STORM RESOURCES

2013 Q3 REPORT

Highlights

Thousands of Cdn$, except volumetric and per-share amounts	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
FINANCIAL				
Gas sales	4,729	1,835	13,212	4,638
NGL sales	4,082	1,088	8,642	2,869
Oil sales	4,366	6,145	12,344	14,394
Revenue from product sales(1)	13,177	9,068	34,198	21,901
Funds from operations(2)	6,144	4,765	14,448	8,371
Per share - basic ($)	0.08	0.08	0.20	0.15
Per share - diluted ($)	0.08	0.08	0.20	0.15
Net loss	(1,429)	(3,586)	(1,029)	(4,254)
Per share - basic ($)	(0.02)	(0.07)	(0.01)	(0.08)
Per share - diluted ($)	(0.02)	(0.07)	(0.01)	(0.08)
Field capital expenditures	23,694	11,741	60,559	22,720
Proceeds on disposition of oil and gas properties	23	(2,370)	(19,495)	(3,379)
Debt including working capital deficiency	40,968	42,511	40,968	42,511
Weighted average common shares outstanding (000s)				
Basic	77,383	61,824	70,492	54,134
Diluted	77,383	61,824	70,492	54,134
Common shares outstanding (000s)				
Basic	77,383	61,824	77,383	61,824
Fully diluted	81,279	64,547	81,279	64,547
OPERATIONS				
Oil equivalent (6:1)				
Barrels of oil equivalent (000s)	350	219	888	566
Barrels of oil equivalent per day	3,800	2,380	3,255	2,065
Average selling price (Cdn$ per Boe)(1)	37.69	43.96	38.49	40.33
Gas Production				
Thousand cubic feet (000s)	1,514	741	3,768	2,065
Thousand cubic feet per day	16,458	8,058	13,803	7,539
Average selling price (Cdn$ per Mcf)	3.12	2.49	3.51	2.25
NGL production				
Barrels (000s)	55	18	123	42
Barrels per day	600	199	450	154
Average selling price (Cdn$ per barrel)	73.98	59.44	70.40	67.90
Oil Production				
Barrels (000s)	42	77	138	179
Barrels per day	458	838	504	655
Average selling price (Cdn$ per barrel)(1)	103.70	86.75	89.65	85.31
Wells drilled				
Gross	5.0	3.0	8.0	4.0
Net	5.0	2.2	7.6	3.2

(1) Excludes hedging gains and losses.

(2) Funds from operations and funds from operations per share are non-GAAP measurements. See discussion of Non-GAAP Measurements on page 9 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 19 of the attached MD&A.

President's Message

THIRD QUARTER 2013 HIGHLIGHTS

- Production averaged 3,800 Boe per day (28% oil plus NGL), an increase of 10% from the previous quarter. Compared to the same period a year ago, production was 60% higher, or 28% on a per-share basis. Forecast production for the fourth quarter remains at 4,500 to 5,000 Boe per day. Production increased as a result of growth at Umbach where production averaged 2,170 Boe per day (57% of total corporate production), an increase of 21% from the previous quarter and 425% from a year ago.

- Crude oil and NGL production averaged 1,058 barrels per day, an increase of 12% from the previous quarter. NGL production was 600 barrels per day, an increase of 24% from the previous quarter and 200% from the year earlier period. The increase in NGL production was the result of growth at Umbach where NGL recovery from the liquids-rich natural gas produced from the Montney formation was 521 barrels per day, or 53 barrels per Mmcf sales gas. The third quarter NGL price was $73.98 per barrel which was 70% of the average Edmonton Par light oil price.

- Funds from operations was $6.1 million, or $0.08 per basic share, an improvement of 21% from the previous quarter and 27% from the year ago period. Although natural gas prices decreased 22% from the previous quarter, the funds flow netback increased to $17.56 per Boe from $16.09 per Boe in the prior quarter as a result of a decrease in controllable cash costs (operating, transportation, cash G&A, interest expense). Controllable cash costs improved to $14.27 per Boe in the quarter from $16.38 per Boe in the prior quarter and $18.58 per Boe in the same period one year ago.

- The field operating netback was $20.39 per Boe excluding a hedging loss of $0.24 per Boe with operating costs decreasing by 6% from the previous quarter to $10.36 per Boe. At Umbach, operating costs were $8.60 per Boe and the operating netback was $19.14 per Boe.

- Capital investment totaled $23.7 million and major expenditures included $3.0 million to construct field gathering pipelines at Umbach and $19.3 million, also at Umbach, to drill five horizontal wells (5.0 net) and to complete and tie in four horizontal wells (3.6 net).

- Horizontal well performance at Umbach continues to improve with the first three horizontals on Storm's 100% working interest lands averaging 4.4 Mmcf per day gross raw gas (800 Boe per day sales) over the first 30 days (operated day rates), an increase of 60% when compared to the first four horizontal wells that came on production in 2011 and 2012.

- Net loss was $1.4 million or $0.02 per basic share, an improvement from net loss of $0.07 per basic share a year earlier. The net loss was primarily due to non-cash mark-to-market losses on an investment and commodity price hedges.

- Debt plus working capital deficiency, net of investments, ended the quarter at $41.0 million which is 1.7 times annualized third quarter cash flow. In early November, Storm's bank credit line was increased to $65.0 million from $52.0 million.

- Commodity price hedges were added subsequent to quarter end in order to ensure that commodity price fluctuations do not have a significant effect on capital investment and growth in 2014. For all of 2014, a natural gas volume of 9,000 GJ per day (approximately 7,500 Mcf per day) has a floor price of $3.31 per GJ (approximately $4.00 per Mcf). For January to June of 2014, the price of 375 barrels per day of oil was fixed at WTI Cdn $102.00 per barrel (WTI price in $US per barrel converted to $Cdn per barrel).

- Equity financings were announced October 28, 2013 whereby Storm will issue 10.1 million common shares priced at $3.35 per share for net proceeds of approximately $32.0 million. Proceeds will be used to expand 2014 capital investment and accelerate growth at Umbach. The related financings comprise a bought deal financing under a short form prospectus for 9.0 million shares and a non-brokered financing where 1.1 million shares will be issued to certain directors, officers and employees of Storm. The expected closing date for both financings is November 19, 2013.

OPERATIONS REVIEW

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

Umbach, North East British Columbia

Storm's land position at Umbach is prospective for liquids-rich natural gas from the Montney formation and totals 112 net sections (140 gross sections), or 79,000 net acres. There are two project areas with one area consisting of 79 net sections of land at a 100% working interest and the other area consisting of 33 net sections of jointly owned lands (61 gross sections with Storm's working interest being 60% on most of the lands). Since entering the area in 2010, Storm has invested $29.0 million to acquire this land position ($810 per hectare or $325 per acre) which includes the cost of the first horizontal well that was drilled as part of a farm-in to earn the initial 11.6 net sections.

Third quarter production grew to 2,170 net Boe per day (24% liquids) with the start of production from three horizontal wells (2.6 net) in August and September. Production in October was 2,750 Boe per day and has increased to a current level of approximately 3,600 Boe per day. NGL recovery averaged 53 barrels per Mmcf sales, or 521 barrels per day, in the third quarter with approximately 56% being condensate plus pentanes. The operating netback in the third quarter was $19.14 per Boe with revenue, after deducting transportation costs, of $31.85 per Boe ($3.14 per Mcf and $73.09 per barrel), a royalty rate of 13%, and operating costs of $8.60 per Boe. Continuing production growth from the 100% working interest lands is expected to result in operating costs decreasing by approximately $1.00 per Boe over the next six months.

Activity in the third quarter included drilling five horizontal wells (5.0 net), completing four horizontal wells (3.6 net) and installing six kilometres of 10-inch gathering pipeline. The four completed horizontal wells began producing on August 5, August 25, September 12 and October 19 respectively. To date in the fourth quarter, one horizontal well (1.0 net) has been completed and is being pipeline connected.

Storm has drilled 15 horizontal wells at Umbach (11.4 net) and has 12 producing horizontal wells (8.8 net). There are nine horizontal wells (5.4 net) on the joint lands where Storm has a 60% working interest and six horizontal wells on the 100% working interest lands. Several changes have been made to recent horizontal wells including targeting different intervals in the Montney formation and modifying the completion technique. Production performance has improved with the first three horizontals on Storm's 100% working interest lands averaging 4.4 Mmcf per day gross raw gas (800 Boe per day sales) over the first 30 days using operated day rates (excludes days where the wells were shut in due to capacity constraints). This is an improvement of 60% when compared to the first four horizontal wells drilled on the joint lands that started producing in 2011 and 2012. Additional production history is required in order to estimate first year average rates and ultimate recovery for the most recent horizontal wells.

