STORM RESOURCES

2011 Q1 REPORT

Consolidated Highlights

Thousands of Cdn$, except volumetric and per share amounts	Three Months Ended March 31, 2011
FINANCIAL	
Gas sales	401
NGL sales	97
Oil sales	483
Royalty income	-
Production revenue	981
Funds from operations (1)	59
Per share - basic ($)	0.00
Per share - diluted ($)	0.00
Net income (loss)	(321)
Per share - basic ($)	(0.01)
Per share - diluted ($)	(0.01)
Capital expenditures, net of dispositions	9,702
Cash plus accounts receivable less accounts payable	13,058
Weighted average common shares outstanding (000s)	
Basic	26,377
Diluted	26,377
Common shares outstanding (000s)	
Basic	26,377
Fully diluted	28,391
OPERATIONS	
Oil equivalent (6:1)	
Barrels of oil equivalent (000s)	25
Barrels of oil equivalent per day	276
Average selling price (Cdn$ per Boe)	39.53
Royalties	5.1%
Gas production	
Thousand cubic feet (000s)	110
Thousand cubic feet per day	1,221
Average selling price (Cdn$ per Mcf)	3.65
NGL Production	
Barrels (000s)	1
Barrels per day	13
Average selling price (Cdn$ per barrel)	83.68
Oil Production	
Barrels (000s)	5
Barrels per day	59
Average selling price (Cdn$ per barrel)	90.59
Wells drilled	
Gross	-
Net	-

(1) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 6 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 11 of the attached MD&A.

President's Message

FIRST QUARTER 2011 HIGHLIGHTS

- Undeveloped land holdings increased to 156,000 net acres at the end of the first quarter from 144,000 net acres at the end of 2010. Most of the increase was at Umbach where Storm Resources Ltd. ("Storm" or the "Company") now has 53,000 net undeveloped acres which are primarily prospective in the Montney formation.

- Production averaged 276 Boe per day for the quarter. There was no production reported in any earlier period.

- At Umbach, the first horizontal well (0.6 net) commenced production March 6th at 5 Mmcf per day gross raw gas with the current rate being approximately 2 Mmcf per day gross raw gas (approximately 205 Boe per day sales net to Storm). As well, three vertical wells (2.6 net) were completed in the first quarter and all flowed natural gas, confirming the productivity of the Montney formation over a large part of Storm's landholdings in the area.

- In the Horn River Basin, a 20 Mmcf per day facility was constructed and the first horizontal well (40% working interest) testing the Muskwa and Otter Park shales commenced production March 7th. It is currently flowing at a restricted rate of 5.9 Mmcf per day gross raw gas (approximately 350 Boe per day sales net to Storm).

- At Red Earth, two horizontal wells (0.4 net) commenced production from the Slave Point formation in early February with current production from both wells being approximately 85 barrels per day of light oil net to Storm in mid-May. Due to wildfires in the Slave Lake area, production is currently shut in for precautionary reasons.

- Capital investment was $9.7 million in the first quarter with major expenditures being $2.5 million for land acquisitions, $2.8 million for completions, and $2.7 million for facilities.

- At March 31, 2011, Storm's net funds available for investment (working capital surplus) were $13.1 million and the value of Storm's investments in publicly listed companies totaled $11.6 million (proceeds from the possible future sale of these securities may be used to finance the Company's capital programs).

OPERATIONS REVIEW

Horn River Basin ("HRB"), North East British Columbia

Storm's undeveloped land position in the HRB currently totals 116 gross sections at a 40% working interest (30,200 net acres) and is prospective for natural gas from the Muskwa, Otter Park, and Evie/Klua shales. In the first quarter, seven gross sections (2.8 net) were acquired including two sections which expanded our core project area from 19 to 21 sections (8.4 net). Storm's total exposure to this unconventional shale gas play is 53% given that Storm Gas Resource Corp. ("SGR") has the remaining 60% working interest and Storm owns 22% of the equity in SGR. First quarter production from this area averaged 116 Boe per day as a result of production commencing from the first horizontal on March 7th.

Storm's initial efforts in the HRB have been focused on proving commerciality of the Muskwa and Otter Park shales within a central project area consisting of 21 gross sections (8.4 net to Storm's working interest). Storm management estimates that gross Discovered Petroleum Initially in Place ("DPIIP")[(1)] in the Muskwa and Otter Park shales totals 2.0 to 2.2 Tcf within this area based on average net pay of 95 metres, porosity of 3.7% to 5.0%, gas saturation of 77%, and an adsorbed gas content of 61 Scf/ton. With a total of 116 gross sections (46.4 net) in the area, there remains potential for this resource estimate to increase as additional delineation wells are drilled outside of the core project area.

(1) 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. Original Gas in Place ("OGIP") is a more commonly used industry term when referring to gas accumulations. 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.

The first horizontal well (0.4 net) within the core project area was drilled and completed in 2010 and commenced production March 7th after construction of a 20 Mmcf per day facility. The initial rate was 6.5 Mmcf per day gross raw gas with current production being 5.9 Mmcf per day gross raw gas (approximately 350 Boe per day sales net to Storm). The rate is restricted by 2 3/8" tubing and high gathering system pressures (tubing pressure 800 psig, casing pressure 1,750 psig). A second horizontal well (40% working interest) was also drilled in 2010 and may be completed later in 2011 depending on natural gas prices, production performance of the first horizontal well and potential reserve additions from additional undrilled horizontal locations that would be recognized with a successful completion. At current natural gas prices, Storm expects that no royalties will be paid on production from the first two horizontals in the next two years due to their qualification under British Columbia's Deep Royalty Credit and Infrastructure Royalty Credit Programs.

Umbach, North East British Columbia

At Umbach in North East British Columbia, Storm has 53,300 net undeveloped acres which are primarily prospective in the Montney formation (97 gross sections, 70 net sections). Production from this area averaged 101 Boe per day during the first quarter.

