

Storm Exploration Inc.
Interim Report
For the Quarter Ended October 31, 2004
(Unaudited)

Highlights - in \$CDN except volumetric amounts	Three Months Ended October 31, 2004	Six Months Ended October 31, 2004
Financial		
Gas sales	2,943,146	3,566,902
NGL sales	1,403,786	1,529,788
Oil sales	383,579	464,301
Royalty Income	246,685	316,185
Production income	<u>4,977,196</u>	<u>5,877,176</u>
Cash flow from operations ⁽¹⁾	2,142,768	2,531,041
Per share - basic	0.062	0.073
Per share - diluted	0.060	0.071
Net income	1,188,227	1,380,676
Per share - basic	0.034	0.040
Per share - diluted	0.033	0.039
Weighted average common shares outstanding		
Basic	34,672,755	34,537,755
Diluted	35,883,105	35,748,105
Common shares outstanding		
Basic	36,672,757	34,672,757
Fully diluted	37,134,136	37,134,136
Operations		
Oil Equivalent (6:1) ⁽²⁾		
Barrels of oil equivalent	107,872	128,833
Barrels of oil equivalent per day	1,173	1,047
Average selling price - net of transportation	40.82	40.62
Royalties	32.52%	31.76%
Gas production		
Thousand cubic feet	463,613	564,088
Thousand cubic feet per day	5,039	4,586
Average selling price (\$CDN per thousand cubic feet)	6.35	6.32
NGL Production		
Barrels	24,339	26,921
Barrels per day	265	219
Average selling price (\$CDN per barrel)	57.68	56.83
Oil Production		
Barrels	6,264	7,897
Barrels per day	68	64
Average selling price (\$CDN per barrel)	61.24	58.79
WTI average (\$US per barrel)	47.97	46.18
Wells drilled		
Gross	6.0	7.0
Net	3.63	4.13

(1) Production income is before deduction of transportation costs.

(2) In part the Company evaluates its performance based on earnings and cash flow from operations. Cash flow from operations 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.

(3) The term BOE, or barrel of oil equivalent, can be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 Bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

December 9, 2004

FOR IMMEDIATE RELEASE

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

Storm Exploration Inc. (the "Company") is the Explorco component of the Plan of Arrangement (the "Plan") involving Harvest Energy Trust ("Harvest"), Storm Energy Ltd. ("predecessor Storm") and Alterna Technologies Group 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 the Company. The prior business of the Company is neither material nor relevant to the continuing business of the Company. Correspondingly, although this report is for the three and six months ended October 31, 2004, financial and operating information, and management's discussion and analysis, relate solely to the Company's oil and gas exploration and production business for the three and four month periods from commencement of operations on July 1, 2004.

During the quarter ended October 31, 2004 the Company:

- Completed construction of a gathering system, central dehydrator and sales pipeline in the Parkland area of north east British Columbia. Start up of production began on schedule in mid November. Cost is expected to be \$7 million net to the Company's interest, largely on budget. Net production is currently 1.9 Mmcf per day or 350 Boe per day, including natural gas liquids. Compression will be installed prior to December 31, 2004 which will result in net production from Parkland being 400-500 Boe per day by year-end.
- Drilled six wells adding production of 175 Boe per day.
- Completed four standing gas wells in the Parkland area. Two of the wells have been tied in and are expected to produce at rates of 300 Mcf per day and 800 Mcf per day respectively. The remaining wells, although productive, did not flow at rates sufficiently high to justify tie in.
- Acquired producing natural gas properties in northeastern British Columbia, including the remaining working interest in an existing Storm well, for a total of \$2.8 million. Production acquired approximates 170 Boe per day.

On December 3, 2004 the Company announced that it had entered into an agreement to acquire producing oil and gas properties in the Peace River Arch area of Alberta and British Columbia for a total cost of \$37.9 million. The acquisition provides an additional 1,200 Boe per day of production and 3,200 MBoe of proven plus probable reserves. Development opportunities on the acquired properties should result in near term production increases for the Company and the acquisition adds considerably to the Company's opportunity base.