As a result of the transition to development in 2013 (activity in 2012 was focused on resource delineation), the total cost to drill, complete, equip and tie in a horizontal well has decreased to approximately $5.0 million from approximately $6.2 million for the first four horizontal wells. The five horizontal wells (5.0 net) drilled in third quarter of 2013 were on common pads or were drilled from existing pads and this reduced the average drill cost to $2.0 million with drilling times averaging 14 days. Four horizontal wells (3.6 net) were completed in the third quarter at an average cost of $2.4 million. Tie-in costs were $0.6 million per horizontal well (not including cost of longer gathering pipelines to connect multi-well pads to field compression facilities). Further cost reductions are expected in 2014 with a larger drilling program and with more horizontal wells being drilled from common pads which will reduce the completion cost as well as the cost to equip and tie in new wells.

Total investment in infrastructure at Umbach is forecast to be $12.0 million in 2013 which includes the acquisition of field compression for $4.5 million on April 1st and construction of 20 kilometres of larger diameter 8 inch and 10 inch field gathering pipelines. Preliminary guidance for 2014 includes investing an additional $16.0 million for infrastructure which would include $12.0 million to construct a second field compression facility with initial capacity of 12.5 Mmcf per day expandable to 48 Mmcf per day. An additional investment of $2.0 million would be required for expansion to 24 Mmcf per day and a further $9.0 million for expansion to 48 Mmcf per day (total $11.0 million to expand to 48 Mmcf per day). This strategic investment in infrastructure provides Storm with operational control, enables significant low cost production growth into 2015, and will reduce operating costs by eliminating fees for using third party field compression.

Assuming a field netback of $20 per Boe, NGL recovery of 35 barrels per Mmcf sales (10% shrinkage), a first year average rate of 2.4 Mmcf per day gross raw gas (430 Boe per day), ultimate recovery of 4.3 Bcf gross raw gas per horizontal well and $5.0 million to drill, complete and tie in a horizontal well, Storm's management estimates that rates of return for horizontal wells exceed 30% on an unrisked basis. This is based on flat pricing of $3.35 per GJ for natural gas and Cdn $89.00 per barrel for Edmonton Par (WTI US $93.00/Bbl). Additional enhancements to completion methods could result in further improvements to horizontal well production rates and ultimate recovery.

Horn River Basin, North East British Columbia

Storm has a 100% working interest in 135 sections in the HRB (87,700 net acres) which is prospective for natural gas from the Muskwa, Otter Park and Evie/Klua shales. Production in the third quarter averaged 335 Boe per day at an operating netback of $7.43 per Boe. Production is from one horizontal well with 12 fracture stimulations that began producing in March 2011 and is currently producing 2.4 Mmcf per day gross raw gas with cumulative production of 3.5 Bcf gross raw gas. Since the start of production, the flow rate has been restricted by the high operating pressure of the gathering pipeline (approximately 6,000 kPa). As a result, in early November, field compression was installed at a cost of approximately $0.5 million. A second horizontal well was also drilled in 2011 and is awaiting completion with the timing dependent on the natural gas price.

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

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

Production in the third quarter averaged 1,294 Boe per day (41% oil plus NGL) at an operating netback of $25.16 per Boe. This is a decline of approximately 3% from the previous quarter. There was no capital invested in this area in the third quarter and no activity is planned for the fourth quarter. As a result of the relatively shallow decline, cash flow from this area will continue to be re-invested to grow production at Umbach.

OUTLOOK

Production in October was approximately 4,260 Boe per day and guidance for 2013 exit or fourth quarter production is unchanged at 4,500 to 5,000 Boe per day. The remainder of Storm's 2013 guidance is also unchanged. Guidance for 2014 has been reviewed and approved by Storm's Board of Directors and is provided below.

	2013 Guidance (excluding impact of equity financings that close November 19, 2013)	2014 Guidance (including $32 million net proceeds from equity financings)
Year-end adjusted debt plus working capital deficiency (1)	*$40.0 million*	*$50.0 - $55.0 million*
Average operating costs	*$10.00 - $11.00 per Boe*	*$8.00 - $10.00 per Boe*
Average royalty rate (on production revenue before hedging)	*14%*	*14% - 15%*
Operations capital, excluding dispositions	*$62.0 million*	*$81.0 million*
Asset dispositions	*$19.5 million*	-
Asset acquisitions	*$4.5 million*	-
Forecast exit or fourth quarter average production	*4,500 – 5,000 Boe/d (25% oil + NGL)*	*7,300 – 7,800 Boe/d (21% oil + NGL)*
Forecast average annual production	*3,560 – 3,690 Boe/d (24% oil + NGL)*	*5,200 – 6,450 Boe/d (21% oil + NGL)*

(1) Includes value of publicly listed securities.

Major expenditures in the 2014 capital investment program include:

- $55.0 million at Umbach to drill 11 horizontal wells (11.0 net) with 11 horizontal wells (10.6 net) being completed and tied in; and
- $16.0 million to expand infrastructure at Umbach, which includes $12.0 million to construct a new field compression facility expandable from initial capacity of 12 Mmcf per day to 48 Mmcf per day.

The preliminary 2014 budget assumes an average natural gas price at AECO of $3.35 per GJ and an Edmonton Par oil price of Cdn $89 per barrel. Assumed commodity prices generally reflect forward strip pricing as of October 23, 2013 and commodity price hedges are being added for 2014 so that a decrease in commodity prices does not have a significant effect on growth and guidance. Adjusted net debt is forecasted to be $50 million to $55 million at the end of 2014 (including public company investments), which would be approximately 1.0 times annualized funds from operations in the fourth quarter of 2014.

The decision to issue equity to accelerate capital investment at Umbach was primarily based on the improvement in horizontal well performance and the size of the opportunity that has been delineated to date on Storm's 112 net sections of Montney lands. Approximately 35% of this land position has been delineated with vertical wells and 15 horizontal wells (11.4 net). With spacing of four horizontal wells per section, 140 horizontal locations remain to be drilled on the lands that have been delineated to date. In the 2012 year-end reserve report, reserves were assigned to 11.4 net horizontal drilling locations with no reserves assigned to the 100% working interest lands.

Storm's land position in the HRB continues to be a core, long term asset with significant leverage to increased natural gas prices or to LNG development on Canada's west coast.

Although Storm is still in the early stages of delineating a large resource in the Montney formation at Umbach, a sizable multi-year drilling opportunity has already been identified. The NGL recovered from the liquids-rich natural gas in the Montney formation provides Storm with a competitive advantage at the current natural gas price by increasing revenue and the operating netback. In addition, the relatively shallow depth (1,400 to 1,600 metres) results in a lower drilling and completion cost.

The recently announced equity issues provide funding to accelerate development at Umbach in 2014 which is forecast to result in corporate production volumes increasing by 60% over the next 12 months to 7,300 to 7,800 Boe per day. Constructing a second field compression facility expandable to 48 Mmcf per day positions Storm for further growth into 2015.

Respectfully,

B. Lavergne

Brian Lavergne,
President and Chief Executive Officer

November 14, 2013

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

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

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

Forward-Looking Statements – Such statements made in this report are subject to the limitations set out in Storm's Management's Discussion and Analysis dated November 14, 2013 for the three and nine months ended September 30, 2013.

Management's Discussion and Analysis

INTRODUCTION

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Resources Ltd. ("Storm" or the "Company") for the three and nine months ended September 30, 2013. It should be read in conjunction with (i) the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2013, (ii) the Company's audited consolidated financial statements for the year ended December 31, 2012, and (iii) the press release issued by the Company on November 14, 2013, and other operating and financial information included in this report. All of these documents are filed on SEDAR (www.sedar.com) and appear on the Company's website (www.stormresourcesltd.com).

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

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

This MD&A is dated November 14, 2013.

LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2013, prepared in accordance with International Financial Reporting Standards ("IFRS"). Accounting policies adopted by the Company are referred to in Note 3 to the audited consolidated financial statements for the year ended December 31, 2012. The reporting and the measurement currency is the Canadian dollar.

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

Unless otherwise indicated, tabular financial amounts, other than per-share amounts, are in thousands. Comparative information is provided for the three and nine month periods ended September 30, 2012.

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

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

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

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

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

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

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

OPERATIONAL AND FINANCIAL RESULTS

Overview

In the third quarter of 2013 Storm continued the development of its liquids-rich natural gas resource at Umbach, drilling five (5.0 net) horizontal wells and completing four (3.6 net) horizontal wells which began producing in August, September and October.

Third quarter production increased to 3,800 Boe per day from 3,460 Boe per day in the prior quarter, 2,488 Boe per day in the first quarter of 2013 and 2,380 Boe per day in the third quarter of 2012. These increases were a result of the increase in natural gas and associated NGL production at Umbach.

