

Storm Exploration Inc.
Third Quarter Interim Report
For the Quarter Ended July 31, 2004

(UNAUDITED)
One Month
July 31, 2004

Third Quarter Highlights

Financial

Oil sales	80,723
NGL sales	126,002
Gas sales	623,756
Royalty Income	69,500
Production income	<u>899,981</u>
Cash flow from operations ⁽¹⁾	388,274
Per share - basic	0.01
Per share - diluted	0.01
Net income	192,449
Per share - basic	0.006
Per share - diluted	0.006
Weighted average common shares outstanding	
Basic	32,568,000
Diluted	34,814,000
Common shares outstanding	
Basic	34,672,000
Fully diluted	37,285,000

Operations

Oil equivalent (6:1)	
Barrels of oil equivalent	20,962
Barrels of oil equivalent per day	676
Oil Production	
Barrels	1,633
Barrels per day	53
Average selling price (\$CDN per barrel)	49.43
WTI average (\$US per barrel)	40.81
NGL Production	
Barrels	2,583
Barrels per day	83
Average selling price (\$CDN per barrel)	48.78
WTI average (\$US per barrel)	40.81
Gas production	
Thousand cubic feet	100,476
Thousand cubic feet per day	3,241
Average selling price (\$CDN per thousand cubic feet)	6.21
Wells drilled	
Gross	1.0
Net	0.5

- (1) In part the Company evaluates its performance based on earnings and cash flow from operations. Cash flow is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital items and site restoration costs paid during the period.
- (2) The term Boe, or barrel of oil equivalent, can be misleading, particularly if used in isolation. A Boe conversion is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent equivalency at the well head.

STORM EXPLORATION INC. (TSX - SEO) is pleased to present unaudited financial and operational results for the period ended July 31, 2004.

Storm Exploration Inc (the "Company" or "new Storm") is the Explorco component of the Plan of Arrangement (the "Plan") involving Harvest Energy Trust ("Harvest"), Storm Energy Ltd. ("predecessor Storm") and Alterna Group Technologies Inc ("Alterna"), which became effective June 30, 2004. As part of the Plan, certain assets of predecessor Storm, not suited to the royalty trust operations of Harvest, were transferred to Alterna, an existing private company which was seeking an entry into the oil and gas exploration and production business.

The transfer of assets to Alterna under the Plan took place on June 30, 2004. Alterna changed its name to Storm Exploration Inc, and its shares were listed for trading on the Toronto Stock Exchange on July 2, 2004. Management of predecessor Storm assumed responsibility for management of new Storm.

The prior business of the Company is neither material nor relevant to the continuing business of the Company. Correspondingly, although the reporting period for the Company is for the three months ended July 31, 2004, financial and operating information, and management's discussion and analysis, relate solely to the Company's exploration and production business for the one month period from commencement of operations on July 1, 2004. The Company's fiscal year end is at present October 31. It is the Company's intention to change its fiscal year end to December 31, with the result that subsequent interim reporting will conform to calendar year quarters.

Upon commencement of oil and gas operations on July 1, 2004, the Company's production was estimated at 900 Boe/day. However, in late June, a pipeline failure caused by corrosion resulted in a loss of 270 Boe/day of production from a natural gas well in the Brazeau area of west central Alberta. This resulted in production for July averaging 675 Boe/day. Production was restored on August 8 at pre interruption rates. During July one well was completed as a Granite Wash oil well; current production from this well, net to the Company's 50% working interest, amounts to 80 Bbls/day.

Subsequent to the July period end, the Company has:

- Begun construction of a gathering system, central dehydrator and sales pipeline in the Parkland area of north east British Columbia. Start up of production is anticipated for mid November. Cost is expected to be \$6.4 million net to the Company's interest. Net production is expected to approximate 2.7 Mmcf/day or 440 Boe/day.
- Drilled three wells with one cased gas well, one potential oil well and one dry hole. Production from the gas well is expected to begin in October. The Company's working interest in this well is 22.5%.
- Completed three (net 2.25) standing gas wells in the Parkland area with varying results. Future production from two wells (net 1.5) is estimated to be 300 Mcf/day and 800 Mcf/day respectively. The remaining well was not productive.

