STORM RESOURCES

2012 Q1 REPORT

Highlights

Thousands of Cdn$, except volumetric and per-share amounts	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
FINANCIAL		
Gas sales	1,155	401
NGL sales	576	97
Oil sales	1,659	483
Production revenue	3,390	981
Funds from operations(1)	(63)	59
Per share - basic ($)	0.00	0.00
Per share - diluted ($)	0.00	0.00
Net income (loss)	(1,615)	(321)
Per share - basic ($)	(0.04)	(0.01)
Per share - diluted ($)	(0.04)	(0.01)
Field capital expenditures, net of dispositions	2,207	9,702
Net (debt)/working capital	(50,300)	13,688
Weighted average common shares outstanding (000s)		
Basic	38,670	26,377
Diluted	38,670	26,377
Common shares outstanding (000s)		
Basic	61,824	26,377
Fully diluted	63,942	28,391
OPERATIONS		
Oil equivalent (6:1)		
Barrels of oil equivalent (000s)	112	25
Barrels of oil equivalent per day	1,229	276
Average selling price (Cdn$ per Boe)	30.31	39.53
Gas production		
Thousand cubic feet (000s)	515	110
Thousand cubic feet per day	5,659	1,221
Average selling price (Cdn$ per Mcf)	2.24	3.65
NGL Production		
Barrels (000s)	7	1
Barrels per day	77	13
Average selling price (Cdn$ per barrel)	81.96	83.68
Oil Production		
Barrels (000s)	19	5
Barrels per day	208	59
Average selling price (Cdn$ per barrel)	87.44	90.59
Wells drilled		
Gross	1.0	-
Net	1.0	-

(1) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 15 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 15 of the attached MD&A.

President's Message

FIRST QUARTER 2012 HIGHLIGHTS

- The business combination with Bellamont Exploration Ltd. ("Bellamont") closed on March 23rd and added 1,850 Boe per day of higher netback production (51% oil plus natural gas liquids) based on field estimates for April. Estimated April production was reduced by 50 Boe per day shut in due to low natural gas prices and 250 Boe per day shut in due to mechanical failures. Using the evaluation completed by InSite effective March 31, 2012, Storm acquired proved reserves totaling 4.6 Mmboe and proved plus probable reserves totaling 8.3 Mmboe. Total cost of the transaction was approximately $96.7 million which includes $37.0 million of total debt assumed by Storm, a cash component of $20.0 million, and the issuance of 16.7 million Storm shares to Bellamont shareholders.

- The transaction with Bellamont was partly funded with a $23.6 million private placement of common shares of Storm at a price of $3.40 per Storm share resulting in the issuance of 6.9 million shares at closing on March 23rd. Management, directors and employees invested $8.4 million to subscribe for 2.5 million shares.

- Production increased by 340% from the year ago period to average 1,229 Boe per day which included 285 barrels per day of oil plus natural gas liquids ("NGLs") and 5.7 Mmcf per day of natural gas. This includes nine days of production from Bellamont's properties.

- There was limited activity in the quarter as a result of a focus on completing the Bellamont and Storm Gas Resource Corp. ("SGR") transactions and integrating their properties into Storm's operations. A vertical delineation well (100% working interest) was drilled and cased at Umbach on the southern block of land with log response across the Montney being similar to vertical wells further north which offset Storm's three producing horizontal wells.

- Funds used in operations was $63,000, the operating netback averaged $15.73 per Boe, and operating costs were $9.75 per Boe. Costs related to the Bellamont and SGR transactions reduced cash flow by $0.6 million.

- Capital investment totaled $162.9 million in the quarter with $3.2 million invested in exploration and development activities, $160.7 million on acquisitions, and $1.0 million was received from the sale of non-core undeveloped lands.

- At March 31, 2012, Storm's debt and working capital deficiency was $50.3 million. After including the value of Storm's investment in publicly listed companies ($8.3 million at March 31), net debt was $42.0 million. Storm's bank line was increased to $70.0 million with the closing of the Bellamont transaction.

- The acquisition of SGR, Storm's partner in the Horn River Basin of north east British Columbia ("HRB"), was completed on January 12th. This added 2.1 Mmcf per day of natural gas sales (350 Boe per day) in the first quarter plus 81,400 net acres of undeveloped land including 58,400 net acres in the HRB. Proved reserves totaling 2.6 Mmboe and proved plus probable reserves totaling 6.8 Mmboe were acquired based on an evaluation completed by InSite Petroleum Consultants Ltd. ("InSite") effective January 31, 2012. The cost to acquire SGR totaled $55.2 million after deducting the working capital surplus of $1.0 million and including 11.8 million Storm shares issued to SGR shareholders. With the best estimate DPIIP of 3.1 Tcf and contingent resources of 616 Bcf, consolidating ownership in the HRB provides a huge option on improving natural gas prices for Storm shareholders.

OPERATIONS REVIEW

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

Umbach, North East British Columbia

Storm's current land holdings at Umbach total 99 gross sections or 75 net sections (54,000 net undeveloped acres), all of which are prospective for liquids rich natural gas from the Montney formation. Production in the first quarter averaged 335 Boe per day (20% liquids) while the operating netback was $13.46 per Boe. Liquids recovery was 36 Bbls per Mmcf sales gas with approximately 60% being free condensate plus pentane.

During the first quarter, production was re-directed to the Stoddart Gas Plant on March 17th which is expected to result in liquids recoveries increasing to 45 to 55 barrels per Mmcf of sales gas (approximately 50% free condensate plus pentane) and will improve the operating netback by $3 to $5 per Boe using first quarter pricing.

A vertical delineation well (100% working interest) was drilled on the southern lands in the first quarter with log response across the Montney being similar to wells further north offsetting Storm's producing horizontal wells. This well was cased so that it can be re-entered in the future to drill a horizontal wellbore.

Currently, three horizontal wells are producing from the Montney formation with production history for each horizontal provided in the presentation on Storm's website, www.stormresourcesltd.com. In order to reduce the completion cost, a packer system with frac ports was used for the completion of the last two horizontal wells with different fracture treatments conducted on each well in an attempt to improve productivity and reserves. After comparing results to other horizontal wells completed in the Montney in the area, further modifications are planned on future horizontal wells including increasing the sand tonnage and pumping rates in fracture treatments, going back to a perf and plug system with perf clusters, and possibly lowering the wellbore to access more of the Montney formation.

