

Highlights

Thousands of Cdn\$, except volumetric and per-share amounts	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
FINANCIAL		
Gas sales	3,047	1,155
NGL sales	1,579	576
Oil sales	4,422	1,659
Revenue from product sales ⁽¹⁾	9,048	3,390
Funds from operations ⁽²⁾	3,227	(63)
Per share - basic (\$)	0.05	0.00
Per share - diluted (\$)	0.05	0.00
Net income (loss)	(261)	(1,615)
Per share - basic (\$)	0.00	(0.04)
Per share - diluted (\$)	0.00	(0.04)
Field capital expenditures	20,136	3,216
Proceeds on disposition of oil and gas properties	(19,499)	(1,009)
Debt including working capital deficiency	42,106	50,300
Weighted average common shares outstanding (000s)		
Basic	61,824	38,670
Diluted	61,824	38,670
Common shares outstanding (000s)		
Basic	61,824	61,824
Fully diluted	65,791	63,942
OPERATIONS		
Oil equivalent (6:1)		
Barrels of oil equivalent (000s)	224	112
Barrels of oil equivalent per day	2,488	1,229
Average selling price (Cdn\$ per Boe) ⁽¹⁾	40.37	30.31
Gas production		
Thousand cubic feet (000s)	880	515
Thousand cubic feet per day	9,780	5,659
Average selling price (Cdn\$ per Mcf)	3.46	2.24
NGL Production		
Barrels (000s)	24	7
Barrels per day	261	77
Average selling price (Cdn\$ per barrel)	67.08	81.96
Oil Production		
Barrels (000s)	54	19
Barrels per day	597	208
Average selling price (Cdn\$ per barrel) ⁽¹⁾	82.21	87.44
Wells drilled		
Gross	3.0	1.0
Net	2.6	1.0

(1) Excludes hedging gains.

(2) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 8 of the attached Management's Discussion and Analysis ("MD&A") and the reconciliation of funds from operations to the most directly comparable measurement under GAAP, "Cash Flows from Operating Activities", on page 17 of the attached MD&A.

President's Message

FIRST QUARTER 2013 HIGHLIGHTS

- First quarter production averaged 2,488 Boe per day with 34% being oil plus NGL. This is a year-over-year increase of 102%, or 33% on a per-share basis, resulting from growth at Umbach plus the acquisitions of Storm Gas Resource Corp. ("SGR") and Bellamont Exploration Ltd. ("Bellamont") which closed during the first quarter of 2012. Compared to the previous quarter, production declined by 327 Boe per day as a result of first quarter asset dispositions and from production at Umbach being shut in for a total of 20 days. In addition, three completed and tied in horizontal wells (1.8 net) at Umbach were shut in for most of the first quarter due to capacity constraints with third party field compression. Production in April increased to average 3,400 Boe per day with the start-up of three Montney horizontal wells (2.2 net) at Umbach and after completing the acquisition of capacity in an existing facility.
- The field operating netback was \$20.14 per Boe excluding hedging gains, with operating costs of \$13.54 per Boe being \$1.86 per Boe higher than the previous quarter. The increase in operating costs was due to repair costs associated with downhole equipment failures on wells in the Grande Prairie area and downtime at Umbach.
- Funds from operations was \$3.2 million, or \$0.05 per basic share, an increase from funds flow of \$0.00 per basic share in the year ago period. The increase in funds from operations is the result of production growth at Umbach and from production added in the Grande Prairie area through the Bellamont transaction which closed March 23, 2012.
- Net capital investment was \$0.6 million which includes investment in operations of \$20.1 million which was mostly offset by net proceeds of \$19.5 million from two asset dispositions that closed in the first quarter. The majority of operations capital expenditures were at Umbach with \$9.5 million invested in drilling and completions and \$2.4 million to expand infrastructure.
- First quarter activity was focused on the Montney formation at Umbach where two horizontal wells (1.6 net) were drilled and two horizontal wells (1.6 net) were completed and pipeline connected. A six kilometer gathering pipeline was constructed at Umbach to connect Storm's first 100% working interest horizontal well to a facility where Storm acquired 20 Mmcf per day of capacity (\$4.5 million purchase closed April 1, 2013).
- Net loss was \$0.3 million or \$0.00 per basic share, an improvement from the net loss of \$0.04 per basic share a year earlier. The improvement was primarily due to a gain on the disposal of oil and gas properties plus increased production from growth at Umbach and from the acquisitions of Bellamont and SGR in the first quarter of 2012.
- Debt plus the working capital deficiency was \$42.1 million which is a quarter-over-quarter decrease of \$2.6 million. The adjusted net debt at the end of the first quarter was \$38.6 million after including the market value of \$3.5 million for Storm's investment in a publicly listed company at the end of the quarter. Storm's bank credit line is \$52.0 million.
- Subsequent to the quarter end, two equity financings were completed whereby Storm issued 15.6 million shares at a price of \$1.88 per share for gross proceeds of \$29.3 million. This included a bought deal financing under a short form prospectus for 12.6 million shares and a non-brokered financing where 3.0 million shares were issued to certain directors, officers and employees of Storm. Estimated net proceeds from both financings is approximately \$28.0 million. Including the net proceeds from the equity financing completed on May 1, 2013, pro-forma adjusted net debt decreases to \$10.7 million.

OPERATIONS REVIEW

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

Umbach, North East British Columbia

Storm's land position at Umbach totals 108 net sections (134 gross section) or 76,000 net acres and is split into two project areas with one consisting of 73 sections of land at a 100% working interest and the other with 61 gross sections of jointly owned lands (35 net sections with an average Storm working interest of 57%). First quarter production averaged 534 Boe per day (30% liquids) and was impacted by 20 days of total downtime including a two week shut-in in order to repair a third party field compression facility. NGL recovery was 72 barrels per Mmcf sales which included 45% condensate plus pentanes recovered during processing, 27% butane and 28% propane. The first quarter operating netback was \$16.54 per Boe with revenue of \$32.62 per Boe, a royalty rate of 14% and operating costs were \$11.55 per Boe. Operating costs were \$1.75 per Boe higher than the previous quarter primarily because of downtime. Production in April increased to approximately 1,600 Boe per day.

On the joint lands, nine horizontal wells have been drilled with seven of those having been completed and tied in through third party field compression to the Stoddart Gas Plant where NGL recovery was 72 barrels per Mmcf sales gas in the first quarter. Three horizontal wells (1.8 net) were shut in for most of the first quarter because of capacity constraints with third party field compression. In April, two of the shut-in horizontal wells were brought on at restricted rates after pipeline modifications were completed which increased capacity from 7 to 10 Mmcf per day gross raw gas. One completed and tied-in horizontal well with sustainable production capability of 400 net Boe per day is still shut-in and there are also two standing horizontal wells awaiting completion and tie-in. In the near term, capacity constraints are expected to result in production from the joint lands being restricted to 1,000 to 1,200 net Boe per day. A pipeline to interconnect three of the joint horizontal wells to Storm-owned field compression will be constructed during June or July and is expected to increase production from the joint lands to 1,500 net Boe per day. The remaining two standing horizontal wells are expected to be completed and tied in during the second half of 2013 as production declines and field compression capacity becomes available.

On the 100% working interest lands, one horizontal well has been drilled, completed and began producing April 2nd into a field compression facility where 20 Mmcf per day of capacity was acquired by Storm for \$4.5 million on April 1st. A six kilometer gathering pipeline was constructed in the first quarter to connect this well to the facility and this pipeline will also be used to connect future horizontal wells. Production through this facility is directed to the McMahon Gas Plant for processing with NGL recovery forecast to be 40 to 45 barrels per Mmcf sales. Although NGL recovery is lower than on the joint lands, the field netback is forecast to be \$4 to \$5 per Boe higher as a result of lower operating costs (primarily from eliminating third party fees for field compression). In the second half of 2013, four additional horizontal wells are expected to be drilled on the 100% working interest lands and will be tied in to this facility.

The gross cost to drill and complete horizontal wells in the first quarter averaged \$4.9 million and the pipeline tie-ins were \$0.5 million. Drilling and completion costs are expected to decrease in the second half of 2013 as activity transitions from resource delineation to development on Storm's 100% working interest lands.

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

Production in this area comes from properties acquired through the transaction with Bellamont which closed in the first quarter of 2012. Production in the first quarter averaged 1,584 Boe per day (44% oil plus NGL) at an operating netback of \$24.22 per Boe. During the first quarter, the Rycroft property was sold January 18th (30 Boe per day) and the Saddle Hills and Gold Creek properties were sold February 15th (275 Boe per day) with net proceeds from both transactions totaling \$19.5 million. Production in April averaged approximately 1,400 Boe per day (34% oil plus NGL).

