Consolidated Highlights

Thousands of Cdn$, except volumetric and per share amounts	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2011
FINANCIAL		
Gas sales	831	2,243
NGL sales	153	427
Oil sales	498	1,729
Production revenue	1,482	4,399
Funds from operations (1)	396	1,165
Per share - basic ($)	0.02	0.04
Per share - diluted ($)	0.02	0.04
Net income (loss)	(1,023)	(1,906)
Per share - basic ($)	(0.04)	(0.07)
Per share - diluted ($)	(0.04)	(0.07)
Capital expenditures, net of dispositions	8,394	20,108
Net funds available for investment(2)	4,054	4,054
Weighted average common shares outstanding (000s)		
Basic	26,377	26,377
Diluted	26,377	26,377
Common shares outstanding (000s)		
Basic	26,377	26,377
Fully diluted	28,391	28,391
OPERATIONS		
Oil equivalent (6:1)		
Barrels of oil equivalent (000s)	47	126
Barrels of oil equivalent per day	511	462
Average selling price (Cdn$ per Boe)	31.50	34.91
Gas production		
Thousand cubic feet (000s)	239	618
Thousand cubic feet per day	2,595	2,263
Average selling price (Cdn$ per Mcf)	3.48	3.63
NGL Production		
Barrels (000s)	2	5
Barrels per day	20	19
Average selling price (Cdn$ per barrel)	81.44	84.00
Oil Production		
Barrels (000s)	5	18
Barrels per day	58	66
Average selling price (Cdn$ per barrel)	92.66	96.30
Wells drilled		
Gross	2.0	2.0
Net	1.2	1.2

(1) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 8 of the attached Management's Discussion and Analysis ("MD&A") and the reconciliation of funds from operations to the most directly comparable measurement under GAAP, "Cash Flows from Operating Activities", on page 14 of the attached MD&A.

(2) Net funds available for investment comprises cash and accounts receivable less accounts payable and represents funds available, immediately or in the short term, for capital investment. This is a non-GAAP measurement.

President's Message

THIRD QUARTER 2011 HIGHLIGHTS

- Production averaged 511 Boe per day in the quarter and 462 Boe per day for the year to date. As Storm commenced operations August 17, 2010, and had no production until January 2011, there is no prior year comparison.

- On November 10, 2011, Storm Resources Ltd. ("Storm" or the "Company") entered into an arrangement agreement (the "Arrangement Agreement") with Storm Gas Resource Corp. ("SGR") to acquire all of the outstanding common shares of SGR (the "Transaction"), its partner in the Horn River Basin ("HRB"). Storm will issue 1.33 common shares of Storm for each SGR common share not already owned by Storm which will result in the issuance of 11.8 million Storm shares. The Transaction adds 400 Boe per day of current production (100% natural gas) and is forecast to add 850 Boe per day (100% natural gas) in 2012 after the second horizontal well in the HRB is completed and tied in (completion started November 10th).

- InSite Petroleum Consultants Ltd. ("InSite") completed an evaluation of the Discovered-Petroleum-Initially-In-Place ("DPIIP")(1) and Contingent Resources(2) for the Muskwa and Otter Park formations in Storm and SGR's HRB lands. The evaluation includes 30 gross sections, or 19,500 gross acres, and includes lands being acquired as part of the Transaction. Storm's average working interest in the evaluated area is 37%. The best estimate of DPIIP on the evaluated lands is estimated to be 3.1 Tcf gross raw gas which represents an average of 104 Bcf gross raw gas per section. The best estimate of the Contingent Resources within the evaluated area was 242 Bcf net sales to Storm and 421 Bcf net sales to SGR.

- At Umbach, the second and third horizontal wells were drilled and completed in the third quarter. The second horizontal well commenced production in late September at 4.1 Mmcf per day of gross raw gas (430 Boe per day net to Storm) and the third horizontal well is expected to begin producing in late November. A fourth horizontal well located 2.5 miles south of the first horizontal was cased in early October, included a vertical pilot hole with logs indicating 30 metres of net pay in the Montney, and confirms initial estimates as to the areal extent of the exploitable area.

- InSite also completed an evaluation of the DPIIP and Contingent Resources for the Montney formation at Umbach. The evaluation includes 19.5 gross sections, or 13,600 gross acres, with Storm's average working interest being 57.5%. DPIIP on the evaluated lands is estimated to be 460 Bcf gross raw gas which represents an average of 23.6 Bcf gross raw gas per section. The best estimate of the Contingent Resources within the evaluated area was 15,130 MBoe net sales to Storm (14% natural gas liquids).

- The third quarter operating netback was $19.96 per Boe and funds from operations totaled $0.4 million or $0.02 per share outstanding.

- Capital investment in the quarter was $8.4 million with major expenditures being $3.9 million for drilling and $3.4 million for completions.

- At September 30, 2011, Storm's total liquidity was $12.7 million which is comprised of $4.1 million of net funds available for investment (working capital surplus) plus $8.6 million for Storm's investments in publicly listed companies (proceeds from the possible future sale of these securities may be used to finance the Company's capital programs).

(1) Discovered-Petroleum-Initially-in-Place ("DPIIP") is defined in the Canadian Oil and Gas Evaluation Handbook ("COGEH") as the quantity of hydrocarbons that are estimated to be in place within a known accumulation. 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.

(2) 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.

OPERATIONS REVIEW

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

Storm's undeveloped land position in the HRB currently totals 120 gross sections at a 40% working interest (30,200 net acres) and is prospective for natural gas from the Muskwa, Otter Park, and Evie/Klua shales. This land position was acquired jointly with SGR which owns the remaining 60% working interest. SGR also has a 100% working interest in an additional 20 sections (13,100 net acres) in the HRB. On November 10, 2011, Storm entered into the Arrangement Agreement with SGR, which will result in the consolidation of the two companies' interest in the HRB. During the third quarter, production from this area averaged 300 Boe per day at an operating netback of $12.50 per Boe.

Production performance of the first horizontal well (40% Storm, 60% SGR) with 12 fracture stimulations continues to exceed expectations with the rate in October averaging 4.8 Mmcf per day gross raw gas (280 Boe per day net to Storm) and cumulative production, since production commenced on March 7th, totaling 1.4 Bcf. Over the first eight months, productivity has been higher than expected and the 30% decline in the rate has been relatively moderate. Compression has not been installed resulting in the flow rate being restricted as the gathering pipeline is operating at a pressure of 700 psig. Completion of the second horizontal well (40% Storm, 60% SGR) with 15 fracture stimulations began November 10th with the estimated cost including tie-in being $11.0 million gross. At current natural gas prices, Storm expects that no royalties will be paid on production from the first two horizontals in the next two to three years due to their qualification under British Columbia's Deep Royalty Credit and Infrastructure Royalty Credit Programs.