The Company expects to drill a total of 15 wells (net 10.9 wells) from the beginning of July until the end of the calendar year. This drilling program, plus costs of the Parkland facility and tie in, will approximate \$16 million and should result in exit production at the end of the calendar year in the range of 1,400 – 1,600 Boe/day. The capital program will be financed from existing cash resources, cash flow which is expected to approximate \$2.6 million and bank debt from a line which is anticipated to be in the range of \$10 – 12 million.

Regarding existing cash resources, an amount of \$2.1 million was transferred to the Company under the Plan and, concurrently, an amount of \$4.3 million was raised through the issue of shares under a private placement, providing for total cash upon commencement of oil and gas operations of \$6.4 million. Under the Plan, shareholders of predecessor Storm, who did not wish to become shareholders in new Storm, were entitled to receive cash in lieu aggregating \$3.9 million. This amount was paid on August 30. On July 28 a total of 2,250,000 flow through shares were issued at a price of \$3.50, for total proceeds of \$7.6 million after commission and issue costs. In summary, the Company has raised a net amount of approximately \$10.1 million through the Plan of Arrangement and related or subsequent equity transactions.

Earnings for the month of July amounted to \$192,000 or \$0.006 per share and cash flow amounted to \$388,000 or \$0.01 per share.

The Company has had an encouraging entry into the oil and gas business in spite of the production loss in July. At present, production is running at a rate of approximately 1,100 Boe/day, a level which will increase considerably if the Company's ambitious winter capital program meets with reasonable success.

We look forward to reporting our progress,

Respectfully,

Brian L Lavergne,
President

Calgary, Alberta,
Canada

Reader Advisory Regarding Future Oriented Information

Certain information set forth in this press release, including management's assessment of the Company's future plans and operations, contains forward looking statements. These forward looking statements are subject to numerous known and unknown risks and uncertainties, certain of which are beyond The Company's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, or if any of them do, what costs and benefits the Company can derive therefrom.

Management's Discussion and Analysis for the Period Ended July 31, 2004

Set out below is management's discussion and analysis of financial and operating results for the period ended July 31, 2004. It should be read in conjunction with the unaudited interim financial statements for the three months ended July 31, 2004:

Basis of Presentation:

Storm Exploration Inc. (the "Company" or "Storm"), formerly operating as Alterna Group Technologies Inc., ("Alterna") began business in 1998 as a developer of enterprise treasury management systems and software. In 2003, Alterna conducted a review of strategic alternatives and concluded that pursuit of an additional or alternative business venture was in the best interests of shareholders. To this end Alterna's principal software product was sold and steps were taken to align Alterna's remaining business with an entry into the oil and gas exploration and production industry. This was achieved through participation with, inter alia, Storm Energy Ltd. and Harvest Energy Trust, in a Plan of Arrangement (the "Plan") which resulted in Alterna acquiring certain oil and gas assets formerly owned by Storm Energy Ltd. Concurrently, Alterna changed its name to Storm Exploration Inc.. The acquisition by the Company of Storm Energy Ltd.'s assets became effective June 30, 2004. Although the Company became a reporting issuer on July 2, 2004, this report is for the third quarter ended July 31, 2004, corresponding to the Company's existing October 31, 2004 fiscal year end. Corporate activity for the two month period May 1 – June 30, 2004 largely involved positioning the Company for its entry into the oil and gas exploration and production industry and is neither material nor relevant to the Company's continuing business. Correspondingly, this management discussion and analysis is directed to the Company's oil and gas activities for the month beginning July 1, 2004.

Readers are cautioned as to the limitations of using financial and operating results from a one month time period to assess current operations and, in particular, of using this information to form a view of future results.

All financial amounts are in Canadian dollars unless otherwise stated.