Storm's activity in the remainder of 2012 will be focused on increasing the size of the resource in the Montney formation and improving horizontal well rates and reserves. The fourth horizontal well (0.6 net) that was drilled late last year will be completed and two more step-out horizontal wells (1.2 net) will be drilled and completed in the third quarter. Depending on results, two more horizontal wells (1.2 net) may be drilled in the fourth quarter with both being completed in the first quarter of 2013.

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

Production in this area comes from the Mica property in north east British Columbia and from the properties acquired through the transaction with Bellamont which closed March 23rd. Based on field estimates, production in April was approximately 2,000 Boe per day (52% oil plus NGLs) with 50 Boe per day shut in due to low natural gas prices and 250 Boe per day shut in due to mechanical failures (pipeline failure and installation of artificial lift). The pipeline failure was repaired in early May which has restored 125 Boe per day from one well and artificial lift is expected to be installed in the other shut-in well during early June when road bans have been lifted. During May, an additional 450 Boe per day has been shut in as a result of low natural gas prices.

The Grande Prairie area is relatively mature with shallower declines (approximately 20% per year) and a higher proportion of oil and NGL production which results in a higher operating netback (more cash flow). Storm expects to re-invest approximately 60% to 70% of cash flow from this area in maintaining production and the remaining 'free cash flow' will be directed to advancing exploitation of the Montney formation at Umbach, which is a larger scale growth opportunity.

There is a large inventory of light oil opportunities in this area including 15 to 30 horizontal wells to be drilled targeting light oil in the Doe Creek, Dunvegan, Charlie Lake, and Montney formations and initiating a waterflood plus drilling up to six vertical infill wells in a light oil pool at Mica.

During the remainder of 2012, a vertical well in a new pool Montney light oil discovery at Grimshaw will begin producing and three to five horizontals (all 100% working interest) will be drilled targeting light oil in the Montney, Dunvegan, and Doe Creek formations.

Horn River Basin, North East British Columbia

Storm's undeveloped land position in the HRB totals 135 sections at a 100% working interest (87,700 net acres) and is prospective for natural gas from the Muskwa, Otter Park, and Evie/Klua shales. During the first quarter, production in the HRB averaged 574 Boe per day at an operating netback of $5.17 per Boe. On January 12, 2012, Storm completed the previously announced acquisition of SGR, its partner in the HRB, which increased production in the first quarter by 350 Boe per day. The resource in the Muskwa and Otter Park shales is large with the best estimate of DPIIP in the core producing area being 3.1 Tcf gross raw gas (evaluated by InSite December 31, 2011). The core producing area is 30 gross sections in size (22% of Storm's total land holdings in the HRB) and productivity has been proven across the area with one horizontal well that has been on production for 14 months and two vertical wells which were completed and had final test rates of 950 and 870 Mmcf per day (final test rate is the average rate over the last 24 hours with cumulative gas production being 12 Mmcf and 7 Mmcf).

Production performance of the first horizontal well (100% Storm) with 12 fracture stimulations continues to exceed expectations with the current rate being approximately 3.7 Mmcf per day gross raw gas and cumulative production of 2.1 Bcf gross raw gas since production commenced on March 7, 2011. The raw gas gathering pipeline operates at a higher pressure which has resulted in the flow rate being restricted since compression has not been installed. Ultimate recovery for this well is forecast to be 9.6 Bcf gross raw gas which may increase given that the decline is continuing to flatten. The production decline is shallower in comparison to other shale plays because the Muskwa and Otter Park shales are very thick (92 metres thickness in the DPIIP area). Significant improvements in productivity and reserves are expected on future horizontals by increasing fracture density (15 to 18 fracture stimulations per horizontal) and by installing field compression.

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

INVESTMENTS

At the end of first quarter, Storm had share ownership positions in two publicly traded companies. The value of the share positions in the two public companies totaled $8.2 million at the end of the quarter and these securities could possibly be sold in the future with the proceeds being used to finance the Company's capital programs.

Chinook Energy Inc. ("Chinook")

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

Bridge Energy ASA ("Bridge")

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

OUTLOOK

Production in the second quarter is forecast to average 2,700 to 2,800 Boe per day (41% liquids). Since closing the transaction with Bellamont, 500 Mcf per day has been shut in due to low natural gas prices and an additional 2,500 Mcf per day has been shut in during early May (total 500 Boe per day). All of the shut-in production is from natural gas wells with high third party processing fees and won't be re-started until natural gas prices at AECO are greater than $2.50 to $3.00 per GJ. Shutting in these wells will have no impact on cash flow. Mechanical failure has also impacted production (loss of 250 Boe per day in April from two wells) and we expect these to be resolved by early June.

Due to a further decrease in forecast cash flow caused by the continuing decline in natural gas prices, capital investment in operations will be reduced to $28 million from previous guidance of $34 million. This will include $20 million for drilling and completions and $8 million for land, seismic and facilities. Drilling and completion activity in 2012 will now include one vertical delineation well (1.0 net) at Umbach, two horizontal wells (1.2 net) at Umbach, completing one standing horizontal well (0.6 net) at Umbach, and three to five horizontals or verticals (all 100% working interest) targeting light oil opportunities in the Grande Prairie area. Fourth quarter or exit production is forecast to average 3,100 to 3,400 Boe per day (43% liquids) which assumes 500 Boe per day remains shut in due to low natural gas prices. Storm is currently assuming commodity prices in 2012 average $2.05 per GJ at AECO for natural gas and Cdn $92.00 per barrel Edmonton Par for oil. Debt plus the working capital deficiency is targeted to be approximately $50 million at the end of 2012 (including the value of the publicly listed securities owned by Storm) which may result in capital investment being adjusted higher or lower depending on actual commodity prices.

Updated 2012 Guidance

Forecast Q2 production after deducting 5% for unplanned outages	2,700 to 2,800 Boe per day (41% oil + NGLs)
Bank credit facility	$70.0 million
2012 average operating costs	$10 to $12 per Boe
2012 average royalty rate	12% to 15%
2012 operations capital	$28.0 million
2012 cash G&A(1)	$3.8 million
2012 exit or fourth quarter average production	3,100 to 3,400 Boe per day (43% oil + NGLs)

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

During and after the end of the first quarter, we entered into hedges on a portion of our oil production in order to protect our capital investment program in 2012. The total hedged volume is 450 barrels per day of oil, terms are from May to December 2012, and the average price is Cdn $104.95 per barrel.