Independent evaluator InSite recently completed an evaluation of Storm and SGR's DPIIP and Contingent Resources for the Muskwa and Otter Park formations. The evaluated area covers 30 gross sections, or 19,500 gross acres, and includes 3 sections (1,950 net acres) where SGR has a 100% working interest. The InSite evaluation was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101. The contingencies that prevent the economic Contingent Resources from being classified as reserves are associated with the early evaluation stage of these potential development opportunities. Additional drilling, completion, and testing data is generally required before a commitment can be made to their development. There is no certainty that it will be commercially viable to produce any of the resources. The key findings of the evaluation are as follows:

InSite Evaluation of Contingent Resources for Horn River Basin Effective October 31, 2011(1)

DPIIP and Contingent Resources	Low Estimate	Best Estimate	High Estimate
Muskwa and Otter Park - average gross thickness	92 metres	92 metres	92 metres
- average porosity	3.5%	4.25%	5.0%
Gross DPIIP within evaluation area (gross raw Bcf)(1)	2,836	3,117	3,398
DPIIP net to SGR's working interest (net raw Bcf)(1)	1,797	1,976	2,154
DPIIP net to Storm's working interest (net raw Bcf)(1)	1,039	1,141	1,244
Estimated Economic Contingent Resource net to SGR's working interest (net sales Bcf)(2)(3)	305	421	552
Estimated Economic Contingent Resource net to Storm's working interest (net sales Bcf)(2)(3)	175	242	317

Notes:

(1) Numbers in this table are subject to rounding error.
(2) DPIIP has been estimated using the gross shale thickness, gas saturation of 78%, gas formation volume factor of 205 scf per ft^3, gas Z of 0.98, reservoir temperature of 265 F, average reservoir pressure of 4,142 psig, and adsorbed gas content of 69 scf per ton.
(3) Contingent Resources do not include cumulative production from the wells in the area of the evaluation or reserves that were assigned by InSite in the 2010 year-end reserve evaluation.
(4) Gas shrinkage of 12% is included in determining Contingent Resources.
(5) Storm and SGR's net working interest Contingent Resources are before deducting royalties payable.

Excluding proved plus probable reserves assigned to the evaluation area in the 2010 year-end reserve evaluation, the Contingent Resource evaluation assigned a low estimate of Contingent Resources of 175 Bcf sales net to Storm and 305 Bcf sales net to SGR. The low estimate is the most conservative estimate and carries the greatest level of confidence - at least 90% - that the resource will be recovered. The best estimate (50% confidence) of Contingent Resources was 242 Bcf sales net to Storm and 421 Bcf sales net to SGR. The high estimate (less than 10% confidence) of Contingent Resources is 317 Bcf sales net to Storm and 552 Bcf sales net to SGR. The remainder of the DPIIP beyond what has been cumulatively produced, classified as proved plus probable reserves, or classified as Contingent Resources, is currently considered to be the unrecoverable portion.

Umbach, North East British Columbia

Storm has 102 gross sections or 73 net sections at Umbach with 55,500 net undeveloped acres which is primarily prospective for liquids rich natural gas from the Montney formation. Storm's lands are subdivided into a northern land block which consists of 60 gross sections at 53% working interest and a southern land block which consists of 42 gross sections at a 100% working interest. Production averaged 153 Boe per day in the third quarter while the operating netback was $17.64 per Boe.

Most of Storm's activity to date has been focused on delineating the Montney resource on the northern block of land. In addition to the first horizontal well (60% working interest), with 7 fracture stimulations, that began producing in March 2011, the second and third horizontal wells (both 60% working interest) were drilled and completed in the third quarter. The second horizontal was completed with 10 fracture stimulations with the final test rate being 4.4 Mmcf per day gross raw gas plus 33 barrels per day of condensate. The well began producing on September 28th at a rate of 4.1 Mmcf per day gross raw gas (430 Boe per day net to Storm) with the current rate being 2.3 Mmcf per day gross raw gas (250 Boe per day net to Storm). The third horizontal was completed with 11 fracture stimulations with the final test rate being 1.7 Mmcf per day gross raw gas plus small amounts of condensate and is expected to begin producing in late November. A fourth horizontal well located 2.5 miles south of the first horizontal was cased in early October and included a logged vertical pilot hole which was also cored. Log analysis and core data from the vertical pilot hole show 30 metres of net pay in the Montney which is consistent with Storm's expectations and supports management's estimate of the exploitable area being as much as 40 gross sections in size. Including NGL recovered at the McMahon Gas Plant, total NGL and condensate production is approximately 30 barrels per Mmcf of sales gas.

InSite recently completed an evaluation of DPIIP and contingent resources for the Montney formation on the northern land block. The evaluated area includes 19.5 gross sections (13,600 gross acres) with Storm's average working interest being 57.5%. The InSite evaluation was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101. The contingencies that prevent the economic Contingent Resources from being classified as reserves are associated with the early evaluation stage of these potential development opportunities. Additional drilling, completion and testing data is generally required before a commitment can be made to their development. There is no certainty that it will be commercially viable to produce any of the resources. The key findings of the evaluation are as follows:

InSite Evaluation of Contingent Resources for Umbach Effective October 31, 2011[1]

DPIIP and Contingent Resources	Low Estimate	Best Estimate	High Estimate
Montney - average net pay	26 metres	26 metres	26 metres
- average porosity	7%	7%	7%
Gross DPIIP within evaluation area (gross raw Bcf)[2]	460.5	460.5	460.5
DPIIP net to Storm's working interest (net raw Bcf)[2]	265.0	265.0	265.0
Estimated Economic Contingent Resource net to Storm's working interest (net sales Bcf)[3][4][5]	66.2 Bcf Natural Gas	78.0 Bcf Natural Gas	89.8 Bcf Natural Gas
	1,818 MBbls Natural Gas Liquids	2,137 MBbls Natural Gas Liquids	2,455 MBbls Natural Gas Liquids
	12,846 MBoe	15,130 MBoe	17,414 MBoe

Notes:

(1) Numbers in this table are subject to rounding error.
(2) DPIIP has been estimated using a net pay cut-off of 20 metres, gas saturation of 80%, gas formation volume factor of 161 scf per ft^3, gas Z of 0.8, reservoir temperature of 149 F and, average reservoir pressure of 2,220 psig.
(3) Contingent Resources do not include cumulative production from the wells in the area of the evaluation or reserves that were assigned by InSite in the 2010 year-end reserve evaluation.
(4) Gas shrinkage of 11% is included in determining Contingent Resources.
(5) Storm's net working interest Contingent Resources are before deducting royalties payable.

Excluding proved plus probable reserves assigned to the evaluation area in the 2010 year-end reserve evaluation, the Contingent Resource evaluation assigned a low estimate of Contingent Resources of 66.2 Bcf sales net to Storm. The low estimate is the most conservative estimate and carries the greatest level of confidence - at least 90% - that the resource will be recovered. The best estimate (50% confidence) of Contingent Resources was 78.0 Bcf sales net to Storm. The high estimate (less than 10% confidence) of Contingent Resources is 89.8 Bcf sales net to Storm. The remainder of the DPIIP beyond what has been cumulatively produced, classified as proved plus probable reserves, or classified as Contingent Resources, is currently considered to be the unrecoverable portion.

On the southern land block, two vertical wells (100% working interest) were completed in the Montney formation in the first quarter with 100-ton fracture treatments and the final test rates on each were approximately 150 to 200 Mcf per day. These vertical wells are five miles apart and confirm that the Montney is productive over a large area; however, the test rates are indicative of lower reservoir quality. An area of better reservoir quality has been identified using 3-D seismic and a vertical delineation well (100% working interest) will be drilled this winter to further evaluate these lands.

