate corporate transactions, details of which are discussed on pages 18 and 19 of this MD&A.

This MD&A is dated March 1, 2012.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's audited and unaudited financial statements for the three months and year ended December 31, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS compliant accounting policies adopted by the Company are referred to in Note 3 to the audited financial statements for the year ended December 31, 2011. The reporting and the measurement currency is the Canadian dollar.

Unless otherwise indicated, tabular financial amounts, other than per-share amounts, are in thousands.

Comparative Information – As described above, the Company was incorporated on June 8, 2010, and was inactive until its participation in the Arrangement on August 17, 2010. Comparative information for 2010 is for the approximate twenty-week period from commencement of operations to December 31, 2010.

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;
- future revenues or costs (including royalties) or revenues or costs per commodity unit;
- future capital expenditures and their allocation to specific exploration and development activities or periods;
- future drilling;

- future earnings;
- future non-GAAP funds from operations and future cash flows;
- future asset acquisitions or dispositions;
- future intentions with respect to investments and investment in affiliate;
- future sources of funding for capital programs;
- future decommissioning costs;
- allocation of fair values of assets and liabilities of acquired corporations;
- estimates of costs associated with acquisitions;
- development plans;
- ultimate recoverability of reserves or resources;
- expected finding and development costs, operating costs and general and administrative costs;
- expected share-based compensation charges;
- estimates on a per-share basis;
- dates or time periods by which certain geographical areas will be developed; and
- changes to any of the foregoing.

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

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include the material risks described in this MD&A under “Critical Accounting Estimates” and the material assumptions described under the headings “Acquisitions in 2012”; “Overview”; “Royalties”; “Production Costs”; “Share-Based Compensation”; “Depletion and Depreciation”; “Accretion”; “Income Taxes”; “Other Comprehensive Loss”; “Financial Resources and Liquidity”; “Investments”; “Investment in Associate”; “Accounts Payable and Accrued Liabilities”; “Decommissioning Liability”; “Shareholders’ Equity”; industry conditions including commodity prices, capacity constraints and access to market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. 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, there may be references made to terms which are not recognized under Generally Accepted Accounting Principles (“GAAP”). Specifically, “funds from operations”, “funds from operations per share”, “netbacks”, measurements “per BOE”, and “net funds available for investment” do not have any standardized meaning as prescribed by GAAP and are regarded as non-GAAP measures. It is likely that these non-GAAP measurements may not be comparable to the calculation of similar amounts for other entities. In particular, funds from operations is not intended to represent, or be equivalent to, cash flow from operating activities calculated in accordance with GAAP which appears on the Company’s statement of cash flows. Funds from operations and similar non-GAAP terms are used to benchmark operations against prior periods and peer group companies and are widely used by investors and also by lenders to measure compliance with debt covenants and interest costs. Reference is made to the discussion in this MD&A under “Non-GAAP Funds from Operations and Funds from Operations per Share” and to “Cash Flows from Operating Activities”. The Company may use the term “net funds available for investment” which comprises cash and accounts receivable less accounts payable. This amount represents funds available to the Company, either immediately or in the short term, to support capital programs.

ACQUISITIONS IN 2012

The Company entered into two acquisition agreements both of which were completed or are expected to be completed in the first quarter of 2012.

Acquisition of Storm Gas Resource Corp.

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

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

<u>Assets Acquired and Liabilities Assumed (000's)</u>	
Working capital	\$ 2,956
Exploration and evaluation assets	29,916
Property and equipment	23,503
Decommissioning obligation	(556)
<u>Net assets acquired</u>	<u>\$ 55,819</u>
<u>Consideration (000's)</u>	
Shares issued	\$ 43,516
Carrying amount of existing 22% ownership	12,303
<u>Total consideration</u>	<u>\$ 55,819</u>

- (i) Working capital excludes an amount of \$53,000 payable to SGR by the Company.
- (ii) Common shares issued by the Company on closing to former SGR shareholders totaled 11,761,190. The closing price for the Company’s shares on the date of acquisition was \$3.70.
- (iii) The above amounts do not include transaction costs, primarily legal and accounting fees, estimated to be \$360,000, which will be expensed in 2012.
- (iv) The above amounts are subject to adjustment as final amounts are determined.
- (v) The Company will cease to receive reimbursement of engineering and administrative costs from SGR which totaled \$250,000 for the year ended December 31, 2011.

The acquisition of SGR results in an increase in the working interest in the Company’s lands in the Horn River Basin from 40% to 100%. The Company also assumes operatorship of the project. Storm’s production also increased by

approximately 360 Boe per day, all natural gas. The acquisition enables the Company to control the operations, financing, cost and structure of development of the massive Horn River Basin resource.

Proposed Acquisition of Bellamont Exploration Ltd.

On January 20, 2012 Storm announced that the Company and Bellamont Exploration Ltd. ("BMX") a junior oil and gas exploration and production company listed on the TSX Venture Exchange, had entered into an arrangement agreement (the "Agreement") under which the two companies will combine with the continuing entity being Storm. The combination will be effected under a plan of arrangement and is subject to court approval and the approval of BMX shareholders, anticipated to occur on or about March 23, 2012.

Under the Agreement shareholders of BMX will receive, at their election, for each BMX common share: (i) cash of \$0.56; (ii) 0.1445 common share of the Company; or (iii) a combination of cash and common shares. The maximum cash payable under the arrangement is \$20 million.

Preliminary estimates of the fair values of assets acquired, liabilities assumed and the consideration to be paid are as follows:

Assets Acquired and Liabilities Assumed (000's)	
Exploration and evaluation assets	\$ 9,432
Property and equipment	108,471
Working capital deficiency, including bank debt	(38,054)
Decommissioning liability	(9,611)
Net assets acquired	\$ 70,238
Consideration (000's)	
Cash to be paid to BMX shareholders	\$ 20,000
Carrying amount of shares issued	50,238
Total consideration	\$ 70,238

- (i) BMX shareholders can elect to receive cash on the basis of \$0.56 for each BMX share held, to a maximum amount of \$20 million. It is assumed that BMX shareholders will elect for the maximum cash amount.
- (ii) A total number of 151.6 million BMX common shares are assumed to be outstanding at the time of closing of the combination. Based on an exchange ratio of 0.1445 Storm common share for each BMX common share not acquired for cash, a total of 16.7 million Storm common shares are expected to be issued to former BMX shareholders. Based on Storm share price of \$3.00, which is the closing price on the day preceding the date of this MD&A, the carrying amount of Storm shares to be issued to BMX shareholders is \$50.2 million. The final carrying amount of Storm shares to be issued will be based on the closing price on the day the plan of arrangement closes.
- (iii) The above amounts do not include transaction costs, primarily legal and accounting fees, estimated to be \$400,000, which will be expensed in 2012.
- (iv) The above amounts are subject to adjustment as final amounts are determined.