There was minimal activity in the first quarter. Downhole failures on four wells were repaired in the Grimshaw Montney and Grande Prairie Montney pools which increased operating costs by \$190,000. At Grimshaw, initial response from water injection into the Montney A pool has been very encouraging with no decline in pool production since injection began in August 2012.

Horn River Basin, North East British Columbia

Storm's has a 100% working interest in 135 sections in the HRB (87,700 net acres) which is prospective for natural gas from the Muskwa, Otter Park and Evie/Klua shales. First quarter production in the HRB averaged 370 Boe per day at an operating netback of \$8.42 per Boe. Production is from a horizontal well with 12 fracture stimulations that began producing in March 2011 and is currently producing 2.7 Mmcf per day gross raw gas with cumulative production of 3.1 Bcf gross raw gas.

A resource evaluation completed by InSite Petroleum Consultants Ltd. effective December 31, 2011 estimates that the best estimate of DPIIP in the core producing area is 3.1 Tcf gross raw gas with the best estimate of contingent resources being 616 Bcf. This area includes 30 sections at a 100% working interest and represents 22% of Storm's total land holdings in the HRB. Productivity has been proven across the core producing area with one horizontal well that has been producing for 27 months plus two vertical wells that were completed and tested with final test rates of 900 Mcf per day over the final 24 hours of each flow test.

OUTLOOK

Guidance for 2013 is being revised to reflect increased capital investment in the Umbach area, higher natural gas prices and the net proceeds received from the equity financing completed May 1, 2013. Capital investment will increase to \$47 million net of asset acquisitions and dispositions, an increase of \$22 million from previous guidance provided February 28, 2013. Updated guidance is provided below:

	Revised 2013 Guidance	Previous
<i>Year-end adjusted debt plus working capital deficiency ⁽¹⁾</i>	\$37 million	\$44 million
<i>Average operating costs</i>	\$10 - \$11 per Boe	\$10 - \$11 per Boe
<i>Average royalty rate (on production revenue before hedging)</i>	13% - 14%	11% - 12%
<i>Operations capital, excluding dispositions</i>	\$62.0 million	\$40.0 million
<i>Asset dispositions</i>	\$19.5 million	\$20.0 million
<i>Asset acquisitions</i>	\$4.5 million	\$4.5 million
<i>Cash G&A</i>	\$3.7 million	\$3.9 million
<i>Exit or fourth quarter average production</i>	4,500 – 5,000 Boe/d (25% oil + NGL)	4,000 – 4,500 Boe/d (25% oil + NGL)

(1) Includes value of publicly listed securities.

Production in the second quarter of 2013 is expected to be 3,200 to 3,500 Boe per day which includes the effect of shutting in the horizontal well in the HRB for the month of June due to a turnaround at the Fort Nelson Gas Plant.

Major expenditures in the 2013 capital investment program include:

- \$15 million to drill seven horizontal wells (6.2 net) at Umbach which includes five horizontal wells at a 100% working interest;
- \$19 million to complete and tie in seven horizontal wells (6.2 net) at Umbach which includes five horizontal wells on 100% working interest lands and two horizontal wells (1.2 net) on joint lands;
- \$6 million to expand infrastructure at Umbach.

Storm's 2013 budget assumes an average natural gas price at AECO of \$3.25 per GJ and an Edmonton Par oil price of \$87 per barrel. Adjusted net debt is forecast to decrease to \$37 million at the end of 2013 (including public company investments) which is well within Storm's current bank line of \$52 million and would be approximately 1.5 times funds from operations for the year.

In 2013, we are focused on growing production and cash flow at Umbach in order to validate the large scale and economics of exploiting the liquids-rich natural gas resource in the Montney formation. The recent purchase of 20 Mmcf per day of capacity in a field compression facility at Umbach was a critical first step in providing Storm with access to Company-owned and controlled infrastructure as cost effectively as possible. Results from recent horizontal wells at Umbach where completion techniques have been modified are encouraging as evidenced by production to date in the second quarter averaging 1,700 net Boe per day, a significant increase from 534 net Boe per day in the first quarter. Approximately 32% of Storm's land position at Umbach has been delineated with well control, and reserves at the end of 2012 were assigned on 5% of Storm's land position (10 gross sections or 6 net sections) in the upper Montney only. Based on results in the area, the mid/lower Montney is also likely productive and represents an additional layer of future development. At the end of 2012, no reserves were assigned to Storm's 100% working interest lands. If results at Umbach are supportive of doing so, development may be accelerated later in 2013 with funding being provided by additional asset sales or from Storm's bank line and growing cash flow.

Total cash costs of \$20.81 per Boe in the first quarter are recognized as being relatively high and will be reduced during 2013. Cash G&A costs are fixed and will decrease on a per-Boe basis as production grows during the year. Operating costs will decline with production growth from new horizontal wells on Storm's 100% working interest lands at Umbach which will be directed through Company-owned field compression where operating costs are expected to be \$4 to \$5 per Boe lower than on the joint lands.

Storm's land position in the HRB remains a core, long term asset. The large scale and productivity of the resource provides significant leverage to any sustained increase in natural gas prices or to LNG development on Canada's west coast.

Respectfully,



Brian Lavergne,
President and Chief Executive Officer

May 15, 2013

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

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

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

Forward-Looking Statements - Such statements made in this report are subject to the limitations set out in Storm's Management's Discussion and Analysis dated May 15, 2013 for the three months ended March 31, 2013.

Management's Discussion and Analysis

INTRODUCTION

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Resources Ltd. ("Storm" or the "Company") for the three months ended March 31, 2013. It should be read in conjunction with (i) the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2013, (ii) the Company's audited consolidated financial statements for the year ended December 31, 2012, and (iii) the press release issued by the Company on May 15, 2013, and other operating and financial information included in this report. All of these documents are filed on SEDAR (www.sedar.com) and appear on the Company's website (www.stormresourcesltd.com).

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

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

This MD&A is dated May 15, 2013.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2013, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are referred to in Note 3 to the audited consolidated financial statements for the year ended December 31, 2012. The reporting and the measurement currency is the Canadian dollar.

Changes to accounting policies, introduced effective January 1, 2013, are outlined in Note 2 to the Company's audited consolidated financial statements as at December 31, 2012 and for the year then ended. These changes to accounting policies have no effect on the inter-period comparability of financial information.

Unless otherwise indicated, tabular financial amounts, other than per-share amounts, are in thousands. Comparative information is provided for the immediately prior three month period ended December 31, 2012 and for the three month period ended March 31, 2012.

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

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

- future earnings;
- future non-GAAP funds from operations and future cash flows;
- future availability of financing;
- future asset acquisitions or dispositions;
- intentions with respect to investments;
- future sources of funding for capital programs;
- future decommissioning costs and discount rates used to determine the net present value of such costs;
- development plans;
- measurement and recoverability of reserves or resources;
- expected finding and development costs;
- future royalties, operating costs, interest and general and administrative costs;
- future provisions for depletion and depreciation and accretion;
- expected share-based compensation charges;
- estimates on a per-share basis;
- dates or time periods by which certain geographical areas will be developed; and
- changes to any of the foregoing.

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

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include the material uncertainties and risks described or incorporated by reference in this MD&A under “Critical Accounting Estimates”; “Risk Assessment” and the material assumptions described under the headings “Overview”; “Acquisitions in 2012”; “Production and Revenue”; “Hedging”; “Royalties”; “Production Costs”; “Transportation Costs”; “General and Administrative Costs”; “Share-Based Compensation”; “Depletion and Depreciation”; “Accretion”; “Interest”; “Income Taxes”; “Other Comprehensive Income (Loss)”; “Financial Resources and Liquidity”; “Investments”; “Accounts Payable and Accrued Liabilities”; “Decommissioning Liability”; “Shareholders’ Equity”; industry conditions including commodity prices, capacity constraints and access to market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates and related costs including royalties, production costs and future development costs, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, ability to access sufficient capital from internal and external sources and the ability of the Company to realize value from acquired assets and corporations. All of these caveats should be considered in the context of current economic conditions, in particular low prices for natural gas, the attitude of lenders and investors towards natural gas assets, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Readers are advised that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Storm’s actual results, performance or achievement, could differ materially from those expressed in, or implied by, these forward-looking statements. Storm disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under securities law. **The forward-looking statements contained therein are expressly qualified by this cautionary statement.**

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

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

OPERATIONAL AND FINANCIAL RESULTS

Overview

In the first quarter of 2013, the Company’s production mix was 66% natural gas and 34% crude oil plus NGL. This was an increase in natural gas production from 63% in the fourth quarter of 2012 but a decrease from 77% in the first quarter of 2012. The reduction in the percentage of crude oil and NGL production from Q4 of 2012 is a result of the disposition of primarily crude oil properties during the first quarter of 2013. The increase in crude oil and NGL production relative to the prior year quarter is a result of the Bellamont corporate acquisition at the end of Q1 2012. Prices increased from the prior quarter for crude oil and NGL and remained flat for natural gas with the overall realized price per Boe increasing slightly from \$40.19 to \$40.37.