Red Earth, North Central Alberta

Production at Red Earth averaged 58 barrels of oil per day in the third quarter from two Slave Point horizontal wells (0.4 net). The operating netback was $64.87 per barrel in the quarter with both horizontal wells benefiting from a 5% royalty rate under Alberta's New Well Royalty Rate program.

ACQUISITION OF STORM GAS RESOURCE CORP.

On November 10, 2011, Storm entered into the Arrangement Agreement to acquire all of the outstanding shares of SGR, its partner in the HRB. Storm will issue 1.33 common shares for each SGR common share not owned by Storm which will result in the issuance of 11.8 million Storm shares. Following completion of the Transaction, Storm will have approximately 38.2 million common shares outstanding, of which approximately 69% will be held by current shareholders of Storm and approximately 31% will be held by former shareholders of SGR, excluding SGR shares already owned by Storm. It is expected that a joint information circular will be mailed to both Storm and SGR shareholders in early December. Closing of the Transaction is expected to occur in early January 2012, subject to satisfaction of certain conditions including no material adverse change having occurred in either of Storm or SGR, standard stock exchange, court and regulatory approvals and the requisite two-thirds majority approval of SGR's shareholders and the majority of minority approval of Storm's shareholders.

Additional information regarding the Transaction:

- Using a value of $3.73 per Storm common share, which is the 20-day volume weighted average share price ending on November 10th (day agreement was executed), the acquisition cost is $56.3 million. The net cost to Storm is $43.9 million after excluding the 2.5 million shares already owned by Storm.

- SGR's current production is 400 Boe per day (100% natural gas) and production in 2012 is forecast to average 850 Boe per day (100% natural gas) assuming successful completion of the second horizontal well in the HRB (completion started November 10th).

- SGR's debt at closing is estimated to be approximately $1.2 million, which includes transaction costs plus capital invested to complete and tie in the second HRB horizontal well.

- SGR has 81,400 net acres of undeveloped land including 60,000 net acres in the HRB.

- Using Storm's reserve report prepared by InSite effective December 31, 2010, Storm is acquiring 644 Mboe of total proved reserves and 2,367 MBoe of proved plus probable reserves. Net to SGR's working interest, future development capital ("FDC") is estimated at $6.7 million for total proved reserves and $22.6 million for proved plus probable reserves. FDC for both total proved and proved plus probable reserves would be reduced by $6.7 million net to SGR to reflect capital invested in the first quarter of 2011 for construction of the facility and tie-in of the first horizontal well.

- Using the evaluation by InSite of Contingent Resources for the Muskwa and Otter Park formations in Storm and SGR's HRB lands dated October 31, 2011, Storm is acquiring Contingent Resources of 305 Bcf net sales in the low case estimate, 421 Bcf net sales in the best case estimate, and 552 Bcf net sales in the high case estimate. The HRB lands included in the InSite Contingent Resource evaluation totalled 30 gross sections representing 19,500 gross acres or 12,500 acres net to SGR.

- Storm attributes approximately $7.2 million for 68,900 net acres of undeveloped lands outside of the area in the HRB that was evaluated as part of the InSite Contingent Resource evaluation.

- At closing, SGR is expected to have 11.3 million common shares outstanding and Storm will issue 11.8 million common shares to acquire 8.8 million SGR common shares not already owned by Storm.

The Transaction benefits both SGR and Storm shareholders with the combined company having a diversified, resource-oriented asset base with near-term growth coming from exploitation of liquids rich natural gas in the Montney formation at Umbach. SGR shareholders gain asset diversification while retaining exposure to the upside associated with the HRB lands. Storm shareholders benefit from the consolidation of the HRB asset which provides more flexibility in terms of exploitation and development. In addition, the combined company will be financially stronger with a larger production base and proportionately lower cash G&A.

INVESTMENTS

Storm has share ownership positions in one private company and two publicly traded companies. These shareholdings were transferred to Storm under a plan of arrangement with ARC Energy Trust. The value of the share positions in the two public companies totaled $8.6 million at the end of the third quarter and these securities could possibly be sold in the future with the proceeds being used to finance the Company's capital programs.

Storm Gas Resource Corp.

SGR is a private company formed in June 2007 to pursue unconventional gas opportunities in the HRB and elsewhere. Storm's share ownership position at present totals 2.5 million shares, representing 22% ownership of SGR. Completion of the Transaction as described above will result in SGR becoming a wholly-owned subsidiary of Storm.

Chinook Energy Inc. ("Chinook")

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

Bridge Energy ASA ("Bridge")

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

OUTLOOK

Based on field estimates, production in October was approximately 760 Boe per day. Capital expenditures in 2011 are expected to total $26 million which is $2 million higher than previous guidance and results from deferring completion of the fourth horizontal well (0.6 net) and deferring a vertical delineation well (1.0 net) at Umbach while adding the completion and tie-in of the second horizontal well in the HRB. Production in the fourth quarter of 2011 is forecast to be approximately 900 Boe per day (15% oil and NGLs) which is lower than prior guidance of 1,000 to 1,200 Boe per day due to delays with well tie-ins at Umbach. The corporate average royalty rate for 2011 is forecast to average less than 5% versus previous guidance of 10% which is due to royalty incentive programs in Alberta and British Columbia. Operating costs for 2011 are still expected to average $7.25 per Boe in 2011 and cash general and administrative costs are also unchanged at approximately $2.7 million for the year.

Storm's resource plays at Umbach and in the HRB both represent material assets for Storm shareholders and provide significant leverage to even a small increase in natural gas prices. We plan to continue gradually advancing both and will do so by working to increase productivity and reserves per horizontal well as well as expanding the resource. We remain optimistic that natural gas prices will improve given that current prices combined with cost inflation result in poor rates of return on most resource plays which will eventually have an impact on supply. For most producers, maintaining or growing natural gas production requires capital expenditures to exceed cash flow which is not sustainable longer term. Although current natural gas prices limit Storm's ability to grow production from both resource plays, we can afford to be patient given that we have already secured the land and validated the commerciality of two large resource plays. As a result, in the current natural gas price environment, we are focused on identifying and acquiring assets which add near-term exploitation upside and diversify our asset base while also continuing to advance both core resource plays.

Respectfully,

B. Lavergne

Brian Lavergne,
President and Chief Executive Officer

November 14, 2011

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

Forward-Looking Statements – Such statements made in this report are subject to the limitations set out in Storm's Management's Discussion and Analysis dated November 14, 2011 for the period ended September 30, 2011.

Management's Discussion and Analysis

INTRODUCTION

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Resources Ltd. ("Storm" or the "Company") for the three and nine months ended September 30, 2011. It should be read in conjunction with (i) the Company's unaudited condensed financial statements at September 30, 2011 and for the three and nine month periods then ended, (ii) the Company's audited financial statements for the period from June 8, 2010 to December 31, 2010, and (iii) the press release issued by the Company on November 14, 2011. 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 management's discussion and analysis is dated November 14, 2011.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's unaudited condensed financial statements for the three and nine months ended September 30, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS compliant accounting policies adopted by the Company are referred to in Note 2 to the unaudited condensed interim financial statements for the three and nine months ended September 30, 2011 and are set out in Note 3 to the audited financial statements for the period ended December 31, 2010. The reporting and the measurement currency is the Canadian dollar.