It is anticipated that on closing BMX will bring to Storm approximately 2,250 Boe per day of additional production, of which 48% is made up of high netback crude oil and natural gas liquids.

Commodity diversification and increased netbacks and cash flow will provide the Company with a more stable platform to expand its investment program and to pursue growth opportunities. In addition, BMX has an attractive inventory of development prospects, most related to light crude oil or high liquids content natural gas, which can be more aggressively pursued using the increased financial resources of the combined entities.

OPERATIONAL AND FINANCIAL RESULTS

Overview

In 2011 the Company reported production from three areas, natural gas from the Horn River Basin and natural gas with natural gas liquids from Umbach, both in north east British Columbia, and crude oil from Red Earth in north central Alberta.

Storm's first horizontal well in the Horn River Basin was tied in early in March 2011 with production from the Muskwa and Otter Park formations amounting to 4,600 Mcf gross raw gas per day for 2011, or 1,600 Mcf per day sales gas net to Storm's interest (266 Boe per day net to Storm). The Company's working interest is 40% and the Company's partner and operator of the well was its 22% owned associate, SGR, which became a wholly owned subsidiary in January 2012. Current gas production is approximately 3,900 Mcf gross raw gas per day, or 3,430 Mcf per day sales gas, or 570 Boe per day.

Also in early March 2011 at Umbach, the Company, as operator with a 60% working interest, began production from a horizontal well drilled into the Montney formation. Production from this well in 2011 averaged 1,370 Mcf gross raw gas per day, or 724 Mcf per day sales net to Storm's working interest, plus associated condensate and natural gas liquids of 24 Bbls per day (145 Boe per day net to Storm). Current production is approximately 1,100 Mcf gross raw gas per day, or 590 Mcf per day sales net to Storm, plus associated condensate and NGL production of 19 Bbls per day (120 Boe per day net to Storm). Two additional horizontal wells were tied in during the final quarter of 2011. The first of these wells produced 250 Boe per day in 2011 (net to the Company), including 42 barrels of condensate and NGLs. The second well produced 137 Boe per day in 2011 including 23 barrels of condensate and NGLs. In aggregate, the three Umbach wells currently produce 365 Boe per day net to Storm, including 62 barrels of liquids.

In late January 2011 production began from two non-operated 20% working interest horizontal oil wells at Red Earth, with both wells currently producing approximately 60 barrels of light sweet crude per day net to the Company's interest. Red Earth is not regarded as a core property to Storm; however, the Company will remain active in the area as long as there is a near-term opportunity to add high netback production.

Effective December 1, 2011, the Company acquired a largely light sweet crude oil property in the Mica area of north east British Columbia. Production amounts to 145 Boe per day with an annual decline rate of 5%. Future drilling and a waterflood application could potentially increase production to 450 Boe per day. The acquisition is consistent with the Company's intention to invest in projects that offer higher netback potential, either crude oil or natural gas with an associated high-value natural gas liquids stream.

Production and Revenue

In north east British Columbia the Company has two producing natural gas areas, one producing dry gas and the other producing gas and associated liquids. Production in Alberta is light oil with an average API of 37 degrees.

Average Daily Production

	Three Months Ended December 31, 2011	Year Ended December 31, 2011
Natural gas (Mcf/d)	3,763	2,641
Natural gas liquids (Bbls/d)	72	32
Crude oil (Bbls/d)	80	69
Total (Boe/d)	779	542

Daily production per million shares outstanding averaged 21 Boe per day for the year and 30 Boe per day for the final quarter. NGL plus crude oil comprised 20% of total production in the fourth quarter.

There was no production in 2010.

Production Profile and Per-Unit Prices

	Three Months Ended December 31, 2011		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
Natural gas - Mcf	80%	\$ 3.35	81%	\$ 3.53
Natural gas liquids - Bbl	10%	89.95	6%	87.36
Crude oil - Bbl	10%	100.05	13%	97.39
Per Boe	100%	\$ 34.78	100%	\$ 34.86

All of the Company's natural gas is produced in British Columbia and is sold at a price based on the Station 2 reference point in British Columbia. Storm's realized price for the year was \$3.53 per Mcf. The Station 2 price for the year averaged \$3.15 per GJ, compared to \$3.43 per GJ for the equivalent AECO price. For the final quarter of 2011, the Station 2 price averaged \$2.84 per GJ, compared to \$3.01 per GJ for the equivalent AECO price. Storm's crude oil sales price in 2011 was \$1.95 per barrel above the Edmonton Par reference price for light sweet crude oil which averaged \$95.44 per barrel for the year. Storm's NGL sales price in the fourth quarter was \$8.08 per barrel less than the Edmonton Par reference price. The discount on the NGL price is relatively low as condensate and pentanes represent 62% of the NGL mix.

Production by Area – Boe/d

	Three Months Ended December 31, 2011	Year Ended December 31, 2011
Horn River Basin – BC	266	258
Umbach – BC	414	210
Mica - BC	49	12
Red Earth – AB	50	62
Total	779	542

Production from the Company's Mica light oil acquisition was recognized effective December 1, 2011.

Revenue from Product Sales

(000's)	Three Months Ended December 31, 2011	Year Ended December 31, 2011
Natural gas	\$ 1,160	\$ 3,404
Natural gas liquids	594	1,020
Crude oil	739	2,468
Total	\$ 2,493	\$ 6,892

There was no revenue from product sales or related charges such as royalties, production costs or transportation costs for the period to December 31, 2010.

Royalties

	Three Months Ended December 31, 2011	Year Ended December 31, 2011
Charge for period	\$ 231	\$ 407
Percentage of production revenue	9.3%	5.9%
Per Boe	\$ 3.22	\$ 2.06

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

In British Columbia, natural gas wells spudded before July 1, 2010 and brought into production by December 31, 2010 are subject to a 2% royalty rate on sales of natural gas for the first 12 months of production. Storm's first

horizontal well at Umbach qualified for this program; however, subsequent horizontal wells did not, since the program applies to pre-2011 wells, as evidenced by the increased royalty burden in the final quarter of 2011. In addition, the Company benefits from British Columbia's deep well royalty credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on production from the well. This program is applicable to the Company's producing well in the Horn River Basin and the Company expects that future royalties will be reduced by an amount of \$1.1 million.

In Alberta, production from new horizontal oil wells is subject to a 5% royalty rate for the first 30 months of production, subject to a maximum volume of 70,000 Bbls of crude oil. Storm's two producing wells at Red Earth benefit from this program. The preferential royalty rate is expected to expire in August 2013.