During the third quarter, Storm's production mix was 72% natural gas, 12% crude oil and 16% NGL. Natural gas production increased by 9% relative to the previous quarter as production at Umbach increased to 9.9 Mmcf per day. Natural gas production for the first nine months of 2013 was up 83% from the same period in 2012. During the third quarter, crude oil production dropped by 45% relative to the same quarter in 2012 largely as a result of the sale of oil properties in the first quarter of 2013. Meanwhile, third quarter NGL production increased from 199 Bbls per day in 2012 to 600 Bbls per day as a result of liquids associated with increased natural gas production at Umbach. In the third quarter, the overall realized price per Boe decreased from $37.98 to $37.69 relative to the second quarter. For the nine months, although prices increased from 2012 for all three products, the overall realized price per Boe decreased from $38.70 to $38.49 as a result of the increased weighting of natural gas to our total production mix.

During the third quarter, $23.7 million was invested, including $16.4 million on drilling and completions, $6.1 million on equipping, tie-ins and gathering and $0.7 million on land and lease expenditures, virtually all at Umbach.

Increased production at Umbach resulted in an increase in funds from operations for the third quarter to $6.1 million, up from $5.1 million in the prior quarter, $3.2 million in the first quarter of 2013 and $4.8 million in the third quarter of 2012. Field netbacks, including hedging gains and losses, amounted to $20.09 per Boe in the third quarter, virtually unchanged from $20.12 per Boe in Q2 2013, down from $24.24 per Boe in Q1 2013 and $26.52 per Boe in Q3 2012, as a result of revenue per Boe being reduced by higher natural gas volumes, increased royalties, a hedging loss versus a gain in prior quarters, partially offset by lower production costs on a per-Boe basis in the current quarter.

In October the Company solidified its financial position by entering into bought deal and private placement financings for approximate net proceeds of $32.0 million. These financings are expected to close in mid-November and will allow Storm to accelerate development at Umbach, with 11 horizontal wells expected to be drilled in 2014, and to expand Umbach infrastructure with a new field compression facility.

Acquisitions in 2012

On January 12, 2012 the Company completed the acquisition of the 78% equity interest in Storm Gas Resource Corp. ("SGR") not already owned by Storm. Common shares issued by the Company on closing to former SGR shareholders totaled 11.8 million. The closing price for the Company's shares at the time of the acquisition was $3.73. The acquisition of SGR resulted in an increase in the working interest in the Company's lands in the Horn River Basin from 40% to 100%. The Company also assumed operatorship of the project.

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

Production and Revenue

Production by Area

The Company reported production from the following areas:

				Three Months to Sept. 30, 2013
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	2,013	-	-	335
Umbach – NE BC	9,895	521	-	2,170
AB:				
Grimshaw	251	1	264	307
Grande Prairie, Montney & Dunvegan	4,299	78	194	988
Total	16,458	600	458	3,800

				Three Months to Sept. 30, 2012
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	2,554	-	-	426
Umbach – NE BC	1,820	111	-	414
Grande Prairie Area – AB and BC:				1,532
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
Total	8,058	199	838	2,380

				Nine Months to Sept. 30, 2013
Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
Horn River Basin – NE BC	2,075	-	-	346
Umbach – NE BC	6,858	362	-	1,505
AB:				
Grimshaw	255	1	271	314
Grande Prairie, Montney & Dunvegan	4,615	87	233	1,090
Total	13,803	450	504	3,255

Producing Area	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	Crude Oil (Bbls/d)	Boe/d
				Nine Months to Sept. 30, 2012
Horn River Basin – NE BC	2,952	-	-	492
Umbach – NE BC	1,603	87	-	354
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
Total	7,539	154	655	2,065

Total Boe production in the third quarter of 2013 increased by 60% when compared to the third quarter of 2012 and by 10% when compared to the second quarter of 2013. For the nine-month period ended September 30, 2013 total Boe production increased by 58% year-over-year.

Changes in production came largely from:

Comparing Q3 2013 to Q2 2013

- Increased production at Umbach as a result of three (2.6 net) new horizontal well tie-ins during the current quarter.

Comparing nine months ended September 30, 2013 to nine months ended September 30, 2012

- Production growth at Umbach;
- Acquisition of Bellamont, effective March 23, 2012, adding production in the Grande Prairie Area at Grimshaw, Grande Prairie Montney and Dunvegan and from various minor properties.

Daily production per million weighted average shares outstanding averaged 51 Boe per day for the third quarter of 2013, compared to 38 Boe per day for the third quarter of 2012, and 48 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 in the Horn River Basin and the other producing gas and associated liquids at Umbach. Production in Alberta approximates 35% light oil with an average API of 37 degrees, 59% natural gas and 6% NGL. In January and February 2013, the Company sold certain Alberta properties producing approximately 300 Boe per day of which 77% was light crude oil.

Average Daily Production

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Natural gas (Mcf/d)	16,458	8,058	13,803	7,539
Natural gas liquids (Bbls/d)	600	199	450	154
Crude oil (Bbls/d)	458	838	504	655
Total (Boe/d)	3,800	2,380	3,255	2,065

Production Profile and Per-Unit Prices(1)

	Three Months to Sept. 30, 2013		Three Months to Sept. 30, 2012		Nine Months to Sept. 30, 2013		Nine Months to Sept. 30, 2012	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Natural gas - Mcf	72%	$ 3.12	57%	$ 2.49	71%	$ 3.51	61%	$ 2.25
Natural gas liquids - Bbl	16%	73.98	8%	59.44	14%	70.40	7%	67.90
Crude oil - Bbl	12%	103.70	35%	79.63	15%	89.65	32%	80.15
Per Boe	100%	$ 37.69	100%	$ 41.39	100%	$ 38.49	100%	$ 38.70

(1) Before hedging loss of $0.24 per Boe for the three months ended September 30, 2013 and hedging loss of $0.09 per Boe for the nine months ended September 30, 2013. In 2012 the hedging gain was $2.57 per Boe for the three month period and $1.66 per Boe for the nine month period.

The Company's natural gas is produced in both British Columbia and Alberta and is sold at a price based on the Station 2 price in British Columbia and at the AECO index in Alberta. Approximately 72% of Storm's natural gas was sold at Station 2 in the third quarter of 2013 with the remaining 28% being sold at AECO. Storm's realized price for the third quarter was $3.12 per Mcf with the price higher than index prices as a result of sales gas at Umbach and Grande Prairie having a higher heat content, resulting in a higher price realized per Mcf . The Station 2 daily index price for the third quarter averaged $2.52 per GJ, the AECO daily index price was $2.31 per GJ and the AECO monthly index price was $2.67 per GJ. Approximately 29% of third quarter natural gas sales were at the AECO monthly index price with the remainder being sold at AECO and Station 2 daily index prices. Storm's crude oil sales price for the third quarter of 2013, prior to a hedging loss, was $1.47 per barrel lower than the Edmonton Par reference price for light sweet crude oil which averaged $105.17 per barrel for the third quarter.

For the third quarter, WTI averaged US$105.83 per barrel, resulting in an exchange rate adjusted differential between WTI and Edmonton Par of Cdn$4.73 per barrel compared to Cdn$6.83 per barrel in the third quarter of 2012. In the last quarter of 2012 a widening differential between Edmonton Par and WTI began to emerge, largely related to market access difficulties faced by Canadian crude oil producers. This effect was mitigated in 2013 by a favourable exchange rate movement and increased crude oil volumes being transported by rail cars.

The year-over-year increase in Storm's realized NGL sales price of $14.50 was due to a recovery in propane, butane and condensate prices combined with an increase in the proportion of higher priced condensate in Storm's total NGL mix. As Storm continues to increase natural gas production at Umbach, condensate production will continue to increase as a percentage of total NGL sales.

Revenue from Product Sales(1)

(000s)	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Natural gas	$ 4,729	$ 1,841	$ 13,212	$ 4,653
Natural gas liquids	4,082	1,088	8,642	2,869
Crude oil	4,366	6,139	12,344	14,379
Total	$ 13,177	$ 9,068	$ 34,198	$ 21,901

(1) Excludes hedging gains and losses.

For the third quarter, the increase in total revenue of 45% over the 2012 third quarter was a result of production growth of 60% offset by a decrease in Boe pricing of 9% consequent on growing natural gas production. The nine month year-over-year revenue increase of 56% is due to Boe volume growth of 58% and a decrease in per-Boe pricing of 0.5%.