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

Comparative Information – As described above, the Company was incorporated on June 8, 2010, and was inactive until its participation in the Arrangement on August 17, 2010. This comparative information for 2010 is for the approximate six-week period ended September 30, 2010. Comparative information is also provided for the immediately prior three-month period ended June 30, 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;
- future revenues or costs (including royalties) or revenues or costs per commodity unit;
- future capital expenditures and their allocation to specific exploration and development activities or periods;
- future drilling;
- future earnings;

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

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

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

OPERATIONAL AND FINANCIAL RESULTS

Overview

For the third quarter of 2011 the Company reported production from three areas, natural gas from the Horn River Basin and natural gas with natural gas liquids from Umbach, both in North East British Columbia, and crude oil from Red Earth in North Central Alberta.

Storm's first horizontal well in the Horn River Basin was tied in early in March 2011 with production from the Muskwa and Otter Park formations amounting to 5,100 Mcf gross raw gas per day for the third quarter of 2011, or 1,800 Mcf per day sales net to Storm's interest (300 Boe per day net to Storm). The Company's working interest is 40% and the Company's partner and operator of the well is its 22% owned associate, Storm Gas Resource Corp. ("SGR"). Current gas production is approximately 4,800 Mcf gross raw gas per day, or 1,690 Mcf per day sales net to Storm (280 Boe per day net to Storm).

Also in early March 2011 at Umbach, the Company, as operator with a 60% working interest, began production from a horizontal well drilled into the Montney formation. Production from this well in the third quarter amounted to 1,370 Mcf gross raw gas per day, or 724 Mcf per day sales net to Storm's working interest, plus associated condensate and natural gas liquids of 19 Bbls per day (140 Boe per day net to Storm). Current production is approximately 1,200 Mcf gross raw gas per day, or 640 Mcf per day sales net to Storm, plus associated condensate and NGL production of 19 Bbls per day (125 Boe per day net to Storm).

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

Production and Revenue

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

Average Daily Production

	Three Months to Sept. 30, 2011	Three months to June 30, 2011	Nine Months to Sept. 30, 2011
Natural gas (Mcf/d)	2,595	2,958	2,263
Natural gas liquids (Bbls/d)	20	22	19
Crude oil (Bbls/d)	58	80	66
Total (Boe/d)	511	595	462

Daily production per million shares outstanding averaged 20 Boe per day for the third quarter compared to 23 Boe per day in the second quarter of 2011 and 18 Boe per day for the nine-month period.

There was no production in 2010.

Production Profile and Per-Unit Prices

	Three Months to Sept. 30, 2011		Three Months to June 30, 2011		Nine Months to Sept. 30, 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	85%	$ 3.48	83%	$ 3.76	82%	$ 3.63
Natural gas liquids - Bbl	4%	81.44	4%	86.53	4%	84.00
Crude oil - Bbl	11%	92.66	13%	103.20	14%	96.30
Per Boe	100%	$ 31.50	100%	$ 35.74	100%	$ 34.91

All of the Company's natural gas is produced in British Columbia and is sold at a price based on the Station 2 reference point in British Columbia. Storm's realized price for the third quarter was $3.48 per Mcf. The Station 2 price for the quarter to September 30, 2011, averaged $3.10 per GJ, compared to $3.47 per GJ for the equivalent AECO price. For the immediately prior quarter, the Station 2 price averaged $3.40 per GJ, compared to $3.67 per GJ for the equivalent AECO price. For the nine-month period, the Station 2 price was $3.25 per GJ compared to an AECO price of $3.57 per GJ.

Production by Area – Boe/d

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011
Horn River Basin – BC	300	350	255
Umbach – BC	153	165	141
Red Earth – AB	58	80	66
Total	511	595	462

Revenue from Product Sales

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011
Natural gas	$ 832	$ 1,011	$ 2,243
Natural gas liquids	153	177	427
Crude oil	497	748	1,729
Total	$ 1,482	$ 1,936	$ 4,399

There was no revenue from product sales or related charges such as royalties, production costs or transportation costs for the period to September 30, 2010.

Royalties

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011
Charge for period	$ 56	$ 70	$ 176
Percentage of production revenue	4%	4%	4%
Per Boe	$ 1.19	$ 1.30	$ 1.40

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

In British Columbia, natural gas wells spudded before July 1, 2010 and brought into production by December 31, 2010 are subject to a 2% royalty rate on sales of natural gas for the first 12 months of production. Storm's first horizontal well at Umbach qualifies for this program; however, future horizontal wells do not, since the program applies to wells drilled before December 31, 2010. In addition, the Company benefits from British Columbia's deep well royalty credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on

production from the well. This program is applicable to the Company's producing well in the Horn River Basin and the Company expects that future royalties will be reduced by an amount of $0.5 million.
In Alberta, production from new horizontal oil wells is subject to a 5% royalty rate for the first 30 months of production, subject to a maximum volume of 70,000 Bbls of crude oil. Storm's two producing wells at Red Earth benefit from this program. The preferential royalty rate is expected to expire in August 2013.

Production Costs

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011
Charge for period	$ 328	$ 403	$ 955
Percentage of production revenue	22%	21%	22%
Per Boe	$ 6.96	$ 7.46	$ 7.58

Production costs per barrel of crude oil averaged $10.04 for the third quarter and production costs per Mcf of natural gas averaged $1.14, with total production costs averaging $6.96 per Boe. This compares to the equivalent charges for the second quarter of $10.79 for crude oil and $1.21 per Mcf with total production costs averaging $7.46 per Boe. For the nine-month period, charges were $12.08 for crude oil and $1.19 per Mcf or $7.58 per Boe. Production costs for natural gas include Spectra charges for raw gas gathering and processing in British Columbia. Production costs of natural gas liquids are included with natural gas costs.

Transportation Costs

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011
Charge for period	$ 160	$ 55	$ 242
Percentage of production revenue	11%	3%	6%
Per Boe	$ 3.39	$ 1.02	$ 1.92

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 quarter to September 30, 2011 were higher than anticipated due to fire related disruptions of crude oil transportation arrangements at Red Earth, resulting in a pipeline closure and the temporary use of higher cost trucking for oil shipment.

Field Netbacks

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

	Three Months to Sept. 30, 2011			
	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 92.66	$ 81.44	$ 3.48	$ 31.50
Royalties	(3.38)	(13.76)	(0.05)	(1.19)
Production costs	(10.04)	-	(1.14)	(6.96)
Transportation	(22.54)	(3.18)	(0.14)	(3.39)
Field netback	$ 56.70	$ 64.50	$ 2.15	$ 19.96

	Three Months to June 30, 2011			
	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 103.20	$ 86.53	$ 3.76	$ 35.74
Royalties	(5.65)	(13.41)	(0.01)	(1.29)
Production costs	(10.79)	-	(1.21)	(7.44)
Transportation	(1.60)	(3.44)	(0.14)	(1.03)
Field netback	$ 85.16	$ 69.68	$ 2.40	$ 25.98

	Nine Months to Sept. 30, 2011			
	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 96.30	$ 84.00	$ 3.63	$ 34.91
Royalties	(4.84)	(14.16)	(0.03)	(1.40)
Production costs	(12.08)	-	(1.19)	(7.58)
Transportation	(7.87)	(3.23)	(0.13)	(1.92)
Field netback	$ 71.51	$ 66.61	$ 2.28	$ 24.01

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

General and Administrative Costs

Total Costs	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Charge for period - gross	$ 696	$ 749	$ 2,168	$ 283
Overhead recoveries	(132)	(15)	(185)	(16)
Charge for period - net	$ 564	$ 734	$ 1,983	$ 267

Compensation costs were consistent for each of the periods above, accounting for approximately 60% of the gross charge with office accommodation costs accounting for an additional 18% and public company costs accounting for 16%. Resumption of field operations after spring breakup resulted in higher overhead recoveries.

