STORM RESOURCES

2012 Q3 REPORT

Highlights

Thousands of Cdn$, except volumetric and per-share amounts	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
FINANCIAL				
Oil sales	6,702	498	15,318	1,729
Gas sales	1,841	831	4,653	2,243
NGL sales	1,088	153	3,869	427
Production revenue(2)	9,631	1,482	22,840	4,399
Funds from operations(1)	4,765	396	8,371	1,165
Per share - basic ($)	0.08	0.02	0.15	0.04
Per share - diluted ($)	0.08	0.02	0.15	0.04
Net income (loss)	(3,586)	(1,023)	(4,254)	(1,906)
Per share - basic ($)	(0.07)	(0.04)	(0.08)	(0.07)
Per share - diluted ($)	(0.07)	(0.04)	(0.08)	(0.07)
Field capital expenditures, net of dispositions	(3,925)	8,394	5,504	20,108
Net (debt)/working capital	(42,511)	4,054	(42,511)	4,054
Weighted average common shares outstanding (000s)				
Basic	61,824	26,377	54,134	26,377
Diluted	61,824	26,377	54,134	26,377
Common shares outstanding (000s)				
Basic	61,824	26,377	61,824	26,377
Fully diluted	64,547	28,391	64,547	28,391
OPERATIONS				
Oil equivalent (6:1)				
Barrels of oil equivalent (000s)	219	47	566	126
Barrels of oil equivalent per day	2,380	511	2,065	462
Average selling price (Cdn$ per Boe)(2)	43.96	31.50	40.33	34.91
Oil Production				
Barrels (000s)	77	5	179	18
Barrels per day	838	58	655	66
Average selling price (Cdn$ per barrel)(2)	86.75	92.66	85.31	96.30
Gas production				
Thousand cubic feet (000s)	741	239	2,065	618
Thousand cubic feet per day	8,058	2,595	7,539	2,263
Average selling price (Cdn$ per Mcf)	2.49	3.48	2.25	3.63
NGL Production				
Barrels (000s)	18	2	42	5
Barrels per day	199	20	154	19
Average selling price (Cdn$ per barrel)	59.44	81.44	67.90	84.00
Wells drilled				
Gross	3.0	2.0	4.0	2.0
Net	2.2	1.2	3.2	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 18 of the attached MD&A.

(2) Includes hedging gains.

President's Message

THIRD QUARTER 2012 HIGHLIGHTS

- Production increased by 365% from the year ago period to average 2,380 Boe per day which included 1,037 barrels per day of crude oil plus natural gas liquids ("NGL") and 8.1 Mmcf per day of natural gas. The year-over-year improvement is due to production at Umbach increasing by 260 Boe per day, from the business combination with Bellamont Exploration Ltd. ("Bellamont") which added 1,400 Boe per day, and from the acquisition of Storm Gas Resource Corp. which added 255 Boe per day.

- Production in the quarter was reduced by 470 Boe per day as a result of natural gas wells shut in during early May due to the decline in the price of natural gas.

- On a per-share basis, quarterly production of 39 Boe per day per million shares outstanding represents a year-over-year increase of 98%.

- At Umbach, the fourth horizontal well (60% working interest) commenced production in late August and averaged 2.5 Mmcf per day gross raw gas in September, or 290 net Boe per day. The fifth and sixth horizontal wells (60% working interest) were drilled in the third quarter and both are expected to commence production by late November.

- A horizontal well (100% working interest) was drilled into the Grande Prairie Dunvegan C oil pool and will commence production by mid-November.

- Funds from operations totaled $4.8 million or $0.08 per basic share which is a 400% improvement from $0.02 per basic share in the year earlier period. This was mainly due to the transaction with Bellamont which increased the proportion of higher priced crude oil and NGL to 44% of total production and offset a 28% decline in natural gas prices.

- Funds from operations was $21.73 per Boe which is an increase of $6.13 per Boe from the second quarter as a result of higher oil and natural gas prices plus a reduction in royalties, cash G&A and interest expense.

- Capital investment of $11.7 million included $8.2 million for drilling and completions plus $1.1 million at Grimshaw to initiate a pilot waterflood.

- Dispositions totaled $15.7 million including 20 Boe per day at Red Earth for $2.4 million and 145 Boe per day at Mica for $13.3 million.

- During the quarter, Storm realized proceeds totaling $2.5 million from the sale of 1.5 million shares of Chinook Energy Inc. and 0.2 million shares of Bridge Energy ASA.

- At quarter end, Storm's debt and working capital deficiency was $42.5 million which is a reduction of $11.1 million from the previous quarter. After including the value of Storm's investment in publicly listed companies ($6.4 million at September 30), net debt was $36.1 million or 1.9 times annualized third quarter cash flow. Storm's bank line is $62.0 million.

- A hedging gain of $0.6 million was realized as a result of fixed price financial hedges that were put in place to protect the 2012 capital investment program. Commodity price hedges currently include 450 barrels of oil per day at an average of Cdn $104.95 per barrel until the end of December, 2012 and 300 barrels of oil per day at an average floor price of Cdn $93.10 per barrel for the first quarter of 2013.

OPERATIONS REVIEW

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

Umbach, North East British Columbia

Storm's current land holdings at Umbach that are prospective for liquids rich natural gas in the Montney formation total 105 gross sections, or 81 net sections (58,000 net undeveloped acres). Production in the third quarter averaged 414 Boe per day (27% liquids) at an operating netback of $15.80 per Boe which is a 33% increase from production in the second quarter. Liquids recovery was 61 Bbls per Mmcf with 46% being produced condensate plus pentanes recovered during processing, 25% butane and 29% propane.

During the third quarter, the fourth horizontal well (60% working interest) commenced production August 22nd and averaged 2.5 Mmcf per day gross raw gas in September with the current rate being 2.0 Mmcf per day gross raw gas (235 net Boe per day). Performance to date is consistent with earlier horizontal wells. Also in the third quarter, the fifth and sixth horizontal wells (60% working interest) were drilled and cased with both being drilled approximately 20 metres lower in the Montney formation. Both have been completed with larger slickwater fracture treatments and are expected to be tied in and producing by late November.

In the fourth quarter, two more horizontal wells will be drilled (1.2 net) with completion and tie-in of both planned for the first quarter of 2013.

Storm's activity in 2012 has been focused on drilling horizontal wells to continue expanding the areal extent of the resource in the Montney formation and to modify completion techniques to improve horizontal well flow rates and reserves. On the fifth and sixth horizontal wells, the wellbores were drilled lower in the Montney formation and the completions were modified by switching to larger slickwater fracture stimulations with reduced spacing between fracture treatments. Currently, four horizontal wells are producing from the Montney formation with production history for each horizontal being periodically updated and shown in the presentation on Storm's website www.stormresourcesltd.com. To date, the gross cost to drill and complete each horizontal has averaged $5.3 million. As the focus transitions from resource delineation to development in 2013, horizontal well costs are expected to decline by drilling wells from common pads and by eliminating logged, vertical pilot holes.

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

Other than production from the since disposed of Mica property, production in this area comes from properties acquired through the transaction with Bellamont which closed March 23rd. Third quarter production averaged 1,540 Boe per day (60% oil plus NGL) at an operating netback of $31.15 per Boe. Production in the third quarter was reduced by 100 Boe per day due to numerous mechanical failures in July and by 470 Boe per day associated with natural gas wells that were shut in during May due to low natural gas prices. The sale of the Mica property was completed on October 18th with net proceeds at closing totaling $13.3 million (averaged 145 Boe per day in the third quarter). Excluding the Mica property, current production has increased to approximately 2,100 Boe per day as a result of reactivating the shut-in natural gas wells in early October and from re-equipping wells to reduce downtime caused by equipment failures.

Third quarter activity included drilling and completing a horizontal well in the Grande Prairie Dunvegan C light oil pool which is expected to begin producing in mid-November. At Grimshaw, water injection commenced into a horizontal well in the Montney A pool in late August. In July, downhole equipment failures were experienced on seven producing wells with all of them being re-equipped with different pumping systems. Significant progress was made in the quarter on operating cost reductions with realized savings now totaling approximately $2 million per year from electrifying well sites, purchasing surface equipment to eliminate processing fees, shutting in or disposing of uneconomic wells, returning rental equipment and eliminating water trucking and disposal. No activity is planned for this area in the fourth quarter of 2012.