The acquisition is scheduled to close on December 21, 2004 and will be financed by expansion of the Company's credit facilities to \$30 million, and from the proceeds of the issue of three million common shares and one million flow-through common shares for aggregate proceeds, before commission, of \$14.4 million.

By December 31, 2004, the Company expects to have drilled a total of 15 wells (net 10.9 wells) from the beginning of oil and gas operations in July until the end of the calendar year. This drilling program, plus costs of the Parkland facility and tie-in, will approximate \$20.5 million and should result in production at the end of the calendar year in the range of 1,500-1,600 Boe per day from the existing Storm properties. This capital program will be financed from existing cash resources, estimated cash flow of \$4.5 million for the six month period, and bank debt.

Earnings for the quarter ended October 31, 2004 amounted to \$1,188,000 or \$0.03 per diluted share and cash flow amounted to \$2,143,000 or \$0.06 per diluted share.

Storm has had an excellent start to oil and gas operations with production growing from 900 Boe per day in early July to the current rate of 1,500 Boe per day. Storm will continue to add value for its shareholders through a disciplined strategy of concurrent exploration, development and acquisition activities. We look forward to reporting our progress after completion of the acquisition described above and once information is available from our ambitious winter program.

Respectfully,

Brian P Lavergne
President

Calgary, Alberta, Canada

Conference Call:

A conference call will be held at 9:00 am Calgary time on Friday, December 10, 2004 to review the results for the quarter ended October 31, 2004. The call in number is 232-0994 for Calgary callers and 1-877-385-4099 for all other parties. The access code is 69516#.

Reader Advisory Regarding Future Oriented Information

Certain information set forth in this document, 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 effect 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 October 31, 2004

Set out below is management's discussion and analysis of financial and operating results for the Company's oil and gas operations for the quarter and four month period ended October 31, 2004. It should be read in conjunction with the unaudited interim financial statements for the same periods and is dated December 9, 2004.

Basis of Presentation

Storm Exploration Inc. (the "Company" or "Storm"), formerly operating as Alterna Technologies Group 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, with the Company becoming a reporting issuer shortly thereafter. This report is for the quarter ended October 31, 2004, corresponding to the Company's then existing October 31, 2004 fiscal year end.

The Company has changed its fiscal year-end to December 31, 2004. Future financial reporting will correspond to calendar quarter ends.

All financial amounts are in Canadian dollars unless otherwise stated.

OPERATIONS

Production and Revenue

Production for the quarter totaled 107,872 barrels of oil equivalent ("Boe"), equal to 1,173 Boe per day, comprised of 68 barrels of oil per day, 265 barrels of natural gas liquids per day and 5,039 Mcf of natural gas per day. Production for the four months ended October 31, 2004 averaged 1,047 Boe per day. Production income for the quarter also included royalty income of \$246,685.

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

	Percentage of Total Production	Selling Price Before Transportation Costs
Natural gas	71.6%	\$ 6.35/Mcf
Natural gas liquids	22.6%	\$ 57.68/Bbl
Crude oil	5.8%	\$ 61.24/Bbl

Royalties

Royalties paid for the quarter to October 31, 2004 amounted to 32.5% of production income before transportation costs and royalty income. Of total royalties paid, Crown royalties amounted to 24.8%, with overriding royalties accounting for the remainder. Royalties for the four month period ended October 31, 2004 amounted to 31.8% of production income before transportation costs and royalty income.

Production Costs, Transportation Costs and Netbacks

Production costs for the quarter to October 31, 2004 amounted to 15.4% of production income before royalty income or \$6.74 per Boe. Production costs for the period to October 31, 2004 amounted to \$6.57 per Boe.

Transportation costs for the quarter amounted to \$3.03 per Boe and \$2.73 per Boe for the period to October 31, 2004.

Details of field netbacks per sales unit are as follows:

	Three Months to October 31, 2004				Six Months to October 31, 2004 Total (\$Boe)
	Crude Oil (\$ Bbl)	Natural Gas Liquids (\$ Bbl)	Natural Gas (\$ Mcf)	Total (\$ Boe)	
Production income	\$ 61.24	\$ 57.68	\$ 6.35	\$ 43.85	\$ 43.35
Royalties	(20.71)	(23.43)	(1.81)	(14.26)	(13.71)
Production costs	(5.18)	-	(1.50)	(6.74)	(6.57)
Transportation	(1.60)	(1.26)	(0.62)	(3.03)	(2.73)
Field netback	\$ 33.75	\$ 32.99	\$ 2.42	\$ 19.82	\$ 20.34

Not included in the above netback calculation is royalty income of \$246,685. Production costs for natural gas liquids are included with natural gas costs.