Share-Based Compensation

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Charge for period	$ 243	$ 309	$ 840	$ 126

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 issue formed part of the initial compensation program put in place for directors, officers and staff of the then newly established business. An additional 40,000 options were issued to a new employee in the first quarter of 2011.

Depletion and Depreciation

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Depletion	$ 942	$ 809	$ 2,149	$ -
Depreciation	74	66	163	2
Charge for period	$ 1,016	$ 875	$ 2,312	$ 2
Per Boe	$ 21.61	$ 16.20	$ 18.35	$ 2

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

The charge for depreciation for the period relates to tangible equipment costs, including office equipment, included with property and equipment costs. Such costs are depreciated over the useful life of the asset. The depreciation charge for the period to September 30, 2010 related to office equipment only.

The increase in the depletion charge for the quarter to September 30, 2011, when compared to the preceding quarter, is due to additions to the depletable property and equipment pool.

Accretion

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Charge for period	$ 12	$ 12	$ 36	$ 5

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

Gain on Sale of Investments

None of the Company's investment positions changed in the quarter ended September 30, 2011. During the quarter ended June 30, 2011 the Company sold its remaining interest of 0.7 million shares of Bellamont Exploration Inc. for proceeds of $0.4 million. A gain of $0.06 million was realized.

In 2011, the Company has realized a total of $3.1 million and a gain of $0.46 million on the sale of its position in Bellamont Exploration Inc.

Change in Equity of Associate

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Equity loss for period	$ 148	$ 136	$ 346	$ 25

As described in Note 6 to the unaudited condensed interim financial statements for the three and nine months to September 30, 2011, the Company accounts for its 22% ownership position in an associated company, SGR, using the equity method, where the Company's pro rata share of changes in SGR's equity is included in the determination of the Company's net loss for the period. The investment loss recorded represents Storm's share of changes in SGR's equity for the three and nine months to September 30, 2011. Summarized financial information regarding SGR is also provided in Note 6 to the Company's unaudited condensed interim financial statements for the three and nine months to September 30, 2011. SGR's principal business activity is the development of a natural gas prospect in the Horn River Basin of North East British Columbia in a 60:40 joint venture with Storm.

Income Taxes

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

Tax Pool	As at Sept. 30, 2011	Maximum Annual Deduction
Canadian oil and gas property expense	$ 14,300	10%
Canadian development expense	18,000	30%
Canadian exploration expense	7,300	100%
Undepreciated capital cost	5,600	20 – 100%
Operating losses	10,400	100%
	$ 55,600	

Net Loss

	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Net loss	$ (1,023)	$ (562)	$ (1,906)	$ (406)
Per diluted share	$ (0.04)	$ (0.02)	$ (0.07)	$ (0.05)

Other Comprehensive Loss

Comprehensive income (loss) comprises net loss for the period plus unrealized gains and losses resulting from the mark-to-market valuation of certain assets and liabilities. For the three and nine months to September 30, 2011, Storm's other comprehensive income included adjustments to reflect the period end mark-to-market valuation of listed securities as follows:

	Holding	Number of Shares	Three Months to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Bellamont Exploration Ltd.	Class A Common Shares	(1)	$ -	$ (40)	$ (305)	$ -
Bridge Energy ASA	Common Shares	1,052,910	(287)	(10)	(1,005)	469
Chinook Energy Inc.	Common Shares	4,500,001	(675)	(1,620)	(2,700)	450
Other comprehensive loss for period			$ (962)	$ (1,670)	$ (4,010)	$ 919

(1) The number of shares held in Bellamont Exploration Ltd. was: September 30, 2011 – nil; June 30, 2011 – nil; December 31, 2010 – 5,080,645.

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

	Three Months to Sept. 30, 2011		Three Months to June 30, 2011		Nine Months to Sept. 30, 2011		Period to Sept. 30, 2010	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Funds from (applied to) operations	$ 396	$ 0.02	$ 710	$ 0.03	$1,165	$ 0.04	$ (248)	$(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 to Sept. 30, 2011		Three Months to June 30, 2011		Nine Months to Sept. 30, 2011		Period to Sept. 30, 2010	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	$ 396	$ 0.02	$ 710	$ 0.03	$ 1,165	$ 0.04	$ (248)	$(0.03)
Net change in non-cash working capital items	(3,203)	(0.12)	930	0.03	(3,528)	(0.13)	3	$ 0.00
Cash from (applied to) operating activities	$(2,807)	$(0.10)	$1,640	$ 0.06	$(2,363)	$(0.09)	$ (245)	$(0.03)

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

INVESTMENT AND FINANCING

Financial Resources and Liquidity

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

	Transaction Date	Amount
Received under Arrangement	August 17, 2010	$ 9,370
Proceeds of private placement	August 17, 2010	7,544
Proceeds from exercise of warrants - net	September 22, 2010	21,432
Total cash received		38,346
Net cash outlays from Arrangement date to Dec. 31, 2010		
Operating activities		(1,509)
Investing activities		(6,113)
Total		(7,622)
Cash at Dec. 31, 2010		$ 30,724
Net cash outlays for the nine months ended Sept. 30, 2011		
Operating activities		(2,363)
Investing activities		(19,648)
Cash at Sept. 30, 2011		$ 8,713
Accounts receivable		5,270
Accounts payable		(9,929)
Net funds available for investment at Sept. 30, 2011		$ 4,054

In October 2011 the Company set up a revolving borrowing base bank credit facility, subject to semi-annual review, with an initial term to April 30, 2012. The facility is in the amount of $5 million which can increase to $10 million based on the future successful completion and tie-in of additional wells in the Company's producing areas. No amount has been drawn on this facility.

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

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

Investments

The Company owns listed securities as set out below which are valued at the closing price on the relevant stock exchange at September 30, 2011. Proceeds from the possible future sale of these securities may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Sept. 30, 2011	Value at Sept. 30, 2011
Bridge Energy ASA(1)	Common Shares	1,052,910	Oslo Børs Axess	$1.61(1)	$ 1,691
Chinook Energy Inc.	Common Shares	4,500,001	TSX	$1.54	6,930
Total					$ 8,621

(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 to Sept. 30, 2011	Three Months to June 30, 2011	Nine Months to Sept. 30, 2011	Period to Sept. 30, 2010
Land and lease	$ 480	$ 440	$ 3,440	$ 177
Seismic	-	-	508	-
Drilling	3,888	677	5,195	480
Completions	3,421	434	6,608	2,579
Facilities	605	295	3,610	188
Acquisitions (Dispositions)	-	166	747	-
Total capital expenditures in period	$ 8,394	$ 2,012	$ 20,108	$ 3,424

Major expenditures in the third quarter of 2011 included $404,000 for land acquisition and $7.3 million on drilling and completions, all at Umbach in North East British Columbia.