The Grande Prairie area is relatively mature with shallower declines (approximately 20% per year) and a higher proportion of light oil and NGL production resulting in a higher operating netback. There is a large inventory of light oil opportunities in this area including 30 horizontal wells to be drilled targeting light oil in the Doe Creek, Dunvegan and Montney formations. Additional upside is associated with initiating a waterflood in the Montney formation at Grimshaw. The majority of cash flow from this area will be directed to advancing exploitation of the Montney formation at Umbach, which is a larger scale growth opportunity.

Horn River Basin, North East British Columbia

Storm's undeveloped land position in the HRB totals 135 sections at a 100% working interest (87,700 net acres) and is prospective for natural gas from the Muskwa, Otter Park and Evie/Klua shales. The resource in the Muskwa and Otter Park shales is large with the best estimate of DPIIP in the core producing area being 3.1 Tcf gross raw gas (evaluated by InSite Petroleum Consultants Ltd. December 31, 2011). The core producing area is 30 gross sections in size (22% of Storm's total land holdings in the HRB) and productivity has been proven across the area with one horizontal well that has been producing for 20 months plus two completed and tested vertical wells.

During the third quarter, production in the HRB averaged 426 Boe per day at an operating netback of $6.08 per Boe. The first horizontal well (100% Storm) with 12 fracture stimulations is currently producing 3 Mmcf per day gross raw gas with cumulative production since March 2011 being 2.7 Bcf gross raw gas. The flow rate has been restricted by high pressure in the raw gas gathering pipeline (field compression has not been installed). Significant improvements in productivity and reserves are expected on future horizontals by increasing fracture density (15 to 18 fracture stimulations per horizontal) and by installing field compression.

With six years of remaining land tenure for the majority of Storm's lands not yet proven to be productive, activity in the HRB is being deferred until natural gas prices improve.

INVESTMENTS

At the end of third quarter, Storm had share ownership positions in two publicly traded companies. The value of the share positions in the two public companies totaled $6.4 million at the end of the quarter and these securities could possibly be sold in the future with the proceeds being used to finance the Company's capital programs.

Chinook Energy Inc. ("Chinook")

Storm holds 3.0 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 0.9 million common shares of Bridge (symbol 'Bridge' on the Oslo Stock Exchange and 'BRDG' on the AIM Exchange, London), a Norwegian-based exploration and production company.

OUTLOOK

Storm's 2012 guidance remains largely unchanged. Production in the fourth quarter is forecast to be approximately 3,000 Boe per day (35% liquids) which is an increase from prior guidance of 2,400 to 2,600 Boe per day (41% liquids). In mid-October, the sale of the Mica property closed (145 Boe per day) and shut-in natural gas wells at Grande Prairie were re-started adding 470 Boe per day. Based on field estimates, production in October increased to 2,800 Boe per day. Production will increase further in November with the tie-in of the fifth and sixth horizontal wells at Umbach (60% working interest). Dispositions will result in adjusted debt plus the working capital deficiency being reduced to approximately $38 million at the end of 2012 from prior guidance of $50 million (including the value of the publicly listed securities owned by Storm). There is no change to capital investment in operations, estimated royalties, operating costs and cash G&A.

2012 Guidance

Bank credit facility	*$62.0 million*
2012 year end adjusted debt plus working capital deficiency (1)	*$38.0 million*
2012 average operating costs	*$11 per Boe*
2012 average royalty rate	*12%*
2012 operations capital, excluding dispositions	*$28.0 million*
2012 net property dispositions	*$12.0 million*
2012 corporate acquisitions	*$151.6 million*
2012 cash G&A(2)	*$3.6 million*
2012 exit or fourth quarter average production	*3,000 Boe per day (35% oil + NGL)*

(1) Includes value of publicly listed securities.
(2) Excludes $0.6 million of transaction costs which are required to be expensed under IFRS.

Looking ahead to 2013, preliminary guidance includes capital spending of $36 million to drill 6 horizontal development wells (4.4 net) at Umbach and to complete two horizontal wells (60% working interest) at Umbach that are being drilled in the fourth quarter of 2012. Production in the fourth quarter of 2013 is forecast to increase to 4,000 to 4,300 Boe per day. With a 2013 natural gas price at AECO of $3.25 per GJ and an Edmonton Par oil price of $84 per barrel, this program would be funded with cash flow and the sale of non-core assets. With forecast debt of $38 million at the end of 2012 (including public company investments) and a bank line of $62 million, Storm retains the financial flexibility to increase 2013 capital investment if supported by improved drilling results or higher commodity prices.

Production performance of the properties acquired with the Bellamont transaction that closed on March 23rd has improved significantly over the last three months. This is primarily the result of operational improvements and re-equipping wells in the second and third quarters to eliminate downtime caused by multiple equipment failures. With relatively shallow declines and higher netbacks from a higher proportion of crude oil and NGL production, the properties acquired with the Bellamont transaction provide Storm with the 'free cash flow' to continue funding exploitation of the large resource in the Montney formation at Umbach.

Although declining commodity prices resulted in less drilling activity and lower growth in 2012 than what was initially expected, Storm has continued to advance exploitation of the liquids rich Montney natural gas resource on its large land position at Umbach. Liquids recoveries are exceeding 60 barrels per Mmcf sales through a shallow-cut gas plant which greatly improves the netback and economics at current low natural gas prices. Results continue to be encouraging and are expected to improve on future horizontal wells as a result of modifying the completions to use larger, slickwater fracture stimulations with tighter spacing between fractures. If results at Umbach are supportive of doing so, development may be accelerated with funding being provided by additional asset sales or from unused capacity on the bank line. Longer term, Storm continues to retain significant leverage to an improvement in natural gas prices through our position in the Muskwa and Otter Park shales of the HRB.

Respectfully,

B. Lavergne

Brian Lavergne,
President and Chief Executive Officer

November 13, 2012

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

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

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

Forward-Looking Statements – Such statements made in this report are subject to the limitations set out in Storm's Management's Discussion and Analysis dated November 13, 2012 for the three and nine months ended September 30, 2012.

Management's Discussion and Analysis

INTRODUCTION

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Resources Ltd. ("Storm" or the "Company") for the three and nine months ended September 30, 2012. It should be read in conjunction with (i) the Company's unaudited consolidated condensed interim financial statements for the three and nine months ended September 30, 2012, (ii) the Company's audited financial statements for the year ended December 31, 2011, (iii) the press release issued by the Company on November 13, 2012, and other operating and financial information included in this report. All of these documents are filed on SEDAR (www.sedar.com) and appear on the Company's website (www.stormresourcesltd.com).

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

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

This MD&A is dated November 13, 2012.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's unaudited consolidated condensed interim financial statements (the "interim financial statements") for the three and nine months ended September 30, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS") including IAS 34 which sets standards for interim financial reporting. Accounting policies adopted by the Company are referred to in Note 2 to the interim financial statements for the three and nine months ended September 30, 2012 and are set out in detail in Note 3 to the audited financial statements for the year ended December 31, 2011. The reporting and the measurement currency is the Canadian dollar.

Unless otherwise indicated, tabular financial amounts, other than per-share amounts, are in thousands. Comparative information is provided for the three and nine month periods ended September 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 and production levels by commodity;
- future revenues or costs (including royalties) and revenues or costs per commodity unit;
- future capital expenditures and their allocation to specific exploration and development activities or periods;
- future drilling;
- future earnings;
- future non-GAAP funds from operations and future cash flows;

- future availability of financing;
- future asset acquisitions or dispositions;
- intentions with respect to investments;
- future sources of funding for capital programs;
- future decommissioning costs and discount rates used to determine the net present value of such costs;
- estimates of costs associated with acquisitions;
- development plans;
- ultimate recoverability of reserves or resources;
- expected finding and development costs;
- future royalties, operating costs, interest 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, including assumptions regarding future prices, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

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

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

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

ACQUISITIONS IN 2012

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

Acquisition of Storm Gas Resource Corp.