OPERATIONS

Production and revenue:

Production for July totaled 20,962 barrels of oil ("Boe") equivalent or 676 Boe/day comprised of 53 barrels of oil per day, 83 barrels of natural gas liquids per day and 3,241 Mcf/day of natural gas. This volume is less than the expected average amount of 900 Boe/day due to a corrosion related pipeline failure causing the shut in of a well at Brazeau in west central Alberta which was producing approximately 270 Boe/day. Production from the well resumed on August 8, 2004. . Production income also included royalty income of \$69,500.

The Company's production profile by volume and average selling price per unit for July is as follows:

	Percentage of Total Production	Selling Price
Natural gas	80%	\$6.21
Natural gas liquids	12%	\$48.78
Crude oil	8%	\$49.43

This production profile is not representative of continuing operations. For example, at the end of August 2004, natural gas accounted for 66% of Boe production volumes and crude oil had increased to 22%

Royalties:

Royalties paid in July amounted to 27.4% of production revenue adjusted for royalty income. Of total royalties, Crown royalties amounted to 97%, with overriding royalties accounting for the remainder.

Production Costs and Netbacks:

Production costs for July amounted to 13% of production income or \$5.71 per Boe. This amount is lower than expected, in part due to the temporary closure of a high operating cost well at Brazeau. Management considers that operating costs in the region of \$8.00 per Boe would be a more realistic indicator of future costs.

Details of netbacks for July are as follows:

	Crude Oil	Natural Gas Liquids	Natural Gas	Total
Production income	\$49.43	48.78	6.21	\$39.62
Royalties	(19.94)	(14.78)	(1.56)	(10.87)
Production costs	(5.82)	-	(1.10)	(5.71)
Field netback	\$23.67	34.00	3.55	\$23.04

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

General and administrative costs:

General and administrative costs for July amounted to \$176,660 or \$8.43 per Boe. Included in July costs are a number of one time charges associated with the Plan and its implementation. For example listing fees for the Toronto Stock Exchange amounted to \$1.80 per Boe. Management considers that general and administrative costs of \$3.25 per Boe is a reasonable estimate for the remainder of the calendar year 2004.

Depletion, depreciation and accretion:

Depletion, depreciation and accretion associated with the Company's asset retirement obligation amounted to \$183,279 or \$8.74 per Boe. The charge per Boe is unlikely to change materially for the balance of the calendar year 2004.

Income and other taxes:

The provision for future income taxes on the Company's income for July in the amount of \$73,131 has been eliminated through utilization of prior years' tax losses. Capital taxes are at present not material.

Net Income and Net Income per Share:

Net income amounted to \$192,449 or 21% of total revenue and \$0.006 per share, basic and diluted. Dilutive elements comprise 2,100,000 common share warrants and 512,500 performance shares as more fully described in Note 3 to the attached financial statements.

Cash Flow from Operations and Cash Flow per Share:

Cash flow from operations amounted to \$388,000 for the month of July or \$0.01 per share basic and diluted.

INVESTMENT AND FINANCING**Cash:**

At the end of July the Company had a cash balance of \$13.6 million, arising from financing transactions as follows:

Transferred under Plan of Arrangement	\$2,070,000
Proceeds from private placement	4,320,000
Net proceeds from issue of flow through shares	<u>7,613,000</u>
Total	<u>\$14,003,000</u>

Receivables:

Receivables comprise production revenue receivable, receivables in respect of operating and capital costs for July and receivables in respect of cash calls issued to partners regarding capital projects. This latter amount totaled \$1.4 million at July 31. No receivables, payables or other elements of working capital were transferred to the Company under the Plan.

Property and Equipment:

Property and equipment represents the accounting value of the reserves transferred to the Company under the Plan plus capital expenditures in July, less depreciation and depletion for the month. The accounting amount for property and equipment transferred to the Company under the Plan represents Storm Energy Ltd's historical cost of reserve accumulation and approximates \$7.70 per proved and probable Boe.