Production Costs

(000's)	Three Months Ended December 31, 2011	Year Ended December 31, 2011
Charge for period	\$ 644	\$ 1,598
Percentage of production revenue	25.8%	23.2%
Per Boe	\$ 8.98	\$ 8.09

Production costs per barrel of crude oil averaged \$12.08 for 2011 and production costs per Mcf of natural gas averaged \$1.34, with total production costs averaging \$8.09 per Boe. The equivalent charges for the final quarter were \$12.08 for crude oil and \$1.60 per Mcf with total production costs averaging \$8.98 per Boe. Production costs for natural gas include third party charges for raw gas gathering and processing in British Columbia. Production costs of natural gas liquids are included with natural gas costs.

The increase in production costs for the final quarter of 2011 was a consequence of increased volumes from the Company's Umbach property which has higher per-Boe production costs than Horn River Basin production. Further, the Company expects to see production costs increase in succeeding quarters consequent on the introduction of a full quarter's production from the Mica properties. Mica is the highest netback property of the Company; it also has the highest per-Boe production costs.

Transportation Costs

	Three Months Ended December 31, 2011	Year Ended December 31, 2011
Charge for period	\$ 134	\$ 376
Percentage of production revenue	5.4%	5.5%
Per Boe	\$ 1.87	\$ 1.90

Transportation costs largely comprise pipeline tariffs from the processing facility to the sales point for natural gas shipped in British Columbia and similarly for crude oil in Alberta. Transportation costs for 2011 were higher than anticipated due to fire related disruptions of crude oil transportation arrangements in the earlier part of the year at Red Earth, resulting in a pipeline closure and the temporary use of higher cost trucking for oil shipment.

Field Netbacks

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

	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 costs	(12.08)	-	(1.34)	(8.09)
Transportation	(7.95)	(3.36)	(0.14)	(1.90)
Field netback	\$ 72.21	\$ 68.06	\$ 1.96	\$ 22.81

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

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

Increased high netback NGL production from Umbach in the final quarter of the year was not sufficient to offset the continuous decline in natural gas prices throughout the year, with the consequence that the final quarter corporate netback was below the average netback for the year.

Interest

Although the Company financed a minor property acquisition using bank debt, the acquisition date was sufficiently close to the end of 2011 that fees and interest paid in 2011 are immaterial and have been netted against interest income.

General and Administrative Costs

Total Costs	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Charge for period – before recoveries	\$ 832	\$ 863	\$ 3,000	\$ 1,146
Overhead recoveries	(175)	(65)	(360)	(81)
Charge for period – net of recoveries	\$ 657	\$ 798	\$ 2,640	\$ 1,065

Compensation costs were consistent for each of the periods above, accounting for approximately 60% of the gross charge with office accommodation costs accounting for an additional 18% and public company costs accounting for 16%.

Share-Based Compensation

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Charge for period	\$ 148	\$ 275	\$ 988	\$ 401

Share-based compensation is a non-cash charge which reflects the estimated value of stock options issued to Storm's directors, officers and employees. The value of the award is recognized as an expense over the expected life of the award. In August 2010, options in respect of approximately two million shares were issued with an exercise price of \$3.28. This grant of options formed part of the initial compensation program put in place for directors, officers and staff of the newly established business. An additional 40,000 options were issued to a new employee in the first quarter of 2011 and 36,000 were forfeited later in 2011.

Depletion and Depreciation

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Depletion	\$ 1,016	\$ -	\$ 3,165	\$ -
Depreciation	99	5	262	7
Charge for period	\$ 1,115	\$ 5	\$ 3,427	\$ 7
Per Boe	\$ 15.55	\$ -	\$ 17.74	\$ -

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

The charge for depreciation for the period relates to tangible equipment costs, and office equipment, included with property and equipment costs. Such costs are depreciated over the useful life of the asset. The depreciation charge for the period to December 31, 2010 related to office equipment only.

The reduction in the per-Boe depletion and depreciation charge for the final quarter of the year is attributable to increased production from the Company's asset base in the final quarter of the year as well as growth in year-end reserves.

Accretion

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Charge for period	\$ 16	\$ 10	\$ 52	\$ 15

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

Gain on Sale of Investments

The Company's investment positions in Chinook Energy Inc. and Bridge Energy ASA did not change in the year ended December 31, 2011. In the first half of 2011 the Company sold its interest of 5.1 million shares of BMX for proceeds of \$3.1 million. A gain of \$0.5 million was realized.

The investment in BMX sold in 2011 related to a prior property disposition to BMX, the consideration for which partially comprised common shares of BMX. This transaction is unrelated to the subsequent offer by the Company to acquire BMX.

Change in Equity of Associate

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Equity loss for period	\$ 159	\$ 89	\$ 505	\$ 114

As described in Note 5 to the audited financial statements for the year ended December 31, 2011, the Company accounted for its 22% ownership position in an associated company, SGR, using the equity method, where the Company's pro rata share of changes in SGR's equity is included in the determination of the Company's net loss for the period. The investment loss recorded represents Storm's share of changes in SGR's equity for the three months and year ended December 31, 2011. Summarized financial information regarding SGR is also provided in Note 5 to the Company's audited financial statements for year ended December 31, 2011. Subsequent to December 31, 2011, the Company acquired the remaining 78% of SGR's equity. SGR is now a wholly owned subsidiary of the Company.

The price per share paid by the Company to acquire the remaining equity of SGR was less than the carrying amount per share of the Company's investment in SGR. As a result, the carrying amount of the Company's investment in SGR has been reduced by \$1.0 million at December 31, 2011 to correspond to the price paid to acquire SGR in January 2012.

Income Taxes

Due to uncertainty of realization, no deferred income tax asset has been set up in respect of potential future income tax reductions resulting from the use of accumulated tax losses for the period. Details of Storm's tax pools are as follows:

Tax Pool	As at December 31, 2011	Maximum Annual Deduction
Canadian oil and gas property expense	\$ 25,038	10%
Canadian development expense	19,523	30%
Canadian exploration expense	7,259	100%
Undepreciated capital cost	8,556	20 – 100%
Operating losses	16,266	100%
	\$ 76,642	

Net Loss

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Net loss	\$ (1,758)	\$ (1,087)	\$ (3,664)	\$ (1,493)
Per diluted share	\$ (0.06)	\$ (0.04)	\$ (0.14)	\$ (0.09)

Other Comprehensive Loss

Comprehensive income (loss) comprises net loss for the period plus unrealized gains and losses resulting from the mark-to-market valuation of certain assets and liabilities. For the year ended December 31, 2011 and the period ended December 31, 2010, Storm's other comprehensive income included adjustments to reflect the mark-to-market valuation of listed securities for the reporting period as follows:

	Holding	Number of Shares	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Bellamont Exploration Ltd.	Class A Common Shares	(1)	\$ (305)	\$ 305
Bridge Energy ASA	Common Shares	1,052,910	(2,295)	590
Chinook Energy Inc.	Common Shares	4,500,001	(1,193)	(810)
Other comprehensive loss for period			\$ (3,793)	\$ 85

(1) The investment in BMX was sold during 2011.