Hedging

The Company has in place the following hedging arrangements:

Volume	Price (Cdn)	Inception	Expiry	Market Value at Sept. 30, 2013
Crude Oil				
150 Bbls/day	$ 97.05	October 1, 2013	December 31, 2013	$ (106,000)
100 Bbls/day	$ 98.20	October 1, 2013	December 31, 2013	(60,000)
100 Bbls/day	$ 99.27	October 1, 2013	December 31, 2013	(51,000)
100 Bbls/day	$100.24	October 1, 2013	December 31, 2013	(42,000)
150 Bbls/day	$100.45	January 1, 2014	March 31, 2014	(24,000)
100 Bbls/day	$101.40	January 1, 2014	March 31, 2014	(7,000)
100 Bbls/day	$102.00	January 1, 2014	March 31, 2014	(2,000)
100 Bbls/day	$103.25	January 1, 2014	March 31, 2014	9,000
100 Bbls/day	$103.85	April 1, 2014	June 30, 2014	37,000
100 Bbls/day*	$101.60	April 1, 2014	June 30, 2014	-
100 Bbls/day*	$102.20	April 1, 2014	June 30, 2014	-
Natural Gas				
3,000 GJ/day	$ 3.65	October 1, 2013	December 31, 2013	140,000
2,000 GJ/day	$ 3.04	October 1, 2013	December 31, 2013	(19,000)
5,000 GJ/day*	$ 3.26	November 1, 2013	December 31, 2013	-
1,000 GJ/day*	$ 3.35	November 1, 2013	December 31, 2013	-
3,000 GJ/day	$ 3.80	January 1, 2014	March 31, 2014	112,000
3,000 GJ/day	$ 3.43	April 1, 2014	December 31, 2014	40,000
2,000 GJ/day*	$ 3.36	January 1, 2014	December 31, 2014	-
2,000 GJ/day	$3.00 - $3.65	January 1, 2014	March 31, 2014	(9,000)
2,000 GJ/day*	$3.25 - $3.62	January 1, 2014	December 31, 2014	-
2,000 GJ/day	$3.00 - $3.87	April 1, 2014	December 31, 2014	(2,000)
Total				$ 16,000

* Added in October 2013, after the end of the third quarter.

During the first nine months of 2013, the Company realized a loss from hedging contracts completed in the amount of $76,000 (2012 – gain of $939,000).

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

Royalties

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge for period	$ 1,966	$ 798	$ 4,874	$ 2,317
Percentage of production revenue before hedging gains and losses	14.9%	8.8%	14.3%	10.6%
Per Boe	$ 5.62	$ 3.65	$ 5.49	$ 4.06

Royalties in the third quarter increased from 8.8% of production revenue in 2012 to 14.9% in 2013, primarily as a result of the expiry of the 5% new well royalty incentive on Storm's Alberta oil production and a prior period gas cost allowance adjustment received in the third quarter of 2012.

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

At Umbach, future production will benefit from British Columbia's Infrastructure Royalty Credit Program. During 2012, Storm received approval for $2.08 million gross of credits ($1.25 million net) for two pipeline projects. The credits were earned for new pipelines and will reduce 2014 royalty payments on new horizontal wells connected to the pipelines.

In the Horn River Basin, the Company benefits from British Columbia's deep well royalty credit program, applicable to horizontal wells with a vertical depth greater than 1,900 metres. Under this program, which is not subject to expiry, drilling credits earned are applied in reduction of future royalties levied on production from the well. The Company expects that future royalty payments will be reduced by an estimated amount of $172,000. 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. Limited drilling activity in Alberta has resulted in the expiry of this program's benefits to Storm.

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

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

Production Costs

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge for period	$ 3,621	$ 2,639	$ 10,141	$ 6,448
Percentage of production revenue before hedging gains and losses	27.5%	29.1%	29.7%	29.4%
Per Boe	$ 10.36	$ 12.05	$ 11.41	$ 11.39

Production costs per barrel of crude oil averaged $12.84 for the third quarter and production costs per Mcf of natural gas averaged $2.03, with total production costs averaging $10.36 per Boe. The equivalent charges for the third quarter of 2012 were $13.67 per barrel for crude oil and $2.14 per Mcf of natural gas, with total production costs averaging $12.05 per Boe. For the nine month periods to September 30, per-Boe production costs averaged $11.41 in 2013 and $11.39 in 2012. Production costs of natural gas liquids are included with natural gas costs.

The increase in total production costs for the first nine months of 2013 relative to the prior year was a consequence of the inclusion of the Bellamont properties since March 23, 2012 and production growth at Umbach. Operating costs per Boe associated with the acquired Bellamont properties were $14.86 per Boe.

Transportation Costs

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge for period	$ 460	$ 380	$ 1,192	$ 1,313
Percentage of production revenue before hedging gains and losses	3.5%	4.2%	3.5%	6.0%
Per Boe	$ 1.32	$ 1.74	$ 1.34	$ 2.32

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 in 2013 were lower than costs in 2012 primarily due to increased natural gas production from the Umbach area and the sale of certain oil properties in the first quarter of 2013. Transportation costs were $1.32 per Boe in the third quarter of 2013.

Field Netbacks

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

	Three Months to September 30, 2013			
	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 103.70	$ 73.98	$ 3.12	$ 37.69
Hedging gains (losses)	(12.47)	-	0.29	(0.24)
Royalties	(26.09)	(15.17)	(0.02)	(5.62)
Production costs	(12.84)	-	(2.03)	(10.36)
Transportation costs	(3.36)	(1.33)	(0.16)	(1.32)
Field netback per Boe	$ 48.94	$ 57.48	$ 1.20	$ 20.15
Total field operating income (000s)	$ 2,057	$ 3,170	$ 1,796	$ 7,046

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 costs	(2.87)	(0.17)	(0.21)	(1.74)
Field netback per Boe	$ 56.74	$ 48.27	$ 0.76	$ 26.52
Total field operating income (000s)	$ 4,374	$ 884	$ 555	$ 5,814

Nine Months to September 30, 2013	Crude Oil ($/Bbl)	Natural Gas Liquids ($/Bbl)	Natural Gas ($/Mcf)	Total ($/Boe)
Production revenue	$ 89.65	$ 70.40	$ 3.51	$ 38.49
Hedging gains (losses)	(4.42)	-	0.14	(0.09)
Royalties	(20.14)	(15.38)	(0.06)	(5.49)
Production costs	(13.78)	-	(2.19)	(11.41)
Transportation costs	(3.82)	(0.66)	(0.16)	(1.34)
Field netback per Boe	$ 47.49	$ 54.36	$ 1.24	$ 20.16
Total field operating income (000s)	$ 6,535	$ 6,674	$ 4,683	$ 17,915

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 costs	(4.40)	(2.40)	(0.20)	(2.32)
Field netback per Boe	$ 54.62	$ 52.70	$ 0.36	$ 22.56
Total field operating income (000s)	$ 9,796	$ 2,226	$ 739	$ 12,762

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

The total field operating income for the third quarter of 2013 was 21% higher than the same quarter of 2012. Total natural gas revenue rose by 157% in 2013 as a result of increased production at Umbach, while total oil revenues dropped by 29% as a result of the disposal of oil producing properties in the first quarter of 2013 and the final quarter of 2012. Measured per Boe, third quarter netbacks dropped by 24% as Boe pricing fell from $41.39 per Boe in 2012 to $37.69 per Boe. Although prices for all commodities increased, the effect of lower priced natural gas production increasing from 57% to 72% of total corporate volumes was to lower the overall per-Boe netback. In addition, the third quarter of 2012 benefited from hedging gains of $2.57 per Boe.

For the first nine months of 2013, netbacks on a per-Boe basis fell by 11% as higher royalty costs in 2013 were offset by hedging gains of $1.66 per Boe in 2012.

Cash costs per Boe, comprising production costs, transportation, interest and general and administrative costs, amounted to $14.27 for the third quarter of 2013 versus $18.58 for the equivalent quarter of 2012. The Company experienced year-over-year reductions per Boe in all cash cost components. A similar drop to $16.66 from $20.34 is evident when comparing the nine month period in 2013 to 2012.

Acquisition Costs

Acquisition costs relate to the Bellamont and SGR transactions which closed in the first quarter of 2012. Costs for the nine month period ended September 30, 2012 were $0.6 million. There were no acquisition costs in 2013.

General and Administrative Costs

Total Costs	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge for period – before recoveries	$ 1,058	$ 1,075	$ 3,606	$ 3,328
Overhead recoveries	(482)	(360)	(1,077)	(729)
Charge for period – net of recoveries	$ 576	$ 715	$ 2,529	$ 2,599
Per Boe	$ 1.65	$ 3.26	$ 2.85	$ 4.59

In the first nine months of 2013, compensation costs accounted for approximately 67% of the gross charge with office accommodation costs accounting for an additional 15% and external services and corporate costs accounting for 18%. Overhead recoveries from operations have increased from the first nine months of 2012 primarily as a result of increased capital expenditures. In 2013, the Company is showing reduced per-Boe general and administrative costs as a result of increased production at Umbach, a trend that is expected to continue as general and administrative costs in the short and medium term are largely fixed.