The first horizontal well (0.6 net) was completed with seven 100-ton fracture treatments, came on production March 6th at a rate of 5.0 Mmcf per day gross raw gas, and is currently producing approximately 2.0 Mmcf per day gross raw gas (205 Boe per day net sales to Storm). This horizontal offsets a vertical well which had a final stabilized test rate of 600 Mmcf per day from the Montney formation after completion in 2009 with a 100-ton fracture treatment. Also in the first quarter, a second vertical well (0.6 net) four miles north of the first horizontal well was completed in the Montney formation with the final test rate stabilizing at 300 Mcf per day after a 100-ton fracture treatment. In the second half of 2011, Storm plans to drill four follow-up horizontal wells (2.4 net) and another vertical delineation well (0.6 net). To try and improve productivity, the horizontal well length will be increased and 10 to 12 fracture treatments will be pumped. The cost to drill, complete and tie in horizontals with 10 fracture treatments is forecast to be $4.0 to $4.5 million. Initially, infrastructure costs are not expected to be significant given that Storm can access existing facilities and pipelines which are connected to Spectra's McMahon Gas Plant. Natural gas produced from the Montney formation in this area has higher heat or Btu content per Mcf which results in associated liquids production of 25 to 35 barrels per Mmcf (free condensate plus natural gas liquids recovered at the McMahon Gas Plant).

Storm is also pursuing a second lead in the Montney formation on additional lands acquired to the south of the first horizontal well. As part of land acquisitions, two vertical wells (100% working interest) were acquired and both were completed in the first quarter in the Montney formation with 100-ton fracture treatments. Final test rates on each well were approximately 150 to 200 Mcf per day. Both verticals confirm the Montney to be productive over a large area, however, the low final test rates are indicative of lower reservoir quality. Areas likely to have better reservoir quality have been identified from recently acquired 3-D seismic and a vertical delineation well may be drilled in this area later in 2011.

Storm management estimates that DPIIP in the Montney formation ranges from 14 to 28 Bcf of raw gas per section which is based on log analysis from a limited number of vertical wells on Storm's lands plus core data from two vertical wells in the area. The specific parameters used in estimating DPIIP include net pay of 15 to 30 metres (using a 3% sandstone scale cut-off), average porosity of 7%, average gas saturation of 83% and reservoir pressure of 15,300 kPa. Recovery of DPIIP is difficult to determine at this time given that there is no production history from the Montney formation in the immediate area.

Red Earth, North Central Alberta

Production at Red Earth averaged 59 barrels of oil per day in the first quarter from two Slave Point horizontal wells (0.4 net) which commenced production in early February. Net production in mid-May averaged approximately 85 barrels of oil per day from both wells. Netbacks were $68.00 per barrel in the first quarter with both horizontals benefiting from a 5% royalty rate under Alberta's New Well Royalty Rate program.

INVESTMENTS

Storm has share ownership positions in one private company and three publicly traded companies. These shareholdings were transferred to Storm under the Plan of Arrangement with ARC Energy Trust. The value of the share positions in the three public companies totaled $11.6 million at the end of the first quarter and these securities could possibly be sold in the future with the proceeds being used to finance the Company's capital programs.

Storm Gas Resource Corp.
SGR is a private company formed in June 2007 to pursue unconventional gas opportunities in the HRB and elsewhere. Storm's share ownership position totals 2.5 million shares, representing 22% ownership of SGR. Currently, SGR's land position totals 76,500 acres with 56,600 acres in the HRB. SGR's working capital available for investment was $15.0 million at the end of 2010.

Chinook Energy Inc. ("Chinook")
Storm holds 4.5 million shares of Chinook which is a TSX-listed oil and gas exploration and production company (symbol 'CKE') based in Calgary with operations focused in Tunisia and Western Canada. Storm Exploration Inc. had previously owned 4.5 million shares of Storm Ventures International Inc. ("SVI"), a private company, which were converted into shares of Chinook when SVI and Iteration Energy Ltd. completed a business combination June 29, 2010.

Bridge Energy ASA ("Bridge")
Storm holds 1.05 million common shares of Bridge (symbol 'Bridge' on the Oslo Stock Exchange), a Norwegian-based exploration and production company with production of approximately 1,500 Boe per day, several development opportunities in the UK sector of the North Sea, and a number of exploratory leads in the Norwegian sector of the North Sea. Bridge is the result of a business combination completed in March 2010 whereby SVI's United Kingdom North Sea assets were combined with a private Norwegian based company which resulted in SVI receiving 28,776,000 common shares of Bridge that were distributed to SVI shareholders.

Bellamont Exploration Ltd. ("Bellamont")
At March 31, 2011, Storm held 0.7 million shares of Bellamont, a TSX-V listed oil and gas exploration and production company. During the first quarter, Storm sold 4.4 million shares of Bellamont for proceeds totaling $2.7 million and, in April 2011, the remaining shares were sold for proceeds totaling $0.4 million.

OUTLOOK

Storm's guidance for 2011 remains largely unchanged and includes:

- Capital investment of $24.0 million;
- Drilling five to six gross wells (3.0 to 4.0 net) all at Umbach, including four horizontals plus one to two verticals;
- Production for the final quarter of 2011 averaging approximately 1,000 to 1,200 Boe per day (15% oil and NGLs);
- Forecast operating costs of $7.25 per Boe;
- Cash general and administrative costs totaling $2.7 million;
- Royalty rate of approximately 10% which includes the effect of royalty incentive programs in Alberta and British Columbia.

The current cash balance and cash flow is expected to be sufficient to fund planned 2011 capital expenditures. Ultimately, capital allocation and the size of the drilling program will depend on results, natural gas prices and the size of any asset or undeveloped land acquisitions.

Production is currently approximately 625 Boe per day and second quarter production is expected to average 550 to 600 Boe per day after accounting for a three-week maintenance turnaround in June at the McMahon Gas Plant in North East British Columbia.