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

Estimates of the fair values of assets acquired, liabilities assumed and the consideration paid to shareholders of SGR are as follows:

Assets Acquired and Liabilities Assumed		
Exploration and evaluation assets	$	42,677
Property and equipment		13,060
Decommissioning obligation		(556)
Net assets acquired	$	55,181

Consideration		
Shares issued	$	43,869
Carrying amount of existing 22% ownership		12,302
Working capital acquired		(990)
Total cost	$	55,181

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

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

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

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

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

The acquisition of SGR resulted in an increase in the working interest in the Company's lands in the Horn River Basin from 40% to 100% and added 360 Boe per day at closing, all dry natural gas. The Company also assumed operatorship of the project. The acquisition enables the Company to control the operations, financing, cost and structure of development of the considerable Horn River Basin resource. Minor non-core undeveloped lands were also included with the SGR acquisition.

Acquisition of Bellamont Exploration Ltd.

On January 20, 2012 Storm announced that the Company and Bellamont Exploration Ltd. ("Bellamont") a junior oil and gas exploration and production company listed on the TSX Venture Exchange, had entered into an arrangement agreement (the "Agreement") under which the two companies would combine with the continuing entity being Storm. The combination was effected under a plan of arrangement which was subject to court approval and the approval of Bellamont shareholders, which occurred on March 23, 2012. The effective date of accounting for the acquisition was March 23, 2012; correspondingly, the Company's operating results for 2012 include amounts in respect of Bellamont from March 23, 2012 to September 30, 2012.

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

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

Assets Acquired and Liabilities Assumed		
Exploration and evaluation assets	$	2,113
Property and equipment		102,593
Decommissioning liability		(8,305)
Net assets acquired	$	96,401

Consideration		
Cash paid to Bellamont shareholders	$	20,000
Shares of Storm issued		39,674
Working capital deficiency assumed, including bank debt		36,727
Total cost	$	96,401

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

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

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

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

OPERATIONAL AND FINANCIAL RESULTS

Overview

In the third quarter of 2012 the Company's production mix was the same as the immediately preceding quarter at 57% natural gas and 43% crude oil and NGLs. Prices decreased from the preceding quarter for NGLs, but increased for natural gas so that the realized price per Boe increased slightly from $40.11 to $41.39 (excluding hedging gains).

Production for the quarter was reduced due to natural gas wells shut in as a result of low natural gas prices and was also reduced by mechanical failures on seven oil wells in July at Grande Prairie and Grimshaw. Third quarter production averaged 2,380 Boe per day with 470 Boe per day shut in due to low pricing. In October, most of the shut-in natural gas wells have been returned to production in response to improving natural gas prices and there was minimal downtime due to mechanical failures. Production from two additional horizontal wells at Umbach is expected to further increase fourth quarter production, which is forecast to approximate 3,000 Boe per day.

The Company drilled three wells during the third quarter. An oil well at Dunvegan, in the Peace River Arch in Aberta, is expected to start producing in mid-November, and two horizontal gas wells at Umbach are expected to be tied in prior to the end of November.

During the third quarter the Company sold two non-core oil properties. In July, the Company sold two low working interest oil wells at Red Earth, which produced approximately 20 Boe per day, and in September the Company sold production approximating 145 Boe per day at Mica in North East British Columbia. Net proceeds received from the two transactions totaled $15.7 million of which $13.0 million was received subsequent to quarter end. Funds received from these disposals serve to strengthen the Company's financial position and provide capacity to expand development of the successful liquids rich, high netback natural gas program at Umbach.

During the third quarter the Company also sold one third of its holdings in Chinook Energy Inc. for proceeds of $2.2 million and 164,000 shares of Bridge Energy ASA for net proceeds of $0.3 million. To date in the fourth quarter the Company sold an additional 550,000 shares of Bridge Energy ASA for net proceeds of $1.2 million. Proceeds from these sales have been used to further reduce bank debt.

Funds from operations in the third quarter totaled $4.8 million, up from $3.7 million in the second quarter. Lower royalties, transportation, administrative and interest costs more than offset reduced production volumes. A realized hedging gain of $0.6 million also contributed to the increase. In addition, considerable effort has been made towards reducing operating costs on the acquired Bellamont properties, and the Company estimates that these costs have been reduced by an annualized amount of approximately $2.0 million, with the potential of further annualized reductions of approximately $0.7 million.

In addition to tightening the focus of the Company's asset base and increasing financial flexibility through the sale of ancillary assets, the Company has taken further steps to protect its financial position. Reduced cash flows as a result of lower commodity prices has resulted in planned capital spending for the year being reduced from an initial estimate of $34 million to $28 million with capital available to fund drilling activities being further reduced by the cost of repairing unanticipated equipment failures. Combined with the disposition of the Mica property, original expectations of year-end production of 3,600 to 4,000 Boe per day have correspondingly been reduced to 3,000 Boe per day. However, should cash flow increase as a result of stronger commodity prices, the capital program will be revisited, primarily to accelerate development at Umbach.

Production and Revenue

Production by Area

The Company reported production from the following areas:

	Three Months to September 30, 2012				
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d Three Months to Sept. 30, 2012	Boe/d Three Months to Sept. 30, 2011
Horn River Basin – NE BC	2,554	-	-	426	300
Umbach – NE BC	1,820	111	-	414	153
Grande Prairie Area – AB and BC:				1,533	
Mica – NE BC	312	3	89		-
Grimshaw - AB	292	-	300		-
Grande Prairie, Montney & Dunvegan – AB	3,080	85	268		-
Saddle Hills - AB	-	-	173		-
Other	-	-	8	8	58
Total	8,058	199	838	2,380	511

Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d Nine Months to Sept. 30, 2012	Boe/d Nine Months to Sept. 30, 2011
	Nine Months to September 30, 2012				
Horn River Basin – NE BC	2,952	-	-	492	255
Umbach – NE BC	1,603	87	-	354	141
Grande Prairie Area – AB and BC:				1,194	-
Mica – NE BC	322	2	91		-
Grimshaw - AB	130	-	232		-
Grande Prairie, Montney & Dunvegan - AB	2,528	61	189		-
Saddle Hills - AB	-	-	122		-
Other	4	4	21	25	66
Total	7,539	154	655	2,065	462

The year-over-year increase in production came largely from:

- Production growth at Umbach;
- Acquisition of the Mica property, effective December 1, 2011;
- Acquisition of SGR, effective January 12, 2012, resulting in the Company's share of Horn River Basin production rising from 40% to 100%; and
- Acquisition of Bellamont, effective March 23, 2012, adding production at Grimshaw, Grande Prairie Montney and Dunvegan, Saddle Hills and from various minor properties.

In early May, approximately 470 Boe per day of natural gas production was shut in due to low prices.

Daily production per million shares outstanding averaged 39 Boe per day for the third quarter of 2012, compared to 19 Boe per day for the third quarter of 2011, and 42 Boe per day for the immediately preceding quarter.

In North East British Columbia the Company has two producing natural gas areas, one producing dry gas and the other producing gas and associated liquids. The oil property at Mica which also produced associated natural gas was sold effective September 1, 2012. Production in Alberta approximates 53% light oil with an average API of 37 degrees, 39% natural gas and 8% natural gas liquids.

Average Daily Production

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Crude oil (Bbls/d)	838	58	655	66
Natural gas (Mcf/d)	8,058	2,595	7,539	2,263
Natural gas liquids (Bbls/d)	199	20	154	19
Total (Boe/d)	2,380	511	2,065	462

Production Profile and Per-Unit Prices

	Three Months to Sept. 30, 2012		Three Months to Sept. 30, 2011		Nine Months to Sept. 30, 2012		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	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Crude oil - Bbl	35%	$ 79.63	11%	$ 92.66	32%	$ 80.15	14%	$ 96.30
Natural gas - Mcf	57%	2.49	85%	3.48	61%	2.25	82%	3.63
Natural gas liquids - Bbl	8%	59.44	4%	81.44	7%	67.90	4%	84.00
Per Boe	100%	$ 41.39	100%	$ 31.50	100%	$ 38.70	100%	$ 34.91

For the third quarter, the Company's natural gas was produced in both British Columbia and Alberta and is sold at a price based on the Station 2 reference point in British Columbia and AECO in Alberta. Approximately 54% of Storm's natural gas was sold at Station 2 in the quarter with the remaining 46% being sold at AECO. Equivalent percentages for the nine months to September 30, 2012 were 60% and 40%. Storm's realized price for the third quarter of 2012 was $2.50 per Mcf with the price higher than index prices as a result of sales gas at Umbach and Grande Prairie having a higher heat content which results in a higher price per Mcf. The Station 2 price for the third quarter averaged $2.10 per GJ, and the equivalent AECO price was $2.17 per GJ. Storm's crude oil sales price in the third quarter was $5.18 per barrel lower than the Edmonton Par reference price for light sweet crude oil which averaged $84.85 per barrel.