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

	Three Months Ended December 31, 2011		Three Months Ended December 31, 2010		Year Ended December 31, 2011		Inception, June 8, 2010 to December 31, 2010	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Funds from (applied to) operations	\$ 709	\$ 0.03	\$ (708)	\$ (0.03)	\$ 1,874	\$ 0.07	\$ (956)	\$ (0.04)

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

Cash Flows from Operating Activities

	Three Months Ended December 31, 2011		Three Months Ended December 31, 2010		Year Ended December 31, 2011		Inception, June 8, 2010 to December 31, 2010	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	\$ 709	\$ 0.03	\$ (708)	\$ (0.03)	\$1,874	\$ 0.07	\$ (956)	\$ (0.04)
Net change in non-cash working capital items	1,775	0.06	(556)	(0.04)	(1,753)	(0.07)	(553)	(0.02)
Cash from (applied to) operating activities	\$2,484	\$ 0.09	\$(1,264)	\$ (0.08)	\$ 121	\$ -	\$(1,509)	\$ (0.06)

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

INVESTMENT AND FINANCING

Financial Resources and Liquidity

In October 2011 the Company set up a revolving borrowing base bank credit facility, subject to semi-annual review, with an initial term to April 30, 2012. The facility was in the amount of \$5 million with the potential for it to increase to \$10 million based on the future successful completion and tie-in of additional wells in the Company's producing areas.

On December 15, 2011, concurrent with the acquisition of producing properties in the Mica area of north east British Columbia, the facility was increased to \$18 million. Of this amount, \$16 million was drawn at December 31, 2011. Also at December 31, 2011, the Company had cash on hand of \$7.4 million, which was subsequently consolidated with the Company's bank facility.

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

Cash has been placed on deposit with the Company's bankers, ATB Financial. Protection of principal is paramount; correspondingly, the Company does not seek to maximize interest and other income from speculative investment of cash which may be surplus to immediate operating requirements. Monies on deposit with ATB Financial are guaranteed by the Government of Alberta, which has a triple A credit rating.

Investments

The Company owns listed securities as set out below which are valued at the closing price on the relevant stock exchange at December 31, 2011. Proceeds from the possible future sale of these securities may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Dec. 31, 2011	Value at Dec. 31, 2011
Bridge Energy ASA ⁽¹⁾	Common Shares	1,052,910	Oslo Børs Axess	\$1.43 ⁽¹⁾	\$ 1,503
Chinook Energy Inc.	Common Shares	4,500,001	TSX	\$1.63	7,335
Total					\$ 8,838

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

Capital Outlays

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

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Land and lease	\$ 128	\$ 1,608	\$ 4,244	\$ 3,010
Seismic	-	1,151	508	1,151
Drilling	1,366	6,667	6,561	7,149
Completions	3,357	3,937	10,011	6,510
Facilities	369	447	4,001	513
Recompletions and workovers	31	394	47	394
Acquisitions (Dispositions)	15,436	(775)	15,436	(2,000)
Administrative equipment	-	(50)	(12)	70
Total capital expenditures in period	\$ 20,687	\$ 13,379	\$ 40,796	\$ 16,797

Major field expenditures in the fourth quarter of 2011 included \$4.7 million on drilling and completions, of which \$1.3 million was spent at Umbach and \$3.4 million in the Horn River Basin, both in north east British Columbia.

Investment in Associate

At December 31, 2011, the Company owned 2,500,000 common shares of SGR, representing a 22% interest. The Company accounted for its interest in SGR using the equity method. The carrying amount of the Company's interest in SGR at December 31, 2011 was \$4.92 per share, representing the transfer amount under the Arrangement, plus the Company's share of SGR's losses since the Arrangement date and an adjustment to reflect the share exchange value used by the Company to acquire the remaining equity in SGR in January 2012. In addition to its investment in SGR, Storm had a direct 40% working interest in undeveloped lands jointly acquired with SGR in the Horn River Basin. This interest, together with the investment in SGR, provided Storm with a 53% exposure to the potential upside in the Horn River Basin lands. The Company also provided management services to SGR and the amount billed for such services totaled \$44,000 for the quarter ended December 31, 2011 and \$250,000 for the year ended December 31, 2011.

On November 10, 2011, the Company entered into an arrangement agreement with 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 Company issued 1.33 common shares of Storm for each outstanding SGR share, resulting in the issuance of 11.8 million Storm common shares. The acquisition was approved by the shareholders of both SGR and the Company and closed on January 12, 2012. Using a closing price of \$3.70 per common share of Storm on January 12, 2012, the acquisition is valued at \$43.7 million. The acquisition results in the Company increasing its interest in its Horn River Basin properties to 100% from 40%, enabling the Company to assume operatorship and thus control timing, structure and financing of development of this property. The Company's carrying amount of its existing shareholding in SGR was \$5.33 per SGR share. Using the closing price of \$3.70 for the Company's common shares, the transaction establishes a value of \$4.92 per SGR common share. This resulted in the Company recognizing a loss of approximately \$1.0 million on its existing holding of 2.5 million SGR common shares.

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 amount of accounts payable and accrued liabilities at December 31, 2011 corresponds to the seasonality of the Company's operations and the increased level of field activity in the fourth quarter of 2011.

Decommissioning Liability

The Company's decommissioning liability represents the present value of estimated future costs to be incurred to abandon and reclaim wells and facilities, either drilled or constructed by Storm, or already existing on lands transferred to the Company under the Arrangement. Changes in amount of the liability during the three months and year ended December 31, 2011 comprise the present value of additional liabilities accruing to the Company as a

result of field activity during the period, plus the time related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 2.65%. 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, 2011 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
Total		26,376,970	\$ 3.28	\$ 86,666

On January 12, 2012 the Company issued 11,761,190 common shares to acquire the non-owned interest in SGR.