Capital costs for July amounted to \$1.7 million

Investment:

The investment in Storm Ventures International Inc., ("SVI") represents a 27% interest. The carrying value of the Company's investment in SVI is largely supported by SVI's cash position. The Company has no funding or, other than the provision of certain administrative services, no management obligations with respect to SVI.

Future income taxes:

The future income tax asset is made up of the following;

- the tax value of the difference between the accounting values and tax basis of property and equipment transferred to the Company under the Plan; less
- the tax cost of tax pools to be allocated to shareholders under the terms of the flow through share issue, net of the tax value of share issue costs:

Under the terms of the flow through share issue the Company is obligated to allocate Canadian Exploration Expense to subscribers in the amount of \$7.8 million and to incur these costs prior to December 31, 2005. The Company does not believe that any increase or reallocation of capital programs will be required to satisfy this obligation.

No accounting recognition has been given to the value to the Company of prior tax losses estimated to amount to \$38 million. The value of these losses will be recognized when they are used to reduce taxable income.

Accounts payable and accruals:

Accounts payable represents operating and administrative costs payable, amounts payable in respect of capital projects and future obligations relating to cash calls receivable by the Company. Excluding cash, the Company has a working capital deficiency, arising from the Company operated capital programs. This deficiency will increase during periods of high field activity and will be liquidated during periods when field activity is lower. No payables or other debt was transferred to the Company under the Plan.

Asset Retirement Obligation:

The Company's asset retirement obligation represents the present value of future costs to be incurred to abandon and reclaim the Company's wells and facilities. The discount rate used is 8%.

Share Capital:

The Company had 34,672,755 shares outstanding at July 31, 2004. The book value of share capital is made up of the following:

- the Company's net equity in the assets transferred under the Plan of Arrangement
- proceeds from a private placement
- proceeds from the issue of flow through shares, adjusted for the tax cost of pools allocated to subscribers
- share issue costs, adjusted for related tax deductions

Dilutive elements comprise warrants to purchase 2,100,000 common shares at a price of \$2.00 to be exercised prior to July 1, 2006 and 512,500 performance warrants to acquire an equal number of common shares reflecting the current market price on three annual vesting dates beginning July 1, 2005.

Under the Plan shareholders in Storm Energy Ltd had the option of receiving one common share in the Company or cash in the amount of \$2.00 for each share of Storm Energy Ltd. The

obligation to shareholders who opted for cash approximated \$3.9 million and was paid in August 30, 2004.

Contractual Obligations:

The Company enters into contractual obligations in the normal course of operations, 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

All such contractual obligations were entered into in the ordinary course of business and reflect market conditions prevailing at that time.

Critical Accounting Estimates:

Estimation procedures are used for the following:

- capital expenditures in circumstances when projects are subject to completion
- production revenues if settlement is not complete
- depletion and depreciation is based on estimates of reserves and asset lives
- asset retirement obligations are subject to estimates of future reclamation costs
- future income taxes are based on estimates of tax rates prevailing at the time of payment

For further information please contact:

Brian Lavergne,
President

Donald G. McLean,
Chief Financial Officer

Storm Exploration Inc,
3300, 205 – 5th Avenue SW,
Calgary, Alberta,
T2P 2V7

Telephone: 403 – 264 - 3520
Fax: 403 – 264 - 3552

**Storm Exploration Inc.
Balance Sheet**

July 31, 2004

ASSETS

Current

Cash	\$ 13,586,879
Accounts receivable	3,153,305
Prepaid expenses	57,790
	<u>16,797,974</u>

Property and Equipment - Net (Note 3) 33,369,854

Investment (Note 3) 2,700,000

Future Income Taxes (Notes 3,4 and 5) 5,502,498

\$ 58,370,326

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Accounts payable and accrued liabilities	\$ 3,994,876
Payable to Storm Ventures International Inc (Note 2)	307,036
	<u>4,301,912</u>

Asset Retirement Obligation (Note 3) 651,000

Shareholders' Equity (Notes 3,4 and 6)