Share-Based Compensation

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge for period	$ 241	$ 190	$ 664	$ 558
Per Boe	$ 0.69	$ 0.87	$ 0.75	$ 0.99

Share-based compensation is a non-cash charge which reflects the estimated value of stock options issued to Storm's directors, officers and employees. In the first quarter of 2013, 1,499,000 stock options were issued and 255,000 options were forfeited. In the second quarter, no stock options were issued and 70,000 options were forfeited. In the third quarter, no options were granted or forfeited.

Depletion and Depreciation

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Depletion	$ 4,639	$ 3,612	$ 12,178	$ 8,648
Depreciation	408	247	1,045	704
Charge for period	$ 5,047	$ 3,859	$ 13,223	$ 9,352
Per Boe	$ 14.42	$ 17.62	$ 14.88	$ 16.52

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

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

The per-Boe charge for depletion and depreciation in 2013 fell in both the three and nine month periods when compared to 2012, due to the sale of higher cost properties in the first quarter of 2013 and increased production in 2013 from the lower cost Umbach area.

In addition, management reviewed the carrying amounts of exploration and evaluation and property and equipment assets for indicators of impairment at September 30, 2013 and determined that no impairment adjustment was required.

Exploration and Evaluation Costs Expensed

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge for period	$ 215	$ -	$ 215	$ -
Per Boe	$ (0.61)	$ -	$ (0.23)	$ -

Exploration and evaluation costs expensed is a non-cash charge representing the cost of undeveloped lands which have expired.

Accretion

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge for period	$ 54	$ 74	$ 167	$ 170

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

Interest

(000's)	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Charge (income) for period	$ 326	$ 334	$ 938	$ 1,152
Percentage of production revenue before hedging gains and losses	2.5%	3.7%	2.7%	5.3%
Per Boe	$ 0.94	$ 1.53	$ 1.06	$ 2.04

Interest charges in 2013, for both the three and nine months, dropped in comparison to 2012, as a result of reduced debt levels due to the property sales in the first quarter and the issue of equity in May 2013 which was used initially to reduce bank debt.

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

Gain on Disposal of Oil and Gas Properties

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

Gain (Loss) on Commodity Price Contracts

The unrealized gain (loss) on commodity price contracts results from 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 $0.2 million for the nine months ended September 30, 2013 and the realized loss for the nine months ended September 30, 2013 was $76,000. In 2012, the unrealized gain was $0.8 million and the realized gain was $0.9 million.

	Three Months to Sept. 30, 2013		Three Months to Sept. 30, 2012		Nine Months to Sept. 30, 2013		Nine Months to Sept. 30, 2012	
Realized gain (loss)								
Crude oil	$(525)	$(12.47)/Bbl	$ 549	$ 7.12/Bbl	$(609)	$ (4.42)/Bbl	$ 925	$ 5.16/Bbl
Natural gas	441	$ 0.29 /Mcf	14	$ 0.02/Mcf	533	$ 0.14/Mcf	14	$0.01 /Mcf
Total realized gain/(loss) - cash	$ (84)	$ (0.24)/Boe	$ 563	$ 2.57/Boe	$ (76)	$(0.09)/Boe	$ 939	$1.66/Boe

	Three Months to Sept. 30, 2013		Three Months to Sept. 30, 2012		Nine Months to Sept. 30, 2013		Nine Months to Sept. 30, 2012	
Unrealized gain (loss)								
Crude oil – change in fair value	$ (36)	$ (0.86)/Bbl	$(897)	$ 11.64/Bbl	$(260)	$ (1.90)/Bbl	$ 781	$ 4.35/Bbl
Natural gas – change in fair value	(278)	$(0.18)/Mcf	14	$ 0.02/Mcf	47	$ 0.01/Mcf	19	$ 0.01/Mcf
Total unrealized gain/(loss) – non-cash	$(314)	$(0.90)/Boe	$(883)	$(4.05)/Boe	$(213)	$(0.24)/Boe	$ 800	$1.41/Boe

Income Taxes

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

Tax Pool	As at September 30, 2013	Maximum Annual Deduction
Canadian oil and gas property expense	$ 41,000	10%
Canadian development expense	64,000	30%
Canadian exploration expense	25,000	100%
Undepreciated capital cost	34,000	20 - 100%
Operating losses	112,000	100%
Other	2,000	20 - 100%
Total	$ 278,000	

Net Loss

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Net loss	$ (1,429)	$ (3,586)	$ (1,029)	$ (4,254)
Per basic and diluted share	$ (0.02)	$ (0.07)	$ (0.01)	$ (0.08)

Comprehensive Loss

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

Listed Securities	Holding	Number of Shares	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Bridge Energy ASA[(1)]	Common Shares	-	$ -	$ 329	$ -	$ 489
Chinook Energy Inc.[(2)]	Common Shares	3,000,001	960	2340	-	855
Other comprehensive income for period			$ 960	$ 2,669	$ -	$ 1,344

(1) All of the Company's holding in Bridge was sold in 2012.
(2) Shares owned at September 30, 2013.

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

	Three Months to Sept. 30, 2013		Three Months to Sept. 30, 2012		Nine Months to Sept. 30, 2013		Nine Months to Sept. 30, 2012	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Funds from operations	$ 6,144	$0.08	$ 4,765	$0.08	$14,448	$0.20	$ 8,371	$0.15

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

Cash Flows from Operating Activities

	Three Months to Sept. 30, 2013		Three Months to Sept. 30, 2012		Nine Months to Sept. 30, 2013		Nine Months to Sept. 30, 2012	
		Per diluted share		Per diluted share		Per diluted share		Per diluted share
Non-GAAP funds from (applied to) operations	$6,144	$0.08	$4,765	$0.08	$14,448	$0.20	$8,371	$0.15
Net change in non-cash working capital items	289	0.01	(2,870)	(0.05)	2,883	0.04	(3,186)	(0.05)
Cash from (applied to) operating activities	$6,433	$0.09	$1,895	$0.03	$17,331	$0.24	$5,185	$0.10

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

Corporate Netbacks

($/Boe)	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Revenue from product sales	37.69	41.39	38.49	38.67
Hedging gains (losses)	(0.24)	2.57	(0.09)	1.66
Royalties	(5.62)	(3.65)	(5.49)	(4.06)
Production	(10.36)	(12.05)	(11.41)	(11.39)
Transportation	(1.32)	(1.74)	(1.34)	(2.32)
Acquisition costs	-	-	-	(1.13)
General and administrative	(1.65)	(3.26)	(2.85)	(4.59)
Interest	(0.94)	(1.53)	(1.06)	(2.08)
Funds from operations netback	17.56	21.73	16.25	14.76
Share-based compensation	(0.69)	(0.87)	(0.75)	(0.99)
Depletion, depreciation and accretion	(14.57)	(17.96)	(15.07)	(16.83)
Exploration and evaluation costs expensed	(0.61)	-	(0.23)	-
Gain (loss) on disposal of oil and gas properties	(0.06)	(9.16)	0.77	(3.54)
Unrealized gain (loss) on investments held for sale	(4.81)	12.18	(1.89)	2.38
Gain (loss) on sale of investments	-	(6.12)	-	(2.37)
Unrealized gain (loss) on commodity price contracts	(0.90)	(4.05)	(0.24)	1.41
Net loss per Boe	(4.08)	(4.25)	(1.16)	(5.18)

INVESTMENT AND FINANCING

Financial Resources and Liquidity

The Company began 2012 with a bank line of $18 million. In March 2012, following the Bellamont acquisition, the Company's facility was expanded to $70 million, which included the assumption of Bellamont bank debt in the amount of $38.4 million. As a consequence of the sale in September 2012 of the Mica producing property, the banking facility was reduced to $62 million and further reduced to $52 million in the first quarter of 2013 following the sale of certain Alberta producing properties.

The Company is in compliance with all covenants under the credit facility. The sole financial covenant is that net debt including working capital deficiency less the investment in Chinook Energy Inc., not exceed the facility credit limit, which was $52 million at the end of the third quarter and was recently increased to $65 million.

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

Investments

The Company owns listed shares as set out below, which are valued at the closing price on the TSX at September 30, 2013. Proceeds from the possible future sale of this investment may be used to finance Storm's capital programs.

	Holding	Number of Shares	Exchange	Closing Price Sept. 30, 2013	Value at Sept. 30, 2013
Chinook Energy Inc.	Common Shares	3,000,001	TSX	$ 0.88	$ 2,640

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

Capital Expenditures

During the nine months ended September 30, 2013 the Company spent $60.6 million, further developing the liquids-rich natural gas play at Umbach, offset by disposals in the Rycroft, Gold Creek and Saddle Hills areas for net proceeds of $19.5 million. Year-to-date, the Company drilled eight (7.6 net) horizontal wells at Umbach. In April, Storm acquired an interest in a field compression facility at Umbach, adding 19 Mmcf per day of capacity. Major capital outlays year-to-date include $14.5 million for land acquisition, $28.0 million on drilling and completions and $15.4 million on facilities, equipping and tie-ins, all in the Umbach area.