CONTRACTUAL OBLIGATIONS

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

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

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

SHARE TRADING

Set out below is share trading activity for Storm for 2011 and 2010:

	2011					2010		
	Q1	Q2	Q3	Q4	Year	Q3 ⁽¹⁾	Q4	Year
High (\$)	4.80	5.50	5.25	4.00	5.50	4.50	4.48	4.50
Low (\$)	3.86	4.39	3.75	3.41	3.41	3.60	3.91	3.60
Close (\$)	4.80	5.00	3.75	3.74	3.74	4.25	4.00	4.00
Volume traded (000s)	2,278	249	665	176	3,368	4,205	3,061	7,265
Value traded (\$000s)	9,439	1,218	2,772	662	14,092	16,692	13,052	29,745
Weighted average trading price (\$)	4.14	4.90	4.17	3.77	4.18	3.97	4.26	4.09

(1) Period from August 31 to September 30, 2010.

QUARTERLY RESULTS

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

	2011				2010	
	Q4	Q3	Q2	Q1	Q4	Q3
Revenue from product sales (\$000s)	2,493	1,482	1,936	981	-	-
Non-GAAP funds from (applied to) operations (\$000s) ⁽¹⁾	709	396	710	59	(708)	(248)
Per share						
- basic (\$)	0.03	0.02	0.03	0.00	(0.03)	(0.03)
- diluted (\$)	0.03	0.02	0.03	0.00	(0.03)	(0.03)
Net loss (\$000s)	(1,758)	(1,023)	(562)	(321)	(1,087)	(406)
Per share						
- basic (\$)	(0.07)	(0.04)	(0.02)	(0.01)	(0.04)	(0.05)
- diluted (\$)	(0.07)	(0.04)	(0.02)	(0.01)	(0.04)	(0.05)
Other comprehensive income (loss) (\$000s)	217	(962)	(1,670)	(1,378)	(834)	919
Capital expenditures (\$000s)	20,687	8,394	2,012	9,702	13,373	3,424
Average daily production - Boe	779	511	595	276	-	-
Non-GAAP net funds available for investment (\$000s) ⁽²⁾	(15,964)	4,054	12,224	13,058	19,921	34,405
Available for sale investments	8,838	8,621	9,583	11,611	15,324	16,158

(1) See Non-GAAP Measurements on page 18 of this MD&A.

(2) Comprises cash and accounts receivable, less accounts payable and accrued liabilities and bank indebtedness.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the audited financial statements for the year ended December 31, 2011 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain financial amounts are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, other amounts, as described below, are based on estimations using information involving a high degree of measurement uncertainty which could have a material effect on Storm's operating results and financial position.

Acquisition of Net Assets Under Arrangement

The carrying amount of net assets acquired in 2010 by the Company under the Arrangement is based on management's estimate of the fair value of the net assets at the time of closing of the Arrangement. The fair value of certain assets can be established by reference to objective third party data, for example, cash and listed securities. However, the estimated fair value of other assets acquired under the Arrangement was based on management's judgment which, in part, included references to third party data. Management's estimate of fair value may differ from estimates of fair value determined by other parties and such differences could be material. There has been no revision subsequent to the Arrangement date to management's estimate of the fair values of the assets transferred under the Arrangement.

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 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 discount rate and 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, actual income tax assets and liabilities on the amounts of tax pools available for future use may differ significantly from the amounts initially estimated.

Share-Based Payments

To determine the charge for share-based payments, 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 it is possible that 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 the assets subject to depletion and depreciation, which involves 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 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;
- Activity is focused in core regions where expertise and experience can be levered;
- 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, particularly for the Company's expected primary product, natural gas, 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.

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 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.

The Company's areas of activity, particularly the Horn River Basin in north east 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. Activity in the Canadian oil and gas industry, particularly in the last two years, has been considerable and competition in the Company's most prospective areas continues to be intense, in spite of current depressed natural gas prices. 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.

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 of reserves through exploration. The Company focuses its activity in core areas, which allows it to leverage its experience and knowledge, and will act as operator wherever possible. The Company uses farmouts 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. Current capital programs are financed from cash flow and careful 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 will also be 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 objective of rapid and controlled growth is, 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.

The acquisitions of the Mica property in December 2011 and the post year-end acquisitions of SGR and BMX, involve assumptions about future revenues, costs, operations and reserves which inevitably will be subject to revision. The Mica property has well established and stable production; however, future development plans inherently involve some degree of risk. Properties owned by SGR are 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 assumption of operatorship may result in the emergence of operating issues not identified prior to acquisition. In addition, as BMX is a corporate acquisition, unforeseen liabilities and obligations may emerge post acquisition, 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 high 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.

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, including flow-through shares, if available on acceptable terms, may be raised to fund acquisitions and exploration expenditures.
- Farmouts 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.

Marketing Risks

Markets for future production of 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, 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.
- 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, 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.

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, or militant groups.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Institute of Chartered Accountants, the primary source for accounting standards in Canada, has implemented International Financial Reporting Standards ("IFRS") as part of Canadian GAAP. Such standards have been established cooperatively by many countries and have widespread application to financial reporting throughout the world. IFRS was adopted by public companies in Canada for reporting periods beginning after December 31, 2010, which means that for most public companies the quarter ended March 31, 2011 was the first reporting period which had to be IFRS compliant. Given the brief corporate history of Storm, rather than follow existing Canadian GAAP and shortly thereafter change to IFRS, management elected for early adoption of IFRS and has used IFRS compliant accounting policies since inception. Correspondingly, the introduction of IFRS in 2011 did not result in any change to accounting policies previously followed by the Company.

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., 800, 205 – 5th Avenue SW, Calgary, Alberta, T2P 2V7.

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

March 1, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Storm Resources Ltd.

We have audited the accompanying financial statements of Storm Resources Ltd., which comprise the statement of financial position as at December 31, 2011, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2011 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, 2011 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other matters

The financial statements of Storm Resources Ltd. for the period from inception on June 8, 2010 to December 31, 2010, were audited by another auditor who expressed an unmodified opinion on those statements on March 3, 2011.

Ernst + Young LLP

Chartered Accountants
Calgary, Canada

March 1, 2012

Statements of Financial Position

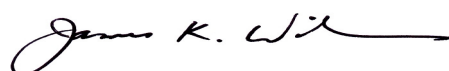
(Canadian \$000s)	December 31, 2011	December 31, 2010
ASSETS (Note 8)		
Current		
Cash	\$ 7,423	\$ 30,724
Accounts receivable (Notes 5 and 14)	4,064	780
Prepays and deposits	793	672
	12,280	32,176
Investments (Note 4)	8,838	15,324
Investment in associate (Note 5)	12,302	13,836
Exploration and evaluation (Note 6)	26,156	36,937
Property and equipment (Note 7)	49,507	-
	\$ 109,083	\$ 98,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 5)	\$ 11,461	\$ 11,583
Current portion of bank indebtedness	3,000	-
	14,461	11,583
Bank indebtedness (Note 8)	12,990	-
Decommissioning liability (Note 9)	2,532	1,121
	29,983	12,704
Shareholders' equity		
Share capital (Note 11)	86,576	86,576
Contributed surplus (Note 12)	1,389	401
Deficit	(5,157)	(1,493)
Accumulated other comprehensive income (loss)	(3,708)	85
	79,100	85,569
	\$ 109,083	\$ 98,273

See accompanying notes to the financial statements.