Significant reductions in operating costs ($2.0 to $2.5 million per year) will be realized on the properties acquired from Bellamont by the end of the second quarter. Investment in infrastructure projects will result in more than $1.0 million per year of savings which includes converting a well to salt water disposal to reduce trucking, acquiring and modifying a small gas plant to eliminate processing fees, eliminating equipment rentals and electrifying well sites. As well, 100 Boe per day (87% natural gas) that was cash flow negative in 2011 will be permanently shut in (associated operating costs total $1.0 million per year).

Storm’s focus over the remainder of 2012 will be to:

- Offset declines by drilling three to five horizontals in the Grande Prairie area targeting light oil;
- Integrate Bellamont’s properties and implement operating cost reductions; and
- Use ‘free cash flow’ plus a limited amount of debt to further expand the liquids rich Montney gas resource at Umbach by completing the fourth horizontal well (0.6 net) and drilling and completing two additional horizontal wells (1.2 net).

Although the decline in natural gas prices over the last four months has affected our share price and caused many challenges in terms of budgeting, we do expect that natural gas prices will recover because of simple economics. The majority of producers that grew natural gas production in 2011 spent more than cash flow and funded the gap with equity issues, debt, asset sales, or by using cash flow from oil assets. With prices in 2011 averaging $3.40 per GJ at AECO, longer-term prices need to be higher in order to attract capital investment required to maintain current production levels (cash out can’t be greater than cash in for extended periods of time). Timing of the recovery is difficult to predict but investment generating very low or no economic return cannot continue indefinitely.

Storm is a somewhat unique junior producer that has accumulated large land positions over the last four years in two large-scale resource plays offering multi-year drilling upside. Although there have been many challenges associated with integrating the Bellamont properties, it adds higher netback, light oil production and an inventory of horizontal light oil wells that can be drilled to offset declines. As well, the relatively shallow production decline provides us with ‘free cash flow’ for reinvestment into our resource plays. Near term, this allows us to continue exploitation of liquids rich natural gas in the Montney at Umbach where horizontal wells are expected to generate a 20% to 25% rate of return using current forward strip pricing for crude oil and natural gas. Longer term, significant leverage to an improvement in natural gas prices is offered by the large DPIIP in the Muskwa and Otter Park shales of the HRB. With a talented and motivated group of employees at Storm and higher levels of cash flow from a larger, oilier asset base, we are well positioned for continued growth in 2012 and beyond.

Respectfully,

B. Lavergne

Brian Lavergne,
President and Chief Executive Officer

May 16, 2012

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

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

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

Forward-Looking Statements – Such statements made in this report are subject to the limitations set out in Storm’s Management’s Discussion and Analysis dated May 16, 2012 for the quarter ended March 31, 2012.

Management's Discussion and Analysis

INTRODUCTION

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Resources Ltd. ("Storm" or the "Company") for the three months ended March 31, 2012. It should be read in conjunction with (i) the Company's unaudited consolidated condensed interim financial statements for the three months ended March 31, 2012, (ii) the Company's audited financial statements for the year ended December 31, 2011, (iii) the press release issued by the Company on May 16, 2012, and other operating and financial information included in this report. All of these documents are filed on SEDAR (www.sedar.com) and appear on the Company's website (www.stormresourcesltd.com). In addition, readers are directed to the discussion below regarding Forward-Looking Statements, Boe Presentation and Non-GAAP Measurements.

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

This MD&A is dated May 16, 2012.

LIMITATIONS

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

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

Comparative Information – As described above, the Company was incorporated on June 8, 2010, and was inactive until its participation in the Arrangement on August 17, 2010. Comparative information is provided for the immediately prior three month period ended December 31, 2011 and for the three month period ended March 31, 2011.

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

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

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

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

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

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

Non-GAAP Measurements - Within this MD&A, there may be references made to terms which are not recognized under Generally Accepted Accounting Principles ("GAAP"). Specifically, "funds from operations", "funds from operations per share", "netbacks", measurements "per BOE", and "net funds available for investment" do not have any standardized meaning as prescribed by GAAP and are regarded as non-GAAP measures. It is likely that these non-GAAP measurements may not be comparable to the calculation of similar amounts for other entities. In particular, funds from operations is not intended to represent, or be equivalent to, cash flow from operating activities calculated in accordance with GAAP which appears on the Company's consolidated condensed interim statements of cash flows. Funds from operations and similar non-GAAP terms are used to benchmark operations against prior periods and peer group companies and are widely used by investors and also by lenders to measure compliance with debt covenants and interest costs. Reference is made to the discussion in this MD&A under "Non-GAAP Funds from Operations and Funds from Operations per Share" and to "Cash Flows from Operating Activities". The Company may use the term "net funds available for investment" which comprises cash and accounts receivable less accounts payable. This amount represents funds available to the Company, either immediately or in the short term, to support capital programs.

ACQUISITIONS IN 2012

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

Acquisition of Storm Gas Resource Corp.

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

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

Assets Acquired and Liabilities Assumed (000's)		
Working capital	$	990
Exploration and evaluation assets		42,677
Property and equipment		13,060
Decommissioning obligation		(556)
Net assets acquired	$	56,171

Consideration (000's)		
Shares issued	$	43,869
Carrying amount of existing 22% ownership		12,302
Total consideration	$	56,171

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

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

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

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

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

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

Acquisition of Bellamont Exploration Ltd.

On January 20, 2012 Storm announced that the Company and Bellamont Exploration Ltd. ("BMX") a junior oil and gas exploration and production company listed on the TSX Venture Exchange, had entered into an arrangement agreement (the "Agreement") under which the two companies would combine with the continuing entity being Storm. The combination was effected under a plan of arrangement which was subject to court approval and the approval of BMX shareholders, which occurred on March 23, 2012. The effective date of accounting for the acquisition was March 23, 2012; correspondingly, the Company's operating results for the first quarter of 2012 include amounts in respect of BMX from March 23, 2012 to March 31, 2012.

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

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

Assets Acquired and Liabilities Assumed (000's)		
Exploration and evaluation assets	$	2,113
Property and equipment		102,866
Working capital deficiency, including bank debt		(37,000)
Decommissioning liability		(8,305)
Net assets acquired	$	59,674

Consideration (000's)		
Cash paid to BMX shareholders	$	20,000
Shares of Storm issued		39,674
Total consideration	$	59,674

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

(ii) A total number of 151.6 million BMX common shares were outstanding at the time of closing of the combination. Based on an exchange ratio of 0.1445 Storm common share for each BMX common share not acquired for cash, a total of 16.7 million Storm common shares were issued to former BMX shareholders. Based on Storm share price of $2.37, which was the closing price on March 22, 2012, the Storm shares issued to BMX shareholders were valued at $39.7 million.