Production for the first quarter of 2013 was affected by continuing capacity limitations at a third party processing facility at Umbach as well as mechanical failures and equipment changes in the Grande Prairie Area. First quarter production averaged 2,488 Boe per day with third party facility issues at Umbach reducing production by 750 Boe per day with 80 Boe per day being lost as a result of mechanical failures and equipment changes. In addition, the Company sold three producing properties, averaging approximately 300 Boe per day during the quarter. In January the Company sold the Rycroft property and in February the Company disposed of the Gold Creek and Saddle Hills properties. Net proceeds totaled \$19.5 million. Funds received from these dispositions were initially used to reduce bank debt and to continue developing Storm’s liquids-rich natural gas resource at Umbach.

The Company drilled two wells at Umbach during the quarter, both horizontals (1.6 net). One horizontal well (1.0 net) was completed in the quarter and was put on production in April. The other horizontal (0.6 net) is awaiting completion, pending available facility capacity. At the beginning of April the Company purchased and commissioned an interest in a compressor station in the Umbach area which will serve to reduce capacity issues that affected production in the first quarter of 2013 as well as in prior quarters. Also in April, a third party commissioned and interconnected another existing facility in the area which increased capacity. These developments allowed the Company to turn on three horizontal wells (2.2 net) which resulted in production from the area increasing to approximately 1,600 net Boe per day in April compared to the Q1 2013 quarterly average of 534 Boe per day.

Lower production, resulting from the property dispositions and facility issues, lower netbacks and decreased hedging gains resulted in a decrease in funds from operations in the quarter to \$3.2 million, down from \$5.0 million in the fourth quarter of 2012. Field netbacks amounted to \$20.24 per Boe, down from \$24.73 in Q4 2012, primarily as a result of higher operating costs and hedging gains of \$0.7 million in the previous quarter.

During the first quarter, the Company took steps to maintain its ability to continue funding development at Umbach and at the beginning of May the Company issued a total of 15.6 million common shares at a price of \$1.88 per share pursuant to a bought deal public financing and a non-brokered financing to directors, officers and employees of the Company. Net proceeds of approximately \$27.8 million will initially be applied to reduce bank debt. These measures provide the Company with financial flexibility, and if commodity prices provide an acceptable rate of return, and if results continue to be positive at Umbach, development of this project may be accelerated.

Acquisitions in 2012

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. Common shares issued by the Company on closing to former SGR shareholders totaled 11.8 million. The closing price for the Company's shares at the time of the acquisition was \$3.73. The acquisition of SGR resulted in an increase in the working interest in the Company's lands in the Horn River Basin from 40% to 100%. The Company also assumed operatorship of the project.

On March 23, 2012 the Company and Bellamont Exploration Ltd. ("Bellamont"), a junior oil and gas exploration and production company listed on the TSX Venture Exchange, completed an arrangement agreement (the "Agreement") under which the two companies combined with the continuing entity being Storm. Cash paid under the Agreement was the maximum amount of \$20 million. A total of 16.7 million Storm common shares were issued to former Bellamont shareholders. Using a Storm share price of \$2.37, which was the closing price at the time of acquisition, Storm shares issued to Bellamont shareholders were valued at \$39.7 million. Cash flow added from the Grande Prairie Area properties from the Bellamont transaction has largely been directed to continue advancing exploitation of the Montney formation at Umbach.

Production and Revenue

Production by Area

The Company reported production from the following areas:

Three Months Ended March 31, 2013				
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	2,221	-	-	370
Umbach – NE BC	2,234	162	-	534
Grande Prairie Area – AB and BC:				
Grimshaw - AB	282	1	282	330
Grande Prairie, Montney & Dunvegan – AB	5,043	98	235	1,174
Saddle Hills - AB	-	-	80	80
Other	-	-	-	-
Total	9,780	261	597	2,488

Three Months Ended March 31, 2012				
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	3,159	-	-	527
Umbach – NE BC	1,615	66	-	335
Grande Prairie Area – AB and BC:				
Mica – NE BC	341	2	89	148
Grimshaw - AB	11	-	37	39
Grande Prairie, Montney & Dunvegan – AB	527	9	27	125
Saddle Hills - AB	-	-	18	18
Other	6	-	37	38
Total	5,659	77	208	1,229

Three Months Ended December 31, 2012

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

Total Boe production in the first quarter of 2013 increased by 102% when compared to the first quarter of 2012 but fell by 12% when compared to the final quarter of 2012. Changes in production came largely from:

Comparing Q1 2013 to 2012

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

Comparing Q1 2013 to Q4 2012

- Sale of light oil properties resulting in a reduction in average Q1 2013 production of 155 Boe; and
- Facility downtime and capacity restraints resulted in production loss of 750 Boe per day in Q1 2013.

Daily production per million weighted average shares outstanding averaged 40 Boe per day for the first quarter of 2013, compared to 32 Boe per day for the first quarter of 2012, and 46 Boe per day for the immediately preceding quarter.

In northeast British Columbia the Company has two producing natural gas areas, one producing dry gas in the Horn River Basin and the other producing gas and associated liquids at Umbach. An oil property at Mica producing 150 Boe per day, which also produced associated natural gas, was sold on October 18, 2012. Production in Alberta approximates 38% light oil with an average API of 37 degrees, 56% natural gas and 6% natural gas liquids. In January and February 2013, the Company sold certain light oil Alberta properties producing approximately 300 Boe per day of which 77% was crude oil.

Average Daily Production

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Crude oil (Bbls/d)	597	208	753
Natural gas (Mcf/d)	9,780	5,659	10,728
Natural gas liquids (Bbls/d)	261	77	274
Total (Boe/d)	2,488	1,229	2,815

Production Profile and Per-Unit Prices⁽¹⁾

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012		Three Months Ended December 31, 2012	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Crude oil - Bbl	20%	\$ 82.21	17%	\$ 87.44	27%	\$ 77.93
Natural gas - Mcf	67%	3.46	77%	2.24	63%	3.46
Natural gas liquids - Bbl	13%	67.08	6%	81.96	10%	63.27
Per Boe	100%	\$ 40.37	100%	\$ 30.31	100%	\$ 40.19

(1) Before hedging gains of \$0.10 per Boe for the three months ended March 31, 2013.

The Company's natural gas is produced in both British Columbia and Alberta and is sold at a price based on the Station 2 price in British Columbia and at the AECO index in Alberta. Approximately 46% of Storm's natural gas was sold at Station 2 in the first quarter of 2013 with the remaining 54% being sold at AECO. Storm's realized price for the first quarter was \$3.46 per Mcf with the price higher than index prices as a result of sales gas at Umbach and Grande Prairie having a higher heat content, resulting in a higher price realized per Mcf (Mcf:GJ equivalency ratio is 1:1.05). The Station 2 price for the first quarter averaged \$2.86 per GJ, and the equivalent AECO price was \$3.03 per GJ. Storm's crude oil sales price for the first quarter of 2013, prior to the inclusion of hedging gains, was \$6.43 per barrel lower than the Edmonton Par reference price for light sweet crude oil which averaged \$88.65 per barrel for the first quarter.

For the first quarter, WTI averaged US\$94.35 per barrel, resulting in an exchange rate adjusted differential between WTI and Edmonton Par of Cdn\$6.53 per barrel compared to Cdn\$6.80 per barrel in the immediately preceding quarter. In the last quarter of 2012 a widening differential between Edmonton Par and WTI began to emerge, largely related to market access difficulties faced by Canadian crude oil producers. This continued into the first quarter of 2013 although the effect was mitigated by a favourable exchange rate movement and higher WTI pricing for the quarter. Given uncertainty surrounding approval of the Keystone Pipeline project by the U.S. government and hostility to Canadian crude oil by environmental groups, it is uncertain when the Canadian-U.S. pricing differential will narrow, if at all.

The year-over-year reduction in Storm's realized NGL sales price of \$14.88 was primarily a consequence of a decrease in propane and butane prices due to the market for propane and butane being oversupplied as a result of high initial production rates coming from newly drilled high liquids content natural gas wells, both in Canada and the United States. At Umbach, in the first quarter of 2012, the propane price was \$38.09 per barrel and the butane price was \$71.12 per barrel while, in the first quarter of 2013, propane was \$18.96 per barrel and butane was \$57.35 per barrel. This continent-wide shift in drilling focus from dry gas to higher netback, liquids-rich natural gas wells is a direct result of lower natural gas prices.