Investment in Associate

The Company owns 2,500,000 common shares of SGR, representing a 22% interest. The Company accounts for its interest in SGR using the equity method. The carrying amount of the Company's interest in SGR at September 30, 2011 is $5.40 per share, representing the transfer amount under the Arrangement, plus the Company's share of SGR's losses since the Arrangement date. This amount should not be regarded as representative of the value of Storm's investment in SGR. In addition to its investment in SGR, Storm has a direct 40% working interest in undeveloped lands jointly acquired with SGR in the Horn River Basin of North East British Columbia. This interest, together with the investment in SGR, provides Storm with a 53% exposure to the potential upside in the Horn River Basin lands. The Company also provides management services to SGR and the amount billed for such services totaled $75,000 for the quarter ended September 30, 2011 and $206,000 for the nine months ended September 30, 2011.

On November 10, 2011, the Company entered into an arrangement agreement with SGR which will result in the Company purchasing all outstanding common shares of SGR not already owned, or a total of 8,882,000 SGR common shares, including in-the-money options assumed to be vested and exercised. The Company will issue 1.33 common shares of Storm for each outstanding SGR share, resulting in the issuance of 11.8 million common shares. The acquisition is subject to the approval of the shareholders of both SGR and the Company and is expected to close in early January 2012. Assuming a closing price of $3.73 per common share of Storm, which is based on recent trading in the Company's shares, the acquisition will have a value of $43.9 million. The acquisition will result in the Company increasing its interest in its Horn River Basin properties to 100% from 40%, thus enabling the Company to assume operatorship and thus control timing, structure and financing of development of this property. The Company's carrying amount of its existing shareholding in SGR is $5.40 per SGR share. Using the assumed closing price of $3.73 for the Company's common shares, the transaction establishes a value of $4.97 per SGR common share. This will result in the Company recognizing a loss of approximately $1.1 million on its existing holding of 2,500,000 SGR common shares, which will be recognized in the quarter the acquisition closes.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include operating, administrative and capital costs payable. Net payables in respect of cash calls issued to partners regarding capital projects and estimates of amounts owing but not yet invoiced to the Company have been included in accounts payable. The amount of accounts payable and accrued liabilities at September 30, 2011 corresponds to the seasonality of the Company's operations and the increased level of field activity in the third 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 and nine months to September 30, 2011 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the period, plus the time related increase in the present value of the liability. The risk free discount rate used to establish the present value is 4%. Future costs to abandon and reclaim the Company's properties are based on an internal evaluation, supported by external data from industry sources.

Shareholders' Equity

Details of share issuances from inception to September 30, 2011 are as follows:

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

See Investment in Associate on page 16.

CONTRACTUAL OBLIGATIONS

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

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

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

QUARTERLY RESULTS

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

	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sep. 30, 2010
Revenue from product sales ($000s)	1,482	1,936	981	-	-
Non-GAAP funds from (applied to) operations ($000s)(1)	396	710	59	(708)	(248)
Per share					
- basic ($)	0.02	0.03	0.00	(0.03)	(0.03)
- diluted ($)	0.02	0.03	0.00	(0.03)	(0.03)
Net loss ($000s)	(1,023)	(562)	(321)	(1,087)	(406)
Per share					
- basic ($)	(0.04)	(0.02)	(0.01)	(0.04)	(0.05)
- diluted ($)	(0.04)	(0.02)	(0.01)	(0.04)	(0.05)
Other comprehensive income (loss) ($000s)	(962)	(1,670)	(1,378)	(834)	919
Capital expenditures ($000s)	8,394	2,012	9,702	13,373	3,424
Average daily production - Boe	511	595	276	-	-
Non-GAAP net funds available for investment ($000s)(2)	4,054	12,224	13,058	19,921	34,405
Available for sale investments	8,621	9,583	11,611	15,324	16,158

(1) See Non-GAAP Measurements on page 8 of this MD&A.
(2) Comprises cash and accounts receivable, less accounts payable and accrued liabilities.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the unaudited condensed interim financial statements for the three and nine months ended September 30, 2011 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain financial amounts are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts are based on estimations using information that involves a high degree of measurement uncertainty which could have a material effect on Storm's operating results and financial position. Information with respect to such amounts is described in the MD&A for the period ended December 31, 2010, or is described below to the extent that such estimations were first made in the three and nine months ended September 30, 2011.

Property and Equipment and Depletion and Depreciation

Under IFRS, upon commencement of production and the identification of cash generating units, the Company must transfer from Exploration and Evaluation Assets to Property and Equipment Assets on the Company's Statement of Financial Position, an amount representing the accumulated costs associated with the cash generating unit. The measure of the amount to be transferred involves estimation and judgment by management, and it is possible that the estimates used could differ from similar estimates developed by other parties. The amount transferred to Property and Equipment Assets is subject to depletion and depreciation; correspondingly, charges for depletion and depreciation are also subject to measurement uncertainty.

RISK ASSESSMENT

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Institute of Chartered Accountants, the primary source for accounting standards in Canada, has implemented International Financial Reporting Standards ("IFRS") as part of Canadian GAAP. Such standards have been established cooperatively by many countries and have widespread application to financial reporting throughout the world. IFRS was adopted by public companies in Canada for reporting periods beginning after December 31, 2010, which means that for most companies the quarter ended March 31, 2011 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 used IFRS compliant accounting policies for the reporting periods ended September 30 and December 31, 2010. Correspondingly, the introduction of IFRS for the first quarter of 2011 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

Condensed Interim Statements of Financial Position

(Canadian $000s) (unaudited)	Sept. 30, 2011	Dec. 31, 2010
ASSETS		
Current		
Cash	$ 8,713	$ 30,724
Accounts receivable	5,270	780
Investments (Note 5)	8,621	15,324
Prepaids and deposits	752	672
	23,356	47,500
Investment in associate (Note 6)	13,490	13,836
Exploration and evaluation (Note 3)	25,986	36,937
Property and equipment (Note 4)	28,931	-
	$ 91,763	$ 98,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 9,929	$ 11,583
	9,929	11,583
Decommissioning liability (Note 7)	1,341	1,121
	11,270	12,704
Shareholders' equity		
Share capital (Note 9)	86,576	86,576
Contributed surplus (Note 10)	1,241	401
Deficit	(3,399)	(1,493)
Accumulated other comprehensive income (loss)	(3,925)	85
	80,493	85,569
	$ 91,763	$ 98,273

See accompanying notes to the unaudited condensed interim financial statements.