General and Administrative Costs

General and administrative costs for the quarter ended October 31, 2004 amounted to \$314,671 or \$2.92 per Boe including a non cash charge for stock based compensation of \$40,852 or \$0.38 per Boe. Growing production and the largely fixed nature of general and administrative costs will result per Boe reductions in general and administrative costs in future periods.

General and administrative costs per Boe for the period to October 31, 2004 amounted to \$3.81, indicative of the high initial costs incurred as the Company entered the oil and gas industry. The non cash charge for stock based compensation for the period amounted to \$53,397 or \$0.41 per Boe.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion associated with the Company's asset retirement obligation amounted to \$913,689 or \$8.47 per Boe. For the four month period to October 31, 2004 the charge amounted to \$8.51 per Boe.

Income and Other Taxes

The provision for future income taxes on the Company's income for the quarter ended October 31, 2004 in the amount of \$475,000 has been eliminated through utilization of prior years' tax losses. The provision for future taxes for the period to October 31, 2004 of \$551,000 was similarly eliminated.

The Company is not presently liable for capital taxes.

Net Income and Net Income per Share

Net income for the quarter amounted to \$1,188,227 or 23.8% of total revenue and \$0.033 per diluted share. Net income for the four month period to October 31, 2004 amounted to \$1,380,676 or \$0.039 per diluted share. Dilutive elements comprise 2,100,000 common share purchase warrants, 512,500 performance warrants and 131,250 stock options as more fully described in Note 7 to the attached financial statements.

Cash Flow from Operations and Cash Flow per Share

Cash flow from operations amounted to \$2,142,768 for the quarter or \$0.060 per diluted share. The equivalent amounts for the four month period were \$2,531,041 or \$0.071 per diluted share.

INVESTMENT AND FINANCING

Cash

At the end of October the Company had a cash balance of \$4.4 million remaining from financing transactions relating to the Company's entry into the oil and gas industry.

Receivables

Receivables comprise production revenue receivable, receivables in respect of operating and capital costs and net receivables in respect of cash calls issued to partners regarding capital projects.

Working Capital Deficiency

Excluding cash, the Company had a working capital deficiency of \$6,816,339 at October 31, 2004, arising from Company operated capital programs. This deficiency increases during periods of high field activity and will be liquidated during periods when field activity is lower.

Property and Equipment

Property and equipment represents the accounting amount of the reserves transferred to the Company under the Plan, plus capital costs, less depreciation and depletion for the quarter and period ended October 31, 2004.

Capital outlays for the quarter amounted to \$12.9 million and to \$14.6 million for the four months to October 31, 2004 of which approximately \$5.9 million was spent on tie-in and facilities at Parkland in northeast British Columbia.

Investment

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

Future Income Taxes

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

- the tax amount of the difference between the accounting amounts and tax bases 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 amount 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 issue of one million flow-through common shares in December 2004 will result in an additional allocation to subscribers of \$4.35 million of Canadian Exploration Expense to be incurred prior to December 31, 2005. The Company does not believe that any increase or reallocation of capital programs will be required to satisfy the obligations under the flow-through agreements.

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

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.

Asset Retirement Obligation

The Company's asset retirement obligation represents the present value of estimated 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 34.7 million shares outstanding at October 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;
- 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;
- less a payment made to former shareholders of Storm Energy Ltd.

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, 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 and options to acquire 131,250 common shares issued at a price of \$2.60 which vest over four years beginning September 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. This obligation was assumed by the Company as part of the consideration for assets transferred to it under the Plan. This amount was paid on August 30, 2004.