For the quarter, WTI averaged US$92.18 per barrel resulting in an exchange rate adjusted differential of Cdn$11.64 per barrel. The differential averaged Cdn$10.33 per barrel in the second quarter and Cdn$(5.03) per barrel in the third quarter of 2011.

Revenue from Product Sales[1]

(000s)	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Crude oil	$ 6,139	$ 498	$ 14,379	$ 1,729
Natural gas	1,841	831	4,653	2,243
Natural gas liquids	1,088	153	2,869	427
Total	$ 9,068	$ 1,482	$ 21,901	$ 4,399

(1) Before hedging gains of $0.6 million and $0.9 million for the three and nine months ended September 30, 2012.

Hedging

The Company has in place the following hedging arrangements:

Crude Oil:

Volume	Price (Cdn)	Inception	Expiry	Gain Realized Three Months to Sept. 30, 2012	Unrealized Gain at Sept. 30, 2012
100 Bbls/day	$107.75	April 1, 2012	December 31, 2012	$ 148,000	$ 197,000
100 Bbls/day	$103.70	May 1, 2012	December 31, 2012	110,000	147,000
100 Bbls/day	$103.35	May 1, 2012	December 31, 2012	107,000	143,000
150 Bbls/day	$105.00	June 1, 2012	December 31, 2012	184,000	245,000
150 Bbls/day	$ 96.20	January 1, 2013	March 31, 2013	-	50,000
Total				$ 549,000	$ 782,000

In October 2012 Storm entered into an additional crude oil contract with a collar of $90.00 - $93.00 for 150 BBls/day for the term of January – March 2013.

During the quarter to September 30, 2012, the Company realized gains from hedges in place during the period in the amount of $563,000.

Hedging gains for the second quarter of 2012 amounted to $376,000, providing year-to-date gains of $939,000. No hedges were in place in 2011.

Royalties

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Charge for period	$ 798	$ 56	$ 2,317	$ 176
Percentage of production revenue before hedging gains	8.8%	3.8%	10.6%	4.0%
Per Boe	$ 3.65	$ 1.19	$ 4.09	$ 1.40

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

The Company benefits from British Columbia's deep well royalty credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on production from the well. This program is applicable to the Company's producing well in the Horn River Basin and the Company expects that future royalties will be reduced by an amount of $0.5 million. Natural gas production at Umbach does not benefit from this program.

In Alberta, production from new wells is subject to a 5% royalty rate for the first 12 months of production, subject to a maximum volume of 50,000 Bbls of crude oil or 500 million cubic feet of natural gas. This benefit is extended for horizontal gas and oil wells where measured depth exceeds 2,000 and 2,500 metres respectively. Approximately 15% of Storm's current production in Alberta benefits from these favourable royalty rates.
Natural gas production in Alberta does not benefit from the favourable 5% royalty because of the age of the wells.

Production of natural gas liquids is subject to an effective royalty rate of approximately 18%.

Production Costs

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Charge for period	$ 2,639	$ 328	$ 6,448	$ 955
Percentage of production revenue before hedging gains	29.1%	22.0%	29.4%	22.0%
Per Boe	$ 12.05	$ 6.96	$ 11.39	$ 7.58

Production costs per barrel of crude oil averaged $13.67 for the third quarter of 2012 and production costs per Mcf of natural gas averaged $2.14, with total production costs averaging $12.05 per Boe. The equivalent charges for the third quarter of 2011 were $10.04 for crude oil and $1.14 per Mcf of natural gas, with total production costs averaging $6.96 per Boe. For the nine-month period, production costs per barrel of crude oil averaged $13.36 and production costs per Mcf of natural gas averaged $1.96, with total production costs averaging $11.39 per Boe. The equivalent charges for the nine-month period in 2011 were $12.08 for crude oil and $1.19 per Mcf of natural gas, with total production costs averaging $7.58 per Boe. Production costs of natural gas liquids are included with natural gas costs.

The increase in total production costs for the quarter to September 30, 2012 was a consequence of the inclusion of the Bellamont properties since March 23 of this year. Operating costs per Boe associated with pre-existing Storm properties approximated $7.51 for the third quarter and $15.28 for the acquired Bellamont properties for the same period. Annualized cost reductions totaling $2.0 million have been realized to date on the Bellamont properties which is expected to result in a decline in operating costs on a per-Boe basis in the fourth quarter.

Transportation Costs

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Charge for period	$ 380	$ 160	$ 1,313	$ 242
Percentage of production revenue before hedging gains	4.2%	11.0%	6.0%	5.5%
Per Boe	$ 1.74	$ 3.39	$ 2.32	$ 1.92

Transportation costs largely comprise pipeline tariffs from the processing facility to the sales point for natural gas and trucking costs for crude oil in Alberta. Transportation costs for the third quarter of 2012 were 40% lower than costs for the second quarter of 2012 primarily due to pipeline tariffs associated with Bellamont oil properties being reclassified to reduce revenue which conforms with industry practice by recognizing oil and NGL revenue where custody is transferred at the inlet of pipelines.

Field Netbacks

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

	Three Months to September 30, 2012			
	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 79.63	$ 59.44	$ 2.49	$ 41.39
Hedging gains	7.12	-	0.02	2.57
Royalties	(13.47)	(11.00)	0.60	(3.65)
Production costs	(13.67)	-	(2.14)	(12.05)
Transportation	(2.87)	(0.17)	(0.21)	(1.74)
Field netback	$ 56.74	$ 48.27	$ 0.76	$ 26.52
Field netback ($000s)	$ 4,374	$ 884	$ 555	$ 5,814

	Three Months to September 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
Field netback ($000s)	$ 287	$ 131	$ 520	$ 938

	Nine Months to September 30, 2012			
	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 80.15	$ 67.90	$ 2.25	$ 38.67
Hedging gains	5.16	-	0.01	1.66
Royalties	(12.93)	(12.80)	0.27	(4.06)
Production costs	(13.36)	-	(1.97)	(11.39)
Transportation	(4.40)	(2.40)	(0.20)	(2.32)
Field netback	$ 54.62	$ 52.70	$ 0.36	$ 22.56
Field netback ($000s)	$ 9,796	$ 2,226	$ 739	$ 12,762

	Nine Months to September 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
Field netback ($000s)	$ 1,284	$ 333	$ 1,408	$ 3,026

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

The realized price for natural gas for the third quarter of 2012 showed a modest improvement over the second quarter of the year, but remained at a level considerably below that required to provide an acceptable return on investment. However, for Storm, increasing amounts of higher value NGL production at Umbach serves to justify continued investment in this area.

Acquisition Costs

Acquisition costs relate to the Bellamont and SGR transactions which closed in the first quarter. There were no acquisition costs in the three months ended September 30, 2012 and costs for the nine months ended September 30, 2012 were $0.6 million.

General and Administrative Costs

Total Costs	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Charge for period – before recoveries	$ 1,075	$ 696	$ 3,328	$ 2,168
Overhead recoveries	(360)	(132)	(729)	(185)
Charge for period – net of recoveries	$ 715	$ 564	$ 2,599	$ 1,983
Per Boe	$ 3.26	$ 11.99	$ 4.59	$ 15.74

Compensation costs were consistent for each of the periods above, accounting for approximately 65% of the gross charge with office accommodation costs accounting for an additional 17% and public company costs accounting for 8%. Overhead recoveries from operations have increased from 2011 primarily as a result of inclusion of the Bellamont properties.

Share-Based Compensation

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Charge for period	$ 190	$ 243	$ 558	$ 840

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 1,974,000 shares were issued with an exercise price of $3.28. This grant of options formed part of the initial compensation program put in place for directors, officers and staff of the then newly established business. An additional 40,000 options were issued to a new employee in the first quarter of 2011 and 36,000 were forfeited later in 2011. Further options in respect of 140,000 shares were granted in the first quarter of 2012 to new employees hired as a result of the Bellamont acquisition. In the second quarter of 2012, 130,000 options were allocated to new employees, 514,500 options were granted to existing non-executive employees of Storm, and 40,000 options were forfeited. In the third quarter of 2012 no options were granted or forfeited.