During the first quarter, the first horizontal development wells began producing from Storm's resource plays at Umbach and in the HRB, with results to date having met or exceeded expectations. The first horizontal in the HRB has validated commerciality of the Muskwa and Otter Park shales within our core project area which contains a significant exploitable resource with estimated gross DPIIP of 2.0 to 2.2 Tcf (internal estimate by Storm management). At Umbach, the productivity of the Montney formation has been established over a large area through the completion and testing of four vertical wells. Production performance to date of the first horizontal with 7 fracture treatments has met expectations and, with 30 barrels per Mmcf of associated liquids, the rate of return on a 'full-cycle' basis is estimated to be approximately 15% at current natural gas and liquids prices. Four follow-up horizontals are planned for the second half of 2011 and additional fracture treatments will be pumped on these horizontals to try and improve productivity and the associated rate of return.

Storm has accumulated large land positions in two resource plays which have significant upside potential. In the current natural gas price environment, our focus will remain on advancing both by delineating resource and/or adding reserves since this is expected to provide a greater return on capital invested than growing production and cash flow.

Respectfully,

B. Lavergne

Brian Lavergne,
President and Chief Executive Officer

May 18, 2011

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 18, 2011 for the period ended March 31, 2011.

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 to March 31, 2011. It should be read in conjunction with the Company's unaudited condensed interim financial statements for the three months ended March 31, 2011, the audited financial statements for the period from June 8, 2010 to December 31, 2010 and other operating and financial information included in this report. In addition, readers are directed to the discussion below regarding Forward-Looking Statements, Boe Presentation and Non-GAAP Measurements.

The Company was incorporated on June 8, 2010 as 1541229 Alberta Ltd. with nominal share capital and was inactive until August 17, 2010 when the Company participated in a Plan of Arrangement (the "Arrangement") along with Storm Exploration Inc. ("SEO"), ARC Energy Trust ("ARC") and ARC Resources Ltd. The Arrangement resulted in the sale of SEO to ARC and the spin out of the Company as a junior exploration and development company. As part of the series of transactions associated with the Arrangement, the Company issued shares in exchange for certain assets formerly owned by SEO, as more fully described in Note 4 to the audited financial statements for the period from inception to December 31, 2010. The Company trades on the TSX Venture Exchange under the symbol "SRX".

This management's discussion and analysis is dated May 18, 2011. Unless otherwise indicated all dollar amounts are in thousands.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's unaudited financial statements for the three months ended March 31, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS compliant accounting policies adopted by the Company are referred to in Note 2 to the unaudited financial statements for the three-month period ended March 31, 2011 and set out in Note 3 to the audited financial statements for the period ended December 31, 2010. The reporting and the measurement currency is the Canadian dollar.

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

Comparative information is provided for the three months ended December 31, 2010. There is no comparative information for the three months ended March 31, 2010.

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

- future crude oil or natural gas prices;
- future production levels;
- future revenues or costs or revenues or costs per commodity unit;
- future capital expenditures and their allocation to specific exploration and development activities or periods;
- future drilling;
- future earnings;
- future asset acquisitions or dispositions;

- future sources of funding for capital programs;
- future decommissioning costs;
- development plans;
- ultimate recoverability of reserves or resources;
- expected finding and development costs, operating costs and general and administrative costs;
- estimates on a per-share basis;
- dates or time periods by which certain geographical areas will be developed; and
- changes to any of the foregoing.

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

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include the material risks described in this MD&A under “Critical Accounting Estimates” and the material assumptions described under the headings “Overview”; “Share-based Payments”; “Depletion and Depreciation”; “Accretion”; “Income Taxes”; “Other Comprehensive Income (Loss)”; “Financial Resources and Liquidity”; “Investments”; “Investment in Associate”; “Accounts Payable and Accrued Liabilities”; “Decommissioning Liability”; industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. All of these caveats should be considered in the context of current economic conditions, in particular reduced prices for natural gas, the attitude of lenders and investors towards natural gas assets, 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. References to forward-looking information are also made in the quarter-end report this MD&A forms part of. 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 management’s discussion and analysis, there may be references made to terms which are not recognized under Generally Accepted Accounting Principles (“GAAP”). Specifically, “funds from operations”, “funds from operations per share” and “netbacks” do not have any standardized meaning as prescribed by GAAP and are regarded as non-GAAP measures. It is likely that these non-GAAP measurements may not be comparable to the calculation of similar amounts for other entities. In particular, funds from operations is not intended to represent, or be equivalent to, cash flow from operating activities calculated in accordance with GAAP which appears on the Company’s statement of cash flows. Funds from operations and similar non-GAAP terms are used to benchmark operations against prior periods and peer group companies and are widely used by investors and lenders.

OPERATIONAL AND FINANCIAL RESULTS

Overview

Although Storm drilled no wells in the first quarter of 2011, production began in three areas, initially at Red Earth in North Central Alberta, and subsequently from the Horn River Basin and Umbach, both in North East British Columbia.

Storm's first horizontal well in the Horn River Basin, drilled in the final quarter of 2010, was tied in early in March 2011. Production began from the Muskwa and Otter Park formations at a restricted rate of 6.5 Mmcf gross raw gas per day, or 2.6 Mmcf gross raw gas per day net to Storm's interest. The Company's working interest is 40% and the Company's partner and operator of the well is its 22% owned associate, Storm Gas Resource Corp. ("SGR"). Current gas production is 5.9 Mmcf gross raw gas per day, or 2.4 Mmcf gross raw gas per day net.

Also in early March at Umbach, the Company, as operator with a 60% working interest, began production from a horizontal well drilled into the Montney formation at a rate of 5.0 Mmcf per day, or 3.0 Mmcf per day net to Storm's working interest. Current production is 2.0 Mmcf per day, or 1.2 Mmcf per day net to Storm. Associated condensate and NGL production is currently 35 Bbls per day.