Revenue from Product Sales⁽¹⁾

(000s)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Natural gas	\$ 3,047	\$ 1,155	\$ 3,416
Natural gas liquids	1,579	576	1,597
Crude oil	4,422	1,659	5,399
Total	\$ 9,048	\$ 3,390	\$ 10,412

(1) Excludes hedging gains.

The year-over-year revenue increase of 267% is due to Boe volume growth of 102% and an increase in per-Boe pricing of 33%. The revenue reduction of 13% in the first quarter of 2013, when compared to the immediately prior quarter, is due to lower production as Boe pricing was approximately the same for each quarter.

Hedging

he Company has in place the following hedging arrangements:

Volume	Price (Cdn)	Inception	Expiry	Unrealized Gain (Loss) at March 31, 2013
Crude Oil				
50 Bbls/day	\$98.85	April 1, 2013	June 30, 2013	\$ (2,000)
150 Bbls/day	\$90.00 - \$95.00	April 1, 2013	June 30, 2013	(65,000)
100 Bbls/day	\$90.00 - \$98.75	April 1, 2013	June 30, 2013	(19,000)
100 Bbls/day	\$99.05	July 1, 2013	September 30, 2013	-
100 Bbls/day	\$98.25	July 1, 2013	September 30, 2013	(7,000)
Total				\$ (93,000)

During the first quarter of 2013, the Company realized gains from hedges in the amount of \$21,000 (2012 – Nil).

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

Royalties

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Charge for period	\$ 1,181	\$ 307	\$ 1,280
Percentage of production revenue before hedging gains	13.1%	9.1%	12.3%
Per Boe	\$ 5.25	\$ 2.74	\$ 4.92

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

In the Horn River Basin, the Company benefits from British Columbia's deep well royalty credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on production from the well. The Company expects that future royalties will be reduced by an amount of \$300,000. Natural gas production at Umbach does not benefit from this program.

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

In Alberta, production from new wells is subject to a 5% royalty rate for the first 12 months of production, subject to a maximum volume of 50,000 Bbls of crude oil or 500 million cubic feet of natural gas. This benefit has also been applied to horizontal gas and oil wells where measured depth exceeds 2,000 and 2,500 metres respectively. Approximately 15% of Storm's current production in Alberta benefits from these favourable royalty rates. However, limited drilling activity in Alberta will result in the eventual expiry of this program's benefits to Storm.

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

The British Columbia provincial government recently proposed changes to the provincial royalty program. These changes will result in a minimum royalty of 3% being applied to production from the Horn River Basin, which benefits from the deep well royalty credit program. In addition, the British Columbia summer drilling credit program has been eliminated. The Company does not expect that these changes will result in a material realignment in future capital programs.

Production Costs

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Charge for period	\$ 3,032	\$ 1,090	\$ 3,020
Percentage of production revenue before hedging gains	33.5%	32.2%	29.0%
Per Boe	\$ 13.54	\$ 9.75	\$ 11.68

Production costs per barrel of crude oil averaged \$15.31 for the first quarter and production costs per Mcf of natural gas averaged \$2.51, with total production costs averaging \$13.54 per Boe. The equivalent charges for the first quarter of 2012 were \$13.87 per barrel for crude oil and \$1.61 per Mcf of natural gas, with total production costs averaging \$9.75 per Boe. Production costs for the final quarter of 2012 averaged \$14.37 for crude oil and \$2.05 for natural gas with total production costs averaging \$11.68 per Boe. Production costs of natural gas liquids are included with natural gas costs.

The increase in total production costs for the first quarter of 2013 relative to the prior year quarter was a consequence of the inclusion of the Bellamont properties since March 23, 2012. Operating costs per Boe associated with pre-existing Storm properties approximated \$10.07 in the first quarter of 2013 and for the acquired Bellamont properties production costs were \$15.52 per Boe. The increase relative to the fourth quarter of 2012 was due to mechanical breakdowns, workovers and equipment changes in Q1 2013. The drop in production from Q4 2012 to Q1 2013, as a result of the Umbach facility issues and the property dispositions, also contributed to the increase in per-Boe costs. In future quarters operating costs should fall as a result of the sale of higher cost oil properties in the first quarter as well as lower gas processing fees.

Transportation Costs

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Charge for period	\$ 323	\$ 233	\$ 429
Percentage of production revenue before hedging gains	3.6%	6.9%	4.1%
Per Boe	\$ 1.44	\$ 2.09	\$ 1.66

Transportation costs largely comprise pipeline tariffs from the processing facility to the sales point for natural gas, and trucking costs for crude oil in Alberta. Transportation costs for the first quarter of 2013 were 31% lower than costs for the same quarter in 2012 primarily due to increased natural gas production from the Umbach area. Transportation costs were \$1.66 per Boe in the fourth quarter of 2012.

The reduction in total and per-Boe transportation costs in the first quarter of 2013 when compared to the immediately prior quarter corresponds to the sale of crude oil properties in the first quarter of 2013.

Field Netbacks

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

	Three Months Ended March 31, 2013			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 82.21	\$ 67.08	\$ 3.46	\$ 40.37
Hedging gains (losses)	(1.30)	-	0.10	0.10
Royalties	(15.94)	(17.42)	0.10	(5.25)
Production costs	(15.31)	-	(2.51)	(13.54)
Transportation costs	(3.72)	(0.21)	(0.13)	(1.44)
Field netback per Boe	\$ 45.94	\$ 49.45	\$ 1.02	\$ 20.24
Total field netback (000s)	\$ 2,469	\$ 1,164	\$ 900	\$ 4,533

	Three Months Ended March 31, 2012			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Production revenue	\$ 87.44	\$ 81.96	\$ 2.24	\$ 30.31
Royalties	(9.88)	(17.22)	-	(2.74)
Production costs	(13.87)	-	(1.61)	(9.75)
Transportation costs	(6.30)	(2.64)	(0.18)	(2.09)
Field netback per Boe	\$ 57.39	\$ 62.10	\$ 0.45	\$ 15.73
Total field netback (000s)	\$ 1,088	\$ 437	\$ 234	\$ 1,759

Three Months Ended December 31, 2012

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

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

Field netbacks per Boe for the first quarter of 2013 were 29% higher than the same quarter of 2012 largely due to increased oil and NGL production from the Bellamont acquisition; however, netbacks per Boe were 18% lower than the fourth quarter of 2012. Although prices for natural gas remained flat in the first quarter, higher production costs and Q4 2012 hedging gains of \$0.7 million, combined with lower prices for crude oil and NGL, resulted in a lower Q1 2013 netback when compared to the final quarter of 2012.

Cash costs per Boe, comprising production costs, transportation, interest and general and administrative costs, amounted to \$20.81 for the first quarter of 2013, \$22.68 for the equivalent quarter of 2012 and \$18.71 for the final quarter of 2012. Year-over-year reductions in per-unit transportation, interest and general and administrative costs more than offset production cost increases. In 2013, first quarter production, general and administrative and interest costs were higher when compared to the final quarter of 2012, but transportation costs were lower.

Acquisition Costs

Acquisition costs relate to the Bellamont and SGR transactions which closed in the first quarter of 2012. Costs for the period ended March 31, 2012 were \$0.6 million. There were no acquisition costs in 2013.

General and Administrative Costs

Total Costs	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Charge for period – before recoveries	\$ 1,371	\$ 972	\$ 1,397
Overhead recoveries	(397)	(58)	(295)
Charge for period – net of recoveries	\$ 974	\$ 914	\$ 1,102
Per Boe	\$ 4.35	\$ 8.17	\$ 4.25

Compensation costs were consistent for each of the periods above, accounting for approximately 67% of the gross charge with office accommodation costs accounting for an additional 14% and external services and corporate costs accounting for 19%. Overhead recoveries from operations have increased from the first quarter of 2012 primarily as a result of inclusion of the Bellamont properties. As production grows in future periods, the Company will benefit from a reduction in per-Boe general and administrative costs.

Share-Based Compensation

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Charge for period	\$ 167	\$ 163	\$ 141

Share-based compensation is a non-cash charge which reflects the estimated value of stock options issued to Storm's directors, officers and employees. In the first quarter of 2013, 1,499,000 stock options were issued and 255,000 options were forfeited.

Depletion and Depreciation

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Depletion	\$ 3,385	\$ 1,237	\$ 3,985
Depreciation	267	217	238
Charge for period	\$ 3,652	\$ 1,454	\$ 4,223
Per Boe	\$ 16.30	\$ 13.00	\$ 16.31

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

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

The per-Boe charge for depletion and depreciation for the period remained flat compared to the immediately preceding quarter and increased by 25% from the equivalent charge for the same period in 2012, primarily due to the addition of the Bellamont properties at the end of the first quarter in 2012.