On behalf of the Board:

Director

Director

Condensed Interim Statement of Income and Comprehensive Loss

(Canadian $000s except per-share amounts) (unaudited)	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2011	Inception, June 8, 2010 to Sept. 30,2010
Revenue			
Revenue from product sales	$ 1,482	$ 4,399	$ -
Royalties	(56)	(176)	-
	1,426	4,223	-
Expenses			
Production	328	955	-
Transportation	160	242	-
General and administrative	564	1,983	267
Share-based compensation	243	840	126
Depletion and depreciation	1,016	2,312	2
Accretion	12	36	5
	2,323	6,368	400
Loss before the following:	(897)	(2,145)	(400)
Interest income	22	122	19
Gain on disposal of investments (Note 5)	-	463	-
Changes in equity of associate (Note 6)	(148)	(346)	(25)
Net loss for the period	(1,023)	(1,906)	(406)
Other comprehensive loss – unrealized loss on investments available for sale (Note 5)	(962)	(4,010)	919
Comprehensive loss for the period	$ (1,985)	$ (5,916)	$ 513
Net loss per share (Note 11)			
- basic	$ (0.04)	$ (0.07)	$ (0.05)
- diluted	$ (0.04)	$ (0.07)	$ (0.05)

See accompanying notes to the unaudited condensed interim financial statements.

Condensed Interim Statements of Changes in Equity

(Canadian $000s) (unaudited)				Inception, June 8, 2010 to Sept. 30, 2010	
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Equity
Balance, beginning of period	$ -	$ -	$ -	$ -	$ -
Net loss for the period	-	-	(406)	-	(406)
Issue of common shares	86,666	-	-	-	86,666
Share issue costs	(85)	-	-	-	(85)
Share-based compensation	-	126	-	-	126
Unrealized gain on investments available for sale	-	-	-	919	919
Balance, end of period	$ 86,581	$ 126	$ (406)	$ 919	$ 87,220

(Canadian $000s) (unaudited)				Nine Months to Sept. 30, 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	-	-	(1,906)	-	(1,906)
Share-based compensation (Note 10)	-	840	-	-	840
Transfer of accumulated other comprehensive income on disposition of assets available for sale	-	-	-	(463)	(463)
Unrealized losses on investments available for sale (Note 5)	-	-	-	(3,547)	(3,547)
Balance, end of period	$ 86,576	$ 1,241	$ (3,399)	$ (3,925)	$ 80,493

See accompanying notes to the unaudited condensed interim financial statements.

Condensed Interim Statement of Cash Flows

(Canadian $000s) (unaudited)	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2011	Inception, June 8, 2010 to Sept. 30, 2010
Operating activities			
Net loss for the period	$ (1,023)	$ (1,906)	$ (406)
Non-cash items:			
Gain on disposal of investment (Note 5)	-	(463)	-
Changes in equity of associate (Note 6)	148	346	25
Depletion, depreciation and accretion	1,028	2,348	7
Share-based compensation	243	840	126
	396	1,165	(248)
Net change in non-cash working capital items (Note 15)	(3,203)	(3,528)	3
	(2,807)	(2,363)	(245)
Financing activities			
Cash transferred under Plan of Arrangement (Notes 1 & 4)	-	-	9,370
Issue of common shares – net of expenses (Note 10)	-	-	28,981
	-	-	38,351
Investing activities			
Proceeds on sale of investment (Note 5)	-	3,156	-
Additions to property and equipment assets (Note 4)	(8,781)	(9,987)	-
Additions to exploration and evaluation assets (Note 3)	386	(10,122)	(3,424)
Net change in non-cash working capital items (Note 15)	6,938	(2,695)	3,148
	(1,457)	(19,648)	(276)
Change in cash during the period	(4,264)	(22,011)	37,830
Cash, beginning of period	12,977	30,724	-
Cash, end of period	$ 8,713	$ 8,713	$ 37,830

See accompanying notes to the condensed interim financial statements.

Notes to the Condensed Interim Financial Statements

Three and nine months ended September 30, 2011

The Company was incorporated on June 8, 2010 and commenced operations on August 17, 2010. The comparative information provided is for the period from incorporation to September 30, 2010.

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

1. REPORTING ENTITY

Storm Resources Ltd. (the “Company” or "Storm"), is an oil and gas exploration and development company incorporated in the province of Alberta, Canada on June 8, 2010 and is listed on the TSX Venture Exchange under the symbol “SRX”. The Company operates in the provinces of Alberta and British Columbia and its head office is located at 800, 205 – 5th Avenue S.W., Calgary, Alberta T2P 2V7.

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

2. BASIS OF PRESENTATION

Statement of Compliance

The unaudited condensed interim financial statements have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting, following the same accounting policies and methods of computation as used in the audited financial statements for the period from inception on June 8, 2010 to December 31, 2010. The Company received approval from the Canadian Securities Administrators under National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (“NI 52-107”) to adopt IFRS as of June 8, 2010, the date of Storm’s incorporation. The interim unaudited financial statement note disclosures do not include all disclosures applicable for annual audited financial statements. Accordingly, the condensed interim unaudited financial statements should be read in conjunction with the audited financial statements and the notes thereto, for the period from inception on June 8, 2010 to December 31, 2010.

The financial statements were authorized for issue by the Board of Directors on November 14, 2011.

Basis of Measurement

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

Use of Estimates and Judgements

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

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

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

- Note 3 – Classification and valuation of exploration and evaluation assets
- Note 7 – Decommissioning liability
- Note 8 – Valuation and utilization of tax assets

- Note 10 – Measurement of share-based compensation
- Note 12 – Valuation of financial instruments
- Note 13 – 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 January 1, 2013.

Consolidated Financial Statements

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

Joint Arrangements

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

Disclosure of Interest in Other Entities

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

Fair Value Measurements

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

Other Comprehensive Income

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

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

3. EXPLORATION AND EVALUATION

	Sept. 30, 2011	Dec. 31, 2010
Balance, beginning of period	$ 36,937	$ -
Acquisitions	-	19,041
Additions	10,122	16,797
Future decommissioning costs	-	1,106
Transfers to property and equipment	(21,080)	-
Balance, end of period	25,979	36,944
Depreciation on furniture and fixtures	7	(7)
Carrying amount, end of period	$ 25,986	$ 36,937

Acquisitions during 2010 represents management's estimate of the fair value of the exploration and evaluation assets transferred under the Arrangement with ARC.

4. PROPERTY AND EQUIPMENT

	Sept. 30, 2011	Dec. 31, 2010
Balance, beginning of period	$ -	$ -
Additions	9,987	-
Future decommissioning costs	183	-
Transfers from exploration and evaluation assets	21,080	-
Balance, end of period	31,250	$ -
Accumulated depletion and depreciation	(2,319)	-
Carrying amount, end of period	$ 28,931	$ -

5. INVESTMENTS

	Sept. 30, 2011	Dec. 31, 2010
Bellamont Exploration Ltd.	$ -	$ 2,998
Bridge Energy ASA	1,691	2,696
Chinook Energy Inc.	6,930	9,630
	$ 8,621	$ 15,324

The investments in Bridge and Chinook shares are classified as available-for-sale financial instruments and are carried at fair value, determined with reference to the closing share prices on public exchanges on September 30, 2011. Unrealized revaluation losses for the nine and three months ended September 30, 2011, in the amounts of $4.0 million and $0.9 million respectively, are recognized in other comprehensive loss. During the first quarter of 2011 the Company sold 4.4 million shares of Bellamont for proceeds of $2.7 million and recognized a gain on disposition of $0.4 million. In April 2011, the Company sold the remaining 0.7 million shares of Bellamont for proceeds of $0.4 million and recognized an additional gain of $0.06 million.