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

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

BMX production for the first quarter of 2012 was 1,928 Boe per day, of which 48% is made up of high netback crude oil and natural gas liquids.

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

OPERATIONAL AND FINANCIAL RESULTS

Overview

In the first quarter of 2012 the Company reported production from three areas, natural gas from the Horn River Basin and natural gas with natural gas liquids from Umbach, both in north east British Columbia, and crude oil from Red Earth in north central Alberta. The Company also reported production for the BMX assets for the short period of ownership in the quarter. BMX associated production over the full quarter averaged 181 Boe per day of which 49% was natural gas and 51% crude oil and natural gas liquids.

Storm's first horizontal well in the Horn River Basin was tied in early in March 2011 with production from the Muskwa and Otter Park formations amounting to 4,600 Mcf gross raw gas per day for 2011. Post-acquisition of SGR, the Company's working interest increased from 40% to 100%. Production for the first quarter of 2012 averaged 3,433 Mcf sales gas per day. Current production is approximately 3,153 Mcf sales gas per day, or 525 Boe per day.

At Umbach, first quarter production from three horizontal wells averaged 3,140 Mcf gross raw gas per day, or 1,615 Mcf net to Storm's interest plus 65 barrels per day of liquids, or a total of 334 Boe net to Storm.

Production from two non-operated 20% working interest horizontal oil wells at Red Earth averaged 38 barrels of light sweet crude per day net to the Company's interest in the first quarter of 2012.

Effective December 1, 2011, the Company acquired a largely light sweet crude oil property in the Mica area of north east British Columbia. Production currently amounts to 148 Boe per day with an annual decline rate of 5%. Future drilling and a waterflood application could potentially increase production to 450 Boe per day. The acquisition is consistent with the Company's intention to invest in projects that offer higher netback potential, either crude oil or natural gas with an associated high-value natural gas liquids stream.

Production and Revenue

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

Average Daily Production

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Natural gas (Mcf/d)	5,659	1,221	3,763
Natural gas liquids (Bbls/d)	77	13	72
Crude oil (Bbls/d)	208	59	80
Total (Boe/d)	1,229	276	779

Daily production per million shares outstanding averaged 32 Boe per day for the first quarter of 2012 compared to 10 Boe per day for the first quarter of 2011 and 30 Boe per day for the immediately prior quarter. NGLs plus crude oil comprised 23% of total production in the first quarter of 2012 compared to 20% for the 2011 year.

Production Profile and Per-Unit Prices

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011		Three Months Ended December 31, 2011	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Natural gas - Mcf	77%	$ 2.24	74%	$ 3.65	80%	$ 3.35
Natural gas liquids - Bbl	6%	81.96	5%	83.68	10%	89.95
Crude oil - Bbl	17%	87.44	21%	90.59	10%	100.05
Per Boe	100%	$ 30.31	100%	$ 39.53	100%	$ 34.78

For the first quarter, almost all of the Company's natural gas was 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 first quarter of 2012 was $2.24 per Mcf with the price being increased as a result of sales gas at Umbach having a higher heat content and receiving a contractual price premium. The Station 2 price for the first quarter averaged $2.01 per GJ, compared to $2.03 per GJ for the equivalent AECO price. Storm's crude oil sales price in the first quarter was $4.87 per barrel lower than the Edmonton Par reference price for light sweet crude oil which averaged $92.31 per barrel for the first quarter.

Production by Area – Boe/d

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Horn River Basin – BC	527	116	266
Umbach – BC	335	101	414
Mica - BC	148	-	49
Red Earth – AB	38	59	50
BMX - AB	181		
Total	1,229	276	779

BMX production is presented on a consolidated basis given the short period of time it is included in the quarter.

Revenue from Product Sales

(000's)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Natural gas	$ 1,155	$ 401	$ 1,160
Natural gas liquids	576	97	594
Crude oil	1,659	483	739
Total	$ 3,390	$ 981	$ 2,493

Hedging

In the quarter to March 31, 2012, the Company entered into a crude oil swap for 100 barrels per day at a price of Cdn $107.75 per barrel for the period April 1, 2012 to December 31, 2012. Subsequent to March 31, 2012, the Company entered into three additional crude oil swaps, one for 150 barrels per day at a price of Cdn $105.00 per barrel for the period June 1, 2012 to December 31, 2012, and two for a total amount of 200 barrels per day for the period May 1, 2012 to December 31, 2012 at an average price of Cdn $103.53.

Royalties

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Charge for period	$ 307	$ 50	$ 231
Percentage of production revenue	9.0%	5.0%	9.3%
Per Boe	$ 2.74	$ 2.01	$ 3.22

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

The Company benefits from British Columbia's deep well royalty credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on production from the well. This program is applicable to the Company's producing well in the Horn River Basin and the Company expects that future royalties will be reduced by an amount of $1.0 million.

In Alberta, production from new horizontal oil wells is subject to a 5% royalty rate for the first 30 months of production, subject to a maximum volume of 70,000 Bbls of crude oil. Storm's two producing wells at Red Earth benefit from this program. The preferential royalty rate is expected to expire in July 2012.

The year-over-year increase in royalties for the quarter to March 31, 2012, is due to production for two new horizontal wells at Umbach which do not benefit from incentive programs in British Columbia.

In addition, royalties in future quarters will be higher due to the inclusion of a full quarter's production for the BMX assets. The royalty rate on production from the BMX assets approximated 17% for the first quarter of 2012.

Production Costs

(000's)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Charge for period	$ 1,090	$ 224	$ 644
Percentage of production revenue	32.0%	23.0%	25.8%
Per Boe	$ 9.75	$ 9.04	$ 8.98

Production costs per barrel of crude oil averaged $13.87 for the first quarter of 2012 and production costs per Mcf of natural gas averaged $1.61, with total production costs averaging $9.75 per Boe. The equivalent charges for the first quarter of 2011 were $15.90 for crude oil and $1.27 per Mcf with total production costs averaging $9.04 per Boe. Production costs for the final quarter of 2011 averaged $12.08 for crude oil and $1.60 for natural gas. Production costs for natural gas include third party charges for raw gas gathering and processing in British Columbia. Production costs of natural gas liquids are included with natural gas costs.

The increase in production costs for the first quarter of 2012 was a consequence of increased volumes from the Company's Umbach property which has higher per-Boe production costs than Horn River Basin production and the inclusion of a full quarter's production from the Mica acquisition. Mica is the highest netback property of the Company; it also has higher per-Boe production costs.