In late January production began from two non-operated 20% working interest horizontal oil wells at Red Earth, with each well currently producing approximately 42 barrels of light sweet crude per day net to the Company's interest. Red Earth is not regarded as a core property to Storm; however, the Company will remain active in the area as long as there is a near-term opportunity to add high netback production.

During the quarter the Company was also an active participant at land sales in British Columbia.

Production and Revenue

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

Average Daily Production

	Three Months Ended March 31, 2011
Natural gas (Mcf/d)	1,221
Natural gas liquids (Bbls/d)	13
Crude oil (Bbls/d)	59
Total (Boe/d)	276

First production of oil began in February 2011 and first production of natural gas and natural gas liquids began in March 2011. Average daily production is calculated using the 90 days of the calendar quarter. Daily production per million shares outstanding averaged 10 Boe.

There was no production in any earlier period.

Production Profile and Per-Unit Prices

	Three Months Ended March 31, 2011	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Natural gas - Mcf	74%	$ 3.65
Natural gas liquids - Bbl	5%	$ 83.68
Crude oil - Bbl	21%	$ 90.59
Per Boe	100%	$ 39.53

All of the Company's natural gas is produced in British Columbia and is sold at a price based on the Station 2 reference point in British Columbia. Storm's realized price for the period was $3.24 per GJ. The Station 2 price for the month of March 2011, the only month of natural gas production in the quarter, averaged $3.19 per GJ, compared to $3.36 per GJ for the equivalent AECO price.

Production by Area – Boe/d

	Three Months Ended March 31, 2011
Horn River Basin – BC	116
Umbach – BC	101
Red Earth – AB	59
Total	276

Revenue from Product Sales

	Three Months Ended March 31, 2011
Natural gas	$ 401
Natural gas liquids	97
Crude oil	483
Total	$ 981

Royalties

	Three Months Ended March 31, 2011
Charge for period	$ 50
Percentage of production revenue	5%
Per Boe	$ 2.01

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

In British Columbia, natural gas wells spudded before July 1, 2010 and brought into production by December 31, 2010 are subject to a 2% royalty rate on sales of natural gas for the first 12 months of production. Storm's producing well at Umbach qualifies for this program. In addition, the Company benefits from British Columbia's deep well royalty credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on production from the well. This program is applicable to the Company's producing well in the Horn River Basin and the Company expects that future royalties will be reduced by an amount of $0.5 million.

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

Production Costs

	Three Months Ended March 31, 2011
Charge for period	$ 224
Percentage of production revenue	23%
Per Boe	$ 9.04

Production costs per barrel of crude oil averaged $15.90 for the period and production costs per Mcf of natural gas averaged $1.27 or $7.62 per Boe. Production costs for natural gas include Spectra charges for raw gas gathering and processing in British Columbia. Production costs of natural liquids gas are included with natural gas costs.

Transportation Costs

	Three Months Ended March 31, 2011
Charge for period	$ 27
Percentage of production revenue	3%
Per Boe	$ 1.07

Transportation costs largely comprise pipeline tariffs from the processing facility to the sales point for natural gas shipped in British Columbia and crude oil in Alberta.

Field Netbacks

Details of field netbacks for the three months ended March 31, 2011, measured per commodity unit, are as follows:

	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 90.59	$ 83.68	$ 3.64	$ 39.53
Royalties	(5.17)	(16.13)	(0.03)	(2.01)
Production costs	(15.90)	-	(1.27)	(9.04)
Transportation	(1.66)	(2.94)	(0.13)	(1.07)
Field netback	$ 67.86	$ 64.61	$ 2.21	$ 27.41

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

General and Administrative Costs

Total Costs	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010
Charge for period - gross	$ 723	$ 863
Overhead recoveries	(38)	(65)
Charge for period - net	$ 685	$ 798

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

Share-Based Payments

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010
Charge for period	$ 288	$ 275

Share-based payments are non-cash charges which reflect the estimated value of stock options issued to Storm's directors, officers and employees. The value of the award is recognized as an expense over the period from the grant date to the date of vesting of the award. In August 2010, options in respect of approximately two million shares were issued with an exercise price of $3.28. This issue formed part of the initial compensation program put in place for directors, officers and staff of the newly established business. An additional 40,000 options were issued to a new employee in the quarter ended March 31, 2011.

Depletion and Depreciation

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010
Depletion	$ 398	$ -
Depreciation	23	5
Charge for period	$ 421	$ 5
Per Boe	$ 16.84	N/A

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

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

Accretion

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010
Charge for period	$ 12	$ 12

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

Gain on Sale of Investments

During the quarter to March 31, 2011 the Company sold a total of 4.4 million shares of Bellamont Exploration Inc. for proceeds of $2.7 million. A gain of $0.4 million was realized.

Subsequent to March 31, 2011 the Company sold its remaining interest in Bellamont Exploration Ltd. for proceeds of $0.4 million, realizing a gain of $60,000.

Change in Equity of Associate

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010
Equity loss for period	$ 62	$ 89

As described in Note 6 to the unaudited financial statements for the quarter to March 31, 2011, the Company accounts for its 22% ownership position in an associated company, SGR, using the equity method, where the Company's pro rata share of changes in SGR's equity is included in the determination of the Company's net loss for the period. The investment loss recorded represents Storm's share of changes in SGR's equity for the quarter to March 31, 2011. Summarized financial information regarding SGR is provided in Note 6 to the Company's unaudited financial statements for the three months to March 31, 2011. SGR's principal business activity is the development of a natural gas prospect in the Horn River Basin of North East British Columbia in a 60:40 joint venture with Storm.