Share capital	53,212,419
Contributed surplus	12,546
Retained earnings	192,449
	<u>53,417,414</u>

\$ 58,370,326

**Storm Exploration Inc.
Statement of Income and Retained Earnings**

(UNAUDITED)
**Period To
July 31, 2004**

Revenue

Production income	\$ 899,981
Royalties	-227,908
	<u>672,073</u>

Expenses

Production	119,685
General and administrative	176,660
Depletion, depreciation and accretion	183,279
	<u>479,624</u>

Income before income and other taxes 192,449

Income and other taxes (Note 5) -

Net income for the period 192,449

Retained earnings, beginning of period -

Retained earnings, end of period \$ 192,449

**Storm Exploration Inc.
Statement of Cash Flows**

(UNAUDITED)

Period To

38,199

Operating activities

Net income for the period	\$ 192,449
Add non-cash items:	
Stock Based Compensation (Note 4)	12,546
Depreciation, depletion, and accretion	183,279
Cash flow from operations	<u>388,274</u>
Net change in non-cash working capital items	<u>-469,232</u>
	<u>-80,958</u>

Financing activities

Stock Issuance, net	11,929,775
	<u>11,929,775</u>

Investing activities

Property and equipment additions, net	-1,658,082
Net change in non-cash working capital items	1,326,144
	<u>-331,938</u>

Change in cash during the period 11,516,879

Cash, beginning of period 2,070,000

Cash, end of period \$ 13,586,879

STORM EXPLORATION INC.
NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED JULY 31, 2004

1. Basis of Presentation

Storm Exploration Inc., (the “Company”), formerly known as Alterna Technologies Group Inc., is a junior oil and gas exploration company listed on the Toronto Stock Exchange under the symbol SEO.

The Company became a reporting issuer on July 2, 2004. The circumstances that led to the Company becoming a reporting issuer are as follows:

- The Company, as Alterna Technologies Group Inc., was involved in the development of enterprise treasury management software. Late in 2003, the Board of Directors of the Company, as a result of a review of strategic options, concluded that the Company should seek alternative business opportunities, including, if appropriate, a suitable acquisition.
- Subsequently the Company agreed to participate in a Plan of Arrangement (the “Plan”) involving, inter alia, Storm Energy Ltd., a junior oil and gas company and Harvest Energy Trust, both of which were listed on the Toronto Stock Exchange. The Plan involved the sale of Storm Energy Ltd. to Harvest Energy Trust in exchange for various elements of consideration. Part of the Plan included the purchase by the Company of certain assets formerly belonging to Storm Energy Ltd. in exchange for the issue of common shares, which were distributed to former shareholders of Storm Energy Ltd. Former shareholders of Storm Energy Ltd., who did not wish to receive shares in the Company, could elect to receive cash.
- On June 24, 2004, the shareholders of the Company agreed to restructure its share capital and to change its name to Storm Exploration Inc. Additional funding was obtained through the issue of non-voting common shares and arrangements were made to distribute the Company’s equity to prior shareholders.
- On June 28, 2004, the Plan was approved by the shareholders of Storm Energy Ltd. Court approval for the Arrangement was also received.
- On June 30, 2004, the various steps constituting the Plan were completed and the Company acquired, in exchange for the issue of voting common shares, certain assets formerly owned by Storm Energy Ltd., largely comprising exploration, development and producing oil and gas properties.
- Concurrently the Company completed a private placement of 2,500,000 voting common for total proceeds of \$4,320,000 and made arrangements to issue an additional 499,995 voting common shares in settlement of obligations to former stock option holders in Storm Energy Ltd.
- Note 3 to these financial statements provides information about assets transferred and obligations assumed under the Plan.

The Company’s business activity during the two months prior to the implementation of the Plan on June 30, 2004 involved transactions associated with the prior sale of substantially all of the Company’s software development business and preparation for the acquisition of assets from Storm Energy Ltd. This activity was neither material nor relevant to the Company’s continuing oil and gas operations.