Inclusion of production from the BMX assets for a full quarter is expected to result in an increase in per-Boe production costs. Production costs for the BMX assets averaged $17.38 for the first quarter of 2012 which was higher than forecast due to the inclusion of invoices relating to 2011 third party processing charges.

Transportation Costs

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Charge for period	$ 233	$ 27	$ 134
Percentage of production revenue	6.9%	3.0%	5.4%
Per Boe	$ 2.09	$ 1.07	$ 1.87

Transportation costs largely comprise pipeline tariffs from the processing facility to the sales point for natural gas shipped in British Columbia and similarly for crude oil in Alberta. Transportation costs for the first quarter of 2012 were higher due to the inclusion of a full quarter's production from Mica. No increase per Boe in future quarters is expected from the inclusion of the BMX assets; transportation costs associated with these assets averaged $1.58 per Boe in the first quarter of 2012.

Field Netbacks

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

	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	(6.30)	(2.64)	(0.18)	(2.09)
Field netback	$ 57.39	$ 62.10	$ 0.45	$ 15.73

	Three Months Ended March 31, 2011			
	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

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

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

Only minimal royalties were paid on production of natural gas in the first quarter of 2012. The Company benefited from a Gas Cost Allowance adjustment applicable to prior periods.

Interest

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

(000's)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Charge for period	$ 299	$ -	$ -
Percentage of production revenue	9%	-	-
Per Boe	$ 2.67	$ -	$ -

General and Administrative Costs

Total Costs	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Charge for period – before recoveries	$ 972	$ 723	$ 832
Overhead recoveries	(58)	(38)	(175)
Charge for period – net of recoveries	$ 914	$ 685	$ 657

Compensation costs were consistent for each of the periods above, accounting for approximately 51% of the gross charge with office accommodation costs accounting for an additional 20% and public company costs accounting for 15%.

Share-Based Compensation

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Charge for period	$ 163	$ 288	$ 148

Share-based compensation is a non-cash charge which reflects the estimated value of stock options issued to Storm's directors, officers and employees. The value of the award is recognized as an expense over the expected life of the award. In August 2010, options in respect of approximately two million shares were issued with an exercise price of $3.28. This grant of options formed part of the initial compensation program put in place for directors, officers and staff of the newly established business. An additional 40,000 options were issued to a new employee in the first quarter of 2011 and 36,000 were forfeited later in 2011. Additional options in respect of 140,000 shares were granted in the first quarter of 2012 to new employees hired as a result of the BMX acquisition.

Depletion and Depreciation

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Depletion	$ 1,237	$ 398	$ 1,016
Depreciation	217	23	99
Charge for period	$ 1,454	$ 421	$ 1,115
Per Boe	$ 13.00	$ 16.84	$ 15.55

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

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

In addition, management reviewed the carrying amounts of exploration and evaluation and property and equipment assets for indicators of impairment at March 31, 2012 and determined that no adjustment to such carrying amounts at that date were required.

Accretion

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Charge for period	$ 21	$ 12	$ 16

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

Gain on Sale of Investments

The Company's investment positions in Chinook Energy Inc. and Bridge Energy ASA did not change in the quarter ended March 31, 2012. In the first quarter of 2011 the Company sold part of its interest of 5.1 million shares of BMX for proceeds of $2.7 million. A gain of $0.4 million was realized. The remaining interest in BMX was sold in the second quarter of 2011. These transactions were unrelated to the subsequent acquisition of BMX.

Change in Equity of Associate

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Equity loss for period	$ -	$ 62	$ 159

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

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, 2012	Maximum Annual Deduction
Canadian oil and gas property expense	$	59,096	10%
Canadian development expense		58,403	30%
Canadian exploration expense		23,035	100%
Undepreciated capital cost		33,592	20 – 100%
Operating losses		73,363	100%
	$	247,489	

Net Loss

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011		Three Months Ended December 31, 2011	
Net loss	$	(1,615)	$	(321)	$	(1,758)
Per basic and diluted share	$	(0.04)	$	(0.01)	$	(0.06)

Other 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 included adjustments to reflect the mark-to-market valuation of listed securities for the reporting period as follows:

	Holding	Number of Shares	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011		Three Months Ended December 31, 2011	
Bellamont Exploration Ltd.	Class A Common Shares	(1)	$	-	$	(265)	$	(305)
Bridge Energy ASA	Common Shares	1,052,910		242		(708)		(1,290)
Chinook Energy Inc.	Common Shares	4,500,001		(810)		(405)		1,507
Other comprehensive loss for period			$	(568)	$	(1,378)	$	(88)

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

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

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011		Three Months Ended December 31, 2011	
		Per diluted share		Per diluted share		Per diluted share
Funds from (applied to) operations	$ (63)	$ 0.00	$ 59	$ 0.00	$ 709	$ 0.03

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

Cash Flows from Operating Activities

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011		Three Months Ended December 31, 2011	
		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	$ (63)	$ 0.00	$ 59	$ 0.00	$ 709	$ 0.03
Net change in non-cash working capital items	(2,477)	(0.06)	(1,255)	(0.05)	1,775	0.06
Cash from (applied to) operating activities	$(2,540)	$ (0.06)	$ (1,196)	$ (0.05)	$2,484	$ 0.09

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

INVESTMENT AND FINANCING

Financial Resources and Liquidity

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

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

The Company's banking facility was expanded to $70 million in March 2012 to accommodate the BMX acquisition which involved the assumption of BMX bank debt in the amount of $38.4 million, plus a payment of $20 million to BMX shareholders.

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

Investments

The Company owns listed securities as set out below which are valued at the closing price on the relevant stock exchange at March 31, 2012. Proceeds from the possible future sale of these securities may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Mar. 31, 2012	Value at Mar. 31, 2012
Bridge Energy ASA[(1)]	Common Shares	1,052,910	Oslo Børs Axess	$1.66[(1)]	$ 1,745
Chinook Energy Inc.	Common Shares	4,500,001	TSX	$1.45	$ 6,525
Total					$ 8,270

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

Capital Outlays

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended December 31, 2011
Land and lease	$ 478	$ 2,520	$ 128
Seismic	8	510	-
Drilling	1,281	630	1,366
Completions	438	2,752	3,357
Facilities	278	2,784	369
Recompletions and workovers	732	-	31
Corporate acquisitions	160,716	-	-
Acquisitions (dispositions)	(1,009)	506	15,436
Total capital expenditures in period	$ 162,922	$ 9,702	$ 20,687

Major field expenditures in the first quarter of 2012 included $1.7 million on drilling and completions, of which $1.2 million was spent at Umbach and $0.5 million in the Horn River Basin, both in north east British Columbia.