Income Taxes

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

Tax Pool	As at March 31, 2011	Maximum Annual Deduction
Canadian oil and gas property expense	$ 15,800	10%
Canadian development expense	12,400	30%
Canadian exploration expense	7,300	100%
Undepreciated capital cost	5,500	20 – 100%
Operating losses	5,300	100%
	$ 46,300	

Net Income

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010
Net loss	$ (321)	$ (1,493)
Per diluted share	$ (0.01)	$ (0.04)

Other Comprehensive Income (Loss)

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

	Holding	Number of Shares	Three Months Ended March 31, 2011	Quarter Ended December 31, 2010
Bellamont Exploration Ltd.	Class A Common Shares	675,045	$ (265)	$ 305
Bridge Energy ASA	Common Shares	1,052,910	(708)	121
Chinook Energy Inc.	Common Shares	4,500,001	(405)	(1,260)
Other comprehensive loss for period			$ (1,378)	$ (834)

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

	Three Months Ended March 31, 2011		Three Months Ended December 31, 2010	
		Per diluted share		Per diluted share
Funds from (applied to) operations	$ 59	$ 0.00	$ (708)	$ (0.03)

Non-GAAP funds from operations is not a measure recognized by GAAP in Canada, although it is widely used by analysts and other financial statement users. It is also used by lending institutions to determine cash flow to debt ratios and other measures of creditworthiness. 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, 2011		Three Months Ended December 31, 2010	
		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	$ 59	$ 0.00	$ (708)	$ (0.03)
Net change in non-cash working capital items	(1,255)	(0.05)	(556)	(0.02)
Cash applied to operating activities	$(1,196)	$ (0.05)	$(1,264)	$ (0.05)

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

INVESTMENT AND FINANCING

Financial Resources and Liquidity

The Company has cash on deposit derived from the following transactions:

	Transaction Date	Amount
Received under Arrangement	August 17, 2010	$ 9,370
Proceeds of private placement	August 17, 2010	7,544
Proceeds from exercise of warrants - net	September 22, 2010	21,432
Total cash received		38,346
Net cash outlays from Arrangement date to December 31, 2010		
Operating activities		(1,509)
Investing activities		(6,113)
Total		(7,622)
Cash at December 31, 2010		$ 30,724
Net cash outlays for the three months ended March 31, 2011		
Operating activities		(1,196)
Investing activities		(9,281)
Cash at March 31, 2011		$ 20,247
Accounts receivable		2,360
Accounts payable		(9,549)
Net funds available for investment at March 31, 2011		$ 13,058

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

Investments

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

	Holding	Number of Shares	Exchange	Closing Price March 31, 2011	Value at March 31, 2011
Bellamont Exploration Ltd.	Class A Common Shares	675,045	TSX-V	$0.59(1)	$ 398
Bridge Energy ASA	Common Shares	1,052,910	Oslo Børs Axess	$1.89(2)	1,988
Chinook Energy Inc.	Common Shares	4,500,001	TSX	$2.05	9,225
Total					$ 11,611

(1) Subsequent to March 31, 2011 the Company sold its remaining interest in Bellamont Exploration Ltd. for proceeds of $0.4 million, realizing a gain of $60,000.
(2) Canadian dollar equivalent – share trading is in Norwegian Kroner.

Capital Outlays

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

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010
Land and lease	$ 2,520	$ 2,833
Seismic	510	1,151
Drilling	630	6,617
Completions	2,752	3,931
Facilities	2,784	447
Recompletions and workovers	-	394
Acquisitions (Dispositions)	506	(2,000)
Total capital expenditures in period	$ 9,702	$ 13,373

Major expenditures in the first quarter of 2011 included: $5.5 million at Umbach, including $2.1 million for land acquisition, $0.5 million on seismic and $2.4 million to complete two vertical gas wells; $3.7 million in the Horn River Basin building a gas processing facility and tying in one horizontal gas well (40% working interest); and, $0.5 million at Red Earth tying in two non-operated horizontal oil wells (20% working interest).

Investment in Associate

The Company owns 2,500,000 common shares of SGR, representing a 22% interest. The Company accounts for its interest in SGR using the equity method. The carrying amount of the Company's interest in SGR at March 31, 2011 is $5.51 per share, representing the transfer amount under the Arrangement, plus the Company's share of SGR's loss since the Arrangement date. This amount should not be regarded as representative of the value of Storm's investment in SGR. In addition to its investment in SGR, Storm has a direct 40% working interest in undeveloped lands jointly acquired with SGR in the Horn River Basin of North East British Columbia. This interest, together with the investment in SGR, provides Storm with a 53% exposure to the potential upside in the Horn River Basin lands. The Company also provides management services to SGR and the amount billed for such services totaled $80,000 for the quarter ended March 31, 2011 and $68,000 for the quarter ended December 31, 2010.

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.

Decommissioning Liability

The Company's decommissioning liability represents the present value of estimated future costs to be incurred to abandon and reclaim wells and facilities, either drilled or constructed by Storm, or already existing on lands transferred to the Company under the Arrangement. Changes in amount of the liability during the quarter to March 31, 2011 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the period, plus the time related increase in the present value of the liability. The risk free discount rate used to establish the present value is 4%. 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, 2011 are as follows:

	Nature of Transaction	Number of Shares	Price per Share	Gross Proceeds
June 8, 2010	Issued upon incorporation	1	$ 1.00	$ -
August 17, 2010	Issued to ARC Resources Ltd.	884,173	$ 3.28	2,900
August 17, 2010	Issued under the Arrangement	16,631,240	$ 3.28	54,700
August 17, 2010	Issued under private placement	2,300,000	$ 3.28	7,544
September 22, 2010	Issued upon exercise of warrants	6,561,556	$ 3.28	21,522
Total		26,376,970		$ 86,666