In addition, management reviewed the carrying amounts of exploration and evaluation and property and equipment assets for indicators of impairment at March 31, 2013 and determined that no impairment adjustment was required.

Accretion

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Charge for period	\$ 61	\$ 21	\$ 72

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

Interest

The Company's initial bank borrowings were used to fund a property acquisition in December 2011. The Company assumed additional borrowings pursuant to the Bellamont acquisition in late March 2012.

(000s)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Charge (income) for period	\$ 332	\$ 299	\$ 290
Percentage of production revenue before hedging gains	3.7%	8.8%	2.8%
Per Boe	\$ 1.48	\$ 2.67	\$ 1.12

It is expected interest charges will decrease in the second quarter of 2013 as a result of the equity issues in May.

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

Gain on Disposal of Oil and Gas Properties

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

Gain (Loss) on Commodity Price Contracts

The unrealized loss on commodity price contracts represents the gain on the mark-to-market valuation of the unexpired portion of hedging positions outstanding at the end of the reporting period. The non-cash unrealized loss was \$0.3 million for the three months ended March 31, 2013 and the realized gain for the period ended March 31, 2013 was \$0.02 million. There was no gain or loss in the year earlier periods as there were no hedging arrangements.

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	Three Months Ended December 31, 2012	
Realized gain (loss)					
Crude oil	\$ (70)	\$ (1.95)/Bbl	N/A	\$ 727	\$ 2.81/Bbl
Natural gas	91	\$ 0.06 /GJ	N/A	-	\$ - /GJ
Total realized gains - cash	\$ 21	\$ 0.10/Boe	N/A	\$ 727	\$ 2.81/Boe

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012		Three Months Ended December 31, 2012	
Unrealized gain (loss)						
Crude oil – change in fair value	\$ (108)	\$ (2.96)/Bbl	\$ 86	\$ 0.77	\$ (767)	\$(18.50)/Bbl
Natural gas – change in fair value	(214)	\$ (0.59)/GJ	-	-	196	\$ 0.54/GJ
Total unrealized gain (loss) - non-cash	\$ (322)	\$(1.44)/Boe	\$ 86	\$ 0.77	\$ (571)	\$(2.21)/Boe

Income Taxes

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

Tax Pool	As at March 31, 2013	Maximum Annual Deduction
Canadian oil and gas property expense	\$ 36,000	10%
Canadian development expense	65,000	30%
Canadian exploration expense	23,000	100%
Undepreciated capital cost	27,000	20 – 100%
Operating losses	96,000	100%
Other	3,000	20%
Total	\$ 250,000	

Net Loss

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Net loss	\$ (261)	\$ (1,615)	\$ (2,320)
Per basic and diluted share	\$ 0.00	\$ (0.04)	\$ (0.04)

Comprehensive Loss

Comprehensive loss comprises net loss for the period plus unrealized gains and losses resulting from the mark-to-market valuation of certain assets and liabilities. For the periods presented below, Storm's other comprehensive income comprised adjustments to reflect the period-end mark-to-market valuation of listed securities. The gain or loss in comprehensive income is determined by the change in the mark-to-market valuation of the securities from the end of the immediately prior reporting period.

Listed Securities	Holding	Number of Shares	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Bridge Energy ASA ⁽¹⁾	Common Shares	-	\$ -	\$ 242	\$ 114
Chinook Energy Inc. ⁽²⁾	Common Shares	3,000,001	(870)	(810)	2,250
Other comprehensive income (loss) for period			\$ (870)	\$ (568)	\$ 2,364

(1) All of the Company's holding in Bridge was sold in 2012.

(2) Shares owned at March 31, 2013.

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

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012		Three Months Ended December 31, 2012	
		Per diluted share		Per diluted share		Per diluted share
Funds from operations	\$ 3,227	\$ 0.05	\$ (63)	\$ 0.00	\$ 5,016	\$ 0.08

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

Cash Flows from Operating Activities

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012		Three Months Ended December 31, 2012	
		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	\$ 3,227	\$ 0.05	\$ (63)	\$ 0.00	\$ 5,016	\$ 0.08
Net change in non-cash working capital items	19	0.00	(2,477)	(0.06)	1,224	0.02
Cash from (applied to) operating activities	\$ 3,246	\$ 0.05	\$ (2,540)	\$ (0.06)	\$ 6,240	\$ 0.10

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

Corporate Netbacks

(\$/Boe)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Revenue from product sales	40.37	30.31	40.19
Hedging gains	0.10	-	2.80
Royalties	(5.25)	(2.74)	(4.92)
Production	(13.54)	(9.75)	(11.68)
Transportation	(1.44)	(2.09)	(1.66)
Acquisition costs	-	(5.45)	-
General and administrative	(4.35)	(8.17)	(4.25)
Interest	(1.48)	(2.67)	(1.12)
Funds from operations netback	14.41	(0.56)	19.36
Share-based compensation	(0.74)	(1.46)	(0.54)
Depletion, depreciation and accretion	(16.58)	(13.19)	(16.58)
Exploration and evaluation charges	-	-	(2.56)
(Loss) gain on disposal of investments	-	-	(0.01)
Unrealized impairment loss on investments	-	-	(10.19)
Gain (loss) on disposal of oil and gas properties	3.18	-	3.77
Unrealized gain (loss) on commodity price contracts	(1.44)	0.77	(2.21)
Net loss per Boe	(1.17)	(14.44)	(8.96)

INVESTMENT AND FINANCING

Financial Resources and Liquidity

In October 2011 the Company set up a revolving borrowing base bank credit facility, subject to semi-annual review, with an initial term to April 30, 2012. On December 15, 2011, concurrent with the acquisition of a producing property in northeast British Columbia, the facility was increased to \$18 million. In March 2012, the Company's facility was expanded to \$70 million with the Bellamont acquisition, which included the assumption of Bellamont bank debt in the amount of \$38.4 million. As a consequence of the sale in September 2012 of the Mica producing property, the banking facility was reduced to \$62 million and further reduced to \$52 million in the first quarter of 2013 following the sale of certain Alberta producing properties.

The Company is in compliance with all covenants under the credit facility. The sole financial covenant is that net debt including working capital deficiency less the investment in Chinook Energy Inc., not exceed the facility credit limit, which is currently \$52 million.

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

Investments

The Company owns listed shares as set out below, which are valued at the closing price on the TSX at March 31, 2013. Proceeds from the possible future sale of this investment may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Mar. 31, 2013	Value at Mar. 31, 2013
Chinook Energy Inc.	Common Shares	3,000,001	TSX	\$ 1.15	\$ 3,450

During 2012, Storm sold 1.5 million shares of Chinook for net proceeds totaling \$2.1 million.

Capital Investment

In the first quarter the Company spent \$20.1 million, further developing the liquids rich natural gas play at Umbach, offset by disposals in the Rycroft, Gold Creek and Saddle Hills areas for net proceeds of \$19.5 million. During the quarter, the Company drilled two successful wells (1.6 net), both horizontal wells at Umbach. One horizontal (1.0 net) completed during Q1 was put on production in April. The other horizontal (0.6 net) will be completed and tied in when facility capacity is available. The Company continued to invest at Umbach during the quarter through drilling, land assembly as well as adding pipelines and compression equipment in the area.

Capital expenditures in the reporting periods were allocated as follows:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended December 31, 2012
Exploration and evaluation – net of sale proceeds	\$ 5,876	\$ 44,402	\$ 2,710
Property and equipment – net of sale proceeds	(5,239)	118,520	6,279
Non-cash portion of corporate acquisitions	-	-	(212)
Total	\$ 637	\$ 162,922	\$ 8,777

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include operating, administrative and capital costs payable. Net payables in respect of cash calls issued to partners regarding capital projects and estimates of amounts owing but not yet invoiced to the Company have been included in accounts payable. The level of accounts payable and accrued liabilities at March 31, 2013 corresponds to the seasonality of the Company's operations.

Decommissioning Liability

The Company's decommissioning liability represents the present value of estimated future costs to be incurred to abandon and reclaim wells and facilities, either drilled, constructed or purchased by Storm. Changes in the amount of the liability during the period ended March 31, 2013 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the year, less the decommissioning obligations associated with the dispositions of oil and gas properties, plus the time related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 2.5%. Future costs to abandon and reclaim the Company's properties are based on an internal evaluation, supported by external data from industry sources.