On behalf of the Board:



Director



Director

Statement of Loss and Comprehensive Loss

(Canadian \$000s except per-share amounts)	Year Ended December 31, 2011	Inception, June 8, 2010 to December 31, 2010
Revenue		
Revenue from product sales	\$ 6,892	\$ -
Royalties	(407)	-
	6,485	-
Expenses		
Production	1,598	-
Transportation	376	-
General and administrative	2,640	1,065
Share-based compensation (Note 12)	988	401
Depletion and depreciation	3,427	7
Accretion	52	15
	9,081	1,488
Loss before the following:	(2,596)	(1,488)
Interest income	3	109
Gain on disposal of investments (Note 4)	463	-
Impairment loss on investment in associate (Note 5)	(1,029)	-
Changes in equity of associate (Note 5)	(505)	(114)
Net loss for the period	(3,664)	(1,493)
Other comprehensive income (loss) – unrealized gain (loss) on investments available for sale (Note 4)	(3,793)	85
Comprehensive loss for the period	\$ (7,457)	\$ (1,408)
Net loss per share (Note 13)		
- basic	\$ (0.14)	\$ (0.09)
- diluted	\$ (0.14)	\$ (0.09)

See accompanying notes to the financial statements.

Statements of Changes in Shareholders' Equity

(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
Transfer of accumulated other comprehensive income on disposition of assets available for sale	-	-	-	(463)	(463)
Unrealized losses on investments available for sale (Note 4)	-	-	-	(3,330)	(3,330)
Balance, end of year	\$ 86,576	\$ 1,389	\$ (5,157)	\$ (3,708)	\$ 79,100

(Canadian \$000s)	Inception, June 8, 2010 to December 31, 2010				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Equity
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss for the period	-	-	(1,493)	-	(1,493)
Issue of common shares	86,666	-	-	-	86,666
Share issue costs	(90)	-	-	-	(90)
Share-based compensation	-	401	-	-	401
Unrealized gain on investments available for sale	-	-	-	85	85
Balance, end of period	\$ 86,576	\$ 401	\$ (1,493)	\$ 85	\$ 85,569

See accompanying notes to the financial statements.

Statement of Cash Flows

(Canadian \$000s)	Year Ended December 31, 2011	Inception, June 8 2010 to December 31, 2010
Operating activities		
Net loss for the period	\$ (3,664)	\$ (1,493)
Non-cash items:		
Gain on disposal of investment (Note 4)	(463)	-
Impairment loss on investment in associate (Note 5)	1,029	-
Changes in equity of associate (Note 5)	505	114
Depletion, depreciation and accretion	3,479	22
Share-based compensation	988	401
	1,874	(956)
Net change in non-cash working capital items (Note 17)	(1,753)	(553)
	121	(1,509)
Financing activities		
Cash transferred under plan of arrangement (Note 1)	-	9,370
Issue of common shares – net of expenses (Note 11)	-	28,976
Increase in bank indebtedness	15,990	-
	15,990	38,346
Investing activities		
Proceeds on sale of investment (Note 4)	3,156	-
Additions to exploration and evaluation assets (Note 6)	(10,418)	(16,797)
Additions to property and equipment assets (Note 7)	(30,378)	-
Net change in non-cash working capital items (Note 17)	(1,772)	10,684
	(39,412)	(6,113)
Change in cash during the period	(23,301)	30,724
Cash, beginning of period	30,724	-
Cash, end of period	\$ 7,423	\$ 30,724

See accompanying notes to the financial statements.

Notes to the Financial Statements

Year ended December 31, 2011 and period from inception on June 8, 2010 to December 31, 2010

The Company was incorporated on June 8, 2010 and commenced operations on August 17, 2010. Comparative information provided is for the period from incorporation to December 31, 2010.

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 800, 205 – 5th Avenue S.W., Calgary, Alberta T2P 2V7.

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

2. BASIS OF PRESENTATION

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued 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"). The Company received approval from the Canadian Securities Administrators under National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* ("NI 52-107") to adopt IFRS as of June 8, 2010, the date of Storm's incorporation.

The financial statements were authorized for issue by the Board of Directors on March 1, 2012.

Basis of Measurement

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

Use of Estimates and Judgements

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

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

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

- Note 6 – Classification and valuation of exploration and evaluation assets
- Note 7 – Valuation of property and equipment
- Note 9 – Decommissioning liability
- Note 10 – Valuation and utilization of tax assets
- Note 12 – Measurement of share-based compensation
- Note 14 – Valuation of financial instruments

- Note 15 – Capital management

Future Accounting Changes

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 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.

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.

Other Comprehensive Income

IAS 1 Presentation of Items of Other Comprehensive Income was amended in June 2011 to require that items within other comprehensive income, which are reclassified to earnings, be grouped together within the statement of other comprehensive income. The amendment is effective for the Company's interim and annual financial statements commencing July 1, 2012.

The Company is presently assessing the effect of each of these changes on its financial statements.

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.

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 was initially recognized at cost and has been 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.

The Company assesses at each reporting period whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount and the amount of the write-down charged to the statement of income.

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; 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. 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.

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 as other income or other expense in the statement of income.

Depletion and Depreciation

The net carrying value 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.

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.

Processing facilities and well equipment will be 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 regarding the time value of money. 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 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. 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, if there has been an increase in the estimate of the recoverable amount.

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 period to reflect the passage of time and changes in the estimated future costs underlying the obligation. The increase in the balance 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 the decommissioning obligations are charged against the liability, or expensed if greater than the liability.

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.

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 value 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.

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 loss.

The investment in the associate is initially recognized at cost and subsequently accounted for using the equity method of accounting, with the Company's share of the investee's income or loss for the period recorded as investment income (loss) on the statement of 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 impaired, the accumulated gains or losses are transferred from accumulated other comprehensive income to the statement of income 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. 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 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.
- (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.

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production 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 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 except to the extent that it relates to items recognized directly in other comprehensive income or elsewhere in shareholders' equity, in which case the related income tax expense or recovery is also recognized directly in other comprehensive income 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 equity. Costs directly attributable to the issuance of shares are recognized as a deduction from 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.