Investment in Associate

In late 2011, the Company entered into an arrangement agreement with its 22% owned associate, SGR, which resulted in the Company purchasing all outstanding common shares of SGR not already owned, or a total of 8.9 million SGR common shares. The acquisition closed on January 12, 2012. The Company issued 1.33 common shares of Storm for each outstanding SGR share, resulting in the issuance of 11.8 million Storm common shares. The acquisition was approved by the shareholders of both SGR and the Company and closed on January 12, 2012. Using a closing price of $3.73 per common share of Storm on January 12, 2012, the acquisition was valued at $43.7 million. The Company ceased to account for its equity interest in SGR effective January 1, 2012.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include operating, administrative and capital costs payable. Net payables in respect of cash calls issued to partners regarding capital projects and estimates of amounts owing but not yet invoiced to the Company have been included in accounts payable. The level of accounts payable and accrued liabilities at March 31, 2012 corresponds to the seasonality of the Company's operations and the increased level of field activity in the fourth quarter of 2011.

Decommissioning Liability

The Company's decommissioning liability represents the present value of estimated future costs to be incurred to abandon and reclaim wells and facilities, either drilled or constructed by Storm, or already existing on lands transferred to the Company under the Arrangement. Changes in amount of the liability during the three months to March 31, 2012 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the period, the decommissioning obligation associated with the acquisition of BMX, plus the time related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 2.6%. Future costs to abandon and reclaim the Company's properties are based on an internal evaluation, supported by external data from industry sources.

Shareholders' Equity

Details of share issuances from inception to March 31, 2012 are as follows:

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

CONTRACTUAL OBLIGATIONS

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

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

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

QUARTERLY RESULTS

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

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

(1) See Non-GAAP Measurements on page 15 of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the unaudited consolidated condensed interim financial statements for the three months ended March 31, 2012 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain financial amounts are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts, are based on estimations using information involving a high degree of measurement uncertainty which could have a material effect on Storm's operating results and financial position. Information with respect to such amounts is described in the MD&A for the year ended December 31, 2011, or is described below to the extent that such estimations were first made in the three months ended March 31, 2012.

Accounting for Acquisitions

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

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some risks are common to all businesses while others are specific to the industry. Information with respect to such risks is set out in Storm's

Annual Information Form dated March 30, 2012 for the year ended December 31, 2011 under the heading “Risk Factors” and in Storm’s MD&A for the period ended December 31, 2011 under the heading “Risk Assessment”.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

ADDITIONAL INFORMATION

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

Financials

Consolidated Condensed Interim Statements of Financial Position

(Canadian $000s) (unaudited)	March 31, 2012	December 31, 2011
ASSETS		
Current		
Cash	$ -	$ 7,423
Accounts receivable (Note 13)	4,386	4,064
Prepaids and deposits	1,762	793
	6,148	12,280
Investments (Note 4)	8,270	8,838
Investment in associate (Note 3)	-	12,302
Exploration and evaluation (Note 5)	70,558	26,156
Property and equipment (Note 6)	166,787	49,507
	$ 251,763	$ 109,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 8,704	$ 11,461
Current portion of bank indebtedness (Note 7)	-	3,000
	8,704	14,461
Bank indebtedness (Note 7)	47,744	12,990
Decommissioning liability (Note 8)	11,626	2,532
	$ 68,074	29,983
Shareholders' equity		
Share capital (Note 10)	193,185	86,576
Contributed surplus (Note 11)	1,552	1,389
Deficit	(6,772)	(5,157)
Accumulated other comprehensive income (loss)	(4,276)	(3,708)
	183,689	79,100
	$ 251,763	$ 109,083

See accompanying notes to the consolidated condensed interim financial statements.

On behalf of the Board:

Director

Director

Consolidated Condensed Interim Statement of Loss and Comprehensive Loss

(Canadian $000s except per-share amounts) (unaudited)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenue		
Revenue from product sales	$ 3,390	$ 981
Unrealized gain (loss) on financial instruments (Note 13)	86	-
Royalties	(307)	(50)
	3,169	931
Expenses		
Production	1,090	224
Transportation	233	27
Acquisition costs (Note 3)	610	-
General and administrative	914	685
Share-based compensation (Note 11)	163	288
Depletion and depreciation	1,454	421
Accretion	21	12
	4,485	1,657
Loss before the following:	(1,316)	(726)
Interest income (expense) - net	(299)	64
Gain on disposal of investments (Note 4)	-	403
Changes in equity of associate	-	(62)
Net loss for the period	(1,615)	(321)
Other comprehensive income (loss) – unrealized gain (loss) on investments available for sale (Note 4)	(568)	(1,378)
Comprehensive loss for the period	$ (2,183)	$ (1,699)
Net loss per share (Note 12)		
- basic	(0.04)	$ (0.01)
- diluted	(0.04)	$ (0.01)

See accompanying notes to the consolidated condensed interim financial statements.

Consolidated Condensed Interim Statements of Changes in Shareholders' Equity

(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 under private placement	23,616	-	-	-	23,616
Issue of common shares to shareholders of SGR	43,869	-	-	-	43,869
Issue of common shares to shareholders of Bellamont	39,674	-	-	-	39,674
Share issue costs	(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

(Canadian $000s) (unaudited)	Three Months Ended March 31, 2011				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of period	$ 86,576	$ 401	$ (1,493)	$ 85	$ 85,569
Net loss for the period	-	-	(321)	-	(321)
Share-based compensation (Note 11)	-	288	-	-	288
Transfer of accumulated other comprehensive income on disposition of assets available for sale	-	-	-	(403)	(403)
Unrealized loss on investments available for sale (Note 4)	-	-	-	(975)	(975)
Balance, end of period	$ 86,576	$ 689	$ (1,814)	$ (1,293)	$ 84,158

See accompanying notes to the consolidated condensed interim financial statements.