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Land and lease	$ 738	$ 816	$ 15,081	$ 1,554
Seismic	-	-	-	208
Drilling	8,702	4,798	15,078	6,136
Completions	7,682	2,764	12,930	4,745
Facilities	6,108	1,549	10,921	3,199
Recompletions and workovers	472	1,816	1,895	3,269
Property and facility acquisitions	-	-	4,497	-
Property dispositions	-	(2,340)	(19,495)	(562)
Transferred to assets held for sale	-	(13,296)	-	(13,296)
Other	15	(32)	157	251
Corporate acquisition - SGR	-	-	-	55,181
Corporate acquisition - Bellamont	-	-	-	96,401
Cash portion of capital expenditures	23,717	(3,925)	41,064	157,086
Non-cash portion				
Decommissioning liability	-	-	-	8,861
Total capital expenditures including non-cash portion	$ 23,717	$ (3,925)	$ 41,064	$ 165,947

Capital expenditures in the reporting periods were allocated as follows:

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Exploration and evaluation – net of sale proceeds	$ 716	$ 2	$ 14,568	$ (45)
Property and equipment – net of sale proceeds	23,001	(3,927)	26,496	5,549
	$ 23,717	$ (3,925)	$ 41,064	$ 5,504
Non-cash portion of corporate acquisitions	-	-	-	160,443
Total	$ 23,717	$ (3,925)	$ 41,064	$ 165,947

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, 2013 corresponds to the seasonality of the Company's operations and to the active field program at Umbach.

Decommissioning Liability

The Company's decommissioning liability represents the present value of estimated future costs to be incurred to abandon and reclaim wells and facilities, either drilled, constructed or purchased by Storm. Changes in the amount of the liability during the period ended September 30, 2013 comprise the present value of additional liabilities accruing to the Company as a result of field activity during the period, less the decommissioning obligations associated with the dispositions of oil and gas properties, plus the time related increase in the present value of the liability. The risk-free discount rate used to establish the present value is 2.5%. Future costs to abandon and reclaim the Company's properties are based on an internal evaluation, supported by external data from industry sources.

Shareholders' Equity

Details of share issuances from inception to September 30, 2013 are as follows:

	Nature of Transaction	Number of Shares	Price per Share	Gross Proceeds[1]
June 8, 2010	Issued upon incorporation	1	$ 1.00	$ -
August 17, 2010	Issued to ARC Resources Ltd.	884,173	$ 3.28	2,900
August 17, 2010	Issued under the Arrangement	16,631,240	$ 3.28	54,700
August 17, 2010	Issued under private placement	2,300,000	$ 3.28	7,544
September 22, 2010	Issued upon exercise of warrants	6,561,556	$ 3.28	21,522
January 12, 2012	Issued on acquisition of shares of SGR	11,761,190	$ 3.73	43,869
March 23, 2012	Issued under private placement	6,946,000	$ 3.40	23,615
March 23, 2012	Issued to former Bellamont shareholders	16,740,096	$ 2.37	39,674
May 1, 2013	Issued pursuant to short form prospectus	12,580,000	$ 1.88	23,650
May 1, 2013	Issued under private placement	3,000,000	$ 1.88	5,640
June 30, 2013	Shares cancelled	(21,386)	$ 2.37	(50)
Total		77,382,870	$ 2.88	$ 223,064

(1) Before share issue costs.

In April 2013 the Company entered into a bought deal financing for aggregate gross proceeds of $23,650,400. Pursuant to this financing, the Company issued 12,580,000 common shares at a price of $1.88 per share.

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

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

CONTRACTUAL OBLIGATIONS

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

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

All such contractual obligations reflect market conditions at the time of contract and do not involve related parties. At present the Company has no material obligations with a term longer than twelve months except for a lease of office premises for a period of five years commencing October 1, 2013 for a base rent, not including operating costs, totaling approximately $3.0 million over the term of the lease.

QUARTERLY RESULTS

Summarized information by quarter for the two years ended September 30, 2013 appears below:

	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Production revenue ($000s)(1)	13,093	11,960	9,069	11,139	9,631	9,819	3,390	2,493
Non-GAAP funds from (applied to) operations ($000s)(2)	6,144	5,077	3,227	5,016	4,765	3,669	(63)	709
Per share								
- basic ($)	0.08	0.07	0.05	0.08	0.08	0.07	0.00	0.03
- diluted ($)	0.08	0.07	0.05	0.08	0.08	0.07	0.00	0.03
Net income (loss) ($000s)	(1,429)	661	(261)	(2,320)	(3,586)	947	(1,615)	(1,758)
Per share								
- basic ($)	(0.02)	0.01	0.00	(0.04)	(0.07)	0.03	(0.04)	(0.07)
- diluted ($)	(0.02)	0.01	0.00	(0.04)	(0.07)	0.03	(0.04)	(0.07)
Net capital expenditures ($000s)	23,717	16,710	637	8,777	(3,925)	7,224	162,922	20,687
Average daily production - Boe	3,800	3,460	2,488	2,815	2,380	2,584	1,229	779
Net (debt)/working capital ($000s)(3)	(40,968)	(22,671)	(38,656)	(40,376)	(36,137)	(46,154)	(42,030)	(6,333)

(1) Includes hedging gains and losses.
(2) See Non-GAAP Measurements on page 19 of this MD&A.
(3) Net of investments.

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in this MD&A and in the unaudited condensed interim consolidated financial statements for the periods ended September 30, 2013 are based on accounting policies, estimates and judgments which reflect information available to management at the time of preparation. Certain amounts in the financial statements are derived from a fully completed transaction cycle, or are validated by events subsequent to the end of the reporting date, or are based on established and effective measurement and control systems. However, certain other amounts, as described below, are based on estimations using information involving a high degree of measurement uncertainty. Variations between amounts estimated and actual results could have a material effect on Storm's operating results and financial position.

Accounting for Acquisitions

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

Decommissioning Liability

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

Income Taxes

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

Share-Based Compensation

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

Exploration and Evaluation Assets

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

Property and Equipment and Depletion and Depreciation

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

RISK ASSESSMENT

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

FINANCIAL REPORTING UPDATE

Accounting Changes

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

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

- IFRS 11, "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting;

- IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities;

- IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

ADDITIONAL INFORMATION

Additional information relating to the Company can be viewed at www.sedar.com or on the Company's website at www.stormresourcesltd.com. Information can also be obtained by contacting the Company at Storm Resources Ltd., Suite 200, 640 – 5th Avenue S.W., Calgary, Alberta T2P 3G4.

Condensed Interim Financials

Interim Consolidated Statements of Financial Position

(Canadian $000s) (unaudited)	September 30, 2013	December 31, 2012
ASSETS		
Current		
Accounts receivable	$ 7,077	$ 8,816
Prepaids and deposits	741	815
Investments (Note 4)	2,640	4,320
Fair value of commodity price contracts (Note 13)	16	229
	10,474	14,180
Exploration and evaluation (Note 5)	86,716	72,947
Property and equipment (Note 6)	174,279	161,665
	$ 271,469	$ 248,792
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 23,552	$ 12,615
	23,552	12,615
Bank indebtedness (Notes 7 and 17)	27,874	41,712
Decommissioning liability (Note 8)	9,162	10,924
	60,588	65,251
Shareholders' equity		
Share capital (Notes 10 and 17)	220,889	193,184
Contributed surplus (Note 11)	2,752	2,088
Deficit	(12,760)	(11,731)
	210,881	183,541
	$ 271,469	$ 248,792

See accompanying notes to the condensed interim consolidated financial statements.