Acquisition Commitment

The Company has entered into an agreement to acquire certain producing oil and gas properties for a total cost of \$37.9 million. The acquisition is scheduled to close on December 21, 2004. The purchase price will be satisfied by proceeds from the issue of common and flow-through common shares estimated to be \$13.7 million after commission and expenses. In addition, the Company has a bank commitment of \$30 million, of which \$24 million is represented by a borrowing base revolving loan with the balance represented by a bridge loan of \$6 million, repayable June 30, 2005.

Contractual Obligations

In the course of its business the Company 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.

All such contractual obligations reflect market conditions prevailing at the time of contract.

Critical Accounting Estimates

Estimation procedures are used for the following:

- capital expenditures in circumstances when projects are still to be completed
- 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

Outlook

The outlook for Storm over the next several months involves the integration of the properties to be acquired in late December and the execution of the winter drilling program. In addition, during the first quarter the Company expects to construct a gas processing facility at Cabin. Storm's capital budget for 2005 will amount to \$25.7 million of which \$6.8 million will be incurred in the first quarter.

For further information please contact:

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www.stormexploration.com

**Storm Exploration Inc.
Balance Sheet
(Unaudited)**

**As At
October 31, 2004**

ASSETS

Current

Cash	\$ 4,425,760
Accounts receivable	3,396,727
Prepaid expenses	129,638
	<u>7,952,125</u>

Property, Plant and Equipment - Net (Note 4) 45,356,745

Investment 2,700,000

Future Income Taxes (Note 5) 5,609,891

\$ 61,618,761

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Accounts payable and accrued liabilities \$ 10,342,704

Asset retirement obligation (Note 6) 653,613
10,996,317

Shareholders' equity (Note 7)

Share capital	49,188,371
Contributed surplus	53,397
Retained earnings	1,380,676
	<u>50,622,444</u>

\$ 61,618,761

Storm Exploration Inc.
Statement of Income and Retained Earnings
(Unaudited)

	Three Months Ended October 31, 2004	Six Months Ended October 31, 2004
Revenue		
Production income	\$ 4,977,196	\$ 5,877,176
Royalties	(1,538,163)	(1,766,071)
Interest income	32,015	32,015
	<u>3,471,048</u>	<u>4,143,120</u>
Expenses		
Production	727,368	847,053
Transportation	327,093	327,093
General and administrative	314,671	491,330
Depletion, depreciation and accretion	913,689	1,096,968
	<u>2,282,821</u>	<u>2,762,444</u>
Income before income and other taxes	1,188,227	1,380,676
Income and other taxes		
Future income tax	-	-
Capital taxes	-	-
	<u>-</u>	<u>-</u>
Net income for the period	1,188,227	1,380,676
Retained earnings, beginning of period	192,449	-
Retained earnings, end of period	<u>\$ 1,380,676</u>	<u>\$ 1,380,676</u>

Storm Energy Ltd.
Statement of Cash Flows
(Unaudited)

	Three Months Ended #REF!	Six Months Ended October 31/04
Operating activities		
Net income for the period	\$ 1,188,227	\$ 1,380,676
Add non-cash items:		
Depreciation, depletion, and accretion	913,689	1,096,968
Stock based compensation	40,852	53,397
Cash flow from operations	<u>2,142,768</u>	<u>2,531,041</u>
Net change in non-cash working capital items	<u>410,330</u>	<u>-205,086</u>
	<u>2,553,098</u>	<u>2,325,955</u>
Financing activities		
Issue of Common Shares - net of expenses	-192,358	11,810,550
Paid to former shareholders of Storm Energy Ltd. (Note 1)	-3,939,084	-3,939,084
	<u>-4,131,442</u>	<u>7,871,466</u>
Investing activities		
Property and equipment additions, net	-12,897,967	-14,556,049
Net change in non-cash working capital items	5,315,192	6,714,388
	<u>-7,582,775</u>	<u>-7,841,661</u>
Change in cash during the period	-9,161,119	2,355,760
Cash, beginning of period	<u>13,586,879</u>	<u>2,070,000</u>
Cash, end of period	<u>\$ 4,425,760</u>	<u>\$ 4,425,760</u>

STORM EXPLORATION INC.
NOTES TO FINANCIAL STATEMENTS
THREE MONTHS AND PERIOD ENDED OCTOBER 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 and development 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 30, 2004 after shareholder and court approval, 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. The Company changed its name to Storm Exploration Inc.
- Note 3 to these financial statements provides information about assets transferred and obligations assumed under the Plan.