Consolidated Condensed Interim Statements of Cash Flows

(Canadian $000s) (unaudited)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating activities		
Net loss for the period	$ (1,615)	$ (321)
Non-cash items:		
Gain on disposal of investment (Note 4)	-	(403)
Changes in equity of associate (Note 4)	-	62
Depletion, depreciation and accretion	1,475	433
Unrealized loss (gain) on financial instruments (Note 13)	(86)	-
Share-based compensation (Note 11)	163	288
	(63)	59
Net change in non-cash working capital items (Note 16)	(2,477)	(1,255)
	(2,540)	(1,196)
Financing activities		
Proceeds from private placement of common shares – net of expenses (Note 10)	23,066	-
Increase (decrease) in bank indebtedness	(6,551)	-
	16,515	-
Investing activities		
Proceeds on sale of investment (Note 4)	-	2,738
Cash acquired on acquisition of SGR (Note 3)	2,405	-
Additions to and acquisitions of property and equipment (Notes 3 and 6)	(22,595)	(1,009)
Disposal of exploration and evaluation assets (Note 5)	1,009	-
Additions to and acquisitions of exploration and evaluation assets (Notes 3 and 5)	(621)	(8,693)
Net change in non-cash working capital items (Note 16)	(1,596)	(2,317)
	(21,398)	(9,281)
Change in cash during the period	(7,423)	(10,477)
Cash, beginning of period	7,423	30,724
Cash, end of period	$ -	$ 20,247

See accompanying notes to the consolidated condensed interim financial statements.

Three months ended March 31, 2012 and 2011

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

1. REPORTING ENTITY

Storm Resources Ltd. (the “Company” or "Storm"), is an oil and gas exploration and development company incorporated in the province of Alberta, Canada on June 8, 2010 and is listed on the TSX Venture Exchange under the symbol “SRX”. The Company operates in the provinces of Alberta and British Columbia and its head office is located at 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.

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

2. BASIS OF PRESENTATION

Statement of Compliance

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

The consolidated condensed interim financial statements were authorized for issue by the Board of Directors on May 16, 2012.

Basis of Measurement

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

Use of Estimates and Judgements

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

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

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

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

- Note 8 – Decommissioning liability
- Note 9 – Valuation and utilization of tax assets
- Note 11 – Measurement of share-based compensation
- Note 13 – Valuation of financial instruments
- Note 14 – Capital management

Future Accounting Changes

Financial Instruments

IFRS 9 Financial Instruments, which was issued in October 2010, is the first phase in the replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 revises the current multiple classification and measurement models for financial assets and liabilities and limits the models to two: amortized cost or fair value. The new standard is effective for the Company's interim and annual financial statements commencing on or after January 1, 2015.

Consolidated Financial Statements

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

Joint Arrangements

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

Disclosure of Interest in Other Entities

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

Fair Value Measurements

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

Other Comprehensive Income

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

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

3. CORPORATE ACQUISITIONS

a) Storm Gas Resource Corp.

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

Storm's consolidated condensed interim statement of loss and comprehensive loss include the results of operations for the business of SGR for the period following the close of the transaction. Net loss for the three month period ended March 31, 2012 includes $0.7 million of petroleum and natural gas revenue and $0.2 million of net income generated from the SGR assets since the acquisition on January 12, 2012. If SGR had been acquired on January 1, 2012, an additional $62,000 of petroleum and natural gas revenue and a loss of approximately $4,000 would have been included on the consolidated condensed interim statement of loss and comprehensive loss for the three month period ended March 31, 2012.

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

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

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

b) Bellamont Exploration Ltd.

Pursuant to the acquisition of Bellamont Exploration Ltd. ("Bellamont") which closed on March 23, 2012, Storm acquired all of the issued and outstanding shares of Bellamont for total consideration of $59.7 million, consisting of $20.0 million in cash and the issuance of 16,740,096 common shares. The common shares issued were valued at $2.37 per share, being the closing share price of Storm on March 22, 2012. Bellamont was a public junior oil and gas exploration company with interests in crude oil and natural gas properties primarily in the Peace River Arch area of Alberta. Total transaction costs of approximately $0.3 million were incurred by Storm and charged to earnings.

The consolidated condensed interim statement of loss and comprehensive loss include the results of operations for the period following the close of the transaction on March 23, 2012. The Company's net loss for the three month period ended March 31, 2012 includes $711,000 of petroleum and natural gas revenue and $33,000 of net income generated from the Bellamont assets since the acquisition on March 23, 2012. If Bellamont had been acquired on January 1, 2012, an additional $7,467,000 of petroleum and natural gas revenue and $335,000 of net loss would have been included on the consolidated condensed interim statement of loss and comprehensive loss for the three month period ended March 31, 2012.

The transaction has been accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the 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	$	102,866
Exploration and evaluation assets		2,113
Working capital deficiency (Includes debt acquired of $38,388)		(37,000)
Decommissioning liability		(8,305)
Net assets acquired	$	59,674

4. INVESTMENTS

	March 31, 2012		December 31, 2011	
Bridge Energy ASA ("Bridge")	$	1,745	$	1,503
Chinook Energy Inc. ("Chinook")		6,525		7,335
	$	8,270	$	8,838

Unrealized revaluation loss for the period ended March 31, 2012, in the amount of $0.6 million (2011 – loss of $0.4 million), is recognized in other comprehensive income (loss). During 2011 the Company sold 5.1 million shares of Bellamont for proceeds of $3.1 million and recognized a gain on disposition of $0.5 million of which $0.4 million was recognized in the three months ended March 31, 2011.

5. EXPLORATION AND EVALUATION

	March 31, 2012		December 31, 2011	
Balance, beginning of period	$	26,156	$	36,937
Corporate acquisitions		44,790		-
Additions		621		10,418
Disposals		(1,009)		-
Future decommissioning costs		-		(358)
Transfers to property and equipment		-		(20,848)
Balance, end of period	$	70,558	$	26,149
Depreciation on furniture and fixtures		-		7
Carrying amount, end of period	$	70,558	$	26,156

6. PROPERTY AND EQUIPMENT

	March 31, 2012		December 31, 2011	
Balance, beginning of period	$	49,507	$	-
Corporate acquisitions		115,927		-
Additions		2,593		30,378
Future decommissioning costs		214		1,717
Transfers from exploration and evaluation assets		-		20,848
Balance, end of period	$	168,241	$	52,943
Accumulated depletion and depreciation		(1,454)		(3,436)
Carrying amount, end of period	$	166,787	$	49,507

7. BANK INDEBTEDNESS

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

8. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production facilities, including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately $16.9 million, which is expected to be paid over the next 17 years. A risk-free discount rate of 2.6% (2011 – 2.65%) and an inflation rate of 1.9% (2011 – 1.5%) was used to calculate the present value of the decommissioning obligation, amounting to $11.6 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, 2012	Year Ended December 31, 2011
Balance, beginning of period	$ 2,532	$ 1,121
Additions	89	1,253
Acquisitions	8,861	-
Obligations disposed	-	(30)
Change in estimate[1]	123	136
Accretion expense	21	52
Balance, end of period	$ 11,626	$ 2,532

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

9. DEFERRED INCOME TAXES

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

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately $174 million as well as non-capital losses of approximately $73 million. The tax losses begin to expire in 2024. A deferred tax asset has not been recognized due to uncertainty as to future realization.