On behalf of the Board:

Director

James K. Wi

Director

Interim Consolidated Statements of Loss and Comprehensive Loss

(Canadian $000s except per-share amounts) (unaudited)	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Revenue				
Revenue from product sales	$ 13,177	$ 9,068	$ 34,198	$ 21,901
Realized gain (loss) on commodity price contracts (Note 13)	(84)	563	(76)	939
Royalties	(1,966)	(798)	(4,874)	(2,317)
	$ 11,127	$ 8,833	$ 29,248	$ 20,523
Expenses				
Production	3,621	2,639	10,141	6,448
Transportation	460	380	1,192	1,313
Acquisition costs (Note 3)	-	-	-	640
General and administrative	576	715	2,529	2,599
Share-based compensation (Note 11)	241	190	664	558
Depletion and depreciation	5,047	3,859	13,223	9,352
Exploration and evaluation costs expensed (Note 5)	215	-	215	-
Accretion	54	74	167	170
	10,214	7,857	28,131	21,080
Income (loss) before the following:	913	976	1,117	(557)
Interest expense	(326)	(334)	(938)	(1,152)
Loss on disposal of investments	-	(1,340)	-	(1,340)
Unrealized impairment loss on investments (Note 4)	(1,680)	-	(1,680)	-
Loss on assets held for sale	-	(2,073)	-	(2,073)
Gain (loss)on disposal of oil and gas properties (Notes 5 and 6)	(22)	68	685	68
Unrealized gain (loss) on commodity price contracts (Note 13)	(314)	(883)	(213)	800
Net loss for the period	(1,429)	(3,586)	(1,029)	(4,254)
Reversal of prior period unrealized loss on investments (Note 4)	960	2,669	-	1,344
Other comprehensive income	960	2,669	-	1,344
Comprehensive loss for the period	$ (469)	$ (917)	$ (1,029)	$ (2,910)
Net loss per share (Note 12)				
- basic	$ (0.02)	$ (0.07)	$ (0.01)	$ (0.08)
- diluted	$ (0.02)	$ (0.07)	$ (0.01)	$ (0.08)

See accompanying notes to the condensed interim consolidated financial statements.

Interim Consolidated Statements of Changes in Shareholders' Equity

(Canadian $000s) (unaudited)				Nine Months to September 30, 2013	
	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance, beginning of period	$193,184	$ 2,088	$ (11,731)	$ -	$183,541
Net loss for the period	-	-	(1,029)	-	(1,029)
Issue of common shares (Note 10)	29,240	-	-	-	29,240
Share issue costs (Note 10)	(1,535)	-	-	-	(1,535)
Share-based compensation (Note 11)	-	664	-	-	664
Balance, end of period	$220,889	$ 2,752	$ (12,760)	$ -	$210,881

(Canadian $000s) (unaudited)				Nine Months to September 30, 2012	
	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive 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 (Note 4)	-	-	-	1,340	1,340
Unrealized loss on investments available for sale (Note 4)	-	-	-	4	4
Balance, end of period	$193,184	$ 1,947	$ (9,411)	$ (2,364)	$183,356

See accompanying notes to the condensed interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

(Canadian $000s) (unaudited)	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Operating activities				
Net loss for the period	$ (1,429)	$ (3,586)	$ (1,029)	$ (4,254)
Non-cash items:				
Loss on disposal of investment (Note 4)	-	1,340	-	1,340
Loss on assets held for sale	-	2,073	-	2,073
(Gain)/loss on disposal of oil and gas properties	22	(68)	(685)	(68)
Depletion, depreciation and accretion	5,101	3,933	13,390	9,522
Exploration and evaluation costs expensed	215	-	215	-
Unrealized impairment loss on investments (Note 4)	1,680	-	1,680	-
Unrealized loss (gain) on commodity price contracts (Note 13)	314	883	213	(800)
Share-based compensation (Note 11)	241	190	664	558
	6,144	4,765	14,448	8,371
Net change in non-cash working capital items (Note 15)	289	(2,870)	2,883	(3,186)
	6,433	1,895	17,331	5,185
Financing activities				
Proceeds from issue of common shares - net of expenses (Note 10)	-	-	27,707	23,065
Increase (decrease) in bank indebtedness	6,656	(1,229)	(13,838)	(4,652)
	6,656	(1,229)	13,869	18,413
Investing activities				
Proceeds on sale of investments	-	2,468	-	2,468
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)	(22,978)	(10,807)	(44,596)	(20,284)
Additions to exploration and evaluation assets (Note 5)	(716)	(934)	(15,963)	(1,896)
Proceeds on disposal of property and equipment (Note 6)	(23)	1,700	18,100	1,700
Proceeds on disposal of exploration and evaluation assets (Note 5)	-	670	1,395	1,679
Net change in non-cash working capital items (Note 15)	10,628	6,237	9,864	2,907
	(13,089)	(666)	(31,200)	(31,021)
Change in cash during the period	-	-	-	(7,423)
Cash, beginning of period	-	-	-	7,423
Cash, end of period	$ -	$ -	$ -	$ -

See accompanying notes to the condensed interim consolidated financial statements.

Three and nine months ended September 30, 2013 and 2012

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

1. REPORTING ENTITY

Storm Resources Ltd. (the "Company" or "Storm"), is an oil and gas exploration and development company incorporated in the province of Alberta, Canada on June 8, 2010 and is listed on the TSX Venture Exchange under the symbol "SRX". The Company operates in the provinces of Alberta and British Columbia and its head office is located at Suite 200, 640 – 5th Avenue S.W., Calgary, Alberta T2P 3G4.

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

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

2. BASIS OF PRESENTATION

Statement of Compliance

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

These financial statements were authorized for issue by the Board of Directors on November 14, 2013.

Basis of Measurement

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

Use of Estimates and Judgments

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

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

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

- Note 3 – Allocation of fair values to corporate acquisitions
- Note 4 – Measurement of investments fair value
- Note 5 – Classification and measurement of exploration and evaluation assets
- Note 6 – Classification and measurement of property and equipment
- Note 8 – Decommissioning liability

- Note 9 – Measurement and utilization of tax assets
- Note 11 – Measurement of share-based compensation
- Note 13 – Carrying amounts of commodity price contracts

Significant accounting policies

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

3. CORPORATE ACQUISITIONS IN 2012

a) Storm Gas Resource Corp.

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

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

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

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

b) Bellamont Exploration Ltd.

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

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

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

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

4. INVESTMENTS

	September 30, 2013		December 31, 2012	
Chinook Energy Inc. ("Chinook")	$	2,640	$	4,320

The investment in Chinook was transferred to Storm under the Arrangement (Note 1).

Unrealized revaluation loss for the nine months ended September 30, 2013, in the amount of $1.7 million (2012 – nil) was recognized on the investment in Chinook and was transferred from other comprehensive loss to the statement of loss.

5. EXPLORATION AND EVALUATION

	September 30, 2013		December 31, 2012	
Balance, beginning of period	$	72,947	$	26,156
Corporate acquisitions		-		44,790
Additions		15,963		4,725
Disposals		(755)		(2,060)
Exploration and evaluation expenditures expensed		(215)		(664)
Future decommissioning costs		554		-
Transfer to property and equipment		(1,778)		-
Balance, end of period	$	86,716	$	72,947

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

6. PROPERTY AND EQUIPMENT

	September 30, 2013		December 31, 2012	
Net book value, beginning of period	$	161,665	$	49,507
Cost				
Balance, beginning of period	$	176,990	$	52,943
Corporate acquisitions		-		115,865
Additions		44,596		27,444
Disposals		(19,763)		(18,553)
Future decommissioning costs		(2,483)		(709)
Transfer from exploration and evaluation assets		1,778		-
Balance, end of period	$	201,118	$	176,990
Accumulated depletion and depreciation				
Balance, beginning of period	$	(15,325)	$	(3,436)
Depletion and depreciation		(13,223)		(13,574)
Disposals		1,709		1,685
Balance, end of period	$	(26,839)	$	(15,325)
Net book value, end of period	$	174,279	$	161,665

During the first nine months of 2013 the Company sold certain land and oil and gas properties producing approximately 300 Boe per day, primarily light crude oil, for net proceeds of $19.5 million.

7. BANK INDEBTEDNESS

As at September 30, 2013, the Company had an extendible revolving bank facility in the amount of $52 million (December 31, 2012 – $62 million) based on the Company's producing reserves. The revolving facility is available to the Company until April 30, 2014. If the revolving facility is not renewed at the end of the current revolving phase, the facility moves into a term phase whereby the loan is to be retired with one payment on the 366th day following the last day of the revolving phase, in an amount equal to the outstanding principal. Interest is paid on the revolving facility at guaranteed notes' acceptance rates, which are equivalent to bankers' acceptances, plus a stamping fee. Security comprises a floating charge demand debenture on the assets of the Company. The Company is in compliance with all covenants under the credit facility.

8. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning oil and gas production assets, including well sites, gathering systems and facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of future costs. The total estimated undiscounted amount required to settle the Company's decommissioning obligation is approximately $12.3 million, which is expected to be paid over the next 25 years. A risk-free discount rate of 2.5% (2012 – 2.6%) and an inflation rate of 1.2% (2012 – 1.9%) was used to calculate the present value of the decommissioning obligation, amounting to $9.2 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 September 30, 2013	Year Ended December 31, 2012
Balance, beginning of period	$ 10,924	$ 2,532
Obligations incurred	912	303
Obligations acquired	-	8,861
Obligations disposed	(2,474)	(1,225)
Obligations settled	(367)	-
Change in estimate[1]	-	211
Accretion expense	167	242
Balance, end of period	$ 9,162	$ 10,924

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

9. DEFERRED INCOME TAXES

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

The Company has tax pools associated with exploration and evaluation assets and property and equipment assets of approximately $166 million as well as non-capital losses of approximately $112 million. The non-capital losses begin to expire in 2026. A deferred tax asset has not been recognized due to uncertainty as to future realization.