Shareholders' Equity

Details of share issuances from inception to March 31, 2013 are as follows:

	Nature of Transaction	Number of Shares	Price per Share	Gross Proceeds
June 8, 2010	Issued upon incorporation	1	\$ 1.00	\$ -
August 17, 2010	Issued to ARC Resources Ltd.	884,173	\$ 3.28	2,900
August 17, 2010	Issued under the Arrangement	16,631,240	\$ 3.28	54,700
August 17, 2010	Issued under private placement	2,300,000	\$ 3.28	7,544
September 22, 2010	Issued upon exercise of warrants	6,561,556	\$ 3.28	21,522
January 12, 2012	Issued on acquisition of shares of SGR	11,761,190	\$ 3.73	43,869
March 23, 2012	Issued under private placement	6,946,000	\$ 3.40	23,615
March 23, 2012	Issued to former Bellamont shareholders	16,740,096	\$ 2.37	39,674
Total		61,824,256	\$ 3.13	\$ 193,824

In April 2013 the Company entered into a bought deal financing for aggregate gross proceeds of \$23,640,400. Pursuant to this financing, the Company issued 12,580,000 common shares at a price of \$1.88 per share.

Concurrently with the bought deal financing, the Company issued 3,000,000 common shares at a price of \$1.88 per share to certain directors, officers and employees of the Company for gross proceeds of \$5,640,000.

Both of these financings closed on May 1, 2013. In aggregate, gross proceeds received totaled \$29,290,400. Costs of the financings approximated \$1.5 million.

CONTRACTUAL OBLIGATIONS

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

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

All such contractual obligations reflect market conditions at the time of contract and do not involve related parties. At present the Company has no material obligations with a term longer than twelve months except for a lease of office premises for a period of five years commencing October 1, 2013 for a base rent, not including operating costs, totaling \$2.7 million over the term of the lease.

QUARTERLY RESULTS

Summarized information by quarter for the two years ended March 31, 2013 appears below:

	2013				2012			2011
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Production revenue (\$000s) ⁽¹⁾	9,069	11,139	9,631	9,819	3,390	2,493	1,482	1,936
Non-GAAP funds from (applied to) operations (\$000s) ⁽²⁾	3,227	5,016	4,765	3,669	(63)	709	396	710
Per share								
- basic (\$)	0.05	0.08	0.08	0.07	0.00	0.03	0.02	0.03
- diluted (\$)	0.05	0.08	0.08	0.07	0.00	0.03	0.02	0.03
Net income (loss) (\$000s)	(261)	(2,320)	(3,586)	947	(1,615)	(1,758)	(1,023)	(562)
Per share								
- basic (\$)	0.00	(0.04)	(0.07)	0.03	(0.04)	(0.07)	(0.04)	(0.02)
- diluted (\$)	0.00	(0.04)	(0.07)	0.03	(0.04)	(0.07)	(0.04)	(0.02)
Net capital expenditures (\$000s)	637	8,777	(3,925)	7,224	162,922	20,687	8,394	2,012
Average daily production - Boe	2,488	2,815	2,380	2,584	1,229	779	511	595
Net (debt)/working capital (\$000s)	(42,106)	(44,696)	(42,511)	(53,667)	(50,300)	(15,171)	4,054	12,805
Available for sale investments	3,450	4,320	6,374	7,513	8,270	8,838	8,621	9,583

(1) Includes hedging gains.

(2) See Non-GAAP Measurements on page 17 of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the unaudited condensed interim consolidated financial statements for the period ended March 31, 2013 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain amounts in the financial statements are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts, as described below, are based on estimations using information involving a high degree of measurement uncertainty. Variations between amounts estimated and actual results could have a material effect on Storm's operating results and financial position.

Accounting for Acquisitions

The purchase of SGR and Bellamont in the quarter ended March 31, 2012 necessitated the allocation of fair values to the assets acquired and the liabilities assumed as a result of the acquisitions. The determination of fair values was made by management of Storm and involved measurements, estimations and judgments which could differ from similar determinations made by other parties. Further, fair values were set using management's knowledge of the assets and liabilities of the acquired companies at the time of acquisition or subsequently, and information and circumstances may emerge that could result in changes to the fair values set by management. The allocation of fair values thus involves measurement uncertainty and changes thereto could have a material effect on operations and financial position.

Decommissioning Liability

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

Income Taxes

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

Share-Based Compensation

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

Exploration and Evaluation Assets

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

Property and Equipment and Depletion and Depreciation

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

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some risks are common to all businesses while others are specific to the industry. Information with respect to such risks is set out in Storm's Annual Information Form dated March 28, 2013 for the year ended December 31, 2012 under the heading "Risk Factors" and in Storm's MD&A for the period ended December 31, 2012 under the heading "Risk Assessment".

FINANCIAL REPORTING UPDATE

Accounting Changes

In May 2011, the International Accounting Standards Board ("IASB") released the following new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" and IFRS 13, "Fair Value Measurement". Each of these standards has been adopted as of January 1, 2013. A brief description of each new standard follows below:

- IFRS 10, "Consolidated Financial Statements" supercedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities;

- IFRS 11, “Joint Arrangements” divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting;
- IFRS 12, “Disclosure of Interests in Other Entities” combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities;
- IFRS 13, “Fair Value Measurement” defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The adoption of each of the preceding standards has had no effect on the financial statements of the Company.

As of January 1, 2015, Storm will be required to adopt IFRS 9 “Financial Instruments”, which is the first phase of the IASB project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of this standard remain in development and the full effect of the standard on Storm’s financial statements will not be known until the project is complete.

ADDITIONAL INFORMATION

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

Financials

Interim Consolidated Statements of Financial Position

(Canadian \$000s) (unaudited)	March 31, 2013	December 31, 2012
ASSETS		
Current		
Cash	\$ -	\$ -
Accounts receivable	8,335	8,816
Prepays and deposits	1,157	815
Fair value of commodity price contracts (Note 13)	-	229
	9,492	9,860
Investments (Note 4)	3,450	4,320
Exploration and evaluation (Note 5)	80,040	72,947
Property and equipment (Note 6)	149,754	161,665
	\$ 242,736	\$ 248,792
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 18,439	\$ 12,615
Fair value of commodity price contracts (Note 13)	93	-
	18,532	12,615
Bank indebtedness (Note 7)	33,159	41,712
Decommissioning liability (Note 8)	8,468	10,924
	60,159	65,251
Shareholders' equity		
Share capital (Notes 10 and 17)	193,184	193,184
Contributed surplus (Note 11)	2,255	2,088
Deficit	(11,992)	(11,731)
Accumulated other comprehensive loss	(870)	-
	182,577	183,541
	\$ 242,736	\$ 248,792

See accompanying notes to the condensed interim consolidated financial statements.

On behalf of the Board:



Director



Director

Interim Consolidated Statements of Loss and Comprehensive Loss

(Canadian \$000s except per-share amounts) (unaudited)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenue		
Revenue from product sales	\$ 9,048	\$ 3,390
Realized gain on commodity price contracts (Note 13)	21	-
Royalties	(1,181)	(307)
	\$ 7,888	\$ 3,083
Expenses		
Production	3,032	1,090
Transportation	323	233
Acquisition costs (Note 3)	-	610
General and administrative	974	914
Share-based compensation (Note 11)	167	163
Depletion and depreciation	3,652	1,454
Accretion	61	21
	8,209	4,485
Loss before the following:	(321)	(1,402)
Interest expense	(332)	(299)
Gain on disposal of oil and gas properties (Note 6)	714	-
Unrealized gain (loss) on commodity price contracts	(322)	86
Loss for the period	(261)	(1,615)
Other comprehensive loss - unrealized loss on investments available for sale (Note 4)	(870)	(568)
Comprehensive loss for the period	(1,131)	\$ (2,183)
Net loss per share (Note 12)		
- basic	\$ 0.00	\$ (0.04)
- diluted	\$ 0.00	\$ (0.04)

See accompanying notes to the condensed interim consolidated financial statements.