Comparative information is not provided due to loss of electronic data in December 2003. Accordingly, it is not possible to prepare intra period financial information.

2. Significant Accounting Policies

The Company has adopted the accounting policies set out below:

Property and Equipment

a. Petroleum and Natural Gas Properties and Equipment

The Company follows the full-cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in the Canadian cost centre. Such costs include lease acquisition, drilling, geological and geophysical costs and overhead expenses related to exploration and development activities. Costs of acquiring and evaluating unproved properties are excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the properties.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided using the unit-of-production method based on estimated proved petroleum and natural gas reserves, before royalties, as determined by independent engineers. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Processing facilities are depreciated on a straight-line basis over the estimated useful life of the facility.

The depletion and depreciation cost base includes total capitalized costs, less prior depletion and depreciation charges, less costs of unproved properties and salvage, plus provision for estimated future development costs of proved undeveloped reserves.

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount ("ceiling test"). This amount is the aggregate of expected future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future estimated production costs, general and administrative costs, financing costs and income taxes. Future net revenues are estimated using expected future prices and costs. If the carrying amount exceeds the recoverable amount, then impairment is recognized as the amount by which the carrying amount of the assets exceeds the present value of expected cash flows from proved and probable reserves. Any carrying amount in excess of the ceiling test is charged to current operations as additional depletion. No such charges have been incurred by the Company.

b. Office Furniture and Equipment

Office equipment is recorded at cost and is depreciated on the declining balance basis using rates varying from 7% to 100% per annum.

Joint Operations

Certain of the Company's exploration and production activities are conducted jointly with others through unincorporated joint ventures. The accounts of the Company reflect its proportionate interest in such activities.

Investment

The Company's investment comprises a 27% interest in Storm Ventures International Inc. and is accounted for using the equity method, under which the Company's initial investment is adjusted for its pro rata share of changes in the investee's equity.

Asset Retirement Obligation

The Company recognizes the fair value of its asset retirement obligation in the period in which this liability arises and when reasonable estimates of this fair value can be made. The fair value of this liability is calculated as the present value of the expected costs to be incurred in the future. This liability is recorded as a long term liability along with a corresponding addition to the carrying cost of the related asset. The liability is increased each reporting period through the accretion of interest up to the future amount of the liability. The accretion is recorded as an expense in the period. The addition to the carrying amount of the asset is amortized on the same basis as the corresponding asset. Any difference between the actual cost incurred for the asset retirement and the amount recorded as a liability is recorded as a gain or loss by the Company in the period of the abandonment activity.

Revenue Recognition

Revenues from the sale of crude oil, natural gas liquids, and natural gas are recorded when title passes to a third party.

Income Taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets and liabilities. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Flow-Through Shares

Flow-through shares are issued at a fixed price and the proceeds are used to fund qualifying exploration expenditures within a defined period. The expenditures funded by flow-through arrangements are renounced to investors in accordance with tax legislation. Share capital is reduced and future tax liability is increased by the total estimated future income tax cost of the renounced tax deductions in the year of issue.

Share Based Compensation

The Company has issued warrants to employees to acquire shares at a price based on the trading price at the date of exercise. The warrants are accounted for using the fair value method which estimates the value of the warrants using the Black-Scholes option pricing model. The fair value thus established is recognized as an expense and contributed surplus over the life of the warrants.

Per Share Amounts

Net income per share is calculated using the weighted average number of shares outstanding during the period. Diluted net income per share is calculated using the treasury stock method to determine the dilutive effect of performance shares and stock options. The treasury stock method assumes that the proceeds received from the exercise of “in the money” performance and share purchase warrants are used to repurchase common shares at the average market price during the period.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of capital assets, the provision for the asset retirement obligation and amounts used for ceiling test calculations are based on estimates of reserves and future costs. The Company’s reserve estimates are reviewed annually by independent engineers. These estimates of reserves and related future cash flows are subject to measurement uncertainty and the impact on the consolidated financial statements of changes in such estimates in future periods could be material.