10. SHARE CAPITAL

Authorized

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

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

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2011	26,377	$ 86,576
Shares issued on acquisition of SGR[(1)]	11,761	43,869
Shares issued under private placement[(2)]	6,946	23,615
Shares issued on acquisition of Bellamont[(3)]	16,740	39,674
Share issue costs[(2)]	-	(550)
Balance as at December 31, 2012	61,824	$ 193,184
Shares issued pursuant to private placement[(4)]	15,580	29,290
Shares cancelled	(21)	(50)
Share issue costs[(4)]	-	(1,535)
Balance as at September 30, 2013	77,383	$ 220,889

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

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

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

(4) On May 1, 2013 the Company issued, under private placement agreements, 15,580,000 common shares at a price of $1.88 per share for proceeds of $29.3 million before related transaction costs of approximately $1.5 million.

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 7,738,287 common shares are available for issuance. At September 30, 2013 options in respect of 3,896,500 common shares were issued, all of which are unexercised, and options remained in respect of 3,841,787 common shares which are available for further grants under the stock option plan.

Details of the options outstanding at September 30, 2013 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2012	2,723	$ 2.96
Granted during the period	1,499	$ 1.75
Forfeited during the period	(325)	$ 3.23
Outstanding at September 30, 2013	3,897	$ 2.47
Number exercisable at September 30, 2013	1,926	$ 3.13

	Outstanding Options			Exercisable Options	
Range of Exercise Price	Number of Options Outstanding (000s)	Weiighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Outstanding (000s)	Weighted Average Exercise Price
$1.75 - $2.75	2,174	3.1	$ 1.83	230	$ 2.00
$2.76 - $3.28	1,723	0.9	$ 3.27	1,696	$ 3.28
Total	3,897	2.1	$ 2.47	1,926	$ 3.13

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

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the nine months ended September 30, 2013 of $0.82 per share (2012 - $0.68) include the following:

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

Share-based compensation expense of $241,000 and $664,000 was charged to the statement of loss and comprehensive loss during the three and nine months to September 30, 2013 (2012 - $190,000 and $558,000) with an equivalent offset to contributed surplus.

12. NET LOSS PER SHARE

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

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Net loss for the period	$ (1,429)	$ (3,586)	$ (1,029)	$ (4,254)
Weighted average number of common shares outstanding – basic:				
Common shares outstanding at beginning of period	77,383	61,824	61,824	26,377
Effect of shares issued	-	-	8,668	27,757
Weighted average number of common shares outstanding – basic	77,383	61,824	70,492	54,134
Effect of outstanding options	-	-	-	-
Weighted average number of common shares outstanding - diluted	77,383	61,824	70,492	54,134
Net loss per share				
- basic	$ (0.02)	$ (0.07)	$ (0.01)	$ (0.08)
- diluted	$ (0.02)	$ (0.07)	$ (0.01)	$ (0.08)

13. FINANCIAL INSTRUMENTS

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

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

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

The fair value of the Company's investment in Chinook is determined with reference to published share prices and is therefore classified as a Level 1 financial instrument. The Company's investment in Chinook is carried at the September 30, 2013 fair value of $2.6 million. The fair value of the Company's commodity contracts described below is based on forward prices of commodities available in the market place and they are therefore classified as Level 2 financial instruments. The Company has no Level 3 financial instruments.

Risk Management

Commodity prices

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

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

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

As at September 30, 2013, Storm has the following commodity price contracts in place. The fair market value of these contracts of $16,000 (December 31, 2012 – $229,000) is included in current assets and the resulting unrealized mark-to-market loss of $213,000 (2012 – gain of $800,000) is recognized in the statement of income (loss) for the nine months ended September 30, 2013.

Volume	Price (Cdn)	Term
Crude Oil Swaps		
150 Bbls/day	$ 97.05	October 2013 – December 2013
100 Bbls/day	$ 98.20	October 2013 – December 2013
100 Bbls/day	$ 99.27	October 2013 – December 2013
100 Bbls/day	$100.24	October 2013 – December 2013
150 Bbls/day	$100.45	January 2014 – March 2014
100 Bbls/day	$101.40	January 2014 – March 2014
100 Bbls/day	$102.00	January 2014 – March 2014
100 Bbls/day	$103.25	January 2014 – March 2014
100 Bbls/day	$103.85	April 2014 – June 2014
Natural Gas Swaps		
3,000 GJ/day	$ 3.65	October 2013 – December 2013
2,000 GJ/day	$ 3.04	October 2013 – December 2013
3,000 GJ/day	$ 3.80	January 2014 – March 2014
3,000 GJ/day	$ 3.43	April 2014 – December 2014
Natural Gas Collars		
2,000 GJ/day	$3.00 - $3.65	January 2014 – March 2014
2,000 GJ.day	$3.00 - $3.87	April 2014 – December 2014

During the nine months ended September 30, 2013, the Company realized a loss from hedges in place in the amount of $76,000 (2012 – gain of $939,000).

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

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

Prices of listed securities

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

Interest rates

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

Foreign exchange rates

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

Sensitivities

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

		2013
Factor	Change in Net Income	Change in Net Income Per Share
US$ 1.00/Bbl change in the price of WTI	$210,000	-
$0.10/Mcf change in the price of natural gas	$370,000	$0.01
1% change in the interest rate	$320,000	-

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

Liquidity risk

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

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

14. RELATED PARTY TRANSACTIONS

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

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Salaries and short-term benefits	$ 269	$ 290	$ 867	$ 733
Share-based compensation	110	68	245	247
	$ 379	$ 358	$ 1,112	$ 980

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months to Sept. 30, 2013	Three Months to Sept. 30, 2012	Nine Months to Sept. 30, 2013	Nine Months to Sept. 30, 2012
Accounts receivable	$ (1,726)	$ (4,844)	$ 1,738	$ (378)
Prepaids and deposits	25	1,007	73	1,184
Accounts payable and accrued liabilities	12,618	7,204	10,936	(1,085)
Change in non-cash working capital	$ 10,917	$ 3,367	$ 12,747	$ (279)
Relating to:				
Operating activities	$ 289	$ (2,870)	$ 2,883	$ (3,186)
Investing activities	10,628	6,237	9,864	2,907
	$ 10,917	$ 3,367	$ 12,747	$ (279)
Interest paid during the period	$ 332	$ 333	$ 952	$ 1,001
Income taxes paid during the period	$ -	$ -	$ -	$ -

16. COMMITMENTS

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

($000s)	2013	2014	2015	2016	2017
	212	850	854	866	866

17. SUBSEQUENT EVENTS

The following took place subsequent to September 30, 2013:

Financing

- In October 2013 the Company entered into a bought deal financing for aggregate gross proceeds of $30,150,000. Pursuant to this financing, the Company will issue 9,000,000 common shares at a price of $3.35 per share.
- In addition, the Company will issue 1,100,000 common shares at a price of $3.35 per share to certain directors, officers and employees of the Company for gross proceeds of $3,685,000.
- Both of these financings are expected to close on November 19, 2013. In aggregate, gross proceeds received will total $33,835,000. Related commissions and expenses are estimated to be approximately $1.85 million.

Bank Indebtedness

The Company's bank increased the credit facility from $52 million to $65 million. The credit facility will be reviewed again at the annual renewal on April 30, 2014.

Hedging

The following commodity price hedges were added in October:

Volume	Price (Cdn)	Term
Natural Gas		
5,000 GJ/day	$ 3.26	November 2013 – December 2013
1,000 GJ/day	$ 3.35	November 2013 – December 2013
2,000 GJ/day	$ 3.36	January 2014 – December 2014
2,000 GJ/day (collar)	$3.25 - $3.62	January 2014 – December 2014
Crude Oil		
100 Bbls/day	$101.60	April 2014 – June 2014
100 Bbls/day	$102.20	April 2014 – June 2014

Corporate Information

Officers

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Chief Financial Officer

John Devlin
Vice President, Finance

Directors

Matthew J. Brister [(2)]

John A. Brussa [(3)]

Mark A. Butler [(1)(3)]

Stuart G. Clark [(1)]
Chairman

Brian Lavergne
CEO

Gregory G. Turnbull [(3)]

P. Grant Wierzba [(2)]

James K. Wilson [(1)]

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

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Stock Exchange Listing

TSX Venture Exchange
Trading Symbol “SRX”

Solicitors

McCarthy Tétrault LLP
Burnet Duckworth & Palmer LLP
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar & Transfer Agent

Alliance Trust Company
Calgary, Alberta

Bankers

ATB Financial
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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
LNG	Liquefied natural gas
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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