Depletion and Depreciation

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Depletion	$ 3,612	$ 942	$ 8,648	$ 2,149
Depreciation	247	74	704	163
Charge for period	$ 3,859	$ 1,016	$ 9,352	$ 2,312
Per Boe	$ 17.62	$ 21.61	$ 16.52	$ 18.35

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

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

The charge for depletion and depreciation for the third quarter was largely unchanged from the equivalent charge for the second quarter of 2012.

In addition, management reviewed the carrying amounts of exploration and evaluation and property and equipment assets for indicators of impairment at September 30, 2012 and determined that no adjustment was required.

Accretion

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Charge for period	$ 74	$ 12	$ 170	$ 36

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

Interest

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

(000s)	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Charge (income) for period	$ 334	$ (22)	$ 1,152	$ (122)
Percentage of production revenue before hedging gains	3.7%	N/A	5.3%	N/A
Per Boe	$ 1.53	N/A	$ 2.04	N/A

(Loss) Gain on Sale of Investments

In the third quarter of 2012, the Company sold 1.5 million shares of Chinook Energy Inc. for proceeds of $2.2 million, incurring a loss, measured against the transfer value under the Arrangement, of $1.3 million. During the quarter, the Company sold 164,000 shares of Bridge Energy ASA for $0.3 million, incurring a small loss.

In 2011, the Company sold 5.1 million shares of Bellamont for proceeds of $3.2 million. A gain of $0.5 million was realized. This transaction was unrelated to the subsequent acquisition of Bellamont.

Unrealized Gain (Loss) on Financial Instruments

The unrealized gain (loss) on financial instruments represents the gain on the mark-to-market valuation of the unexpired portion of hedging positions outstanding at the end of the reporting period. The non-cash unrealized loss was $0.9 million for the three months ended September 30, 2012 and the non-cash unrealized gain for the nine months ended September 30, 2012 was $0.8 million. There was no gain or loss in the year earlier periods as there were no hedging arrangements.

	Three Months to Sept. 30, 2012		Three Months to Sept. 30, 2011
Cash gains (losses)			
Crude oil	$ 549	$ 7.12/Bbl	N/A
Natural gas	14	$ 0.02/Mcf	N/A
Total cash gains (losses)	$ 563	$ 2.57/Boe	N/A

	Three Months to Sept. 30, 2012		Three Months to Sept. 30, 2011
Non-cash gains (losses)			
Crude oil – change in fair value	$ (897)	$ (11.64)/Bbl	N/A
Natural gas – change in fair value	14	$ 0.02/Mcf	N/A
Total non-cash gains (losses)	$ (883)	$ (4.03)/Boe	N/A

Change in Equity of Associate

As described in Note 3 to the audited financial statements for the year ended December 31, 2011, the Company accounted for its 22% ownership position in an associated company, SGR, using the equity method, where the Company's pro rata share of changes in SGR's equity was included in the determination of the Company's net loss for the period. Due to the acquisition of SGR in early 2012, this measurement ceased to apply.

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, 2012	Maximum Annual Deduction
Canadian oil and gas property expense	$ 49,000	10%
Canadian development expense	62,000	30%
Canadian exploration expense	23,000	100%
Undepreciated capital cost	33,000	20 – 100%
Operating losses	78,000	100%
Total	$ 245,000	

Net Income (Loss)

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Net income (loss)	$ (3,586)	$ (1,023)	$ (4,254)	$ (1,906)
Per basic and diluted share	$ (0.07)	$ (0.04)	$ (0.08)	$ (0.07)

Other Comprehensive Income (Loss)

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

Listed Securities	Holding	Number of Shares	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Bellamont Exploration Ltd.(1)	Class A Common Shares	-	$ -	$ -	$ -	$ (305)
Bridge Energy ASA(2)	Common Shares	888,860	329	(287)	489	(1,005)
Chinook Energy Inc.(2)	Common Shares	3,000,001	2,340	(675)	855	(2,700)
Total comprehensive income (loss) for period			$ 2,669	$ (962)	$ 1,344	$ (4,010)

(1) The investment in Bellamont was sold during 2011 in a transaction unrelated to the subsequent acquisition.
(2) Shares owned at September 30, 2012.

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

	Three Months to Sept. 30, 2012		Three Months to Sept. 30, 2011		Nine Months to Sept. 30, 2012		Nine Months to Sept. 30, 2011	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Funds from (applied to) operations	$ 4,765	$ 0.08	$ 396	$ 0.02	$ 8,371	$ 0.15	$ 1,165	$ 0.04

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

Cash Flows from Operating Activities

	Three Months to Sept. 30, 2012		Three Months to Sept. 30, 2011		Nine Months to Sept. 30, 2012		Nine Months to Sept. 30, 2011	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	$ 4,765	$ 0.08	$ 396	$ 0.02	$ 8,371	$ 0.15	$ 1,165	$ 0.04
Net change in non-cash working capital items	(2,870)	(0.05)	(3,203)	(0.12)	(3,186)	(0.05)	(3,528)	(0.13)
Cash from (applied to) operating activities	$ 1,895	$ 0.03	$(2,807)	$(0.10)	$ 5,185	$ 0.10	$(2,363)	$(0.09)

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

Corporate Netbacks

($/Boe)	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Production revenue	$ 41.39	$ 31.50	$ 38.67	$ 34.91
Royalties	(3.65)	(1.19)	(4.06)	(1.40)
Production costs	(12.05)	(6.96)	(11.39)	(7.58)
Transportation costs	(1.74)	(3.39)	(2.32)	(1.92)
Acquisition costs	-	-	(1.13)	-
Interest income (expense)	(1.53)	0.47	(2.08)	0.97
Realized cash hedging gains	2.57	-	1.66	-
Cash G&A	(3.26)	(11.99)	(4.59)	(15.74)
Funds flow netback	$ 21.73	$ 8.44	$ 14.76	$ 9.27
Depletion, depreciation & accretion	(17.96)	(21.87)	(16.83)	(18.64)
Share-based compensation	(0.87)	(5.17)	(0.99)	(6.67)
Non-cash gain (loss) on financial instruments	(4.05)	-	1.41	-
Gain (loss) on sale of investments	(6.12)	-	(2.37)	3.67
Gain (loss) on disposition of properties	(9.16)	-	(3.54)	-
Changes in equity of associate	-	(3.15)	-	(2.75)
Unrealized gain (loss) on investments held for sale	12.18	(20.45)	2.38	(31.83)
Comprehensive net income per boe	$ (4.25)	$ (42.20)	$ (5.18)	$ (46.98)

INVESTMENT AND FINANCING

Financial Resources and Liquidity

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

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

Investments

The Company owns listed securities as set out below which are valued at the closing price on the relevant stock exchange at September 30, 2012. Proceeds from the possible future sale of these securities may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Sept. 30, 2012	Value at Sept. 30, 2012
Bridge Energy ASA[1]	Common Shares	888,860	Oslo Børs Axess	$ 1.87[1]	$ 1,664
Chinook Energy Inc.	Common Shares	3,000,001	TSX	$ 1.57	4,710
Total					$ 6,374

(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, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Land and lease	$ 816	$ 480	$ 1,554	$ 3,440
Seismic	-	-	208	508
Drilling	4,798	3,888	6,136	5,195
Completions	2,764	3,421	4,745	6,608
Facilities	1,549	606	3,199	3,610
Recompletions and workovers	1,816	-	3,269	-
Transferred to assets held for sale	(13,296)	-	(13,296)	-
Property acquisitions (dispositions) - net	(2,340)	-	(562)	747
Cash portion of capital expenditures in period	$ (3,893)	$ 8,395	$ 5,253	$ 20,108
Corporate acquisition - SGR	-	-	55,181	-
Corporate acquisition - Bellamont	-	-	96,401	-
Non-cash portion				
Decommissioning liability	-	-	8,861	-
Other	(32)	-	251	-
Net capital expenditures	$ (3,925)	$ 8,395	$ 165,947	$ 20,108

Major capital outlays in the quarter to September 30, 2012 included the drilling of three wells, one at Dunvegan, Alberta and two at Umbach in North East British Columbia. The well at Dunvegan and one of the Umbach wells were completed in the quarter.