Interim Consolidated Statements of Changes in Shareholders' Equity

(Canadian \$000s) (unaudited)	Three Months Ended March 31, 2013				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of period	\$193,184	\$ 2,088	\$(11,731)	\$ -	\$183,541
Net loss for the period	-	-	(261)	-	(261)
Share-based compensation (Note 11)	-	167	-	-	167
Unrealized loss on investments available for sale (Note 4)	-	-	-	(870)	(870)
Balance, end of period	\$193,184	\$ 2,255	\$(11,992)	\$ (870)	\$182,577

(Canadian \$000s) (unaudited)	Three Months Ended March 31, 2012				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of period	\$ 86,576	\$ 1,389	\$ (5,157)	\$ (3,708)	\$ 79,100
Net loss for the period	-	-	(1,615)	-	(1,615)
Issue of common shares to shareholders of SGR	43,869	-	-	-	43,869
Issue of common shares to shareholders of Bellamont	39,674	-	-	-	39,674
Issue of common shares under private placement	23,616	-	-	-	23,616
Share issue costs	(550)	-	-	-	(550)
Share-based compensation (Note 11)	-	163	-	-	163
Unrealized loss on investments available for sale (Note 4)	-	-	-	(568)	(568)
Balance, end of period	\$193,185	\$ 1,552	\$ (6,772)	\$ (4,276)	\$183,689

See accompanying notes to the condensed interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

(Canadian \$000s) (unaudited)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Operating activities		
Net loss for the period	\$ (261)	\$ (1,615)
Non-cash items:		
Gain on disposal of oil and gas properties	(714)	-
Depletion, depreciation and accretion	3,713	1,475
Unrealized loss (gain) on commodity price contracts (Note 13)	322	(86)
Share-based compensation (Note 11)	167	163
	3,227	(63)
Net change in non-cash working capital items (Note 15)	19	(2,477)
	3,246	(2,540)
Financing activities		
Proceeds from private placement of common shares – net of expenses (Note 10)	-	23,066
Increase (decrease) in bank indebtedness	(8,553)	(6,551)
	(8,553)	16,515
Investing activities		
Cash acquired on acquisition of SGR (Note 3)	-	2,405
Cash paid to shareholders of Bellamont (Note 3)	-	(20,000)
Additions to property and equipment (Note 6)	(12,866)	(2,595)
Additions to exploration and evaluation assets (Note 5)	(7,270)	(621)
Proceeds on disposal of property and equipment (Note 6)	18,105	-
Proceeds on disposal of exploration and evaluation assets (Note 5)	1,394	1,009
Net change in non-cash working capital items (Note 15)	5,944	(1,596)
	5,307	(21,398)
Change in cash during the period	-	(7,423)
Cash, beginning of period	-	7,423
Cash, end of period	\$ -	\$ -

See accompanying notes to the condensed interim consolidated financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2013 and 2012

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

1. REPORTING ENTITY

Storm Resources Ltd. (the "Company" or "Storm"), is an oil and gas exploration and development company incorporated in the province of Alberta, Canada on June 8, 2010 and is listed on the TSX Venture Exchange under the symbol "SRX". The Company operates in the provinces of Alberta and British Columbia and its head office is located at 1208, 250 – 2nd Street S.W., Calgary, Alberta T2P 0C1.

In August 2010 the Company became a reporting issuer subsequent to a plan of arrangement (the "Arrangement") involving ARC Energy Trust ("ARC"), ARC Resources Ltd., Storm Exploration Inc. ("SEO") and the Company. The Company was an early adopter of International Financial Reporting Standards ("IFRS"); accordingly, net assets transferred to the Company under the Arrangement, comprised of undeveloped lands and facility interests in northeast British Columbia, related decommissioning obligations, various corporate investments and cash, were transferred at estimated fair values at the time of the Arrangement.

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

2. BASIS OF PRESENTATION

Statement of Compliance

The financial statements have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting, following the same accounting policies and methods of computation as used in the audited consolidated financial statements for the years ended December 31, 2012 and 2011 except as noted below. The financial statements note disclosures do not include all disclosures applicable to annual audited financial statements. Accordingly, the financial statements should be read in conjunction with the audited financial statements and the notes thereto for the years ended December 31, 2012 and 2011.

These financial statements were authorized for issue by the Board of Directors on May 15, 2013.

Basis of Measurement

The Company's financial statements have been prepared on a basis consistent with prior years, under the historical cost convention, except for certain financial assets and financial liabilities, which are measured at fair value, as explained in Note 13.

Use of Estimates and Judgments

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

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

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

- Note 3 – Allocation of fair values to corporate acquisitions
- Note 5 – Classification and measurement of exploration and evaluation assets
- Note 6 – Classification and measurement of property and equipment
- Note 8 – Decommissioning liability
- Note 9 – Measurement and utilization of tax assets

- Note 11 – Measurement of share-based compensation
- Note 13 – Carrying amounts of commodity price contracts

Significant accounting policies

Changes to accounting policies, introduced effective January 1, 2013, are outlined in Note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2012. These changes to accounting policies have no effect on the inter-period comparability of financial information.

3. CORPORATE ACQUISITIONS IN 2012

a) Storm Gas Resource Corp.

Pursuant to the acquisition of Storm Gas Resource Corp. ("SGR") which closed on January 12, 2012, Storm acquired all of the issued and outstanding shares of SGR not already owned by the Company for a total cost of \$42.9 million, consisting of the issuance of 11,761,190 common shares of Storm offset by working capital of \$1.0 million. The common shares issued to SGR shareholders were valued at \$3.73 per share, being the closing share price of Storm at the time of acquisition. Storm had an existing ownership position in SGR totaling 2,500,000 common shares, an approximate 22% interest, which was carried at an amount of \$12.3 million at December 31, 2011. SGR was a private junior oil and gas exploration company which had interests in natural gas properties, primarily in the Horn River Basin in northeast British Columbia. Total transaction costs of approximately \$0.2 million were incurred by Storm and expensed.

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

Consideration	
Issuance of share capital	\$ 43,869
Carrying amount of existing 22% ownership	12,302
Total consideration	\$ 56,171
Fair value of net assets acquired	
Property and equipment	\$ 13,060
Exploration and evaluation assets	42,677
Working capital (Includes cash acquired of \$2,405)	990
Decommissioning liability	(556)
Net assets acquired	\$ 56,171

b) Bellamont Exploration Ltd.

Pursuant to the acquisition of Bellamont Exploration Ltd. ("Bellamont") which closed on March 23, 2012, Storm acquired all of the issued and outstanding shares of Bellamont for a total cost of \$96.6 million, consisting of \$20.0 million in cash, the assumption of a \$36.9 million working capital deficiency and the issuance of 16,740,096 common shares. The common shares issued were valued at \$2.37 per share, being the closing share price of Storm at the time of acquisition. Bellamont was a public junior oil and gas exploration company with interests in crude oil and natural gas properties primarily in the Peace River Arch area of Alberta. Total transaction costs of approximately \$0.4 million were incurred by Storm and expensed.

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

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

Fair Value of Net Assets Acquired		
Property and equipment		\$ 102,805
Exploration and evaluation assets		2,113
Working capital deficiency (Includes debt acquired of \$38,388)		(36,939)
Decommissioning liability		(8,305)
Net assets acquired		\$ 59,674

4. INVESTMENTS

	March 31, 2013	December 31, 2012
Chinook Energy Inc. ("Chinook")	\$ 3,450	\$ 4,320

Unrealized revaluation loss for the period ended March 31, 2013, in the amount of \$0.9 million (2012 – loss of \$0.6 million), is recognized in other comprehensive loss. In the future, when the gain or loss is realized, it will be recognized in the calculation of net income.

5. EXPLORATION AND EVALUATION

	March 31, 2013	December 31, 2012
Balance, beginning of period	\$ 72,947	\$ 26,156
Corporate acquisitions	-	44,790
Additions	7,270	4,725
Disposals	(731)	(2,060)
Exploration and evaluation expenditures expensed	-	(664)
Future decommissioning costs	554	-
Transfer to property and equipment	-	-
Balance, end of period	\$ 80,040	\$ 72,947

Additions are net of the sale of undeveloped land for proceeds of \$1.1 million. This sale resulted in the recognition of a net gain of \$0.7 million which has been recorded on the statement of loss.

6. PROPERTY AND EQUIPMENT

	March 31, 2013	December 31, 2012
Net book value, beginning of period	\$ 161,665	\$ 49,507
Cost		
Balance, beginning of period	\$ 176,990	\$ 52,943
Corporate acquisitions	-	115,865
Additions	12,866	27,444
Disposals	(19,763)	(18,553)
Change in future decommissioning costs	(3,071)	(709)
Balance, end of period	\$ 167,022	\$ 176,990
Accumulated depletion and depreciation		
Balance, beginning of period	\$ 15,325	\$ 3,436
Depletion and depreciation	3,652	13,574
Disposals	(1,709)	(1,685)
Balance, end of period	\$ 17,268	\$ 15,325
Net book value, end of period	\$ 149,754	\$ 161,665

During the first quarter the Company sold certain land and oil and gas properties producing approximately 300 Boe per day, primarily light crude oil, for net proceeds of \$19.5 million.

7. BANK INDEBTEDNESS

As at March 31, 2013, the Company had an extendible revolving bank facility in the amount of \$52 million (December 31, 2012 – \$62 million) based on the Company's producing reserves. The revolving facility is available to the Company until April 30, 2014. 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. The Company is in compliance with all covenants under the credit facility.

8. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production assets, including well sites, gathering systems and facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately \$11.4 million, which is expected to be paid over the next 25 years. A risk-free discount rate of 2.5% (2012 – 2.6%) and an inflation rate of 1.2% (2012 – 1.9%) was used to calculate the present value of the decommissioning obligation, amounting to \$8.5 million.

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

	Three Months Ended March 31, 2013	Year Ended December 31, 2012
Balance, beginning of period	\$ 10,924	\$ 2,532
Obligations incurred	108	303
Obligations acquired	-	8,861
Obligations disposed	(2,474)	(1,225)
Obligations settled	(151)	-
Change in estimate ⁽¹⁾	-	211
Accretion expense	61	242
Balance, end of period	\$ 8,468	\$ 10,924

(1) Relates to changes in cost estimates and discount and inflation rates in 2012.

9. DEFERRED INCOME TAXES

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

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately \$154 million as well as non-capital losses of approximately \$96 million. The non-capital losses begin to expire in 2026. A deferred tax asset has not been recognized due to uncertainty as to future realization.

10. SHARE CAPITAL

Authorized

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

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

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

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2011	26,377	\$ 86,576
Shares issued on acquisition of SGR ⁽¹⁾	11,761	43,869
Shares issued under private placement ⁽²⁾	6,946	23,615
Shares issued on acquisition of Bellamont ⁽³⁾	16,740	39,674
Share issue costs ⁽²⁾	-	(550)
Balance as at December 31, 2012 and March 31, 2013	61,824	\$ 193,184

- (1) On January 12, 2012 the Company issued 11,761,190 common shares, valued at \$3.73 per share, to acquire all of the issued and outstanding shares of SGR not already owned by the Company. See also Note 3.
- (2) On March 23, 2012 the Company issued 6,946,000 common shares at a price of \$3.40 per share for proceeds of \$23.6 million before related transaction costs of approximately \$550,000.
- (3) On March 23, 2012 the Company issued 16,740,096 common shares and paid cash of \$20 million to acquire all of the issued and outstanding shares of Bellamont. The Shares issued by the Company were valued at \$2.37 per share. See also Note 3.

11. SHARE-BASED COMPENSATION

The Company has a stock option plan under which it may grant, at the Company's discretion, options to purchase common shares to directors, officers, employees and consultants. Options are granted at the market price of the shares on the date of grant, have a four-year term and vest in one-third tranches over three years. Under the stock option plan, a total of 6,182,425 common shares are available for issuance. At March 31, 2013 options in respect of 3,966,500 common shares were issued, all of which are unexercised, and options remained in respect of 2,215,925 common shares which are available for further grants under the stock option plan.

Details of the options outstanding at March 31, 2013 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2012	2,723	\$ 2.96
Granted during the period	1,499	\$ 1.75
Forfeited during the period	255	\$ 3.28
Outstanding at March 31, 2013	3,967	\$ 2.48
Number exercisable at March 31, 2013	1,182	\$ 3.28

Range of Exercise Price	Number of Options Outstanding (000s)	Outstanding Options	
		Weighted Average Remaining Life (years)	Weighted Average Exercise Price
\$1.75 - \$2.75	2,204	3.6	\$ 1.83
\$2.76 - \$3.96	1,763	1.4	\$ 3.29
Total	3,967	2.6	\$ 2.48

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

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the three months ended March 31, 2013 of \$0.82 per share (2012 - \$0.84) include the following:

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

Share-based compensation expense of \$167,000 was charged to the statement of loss and comprehensive loss during the three months ended March 31, 2013 (2012 - \$163,000) with an equivalent offset to contributed surplus.

12. NET LOSS PER SHARE

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net loss for the period	\$ 261	\$ 1,615
Weighted average number of common shares outstanding – basic		
Common shares outstanding at beginning of period	61,824	26,377
Effect of shares issued	-	12,293
Weighted average number of common shares outstanding – basic	61,824	38,670
Effect of outstanding options	-	-
Weighted average number of common shares outstanding - diluted	61,824	38,670
Net loss per share		
- basic	\$ -	\$ (0.04)
- diluted	\$ -	\$ (0.04)

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

13. FINANCIAL INSTRUMENTS

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

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

The carrying value of cash, accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness included on the statements of financial position approximate their fair values due to the short-term nature of those instruments.

The fair value of the Company's investment in Chinook is determined with reference to published share prices and is therefore classified as a Level 1 financial instrument. The Company's investment in Chinook is carried at the March 31, 2013 fair value of \$3.5 million. The fair value of the Company's commodity contracts described below is based on forward prices of commodities available in the market place and they are therefore classified as Level 2 financial instruments. The Company has no Level 3 financial instruments.

Risk Management

Commodity prices

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

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

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

As at March 31, 2013, Storm has the following commodity price contracts in place. The fair market value of these contracts of \$(93,000) (December 31, 2012 – \$229,000) is included in current liabilities and the resulting unrealized mark-to-market loss of \$322,000 (2012 – gain of \$86,000) is recognized in the statement of loss for the period ended March 31, 2013.

Volume	Price (Cdn)	Term
Crude Oil Swap		
50 Bbls/day	\$98.85	April 2013 – June 2013
100 Bbls/day	\$99.05	July 2013 – September 2013
100 Bbls/day	\$98.25	July 2013 – September 2013
Crude Oil Collars		
150 Bbls/day	\$90.00 - \$95.00	April 2013 – June 2013
100 Bbls/day	\$90.00 - \$98.75	April 2013 – June 2013

During the quarter ended March 31, 2013, the Company realized gains from hedges in place in the amount of \$21,000 (2012 – Nil).

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

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

Prices of listed securities

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

Interest rates

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

Foreign exchange rates

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

Sensitivities

Using the Company's actual production volumes, royalty rates and debt levels for the first quarter of 2013, the estimated after-tax effect that changes in certain factors would have on net income and net income per share is set out below:

Factor	2013	
	Change in Net Income	Change in Net Income Per Share
US\$ 1.00/Bbl change in the price of WTI	\$ 60,000	\$ -
\$0.10/Mcf change in the price of natural gas	\$ 90,000	\$ -
1% change in the interest rate	\$ 430,000	\$ 0.01

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

Liquidity risk

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

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

14. RELATED PARTY TRANSACTIONS

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Salaries and short-term benefits	\$ 320	\$ 204
Share-based compensation	17	88
	\$ 337	\$ 292

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Accounts receivable	\$ 481	\$ 4,462
Prepays and deposits	(342)	122
Accounts payable and accrued liabilities	5,824	(8,657)
Change in non-cash working capital	\$ 5,963	\$ (4,073)
Relating to:		
Operating activities	\$ 19	\$ (2,477)
Investing activities	5,944	(1,596)
	\$ 5,963	\$ (4,073)
Interest paid during the period	\$ 342	\$ 304
Income taxes paid during the period	\$ -	\$ -

16. COMMITMENTS

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

(\$000s)	2013	2014	2015	2016	2017
	433	792	796	808	808

17. SUBSEQUENT EVENTS

The following took place subsequent to March 31, 2013:

Financing:

- In April 2013 the Company entered into a bought deal financing for aggregate gross proceeds of \$23,640,400. Pursuant to this financing, the Company issued 12,580,000 common shares at a price of \$1.88 per share.
- In addition, the Company issued 3,000,000 common shares at a price of \$1.88 per share to certain directors, officers and employees of the Company for gross proceeds of \$5,640,000.
- Both of these financings closed on May 1, 2013. In aggregate, gross proceeds received totaled \$29,290,400. Related commissions and expenses are estimated to be approximately \$1.5 million.

Bank Indebtedness:

The Company's bank has confirmed the continuance of the credit facility until April 30, 2014 at the existing level of \$52 million.

Corporate Information

Officers

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Chief Financial Officer

John Devlin
Vice President, Finance

Directors

Matthew J. Brister ⁽²⁾

John A. Brussa ⁽³⁾

Mark A. Butler ⁽¹⁾⁽³⁾

Stuart G. Clark ⁽¹⁾
Chairman

Brian Lavergne
CEO

Gregory G. Turnbull ⁽³⁾

P. Grant Wierzba ⁽²⁾

James K. Wilson ⁽¹⁾

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

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol "SRX"

Solicitors

McCarthy Tétrault LLP
Burnet Duckworth & Palmer LLP
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar & Transfer Agent

Alliance Trust Company
Calgary, Alberta

Bankers

ATB Financial
Calgary, Alberta

Executive Offices

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

Abbreviations

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



Storm Resources Ltd.
Suite 1208, 250 – 2nd Street S.W., Calgary, Alberta T2P 0C1
Phone: (403)817-6145 Fax: (403)817-6146

www.stormresourcesltd.com