4. INVESTMENTS

	December 31, 2011	December 31, 2010
Bellamont Exploration Ltd. ("Bellamont")	\$ -	\$ 2,998
Bridge Energy ASA ("Bridge")	1,503	2,696
Chinook Energy Inc. ("Chinook")	7,335	9,630
	\$ 8,838	\$ 15,324

Unrealized revaluation loss for the year ended December 31, 2011, in the amount of \$3.8 million (2010 – gain of \$85,000), is recognized in other comprehensive income (loss). During 2011 the Company sold 5.1 million shares of Bellamont for proceeds of \$3.1 million and recognized a gain on disposition of \$0.5 million (see Note 18).

5. INVESTMENT IN ASSOCIATE

The Company's 22% interest in Storm Gas Resource Corp. ("SGR") is accounted for using the equity method, and includes Storm's pro-rata share of changes in SGR's equity since the Arrangement. The carrying amount of this investment was written down by \$1.0 million in December 2011 to reflect the exchange value under the plan of arrangement. (See Note 18 concerning the acquisition of all of the outstanding SGR shares by the Company in January 2012.)

	December 31, 2011	December 31, 2010
Carrying amount, beginning of period	\$ 13,836	\$ -
Fair value of the investment acquired under the Arrangement	-	13,950
Reduction in carrying amount to exchange value under the plan of arrangement	(1,029)	-
Share of changes in equity for the period	(505)	(114)
Carrying amount, end of period	\$ 12,302	\$ 13,836

Summarized financial information for SGR as at and for the year ended December 31, 2011 and the period from inception on June 8 to December 31, 2010, is as follows:

	December 31, 2011	December 31, 2010
Total assets	\$ 52.5 million	\$ 61.7 million
Total liabilities	\$ 2.4 million	\$ 10.0 million
Revenues	\$ 2.9 million	\$ 0.2 million
Net loss	\$ 1.7 million	\$ 1.0 million

The Company also provided engineering and administrative services to SGR at a cost of \$250,000 for the year ended December 31, 2011 (2010 - \$101,000). The Company and SGR are 40:60 joint venture participants in certain lands in north east British Columbia and as at December 31, 2011 SGR owed the Company \$1,348,000 (2010 – the Company owed SGR \$633,000).

6. EXPLORATION AND EVALUATION

	December 31, 2011	December 31, 2010
Balance, beginning of period	\$ 36,937	\$ -
Acquisitions	-	19,041
Additions	10,418	16,797
Future decommissioning costs	(358)	1,106
Transfers to property and equipment	(20,848)	-
Balance, end of period	26,149	36,944
Depreciation on furniture and fixtures	7	(7)
Carrying amount, end of period	\$ 26,156	\$ 36,937

Acquisitions during 2010 represents management's estimate of the fair value of the exploration and evaluation assets transferred under the Arrangement (Note 1).

7. PROPERTY AND EQUIPMENT

	December 31, 2011	December 31, 2010
Balance, beginning of period	\$ -	\$ -
Additions	30,378	-
Future decommissioning costs	1,717	-
Transfers from exploration and evaluation assets	20,848	-
Balance, end of period	\$ 52,943	\$ -
Accumulated depletion and depreciation	(3,436)	-
Carrying amount, end of period	\$ 49,507	\$ -

Included in additions is a \$15.4 million producing property acquisition in December of 2011. Decommissioning costs associated with the properties were \$1.0 million.

8. BANK INDEBTEDNESS

The Company has an extendible revolving bank facility in the amount of \$18 million (December 31, 2010 - nil), based on the Company's producing reserves. The revolving facility is available to the Company until April 30, 2013, subject to the bank's semi-annual review of the Company's reserve lending base. If the revolving facility is not renewed at the end of the current revolving phase, the facility moves into a term phase whereby the loan is to be retired with one payment on the 366th day following the last day of the revolving phase, in an amount equal to the outstanding principal. Interest is paid on the revolving facility at guaranteed notes' acceptance rates plus a stamping fee. Security comprises a floating charge demand debenture on the assets of the Company.

9. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production facilities, including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning

obligation is approximately \$3.1 million, which is expected to be paid over the next 17 years. A risk-free discount rate of 2.65% (2010 - 4%) was used to calculate the present value of the decommissioning obligation, amounting to \$2.5 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, 2011	Period Ended December 31, 2010
Balance, beginning of period	\$ 1,121	\$ -
Liability recognized	-	1,106
Decommissioning costs incurred	1,253	-
Obligations disposed	(30)	-
Change in estimate ⁽¹⁾	136	-
Accretion expense	52	15
Balance, end of period	\$ 2,532	\$ 1,121

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

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 fair market gains and losses on investments.

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately \$60 million as well as non-capital losses of approximately \$16 million. The tax losses expire in 2030 and 2031. 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, 2011	June 8 to December 31, 2010
Statutory combined federal and provincial income tax rate	26.5%	28.0%
Expected income taxes	\$ (971)	\$ (418)
Add (deduct) the income tax effect of:		
Share-based compensation	262	112
Changes in equity of associate	134	32
Valuation allowance due to uncertainty of realization of loss carry forwards	630	268
Non-taxable portion of capital gain	(61)	-
Other	6	6
Deferred income taxes	\$ -	\$ -

11. SHAREHOLDERS' EQUITY

Share Capital

Authorized

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

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

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

Issued

	Number of Common Shares	Consideration
Balance as at June 8, 2010	-	\$ -
Shares issued under Arrangement	17,515	57,600
Management private placement	2,300	7,544
Exercise of warrants	6,562	21,522
Share issue costs		(90)
Balance as at December 31, 2010 and December 31, 2011	26,377	\$ 86,576

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 2,638,000 common shares are available for issuance. Options in respect of 1,978,000 common shares have been issued, of which all are unexercised. As at December 31, 2011, there remain options in respect of 660,000 common shares which are available for further option grants under the Stock Option Plan.

Details of the options outstanding at December 31, 2010 and December 31, 2011 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at June 8, 2010	-	\$ -
Granted during the period	1,974	3.28
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period	-	-
Outstanding at December 31, 2010	1,974	\$ 3.28
Granted during the period	40	3.96
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period	36	3.28
Outstanding at December 31, 2011	1,978	\$ 3.28
Number exercisable at December 31, 2011	646	\$ 3.28

Range of Exercise Price	Outstanding Options		
	Number of Options Outstanding (000s)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
\$3.28 and \$3.96	1,978	2.6	\$ 3.28

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

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the year ended December 31, 2011 of \$1.29 (2010 - \$1.06) include the following:

Share price	\$ 3.96
Exercise price	\$ 3.96
Volatility	40%
Forfeiture rate	10%
Expected option life	3.7
Dividends	-
Risk-free interest rate	2.2%

The initial forfeiture rate was estimated to be 10%. This estimate will be adjusted to the actual forfeiture rate. Share-based compensation expense of \$988,000 was charged to the statement of loss during the year ended December 31, 2011 (2010 - \$401,000) with an equivalent offset to contributed surplus.