Capital expenditures in the reporting periods were allocated as follows:

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Exploration and evaluation	$ 2	$ (386)	$ (45)[1]	$ 10,122
Property and equipment	(3,927)	8,781	5,549	9,986
	(3,925)	8,395	5,504	20,108
Non-cash portion of corporate acquisitions	-	-	160,443	-
Total	$ (3,925)	$ 8,395	$ 165,947	$ 20,108

(1) Net of dispositions.

Investment in Associate

In late 2011, the Company entered into an arrangement agreement with its 22% owned associate, SGR, which resulted in the Company purchasing all outstanding common shares of SGR not already owned, or a total of 8.9

million SGR common shares. The acquisition closed on January 12, 2012. The Company ceased to account for its equity interest in SGR effective January 1, 2012.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include operating, administrative and capital costs payable. Net payables in respect of cash calls issued to partners regarding capital projects and estimates of amounts owing but not yet invoiced to the Company have been included in accounts payable. The level of accounts payable and accrued liabilities at September 30, 2012 corresponds to the seasonality of the Company's operations.

Decommissioning Liability

The Company's decommissioning liability represents the present value of estimated future costs to be incurred to abandon and reclaim wells and facilities, either drilled or constructed by Storm, or already existing on lands transferred to the Company under the Arrangement. Changes in amount of the liability during the period ended September 30, 2012 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the period, the decommissioning obligation associated with the acquisition of Bellamont, plus the time related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 2.6%. Future costs to abandon and reclaim the Company's properties are based on an internal evaluation, supported by external data from industry sources.

Shareholders' Equity

Details of share issuances from inception to September 30, 2012 are as follows:

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

CONTRACTUAL OBLIGATIONS

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

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

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

QUARTERLY RESULTS

Summarized information by quarter for the two years ended September 30, 2012 appears below:

	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Production revenue ($000s)	9,631	9,819	3,390	2,493	1,482	1,936	981	-
Non-GAAP funds from (applied to) operations ($000s)[1]	4,765	3,669	(63)	709	396	710	59	(708)
Per share								
- basic ($)	0.08	0.07	0.00	0.03	0.02	0.03	0.00	(0.03)
- diluted ($)	0.08	0.07	0.00	0.03	0.02	0.03	0.00	(0.03)
Net income (loss) ($000s)	(3,586)	947	(1,615)	(1,758)	(1,023)	(562)	(321)	(1,087)
Per share								
- basic ($)	(0.07)	0.03	(0.04)	(0.07)	(0.04)	(0.02)	(0.01)	(0.04)
- diluted ($)	(0.07)	0.03	(0.04)	(0.07)	(0.04)	(0.02)	(0.01)	(0.04)
Other comprehensive income (loss) ($000s)	2,669	(757)	(568)	217	(962)	(1,670)	(1,378)	(834)
Net capital expenditures ($000s)	(3,925)	7,224	162,922	20,687	8,394	2,012	9,702	13,373
Average daily production - Boe	2,380	2,584	1,229	779	511	595	276	-
Net (debt)/working capital ($000s)	(42,511)	(53,667)	(50,300)	(15,171)	4,806	12,805	13,688	20,593
Available for sale investments	6,374	7,513	8,270	8,838	8,621	9,583	11,611	15,324

(1) See Non-GAAP Measurements on pages 17 and 18 of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the interim financial statements for the three and nine months ended September 30, 2012 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain financial amounts are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts, are based on estimations using information involving a high degree of measurement uncertainty which could have a material effect on Storm's operating results and financial position. Information with respect to such amounts is described in the MD&A for the year ended December 31, 2011, or is described below to the extent that such estimations were first made in the nine months ended September 30, 2012.

Accounting for Acquisitions

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

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some risks are common to all businesses while others are specific to the industry. Information with respect to such risks is set out in Storm's Annual Information Form dated March 30, 2012 for the year ended December 31, 2011 under the heading "Risk Factors" and in Storm's MD&A for the period ended December 31, 2011 under the heading "Risk Assessment".

ADDITIONAL INFORMATION

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

Financials

Consolidated Condensed Interim Statements of Financial Position

(Canadian $000s) (unaudited)	Sept. 30, 2012	Dec. 31, 2011
ASSETS		
Current		
Cash	$ -	$ 7,423
Accounts receivable	9,742	4,064
Assets held for sale (Note 16)	13,296	-
Prepaids and deposits	700	793
Fair value of financial instruments (Note 13)	800	-
	24,538	12,280
Investments (Note 4)	6,374	8,838
Investment in associate (Note 3)	-	12,302
Exploration and evaluation (Note 5)	70,901	26,156
Property and equipment (Note 6)	159,352	49,507
	$ 261,165	$ 109,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Current portion of bank indebtedness (Note 7)	$ -	$ 3,000
Accounts payable and accrued liabilities	16,795	11,461
	16,795	14,461
Bank indebtedness (Note 7)	49,454	12,990
Decommissioning liability (Note 8)	11,560	2,532
	77,809	29,983
Shareholders' equity		
Share capital (Note 10)	193,184	86,576
Contributed surplus (Note 11)	1,947	1,389
Deficit	(9,411)	(5,157)
Accumulated other comprehensive income (loss)	(2,364)	(3,708)
	183,356	79,100
	$ 261,165	$ 109,083

See accompanying notes to the consolidated condensed interim financial statements.

On behalf of the Board:

Director

Director

Consolidated Condensed Interim Statement of Income (Loss) and Comprehensive Income (Loss)

(Canadian $000s except per-share amounts) (unaudited)	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Revenue				
Revenue from product sales	$ 9,068	$ 1,482	$ 21,901	$ 4,399
Realized gain (loss) on financial instruments (Note 13)	563	-	939	-
Royalties	(798)	- (56)	(2,317)	(176)
	$ 8,833	$ 1,426	$ 20,523	$ 4,223
Expenses				
Production	2,639	328	6,448	955
Transportation	380	160	1,313	242
Acquisition costs (Note 3)	-	-	640	-
General and administrative	715	564	2,599	1,983
Share-based compensation (Note 11)	190	243	558	840
Depletion and depreciation	3,859	1,016	9,352	2,312
Accretion	74	12	170	36
	7,857	2,323	21,080	6,368
Income (loss) before the following:	976	(897)	(557)	(2,145)
Interest income (expense) - net	(334)	22	(1,152)	122
Gain (loss) on disposal of investments (Note 4)	(1,340)	-	(1,340)	463
Loss on assets held for sale (Note 16)	(2,073)	-	(2,073)	-
Gain on disposal of oil and gas properties (Note 6)	68	-	68	-
Unrealized gain (loss) on financial instruments	(883)	-	800	-
Changes in equity of associate	-	(148)	-	(346)
Net income (loss) for the period	(3,586)	(1,023)	(4,254)	(1,906)
Other comprehensive income (loss) – unrealized gain (loss) on investments available for sale (Note 4)	2,669	(962)	1,344	(4,010)
Comprehensive income (loss) for the period	$ (917)	$ (1,985)	$ (2,910)	$ (5,916)
Net income (loss) per share (Note 12)				
- basic	$ (0.07)	$ (0.04)	$ (0.08)	$ (0.07)
- diluted	$ (0.07)	$ (0.04)	$ (0.08)	$ (0.07)

See accompanying notes to the consolidated condensed interim financial statements.

Consolidated Condensed Interim Statements of Changes in Shareholders' Equity

(Canadian $000s) (unaudited)	Nine Months to Sept. 30, 2012				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, beginning of period	$ 86,576	$ 1,389	$ (5,157)	$ (3,708)	$ 79,100
Net loss for the period	-	-	(4,254)	-	(4,254)
Issue of common shares under private placement	23,615	-	-	-	23,615
Issue of common shares to shareholders of SGR	43,869	-	-	-	43,869
Issue of common shares to shareholders of Bellamont	39,674	-	-	-	39,674
Share issue costs	(550)	-	-	-	(550)
Share-based compensation (Note 11)	-	558	-	-	558
Transfer of accumulated other comprehensive income on disposition of investments available for sale (Note 4)	-	-	-	1,340	1,340
Unrealized gain on investments available for sale (Note 4)	-	-	-	4	4
Balance, end of period	$193,184	$ 1,947	$ (9,411)	$ (2,364)	$183,356

(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 11)	-	840	-	-	840
Transfer of accumulated other comprehensive income on disposition of assets available for sale	-	-	-	(463)	(463)
Unrealized loss on investments available for sale (Note 4)	-	-	-	(3,547)	(3,547)
Balance, end of period	$ 86,576	$ 1,241	$ (3,399)	$ (3,925)	$ 80,493

See accompanying notes to the consolidated condensed interim financial statements.