CONTRACTUAL OBLIGATIONS

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

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

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

QUARTERLY RESULTS

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

	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010	Period Ended September 30, 2010
Revenue from product sales ($000s)	981	-	-
Funds from (applied to) operations ($000s)[(1)]	59	(708)	(248)
Per share			
- basic ($)	0.00	(0.03)	(0.03)
- diluted ($)	0.00	(0.03)	(0.03)
Net loss ($000s)	(321)	(1,087)	(406)
Per share			
- basic ($)	(0.01)	(0.04)	(0.05)
- diluted ($)	(0.01)	(0.04)	(0.05)
Other comprehensive income (loss) ($000s)	(1,378)	(834)	919
Capital expenditures ($000s)	9,702	13,373	3,424
Average daily production - Boe	276	-	-
Non-GAAP net funds available for investment and held-for-sale investments – end of period ($000s)	24,669	35,245	50,563

(1) See Non-GAAP Measurements on page 6 of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this Management's Discussion and Analysis and in the unaudited financial statements for the three months ended March 31, 2011 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain financial amounts are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts are based on estimations using information that involves a high degree of measurement uncertainty which could have a material effect on Storm's operating results and financial position. Information with respect to such amounts is described in the MD&A for the period ended December 31, 2010, or is described below to the extent that such estimations were first made in the three months ended March 31, 2011.

Property and Equipment Assets

Under IFRS, upon commencement of production and the identification of cash generating units, 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 cash generating unit. The measure of the amount to be transferred involves estimation and judgment by management, and it is possible that the estimates used could differ from similar estimates developed by other parties and such differences could be material.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some risks are common to all businesses while others are specific to the industry. Information with respect to such risks is set out in Storm's Annual Information Form dated March 31, 2011 for the year ended December 31, 2010 under the heading "Risk Factors" and in Storm's MD&A for the period ended December 31, 2010 under the heading "Risk Assessment".

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Institute of Chartered Accountants, the primary source for accounting standards in Canada, has implemented International Financial Reporting Standards ("IFRS") as part of Canadian GAAP. Such standards have been established cooperatively by many countries and have widespread application to financial reporting throughout the world. IFRS is to be adopted by public companies in Canada for reporting periods beginning after December 31, 2010, which means that for most companies the quarter ended March 31, 2011 will be the first reporting period which has to be IFRS compliant. Given the brief corporate history of Storm, rather than follow then existing Canadian GAAP and shortly thereafter change to IFRS, management elected for early adoption of IFRS and used IFRS compliant accounting policies for the reporting periods ended September 30 and December 31, 2010. Correspondingly, the introduction of IFRS for the first quarter of 2011 will not result in any change to accounting policies previously followed by the Company. However, the commencement of production in the quarter has resulted in the adoption of certain new accounting policies, specifically policies relating to accounting for property and equipment assets, depletion and depreciation, and ceiling test measurements. These policies were described in Note 3 to the audited financial statements for the period ended December 31, 2010.

ADDITIONAL INFORMATION

Additional information relating to the Company can be viewed at www.sedar.com or on the Company's website at www.stormresourcesltd.com. Information can also be obtained by contacting the Company at Storm Resources Ltd., 800, 205 – 5th Avenue SW, Calgary, Alberta, T2P 2V7.

Financials

Condensed Interim Statements of Financial Position

(Canadian $000s) (unaudited)	March 31, 2011	December 31, 2010
ASSETS		
Current		
Cash	$ 20,247	$ 30,724
Accounts receivable	2,360	780
Investments (Note 5)	11,611	15,324
Prepaids and deposits	630	672
	34,848	47,500
Investment in associate (Note 6)	13,774	13,836
Exploration and evaluation assets (Note 3)	31,351	36,937
Property and equipment assets - net (Note 4)	14,964	-
	$ 94,937	$ 98,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 9,549	$ 11,583
	9,549	11,583
Decommissioning liability (Note 7)	1,230	1,121
	10,779	12,704
Shareholders' equity		
Share capital (Note 9)	86,576	86,576
Contributed surplus (Note 10)	689	401
Deficit	(1,814)	(1,493)
Accumulated other comprehensive income (loss)	(1,293)	85
	84,158	85,569
	$ 94,937	$ 98,273

On behalf of the Board:

Director

Director

Condensed Interim Statement of Income and Comprehensive Income (Loss)

(Canadian $000s except per-share amounts) (unaudited)	Three Months Ended March 31, 2011
Revenue	
Revenue from product sales	$ 981
Royalties	(50)
	931
Expenses	
Production	224
Transportation	27
General and administrative	685
Share-based payments	288
Depletion and depreciation	421
Accretion	12
	1,657
Income (loss) before the following:	(726)
Interest income	64
Gain on disposal of investments (Note 5)	403
Changes in equity of associate (Note 6)	(62)
Net income (loss) for the period	(321)
Other comprehensive income - unrealized loss on investments available for sale (Note 5)	(1,378)
Comprehensive loss for the period	$ (1,699)
Net loss per share (Note 11)	
- basic	$ (0.01)
- diluted	$ (0.01)

Condensed Interim Statement of Changes in Equity

(Canadian $000s) (unaudited)	Three Months Ended March 31, 2011				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Equity
Balance, beginning of period	$ 86,576	$ 401	$ (1,493)	$ 85	$ 85,569
Net loss for the period	-	-	(321)	-	(321)
Share-based payments (Note 10)	-	288	-	-	288
Transfer of accumulated other comprehensive income on disposition of assets held for sale				(403)	
Unrealized gains and losses on investments available for sale (Note 5)	-	-	-	(975)	(1,378)
Balance, end of period	$ 86,576	$ 689	$ (1,814)	$ (1,293)	$ 84,158

Condensed Interim Statement of Cash Flows

(Canadian $000s) (unaudited)	Three Months Ended March 31, 2011
Operating activities	
Net income (loss) for the period	$ (321)
Non-cash items:	
Gain on disposal of investment (Note 5)	(403)
Changes in equity of associate (Note 6)	62
Depletion, depreciation and accretion	433
Share-based payments	288
Funds from operations	59
Net change in non-cash working capital items (Note 15)	(1,255)
	(1,196)
Investing activities	
Proceeds on sale of investment	2,738
Additions to property and equipment assets (Note 4)	(1,009)
Additions to exploration and evaluation assets (Note 3)	(8,693)
Net change in non-cash working capital items (Note 15)	(2,317)
	(9,281)
Change in cash during the period	(10,477)
Cash, beginning of period	30,724
Cash, end of period	$ 20,247

Three months ended March 31, 2011

As the Company was incorporated on June 8, 2010, there is no comparative information.