13. NET LOSS PER SHARE

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

	Year Ended December 31, 2011	June 8 to December 31, 2010
Net loss for the period	\$ 3,664	\$ 1,493
Weighted average number of common shares outstanding – basic		
Common shares outstanding at beginning of period	26,377	-
Stock options exercised		-
Effect of shares issued		16,267
Weighted average number of common shares outstanding - basic	26,377	16,267
Effect of outstanding options	-	-
Weighted average number of common shares outstanding - diluted	26,377	16,267
Net loss per share		
- basic	\$ (0.14)	\$ (0.09)
- diluted	\$ (0.14)	\$ (0.09)

As the Company has experienced a loss, in the periods 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, 2011. The carrying value of cash, accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness included on the statement 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 these 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.

		December 31, 2011	
	Classification	Carrying Amount	Fair Value
Investments in publicly traded companies ⁽ⁱ⁾	Available for sale	\$ 8,838	\$ 8,838

- (i) The fair value of the Company's investments in Chinook and Bridge are determined with reference to published share prices and are therefore classified as Level 1 financial instruments. The Company has no Level 2 or Level 3 financial instruments.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

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 and arises from a limited number of purchasers of commodities and from joint venture partners in the oil and gas industry. Management considers this credit risk to be limited, as commodity purchasers are major industry participants and receivables from partners are protected by effective industry standard legal remedies. The maximum exposure to credit risk at period end is as follows:

	Carrying Amount as at December 31, 2011
Cash	\$ 7,423
Accounts receivable	4,064
	\$ 11,487

Cash

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating. Given these factors, management does not expect any counterparty to fail to meet its obligations.

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 oil, natural gas and natural gas liquids are affected by many known and unknown factors such as demand and supply imbalances, the relationship between the Canadian and United States dollar as well as national and international economic and geopolitical events.

The Company is exposed to the risk of declining prices for production resulting in a corresponding reduction in projected cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. Bank financing available to the Company is in the form of a production loan, which

is reviewed semi-annually, and which is based on future cash flows and commodity price expectations. Changes to commodity prices will have an effect on credit available to the Company under such instruments.

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

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 interest rates, and is most commonly based on guaranteed notes' 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 flow and project economics.

Foreign exchange rates

Prices for 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.

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.

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. The Company is not currently exposed to any externally imposed capital restrictions.

Cash, bank financing and potential proceeds from sale of investments 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, 2011	June 8 to December 31, 2010
Salaries and short-term benefits	\$ 789	\$ 219
Share-based compensation	538	228
	\$ 1,327	\$ 447

17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Year Ended December 31, 2011	June 8 to December 31, 2010
Accounts receivable	\$ (3,283)	\$ (780)
Prepays and deposits	(121)	(672)
Accounts payable and accrued liabilities	(121)	11,583
Change in non-cash working capital	\$ (3,525)	\$ 10,131
Relating to:		
Operating activities	(1,753)	(553)
Financing activities	-	-
Investing activities	(1,772)	10,684
	\$ (3,525)	\$ 10,131
Interest paid during the period	\$ 29	\$ -
Income taxes paid during the period	\$ -	\$ -

18. SUBSEQUENT EVENTS

The following took place subsequent to December 31, 2011:

(a) Acquisition of Affiliate - Storm Gas Resource Corp.

On January 12, 2012 the Company completed the acquisition of 100% of its affiliate, SGR. Consideration for the acquisition of the remaining 78% of SGR's equity totaled \$43.5 million and was satisfied by the issue of 11.8 million Storm common shares at the closing price on January 12, 2012 of \$3.70 per share.

Due to the proximity of the acquisition date to the approval of the financial statements, it has not been possible to reasonably estimate the significant accounting aspects of this business combination.

(b) Proposed Acquisition of Bellamont Exploration Ltd.

On January 20, 2012 the Company announced that it had entered into an arrangement agreement (the "Agreement") with Bellamont Exploration Ltd. ("BMX"), a TSX Venture listed junior oil and gas exploration and production company. Under the Agreement, Storm and BMX will combine with the continuing entity being Storm. The combination will be completed under a plan of arrangement and is subject to the approval of BMX shareholders and the court, which is expected to be completed on or about March 23, 2012.

Under the Agreement it is proposed that shareholders of BMX will receive, at their election, for each BMX common share: (i) cash of \$0.56, to a maximum amount of \$20 million; (ii) 0.1445 of a common share of the Company; or (iii) a combination of cash and common shares.

Assuming the maximum cash amount of \$20 million is taken up by BMX shareholders, the Company expects to issue 16.7 million common shares.

Transaction costs, anticipated to amount to \$400,000, will be expensed in 2012.

(c) Private Placement of Common Shares

In February 2012 the Company entered into subscription agreements with insiders and certain other parties providing for the issue under private placement regulations of 6.9 million Storm common shares at a price of \$3.40 per share, for proceeds before costs of \$23.6 million. Existing insiders, including directors and officers plus employees, subscribed for a total of 3,468,000 shares. Part of the private placement, amounting to 2.4 million shares, was brokered and a commission of 5% is payable to the agent for the syndicate. Shares issued under the private placement are subject to a four-month hold period commencing the date of issue of the shares.

The private placement is contingent on the successful completion of the plan of arrangement with BMX. As a result, proceeds from the private placement, which closed on February 22, 2012, are held under trust conditions pending BMX shareholder and court approval, expected on or about March 23, 2012. If the plan of arrangement does not close, the full amount will be returned to subscribers along with interest.

(d) Banking Agreement

On February 28, 2012 the Company entered into arrangements with its bankers to increase the Company's banking facility from \$18 million to \$70 million. Conditions to the revised facility are identical to existing arrangements, as set out in Note 8; however, the increase is contingent on the completion of the plan of arrangement with BMX.

Corporate Information

Officers

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Chief Financial Officer

Daniel J. Fitzgerald
Vice President, Corporate Development

John Devlin
Vice President, Finance

Directors

Matthew J. Brister ⁽²⁾

John A. Brussa ⁽³⁾

Mark A. Butler ⁽¹⁾⁽³⁾

Stuart G. Clark ⁽¹⁾
Chairman

Brian Lavergne
CEO

Gregory G. Turnbull ⁽³⁾

P. Grant Wierzba ⁽²⁾

James K. Wilson ⁽¹⁾

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

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol "SRX"

Solicitors

McCarthy Tétrault LLP
Burnet Duckworth & Palmer LLP
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar & Transfer Agent

Alliance Trust Company
Calgary, Alberta

Bankers

ATB Financial
Calgary, Alberta

Executive Offices

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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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