Consolidated Condensed Interim Statements of Cash Flows

(Canadian $000s) (unaudited)	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Operating activities				
Net income (loss) for the period	$ (3,586)	$ (1,023)	$ (4,254)	$ (1,906)
Non-cash items:				
(Gain)/loss on disposal of investment (Note 4)	1,340	-	1,340	(463)
Loss on assets held for sale	2,073	-	2,073	-
Gain on disposal of oil and gas properties	(68)	-	(68)	-
Changes in equity of associate (Note 3a)	-	148	-	346
Depletion, depreciation and accretion	3,933	1,028	9,522	2,348
Unrealized loss (gain) on financial instruments (Note 13)	883	-	(800)	-
Share-based compensation (Note 11)	190	243	558	840
	4,765	396	8,371	1,165
Net change in non-cash working capital items (Note 15)	(2,870)	(3,203)	(3,186)	(3,528)
	1,895	(2,807)	5,185	(2,363)
Financing activities				
Proceeds from private placement of common shares – net of expenses (Note 10)	-	-	23,065	-
Increase (decrease) in bank indebtedness	(1,229)	-	(4,652)	-
	(1,229)	-	18,413	-
Investing activities				
Proceeds on sale of investments (Note 4)	2,468	-	2,468	3,156
Cash acquired on acquisition of SGR (Note 3)	-	-	2,405	-
Cash paid to shareholders of Bellamont (Note 3)	-	-	(20,000)	-
Additions to property and equipment (Note 6)	(10,807)	(8,781)	(20,284)	(9,987)
Proceeds on disposal of property and equipment	1,700	-	1,700	-
Proceeds on disposal of exploration and evaluation assets (Note 5)	670	-	1,679	-
Additions to exploration and evaluation assets (Note 3)	(934)	386	(1,896)	(10,122)
Net change in non-cash working capital items (Note 15)	6,237	6,938	2,907	(2,695)
	(666)	(1,457)	(31,021)	(19,648)
Change in cash during the period	-	(4,264)	(7,423)	(22,011)
Cash, beginning of period	-	12,977	7,423	30,724
Cash, end of period	$ -	$ 8,713	$ -	$ 8,713

See accompanying notes to the consolidated condensed interim financial statements.

Three and nine months ended September 30, 2012 and 2011

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

1. REPORTING ENTITY

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

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

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

2. BASIS OF PRESENTATION

Statement of Compliance

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

These interim financial statements were authorized for issue by the Board of Directors on November 13, 2012.

Basis of Measurement

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

Use of Estimates and Judgements

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

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

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

- Note 3 – Allocation of fair values to corporate acquisitions
- Note 5 – Classification and valuation of exploration and evaluation assets
- Note 6 – Classification and valuation of property and equipment
- Note 8 – Decommissioning liability
- Note 9 – Valuation and utilization of tax assets
- Note 11 – Measurement of share-based compensation

- Note 13 – Carrying amounts of financial instruments

3. CORPORATE ACQUISITIONS

a) Storm Gas Resource Corp.

Pursuant to the acquisition of Storm Gas Resource Corp. ("SGR") which closed on January 12, 2012, Storm acquired all of the issued and outstanding shares of SGR not already owned by the Company for a total cost of $42.9 million, consisting of the issuance of 11,761,190 common shares offset by positive working capital of $1.0 million. The common shares issued were valued at $3.73 per share, being the closing share price of Storm at the time of acquisition. Storm's existing ownership position in SGR totaled 2,500,000 common shares, an approximate 22% interest, and was carried at an amount of $12.3 million at December 31, 2011. SGR was a private junior oil and gas exploration company which had interests in natural gas properties, primarily in the Horn River Basin in North East British Columbia. Total transaction costs of approximately $0.3 million were incurred by Storm and expensed.

Storm's interim statement of income (loss) and comprehensive income (loss) includes the results of operations for the business of SGR for the period following the close of the transaction. Net loss for the nine month period ended September 30, 2012 includes $1.3 million of petroleum and natural gas revenue and $0.9 million of net loss generated from the SGR assets since the acquisition on January 12, 2012. If SGR had been acquired on January 1, 2012, an additional $62,000 of petroleum and natural gas revenue and a loss of approximately $4,000 would have been included on the interim statement of income (loss) and comprehensive income (loss) for the nine month period ended September 30, 2012.

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

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

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

b) Bellamont Exploration Ltd.

Pursuant to the acquisition of Bellamont Exploration Ltd. ("Bellamont") which closed on March 23, 2012, Storm acquired all of the issued and outstanding shares of Bellamont for a total cost of $96.4 million, consisting of $20.0 million in cash, the assumption of $36.7 million working capital deficiency and the issuance of 16,740,096 common shares. The common shares issued were valued at $2.37 per share, being the closing share price of Storm at the time of acquisition. Bellamont was a public junior oil and gas exploration company with interests in crude oil and natural gas properties primarily in the Peace River Arch area of Alberta. Total transaction costs of approximately $0.3 million were incurred by Storm and expensed.

The interim statement of income (loss) and comprehensive income (loss) includes the results of operations for the period following the close of the transaction on March 23, 2012. The Company's net loss for the nine month period ended September 30, 2012 includes $14.8 million of petroleum and natural gas revenue and $1.7 million of net income generated from the Bellamont assets since the acquisition on March 23, 2012. If Bellamont had been acquired on January 1, 2012, an additional $7,467,000 of petroleum and natural gas revenue and $335,000 of net loss would have been included on the interim statement of income (loss) and comprehensive income (loss) for the nine month period ended September 30, 2012.

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

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

Fair Value of Net Assets Acquired		
Property and equipment	$	102,593
Exploration and evaluation assets		2,113
Working capital deficiency (Includes debt acquired of $38,388)		(36,727)
Decommissioning liability		(8,305)
Net assets acquired	$	59,674

4. INVESTMENTS

	Sept. 30, 2012	Dec. 31, 2011
Bridge Energy ASA ("Bridge")	$ 1,664	$ 1,503
Chinook Energy Inc. ("Chinook")	4,710	7,335
	$ 6,374	$ 8,838

Unrealized revaluation gains for the nine and three months ended September 30, 2012, in the amounts of $1.3 million and $2.6 million respectively (2011 – losses of $4.0 and $0.9 million), are recognized in other comprehensive income (loss). During the third quarter the Company sold 1.5 million shares of Chinook for net proceeds of $2.2 million and recognized a loss of $1.3 million measured against the transfer value under the Arrangement. In addition, the Company sold 164,000 shares of Bridge for net proceeds of $0.3 million and recognized a loss of $20,000. During 2011, in a transaction unrelated to the subsequent corporate acquisition, the Company sold 5.1 million shares of Bellamont for proceeds of $3.2 million and recognized a gain on disposition of $0.5 million in the nine months ended September 30, 2011.

5. EXPLORATION AND EVALUATION

	Sept. 30, 2012	Dec. 31, 2011
Balance, January 1	$ 26,156	$ 36,944
Corporate acquisitions	44,790	-
Additions	1,896	10,418
Disposals	(1,679)	-
Transfer to assets held for sale	(262)	-
Future decommissioning costs	-	(358)
Transfer to property and equipment	-	(20,848)
Balance, end of period	$ 70,901	$ 26,156

6. PROPERTY AND EQUIPMENT

	Sept. 30, 2012	Dec. 31, 2011
Cost		
Balance, January 1	$ 52,943	$ -
Corporate acquisitions	115,653	-
Additions	20,284	30,378
Disposals	(4,490)	-
Transfer to assets held for sale	(13,933)	-
Future decommissioning costs	(3)	1,717
Transfer from exploration and evaluation assets	-	20,848
Balance, end of period	$ 170,454	$ 52,943
Accumulated depletion and depreciation		
Balance, January 1	$ 3,436	$ -
Depletion and depreciation	9,352	3,436
Disposals	(787)	-
Transfer to assets held for sale	(899)	-
Balance, end of period	$ 11,102	$ 3,436
Net book value		
Balance, January 1	$ 49,507	$ -
Balance, end of period	$ 159,352	$ 49,507

In the third quarter of 2012 the Company sold two properties, producing approximately 165 Boe per day, primarily light crude oil, for net proceeds of $15.7 million. These disposals resulted in the recognition of a net loss of $2.0 million which has been recorded on the interim statement of income (loss) and comprehensive income (loss). One of these transactions closed in October 2012. (See Note 16)

7. BANK INDEBTEDNESS

As at September 30, 2012, the Company had an extendible revolving bank facility in the amount of $62 million (December 31, 2011 – $18 million) based on the Company's producing reserves. The revolving facility is available to the Company until April 30, 2013. If the revolving facility is not renewed at the end of the current revolving phase, the facility moves into a term phase whereby the loan is to be retired with one payment on the 366th day following the last day of the revolving phase, in an amount equal to the outstanding principal. Interest is paid on the revolving facility at guaranteed notes' acceptance rates plus a stamping fee. Security comprises a floating charge demand debenture on the assets of the Company.

8. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production facilities, including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately $16.7 million, which is expected to be paid over the next 30 years. A risk-free discount rate of 2.6% (2011 – 2.65%) and an inflation rate of 1.9% (2011 – 1.5%) was used to calculate the present value of the decommissioning obligation, amounting to $11.6 million.

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

	Nine Months Ended Sept. 30, 2012	Year Ended Dec. 31, 2011
Balance, beginning of period	$ 2,532	$ 1,121
Additions	250	1,253
Acquisitions	8,861	-
Obligations disposed	(1,153)	(30)
Change in estimate[1]	900	136
Accretion expense	170	52
Balance, end of period	$ 11,560	$ 2,532

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

9. DEFERRED INCOME TAXES

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

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately $167 million as well as non-capital losses of approximately $78 million. The non-capital losses begin to expire in 2026. A deferred tax asset has not been recognized due to uncertainty as to future realization.

10. SHARE CAPITAL

Authorized

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

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

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2010 and 2011	26,377	$ 86,576
Shares issued on acquisition of SGR[1]	11,761	43,869
Shares issued under private placement[2]	6,946	23,615
Shares issued on acquisition of Bellamont[3]	16,740	39,674
Share issue costs[2]	-	(550)
Balance as at September 30, 2012	61,824	$ 193,184

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

(2) On March 23, 2012 the Company issued 6,946,000 common shares at a price of $3.40 per share, under a private placement, for proceeds of $23.6 million before related transaction costs of approximately $550,000.

(3) On March 23, 2012 the Company issued 16,740,096 common shares and paid cash of $20 million to acquire all of the issued and outstanding shares of Bellamont. The shares issued by the Company were valued at $2.37 per share. See also Note 3.

11. SHARE-BASED COMPENSATION

The Company has a stock option plan under which it may grant, at the Company's discretion, options to purchase common shares to directors, officers, employees and consultants. Options are granted at the market price of the shares on the date of grant, have a four-year term and vest in one-third tranches over three years. Under the stock option plan, a total of 6,182,425 common shares are available for issuance. Options in respect of 2,722,500 common shares have been issued, of which all are unexercised. As at September 30, 2012, options remain in respect of 3,459,925 common shares which are available for further option grants under the stock option plan.

Details of the options outstanding at September 30, 2012 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2011	1,978	$ 3.28
Granted during the period	785	$ 2.17
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period	40	$ 2.52
Outstanding at September 30, 2012	2,723	$ 2.96
Number exercisable at September 30, 2012	1,305	$ 3.29

Range of Exercise Price	Number of Options Outstanding (000s)	Outstanding Options Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$1.83 - $2.75	705	3.6	$ 2.00
$2.75 - $3.96	2,018	1.9	$ 3.29
Total	2,723	2.4	$ 2.96

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, 2012 of $0.68 per share (2011 - nil) include the following:

Share price	$ 2.17
Exercise price	$ 2.17
Volatility	40%
Forfeiture rate	10%
Expected option life	3.7
Dividends	-
Risk-free interest rate	1.5%

The initial forfeiture rate was estimated to be 10%. This estimate will be adjusted to the actual forfeiture rate. Share-based compensation expense of $558,000 was charged to the statement of income (loss) and comprehensive income (loss) during the nine months to September 30, 2012 (2011 - $840,000) with an equivalent offset to contributed surplus.

12. NET INCOME (LOSS) PER SHARE

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

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Net income (loss) for the period	$ (3,586)	$ (1,023)	$ (4,254)	$ (1,906)
Weighted average number of common shares outstanding – basic:				
Common shares outstanding at beginning of period	61,824	26,377	26,377	26,377
Effect of shares issued	-	-	27,757	-
Weighted average number of common shares outstanding - basic	61,824	26,377	54,134	26,377
Effect of outstanding options	-	-	-	-
Weighted average number of common shares outstanding - diluted	61,824	26,377	54,134	26,377
Net income (loss) per share				
- basic	$ (0.07)	$ (0.04)	$ (0.08)	$ (0.07)
- diluted	$ (0.07)	$ (0.04)	$ (0.08)	$ (0.07)

The dilutive factor is the stock options described in Note 11.

13. FINANCIAL INSTRUMENTS

The following table sets out, for each class of financial asset and financial liability, the carrying amount and fair value as at September 30, 2012. The carrying value of cash, accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness included on these interim statements of financial position approximate their fair values due to the short-term nature of those instruments and are not included in the table below.

		Sept. 30, 2012	
	Classification	Carrying Amount	Fair Value
Investments in publicly traded companies	Available for sale	$ 6,374	$ 6,374

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 fair value of the Company's commodity contracts described below is based on forward prices of commodities available in the market place and they are therefore classified as Level 2 financial instruments. The Company has no Level 3 financial instruments.

Risk Management

Commodity prices

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

The Company is exposed to the risk of declining prices for production resulting in a corresponding reduction in projected cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. Bank financing available to the Company is in the form of a production loan, which is reviewed semi-annually, and which is based on future cash flows and commodity price expectations. Changes to commodity prices will have an effect on credit available to the Company under 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 crude oil and natural gas and thus provide stability of future cash flow. The Company will not use these instruments for trading or speculative purposes.

As at September 30, 2012, Storm has the following derivative contracts in place. The fair market value of these contracts of $800,000 (December 31, 2011 – nil) is included in current assets and the resulting unrealized mark-to-market gain of $800,000 (2011 – nil) is recognized in the interim statement of income (loss) and comprehensive income (loss) for the nine months to September 30, 2012.

Volume	Price	Term
Crude Oil Swap		
100 Bbls/day	$107.75	October 2012 – December 2012
100 Bbls/day	$103.70	October 2012 – December 2012
100 Bbls/day	$103.35	October 2012 – December 2012
150 Bbls/day	$105.00	October 2012 – December 2012
150 Bbls/day	$ 96.20	January 2013 – March 2013

In October 2012 Storm entered into an additional crude oil contract with a collar of $90.00 - $93.00 for 150 BBls/day for the term of January – March 2013.

Interest Rates

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

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, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Salaries and short-term benefits	$ 290	$ 194	$ 733	$ 592
Share-based compensation	68	134	247	465
	$ 358	$ 328	$ 980	$ 1,057

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months to Sept. 30, 2012	Three Months to Sept. 30, 2011	Nine Months to Sept. 30, 2012	Nine Months to Sept. 30, 2011
Accounts receivable	$ (4,844)	$ (3,990)	$ (378)	$ (4,490)
Prepaids and deposits	1,007	(171)	1,184	(80)
Accounts payable and accrued liabilities	7,204	7,896	(1,085)	(1,653)
Change in non-cash working capital	$ 3,367	$ 3,735	$ (279)	$ (6,223)
Relating to:				
Operating activities	$ (2,870)	$ (3,203)	$ (3,186)	$ (3,528)
Financing activities	-	-	-	-
Investing activities	6,237	6,938	2,907	(2,695)
	$ 3,367	$ 3,735	$ (279)	$ (6,223)
Interest paid during the period	$ 333	$ -	$ 1,001	$ -
Income taxes paid during the period	$ -	$ -	$ -	$ -

16. SUBSEQUENT EVENT

In October 2012 the Company completed the sale of a non-core producing property for net proceeds of $13.3 million. This resulted in a loss of $2.1 million. These assets were classified as held for sale on the interim statements of financial position at September 30, 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

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Abbreviations

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

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