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

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

2. BASIS OF PRESENTATION

Statement of Compliance

The interim unaudited financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), following the same accounting policies and methods of computation as used in the audited financial statements for the period from inception on June 8, 2010 to December 31, 2010. The Company received approval from the Canadian Securities Administrators under National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* ("NI 52-107") to adopt IFRS as of June 8, 2010, the date of Storm's incorporation. The interim unaudited financial statement note disclosures do not include all disclosures applicable for annual audited financial statements. Accordingly, the interim unaudited financial statements should be read in conjunction with the audited financial statements and the notes thereto, for the period from inception on June 8, 2010 to December 31, 2010.

The financial statements were authorized for issue by the Board of Directors on May 18, 2011.

Basis of Measurement

The Company's financial statements have been prepared on the historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair value, as explained in Note 12.

Use of Estimates and Judgements

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

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

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

- Note 3 – Classification and valuation of exploration and evaluation assets
- Note 7 – Decommissioning liability
- Note 8 – Valuation and utilization of tax assets
- Note 10 – Measurement of share-based payments

- Note 12 – Valuation of financial instruments
- Note 13 – Capital management

3. EXPLORATION AND EVALUATION ASSETS

		March 31, 2011		December 31, 2010
Cost:				
Balance, beginning of period	$	36,937	$	-
Acquisitions		-		19,041
Additions		8,693		16,797
Future decommissioning costs		97		1,106
Transfers to property and equipment		(14,383)		-
Cost, end of period	$	31,344	$	36,944
Depreciation on furniture and fixtures		7		(7)
Carrying amount, end of period	$	31,351	$	36,937

Acquisitions represents management's estimate of the fair value of the exploration and evaluation assets transferred under the Arrangement with ARC.

4. PROPERTY AND EQUIPMENT ASSETS

		March 31, 2011		December 31, 2010
Cost:				
Balance, beginning of period	$	-	$	-
Additions		1,009		-
Transfers from exploration and evaluation assets		14,383		-
Cost, end of period	$	15,392	$	-
Accumulated depletion and depreciation		(428)		-
Carrying amount, end of period	$	14,964	$	-

5. INVESTMENTS

		March 31, 2011		December 31, 2010
Bellamont Exploration Ltd.	$	398	$	2,998
Bridge Energy ASA		1,988		2,696
Chinook Energy Inc.		9,225		9,630
	$	11,611	$	15,324

The investments in Bellamont, Bridge and Chinook shares are classified as available-for-sale financial instruments and are carried at fair value, determined with reference to the closing share prices on public exchanges on March 31, 2011. Unrealized revaluation losses for the three months ended March 31, 2011, in the amount of $1.4 million, are recognized in other comprehensive income. During the first quarter of 2011 the Company sold 4.4 million shares of the investment in Bellamont for proceeds of $2.7 million and recognized a profit on disposition of $0.4 million. In April 2011, the Company sold the remainder of the investment in Bellamont for proceeds of $0.4 million.

6. INVESTMENT IN ASSOCIATE

The Company's 22% interest in Storm Gas Resource Corp. ("SGR") is accounted for using the equity method, and includes Storm's pro-rata share of changes in SGR's equity since the Arrangement. The common shares of SGR are unlisted and the carrying amount of the Company's investment does not represent a market valuation of the Company's investment.

Carrying amount at December 31, 2010	$	13,836
Share of changes in equity for the period ended March 31, 2011		(62)
Carrying amount at March 31, 2011	$	13,774

Summarized financial information as at and for the period ended March 31, 2011, is based on SGR's book values, is as follows:

Total assets	$ 58.0 million
Total liabilities	$ 6.5 million
Revenues	$ 0.4 million
Net loss	$ 0.3 million

The Company also provided engineering and administrative services to SGR at a cost of $80,000 for the period ended March 31, 2011. The Company and SGR are 40:60 joint venture participants in certain lands in North East British Columbia and as at March 31, 2011 the Company owed SGR $2,433,000.

7. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production facilities, including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately $1.6 million, which is expected to be paid over the next 17 years, with most of the costs paid between 2012 and 2028. A risk-free discount rate of four percent was used to calculate the present value of the decommissioning obligation, amounting to $1.2 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, 2011	Year Ended December 31, 2010
Balance, beginning of period	$ 1,121	$ -
Liability recognized	127	1,106
Decommissioning costs incurred	-	-
Obligations disposed	(30)	-
Accretion expense	12	15
Balance, end of period	$ 1,230	$ 1,121

8. DEFERRED INCOME TAXES

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

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately $41 million as well as non-capital losses of approximately $5 million. The tax losses expire in 2031. A deferred tax asset has not been recognized due to the uncertainty as to future realization.

9. SHAREHOLDERS' EQUITY

Share Capital

Authorized

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

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

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2010 and March 31, 2011	26,377	$ 86,576

10. SHARE-BASED PAYMENTS

The Company has a stock option plan under which it may grant, at the Company's discretion, options to purchase common shares to directors, officers, employees and consultants. Options are granted at the market price of the shares on the date of grant, have a four-year term and vest in one-third tranches over three years. Under the stock option plan, a total of 2,638,000 common shares are available for issuance. Options in respect of 2,014,000 common shares have been issued, of which all are unexercised. As at March 31, 2011, there remain options in respect of 624,000 common shares which are available for further option grants under the Stock Option Plan.