6. INVESTMENT IN ASSOCIATE

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

	Sept. 30, 2011	Dec. 31, 2010
Carrying amount, beginning of period	$ 13,836	$ -
Fair value of the investment acquired under the Arrangement	-	13,950
Share of changes in equity for the period	(346)	(114)
Carrying amount, end of period	$ 13,490	$ 13,836

Summarized financial information as at and for the nine months ended September 30, 2011, based on SGR's unaudited book values, is as follows:

Total assets	$52.2 million
Total liabilities	$ 1.6 million
Revenues	$ 2.2 million
Net loss	$ 1.1 million

The Company also provided engineering and administrative services to SGR at a cost of $75,000 and $206,000 for the three and nine months ended September 30, 2011. The Company and SGR are 40:60 joint venture participants in certain lands in North East British Columbia and as at September 30, 2011 the Company owed SGR $231,000.

7. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production facilities, including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately $1.8 million, which is expected to be paid over the next 17 years. A risk-free discount rate of four percent was used to calculate the present value of the decommissioning obligation, amounting to $1.3 million.

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

	Nine Months to Sept. 30, 2011	Period Ended Dec. 31, 2010
Balance, beginning of period	$ 1,121	$ -
Liability recognized		1,106
Decommissioning costs incurred	214	-
Obligations disposed	(30)	-
Accretion expense	36	15
Balance, end of period	$ 1,341	$ 1,121

8. DEFERRED INCOME TAXES

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

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately $45 million as well as non-capital losses of approximately $10 million. The tax losses expire in 2030 and 2031. A deferred tax asset has not been recognized due to the uncertainty as to future realization.

9. SHAREHOLDERS' EQUITY

Share Capital

Authorized

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

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

Issued

	Number of Common Shares (000s)	Consideration
Balance as at Dec. 31, 2010 and Sept. 30, 2011	26,377	$ 86,576

10. SHARE-BASED COMPENSATION

The Company has a stock option plan under which it may grant, at the Company's discretion, options to purchase common shares to directors, officers, employees and consultants. Options are granted at the market price of the shares on the date of grant, have a four-year term and vest in one-third tranches over three years. Under the stock option plan, a total of 2,638,000 common shares are available for issuance. Options in respect of 2,014,000 common shares have been issued, of which all are unexercised. As at September 30, 2011, there remain options in respect of 624,000 common shares which are available for further option grants under the Stock Option Plan.

Details of the options outstanding at September 30, 2011 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at Dec. 31, 2010	1,974	$ 3.28
Granted during the period	40	3.96
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period	-	-
Outstanding at Sept. 30, 2011	2,014	$ 3.29
Number exercisable at Sept. 30, 2011	658	$ 3.28

		Outstanding Options	
Range of Exercise Price	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$3.28 and $3.96	2,014	2.9	$ 3.29

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

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the period ended September 30, 2011 of $1.29 (2010 - $1.06) include the following:

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

The initial forfeiture rate was estimated to be 10%. This estimate will be adjusted to the actual forfeiture rate. Share-based compensation expense of $840,000 was charged to the statement of income during the nine months ended September 30, 2011 (2010 - nil) with an equivalent offset to contributed surplus.

11. NET LOSS PER SHARE

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

	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2011	June 8 to Sept.30, 2010
Net loss for the period	$ 1,023	$ 1,906	$ 406
Weighted average number of common shares outstanding – basic:			
Common shares outstanding at Dec. 31, 2010	26,377	26,377	-
Stock options exercised	-	-	-
Effect of shares issued	-	-	8,109
Weighted average number of common shares outstanding - basic	26,377	26,377	8,109
Effect of outstanding options	-	-	-
Weighted average number of common shares outstanding - diluted	26,377	26,377	8,109
Net loss per share			
- basic	$ 0.04	$ 0.07	$ 0.05
- diluted	$ 0.04	$ 0.07	$ 0.05

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

12. FINANCIAL INSTRUMENTS

The following table sets out, for each class of financial asset and financial liability, the carrying amount and fair value as at September 30, 2011. The carrying value of cash, accounts receivable, deposits and accounts payable and accrued liabilities included on the statement of financial position approximate their fair values due to the short-term nature of those instruments and are not included in the table below.

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

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

			Sept. 30, 2011
	Classification	Carrying Amount	Fair Value
Investments in publicly traded companies(i)	Available for sale	$ 8,621	$ 8,621

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

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

Risk Management

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

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

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

Credit risk

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

	Carrying Amount as at Sept. 30, 2011
Cash	$ 8,713
Accounts receivable	5,270
	$ 13,983

Cash

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

Trade receivables

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

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

Market risk

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

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

- commodity prices;
- prices of listed securities;
- interest rates; 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 and natural gas are affected by many known and unknown factors such as demand and supply imbalances, the relationship between the Canadian and United States ("US") dollar as well as national and international economic and geopolitical events.

The Company is exposed to the risk of declining prices for production resulting in a corresponding reduction in projected cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. Although the Company, at present, has no bank debt, it is likely that the Company will seek future bank financing. Such financing is frequently in the form of a production loan, which is reviewed annually, and which is based on future cash flows and commodity price expectations. Changes to commodity prices will have an effect on credit available to the Company under such instruments.

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

Prices of listed securities

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

Interest rates

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

Foreign exchange rates

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

Liquidity risk

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

Accounts payable and accrued liabilities, with a contractual maturity of less than one year, is the only financial liability outstanding and is more than offset by current assets at September 30, 2011.

13. CAPITAL MANAGEMENT

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

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

14. RELATED PARTY TRANSACTIONS

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

	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2011	June 8 to Sept. 30, 2010
Salaries and short-term benefits	$ 194	$ 592	$ 61
Share-based compensation	134	465	72
	$ 328	$ 1,057	$ 133

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months to Sept. 30 ,2011	Nine Months to Sept. 30, 2011	June 8 to Sept. 30, 2010
Accounts receivable	$ (3,990)	$ (4,490)	$ (195)
Prepaids and deposits	(171)	(80)	(274)
Accounts payable and accrued liabilities	7,896	(1,653)	3,620
Change in non-cash working capital	$ 3,735	$ (6,223)	$ 3,151
Relating to:			
Operating activities	$ (3,203)	$ (3,528)	$ 3
Financing activities	-	-	-
Investing activities	6,938	(2,695)	3,148
	$ 3,735	$ (6,223)	$ 3,151
Interest paid during the period	$ -	$ -	$ -
Income taxes paid during the period	$ -	$ -	$ -

16. SUBSEQUENT EVENTS

On November 10, 2011, Storm entered into an arrangement agreement to acquire all of the outstanding common shares of SGR, its partner in the Horn River Basin. Storm will issue 1.33 common shares for each SGR common share not owned by Storm which will result in the issuance of 11.8 million common shares of Storm. As a result of this acquisition, and based on the exchange ratio and the Company's share price as of the current date, the Company would recognize a loss of approximately $1.1 million on its existing holding of SGR common shares, which will be recognized in the quarter the acquisition closes. It is expected the acquisition will close in early January 2012.

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
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

Storm Resources Ltd.
Suite 800, 205 – 5th Avenue S.W., Calgary, Alberta T2P 2V7
Phone: (403)817-6145   Fax: (403)817-6146

www.stormresourcesltd.com