3. Transfer of Assets and Commencement of Oil and Gas Operations

Under the Plan of Arrangement referred to in Note 1 above, the Company issued common shares to a subsidiary company of Harvest Energy Trust in exchange for certain assets, being undeveloped and developed oil and gas assets, administrative assets, an interest in Storm Ventures International Inc. and cash. As there is substantial continuity of ownership interest, assets were recorded on the accounts of the Company at the book values of Storm Energy Ltd. Details are as follows:

Cash	\$2,070,000
Net investment in Storm Ventures International Inc.	2,392,964
Petroleum and natural gas assets and equipment	31,838,051
Office furniture and equipment	50,000
Future income tax	8,546,094
Provision for site restoration and abandonment	(644,000)
Net assets transferred and share capital issued	\$44,253,109

The above amounts are management’s best estimates based on information available at the time of completion of these financial statements and may change as additional information becomes available.

4. Share Capital

Authorized:

- An unlimited number of non voting common shares
- An unlimited number of voting common shares
- An unlimited number of preferred shares

Issued:	Number of Shares	Consideration
Non voting common shares	1,500,000	-
Common shares issued under the Plan of Arrangement	28,422,755	44,253,109
Common shares issued under Private Placement (Note 1)	2,500,000	4,320,000
Flow through common shares	2,250,000	7,875,000
Tax effect of flow through share renunciation		(3,071,250)
Share issue costs, net of associated future tax deductions		164,440
Balance as at July 31, 2004	34,672,755	\$53,212,419

Except for voting rights, non voting and voting common shares are identical.

Flow Through Common Shares:

On July 29, 2004 the Company issued at total of 2,250,000 flow through common shares at a price of \$3.50 for total proceeds of \$7,875,000, before commission and expenses. Under the terms of the share issue, the Company is required to renounce to subscribers Canadian Exploration Expenditures in the amount of \$7,875,000 to be incurred by the Company prior to December 31, 2005.

Warrants:

As part of the private placement of common shares, the Company issued warrants to acquire 2,100,000 common shares at a price of \$2.00. The warrants must be exercised during the period from July 1, 2005 to June 30, 2006.

Stock Based Compensation Plans:

- (i) The Company has a Performance Warrant Plan under which 512,500 warrants have been issued to employees to acquire common shares. The number of common shares issuable upon exercise of the warrants is the number of warrants held, multiplied by that percentage of a common share represented by the closing price of the share on the day immediately preceding the exercise date, less \$2.00, divided by the closing price. The warrants are exercisable in three equal annual amounts commencing June 29, 2005.

Using the Black-Scholes pricing model, the fair value of each warrant was estimated to be \$0.63 using a risk free interest rate of 4.25%, volatility of 30% and an expected life of four years. The amortized cost of the warrant is included in general and administrative costs with an equivalent allocation to contributed surplus.

- (ii) 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 and employees. Under the stock option plan a total of 1,500,000 common shares have been reserved for issuance. To date no options have been issued.

5. Future Income Taxes

The Company uses the liability method of tax allocation to record future income taxes, whereby differences between the carrying amounts and the tax bases of assets and liabilities are used to calculate future tax liabilities or assets. At July 31, 2004 the future tax asset of the Company represented the difference between the carrying and tax values of property and equipment, less the tax value of Canadian Exploration Expense to be allocated to flow through share subscribers, adjusted for the tax value of share issue costs.. In addition the Company has tax losses approximating \$38 million which generally begin to expire in 2007. An expected future tax provision for the period in the amount of \$73,131 has been reduced by a like amount of tax losses. Otherwise no value has been ascribed to these losses on the Company's financial statements due to uncertainty of realization.

6. Subsequent Event

Under the Plan, former shareholders of Storm Energy Ltd. who would otherwise have received a total of 1,969,542 shares in the Company, chose to receive cash instead at \$2.00 per share. This amount, totaling \$3,939,084, was paid on August 30, 2004.