Details of the options outstanding at March 31, 2011 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2010	1,974	$ 3.28
Granted during the period	40	3.96
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period	-	-
Outstanding at March 31, 2011	2,014	$ 3.29
Number exercisable at March 31, 2011	-	-

		Outstanding Options	
Range of Exercise Price	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$3.28 and $3.96	2,014	3.4	$ 3.29

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

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the period ended March 31, 2011 of $1.36 (2010 - $1.06) include the following:

Share price	$ 3.96
Exercise price	$ 3.96
Volatility	40%
Forfeiture rate	10%
Expected Option life	3.7
Dividends	-
Risk-free interest rate	2.3%

The initial forfeiture rate was estimated to be 10%. This estimate will be adjusted to the actual forfeiture rate. Share-based payment expense of $288,000 was charged to the statement of income during the period with an equivalent offset to contributed surplus.

Contributed Surplus

	March 31, 2011
Balance, beginning of period	$ 401
Share-based payments	288
Transfer to share capital on exercise of options	-
Balance, end of period	$ 689

11. NET INCOME (LOSS) PER SHARE

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

	March 31, 2011
Net loss for the period	$ 321
Weighted average number of common shares outstanding – basic:	
Common shares outstanding at December 31, 2010	26,377
Stock options exercised	-
Effect of shares issued	-
Weighted average number of common shares outstanding - basic	26,377
Effect of outstanding options	-
Weighted average number of common shares outstanding - diluted	26,377
Net income (loss) per share	
- basic	$ (0.01)
- diluted	$ (0.01)

As the Company has experienced a loss there are no dilutive factors since the effect of outstanding options would be anti-dilutive.

12. FINANCIAL INSTRUMENTS

The following table sets out, for each class of financial asset and financial liability, the carrying amount and fair value as at March 31, 2011. The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities included on the statement of financial position approximate their fair values due to the short-term nature of those instruments and are not included in the table below.

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

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

			March 31, 2011
	Classification	Carrying Amount	Fair Value
Investments in publicly traded companies[(i)]	Available for sale	$ 11,611	$ 11,611

(i) The fair value of the Company's investments in Bellamont, Chinook and Bridge are determined with reference to published share prices and are therefore classified as Level 1 financial instruments.

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

Risk Management

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

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from a limited number of purchasers of commodities and from joint venture partners in the oil and gas industry. Management considers this credit risk to be limited, as commodity purchasers are major industry participants and receivables from partners are protected by effective industry standard legal remedies. The maximum exposure to credit risk at period end is as follows:

	Carrying Amount as at March 31, 2011
Cash and cash equivalents	$ 20,247
Accounts receivable	2,360
	$ 22,607

Cash and cash equivalents

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

Trade receivables

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

The Company's accounts receivable are all current at March 31, 2011. No default on outstanding receivables is anticipated and, as such, no provision for doubtful accounts has been recorded.

Market risk

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

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

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

Commodity prices

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are affected by many known and unknown factors such as demand and supply imbalances, the relationship between the Canadian and United States ("US") 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. Although the Company, at present, has no bank debt, it is likely that the Company will seek future bank financing. Such financing is frequently in the form of a production loan, which is reviewed annually, and which is based on future cash flows and commodity price expectations. Changes to commodity prices will have an effect on credit available to the Company under such instruments.

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

Prices of listed securities

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

Interest rates

The Company does not currently have any debt and is not exposed to the risk of reduced cash flow from increasing interest rates.

Foreign exchange rates

Prices for oil are determined in global markets and generally denominated in US dollars. Natural gas prices are largely influenced by both US and Canadian supply and demand and by imports of liquefied natural gas. Changes in the Canadian dollar relative to the US dollar have no direct effect on the Company's results at this time.

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.

Accounts payable and accrued liabilities, with a contractual maturity of less than one year, is the only financial liability outstanding and is more than offset by current assets at March 31, 2011.

13. CAPITAL MANAGEMENT

The Company's capital structure is comprised of shareholders' equity. The Company's objective when managing capital is to maintain financial flexibility to preserve its investment program until internally generated cash flow can support capital programs. Capital management involves the preparation of an annual budget, which is implemented after approval by the Company's Board of Directors. As the Company's business evolves, the budget will be amended; however, any changes are again subject to approval by the Board of Directors. The Company is not currently exposed to any externally imposed capital restrictions.

Cash and potential proceeds from sale of investments, will be invested in exploration and development operations with the intent of growing short and medium term cash flow, and thus financial sustainability. It may be that capital currently available to the Company is insufficient to adequately grow cash flow, thus requiring additional capital which is likely to be available only on terms dilutive to existing shareholders, if available at all. However, the expansion of cash flow should, in subsequent periods, enable the Company to access debt financing which will provide a source of investment capital additional to existing resources or future equity issues.

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:

	March 31, 2011
Salaries and short-term benefits	$ 197
Share-based payments	161
	$ 358

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	March 31, 2011
Accounts receivable	$ (1,580)
Prepaids and deposits	42
Accounts payable and accrued liabilities	(2,034)
Change in non-cash working capital	$ (3,572)
Relating to:	
Operating activities	$ (1,255)
Financing activities	-
Investing activities	(2,317)
	$ (3,572)

Corporate Information

Officers

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Chief Financial Officer

Daniel J. Fitzgerald
Vice President, Corporate Development

John Devlin
Vice President, Finance

Mark G. Eade
Corporate Secretary

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

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Stock Exchange Listing

TSX Venture Exchange
Trading Symbol "SRX"

Solicitors

McCarthy Tétrault LLP
Burnet Duckworth & Palmer LLP
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar & Transfer Agent

Alliance Trust Company
Calgary, Alberta

Bankers

ATB Financial
Calgary, Alberta

Executive Offices

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Calgary, Alberta, T2P 2V7 Canada
Tel: (403) 817-6145 Fax: (403) 817-6146
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Abbreviations

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

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