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

The differences are as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Statutory combined federal and provincial income tax rate	25.0%	26.5%
Expected income taxes	$ (404)	$ (85)
Add (deduct) the income tax effect of:		
Share-based compensation	41	76
Changes in equity of associate	-	16
Valuation allowance due to uncertainty of realization of loss carry forwards	363	42
Non-taxable portion of capital gain	-	(53)
Other	-	4
Deferred income taxes	$ -	$ -

10. SHAREHOLDERS' EQUITY

Share Capital

Authorized

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

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

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2010 and 2011	26,377	$ 86,576
Shares issued on acquisition of SGR(1)	11,761	43,869
Shares issued under private placement(2)	6,946	23,616
Shares issued on acquisition of Bellamont(3)	16,740	39,674
Share issue costs(2)	-	(550)
Balance as at March 31, 2012	61,824	$ 193,185

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

(2) On March 23, 2012 the Company issued 6,946,000 common shares at a price of $3.40 per share, under a private placement, for proceeds of $23.6 million before related transaction costs of approximately $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. Options in respect of 2,118,000 common shares have been issued, of which all are unexercised. As at March 31, 2012, there remain options in respect of 4,064,425 common shares which are available for further option grants under the Stock Option Plan.

Details of the options outstanding at March 31, 2012 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2011	1,978	$ 3.28
Granted during the period	140	$ 2.67
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period	-	-
Outstanding at March 31, 2012	2,118	$ 3.25
Number exercisable at March 31, 2012	659	$ 3.29

		Outstanding Options	
Range of Exercise Price	Number of Options Outstanding (000s)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$2.78 - $3.96	2,118	2.5	$ 3.25

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, 2012 of $0.85 (2011 - nil) include the following:

Share price	$ 2.67
Exercise price	$ 2.67
Volatility	40%
Forfeiture rate	10%
Expected option life	3.7
Dividends	-
Risk-free interest rate	1.4%

The initial forfeiture rate was estimated to be 10%. This estimate will be adjusted to the actual forfeiture rate. Share-based compensation expense of $163,000 was charged to the statement of loss during the period ended March 31, 2012 (2011 - $288,000) with an equivalent offset to contributed surplus.

12. NET LOSS PER SHARE

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net loss for the period	$ 1,615	$ 321
Weighted average number of common shares outstanding – basic		
Common shares outstanding at beginning of period	26,377	26,377
Stock options exercised	-	-
Effect of shares issued	12,293	-
Weighted average number of common shares outstanding - basic	38,670	26,377
Effect of outstanding options	-	-
Weighted average number of common shares outstanding - diluted	38,670	26,377
Net loss per share		
- basic	$ (0.04)	$ (0.01)
- diluted	$ (0.04)	$ (0.01)

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

13. FINANCIAL INSTRUMENTS

The following table sets out, for each class of financial asset and financial liability, the carrying amount and fair value as at March 31, 2012. The carrying value of cash, accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness included on the consolidated condensed interim statements of financial position approximate their fair values due to the short-term nature of those instruments and are not included in the table below.

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, 2012
	Classification	Carrying Amount	Fair Value
Investments in publicly traded companies(1)	Available for sale	$ 8,270	$ 8,270

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

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

Risk Management

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

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

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

Credit risk

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

	Carrying Amount as at March 31, 2012
Accounts receivable	$ 4,386

Accounts receivable

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

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

Market risk

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

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

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

Commodity prices

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

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

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

As at March 31, 2012, Storm has the following derivative contracts in place. The fair market value of these contracts of $86,000 is included in current assets and the resulting unrealized mark-to-market gain of $86,000 for the three months ended March 31, 2012 (2011 - nil) is recognized in the consolidated condensed interim statement of loss and comprehensive loss.

Volume	Price	Term
Crude Oil Swap		
100 Bbls/day	$107.75	April 2012 – December 2012

Subsequent to the end of the current quarter Storm entered into the following additional crude oil swap contracts:

Volume	Price	Term
100 Bbls/day	$103.70	May 2012 – December 2012
100 Bbls/day	$103.35	May 2012 – December 2012
150 Bbls/day	$105.00	June 2012 – December 2012

Prices of listed securities

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

Interest rates

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

Foreign exchange rates

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

Liquidity risk

Liquidity difficulties would emerge if the Company was unable to establish a profitable production base and thus generate sufficient cash flow to cover both operating and capital requirements. This may be the consequence of insufficient cash flows resulting from low product prices, production interruptions, operating or capital cost increases, or unsuccessful investment programs.

14. CAPITAL MANAGEMENT

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

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

15. 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, 2012	Three Months Ended March 31, 2011
Salaries and short-term benefits	$ 204	$ 197
Share-based compensation	88	161
	$ 292	$ 358

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Accounts receivable	$ 4,462	$ (1,580)
Prepaids and deposits	122	42
Accounts payable and accrued liabilities	(8,657)	(2,034)
Change in non-cash working capital	$ (4,073)	$ (3,572)
Relating to:		
Operating activities	(2,477)	(1,255)
Financing activities	-	-
Investing activities	(1,596)	(2,317)
	$ (4,073)	$ (3,572)
Interest paid during the period	$ 304	$ -
Income taxes paid during the period	$ -	$ -

Corporate Information

Officers

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Chief Financial Officer

Daniel J. Fitzgerald
Vice President, Corporate Development

John Devlin
Vice President, Finance

Directors

Matthew J. Brister (2)

John A. Brussa (3)

Mark A. Butler (1)(3)

Stuart G. Clark (1)
Chairman

Brian Lavergne
CEO

Gregory G. Turnbull (3)

P. Grant Wierzba (2)

James K. Wilson (1)

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

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol "SRX"

Solicitors

McCarthy Tétrault LLP
Burnet Duckworth & Palmer LLP
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar & Transfer Agent

Alliance Trust Company
Calgary, Alberta

Bankers

ATB Financial
Calgary, Alberta

Executive Offices

Suite 800, 205 – 5th Avenue S.W.
Calgary, Alberta, T2P 2V7 Canada
Tel: (403) 817-6145 Fax: (403) 817-6146
www.stormresourcesltd.com

Abbreviations

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

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