The Company’s business activity during the period 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. Financial information for this period is not presented as it is neither material nor relevant to the Company’s continuing oil and gas operations. As a consequence, financial information for the six months ended October 31, 2004 reflects only the Company’s oil and gas operations for the four month period beginning July 1, 2004. It is not possible to provide comparative information due to the loss of electronic data in December 2003.

The Company has changed its fiscal year-end from October 31 to December 31, effective December 31, 2004. Quarterly reporting in 2004 corresponds to an October 31 year-end: all future quarterly reports will be based on a calendar year-end.

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 the cost of production equipment. 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 to accumulated costs would result in a change in the rate of depletion and depreciation 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, plus provision for estimated future development costs of proved undeveloped reserves.

The net carrying amount 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 undiscounted future cash flows from proved reserves and the lower of cost or market value of unproved properties. Future cash flows 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 plus the lower of cost or market value of unproved properties. Any carrying amount in excess of the ultimate recoverable amount 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 a rate of 20% 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 future costs. This liability is recorded as a long term liability along with a corresponding addition to the carrying value 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 value of the asset is amortized on the same basis as the corresponding asset. Actual costs incurred upon settlement of the abandonment obligation are charged against the liability.

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 and options to employees to acquire common shares. The warrants and options are accounted for using the fair value method which estimates the value of the warrants at the date of the grant 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 and options.

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 purchase 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 determined annually by independent engineers. These estimates of reserves and related future cash flows are subject to measurement uncertainty and the effect 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	<u>\$ 44,253,109</u>

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. PROPERTY, PLANT AND EQUIPMENT

	October 31, 2004
Petroleum and natural gas properties	\$ 46,403,713
Furniture and equipment	50,000
	<u>46,453,713</u>
Accumulated depletion and depreciation	1,096,968
	<u>\$ 45,356,745</u>

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 October 31, 2004 the future tax asset of the Company represented the difference between the carrying and tax amounts of property, plant and equipment, less the tax amount of Canadian Exploration Expense to be allocated to flow through share subscribers, adjusted for the tax value of share issue costs. The Company has tax losses approximating \$38 million which generally begin to expire in 2007. In addition, the Company has tax pools associated with property and equipment approximating \$60 million. An expected future tax provision for the three months to October 31, 2004 in the amount of \$475,000 (four months to October 31, 2004, \$551,000) has been reduced by application of tax losses. Otherwise no value has been ascribed to these losses on the Company's financial statements due to uncertainty of realization.

6. ASSET RETIREMENT OBLIGATION

The estimated future asset retirement obligation is 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 the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$1,363,000 which will be incurred over the next 20 years, with the majority of costs incurred between 2015 and 2024. A credit adjusted risk-free rate of eight percent was used to calculate the fair value of the asset retirement obligations.

7. 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 (<i>Note 1</i>)	2,500,000	4,320,000
Flow through common shares	2,250,000	7,875,000
Tax effect of flow through share renunciation		(3,071,252)
Share issue costs, net of associated future tax deductions		(249,402)
Balance as at July 31, 2004	34,672,755	53,127,455
Paid to shareholders of Storm Energy Ltd. (<i>Note 1</i>)		(3,939,084)
	34,672,755	\$ 49,188,371

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.

Payment to former Shareholders of Storm Energy Ltd.

Under the Plan, former shareholders of Storm Energy Ltd. who had a right to receive a total of 1,969,542 shares in the Company chose to receive cash instead at \$2.00 per share. This obligation was assumed by the Company in partial consideration for the assets transferred under the Plan and was paid on August 31, 2004 (Note 1).

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 \$1.15 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 1,450,000 common shares have been reserved for issuance. Options to purchase 131,250 common shares have been issued to directors of the Company.

Using the Black-Scholes pricing model, the fair value of each option was estimated to be \$0.98, using a risk free interest rate of 4.25%, volatility of 30% and a life of five years. The amortized cost of the option is included in general and administrative costs with an equivalent allocation to contributed surplus.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months to October 31, 2004	Six Months to October 31, 2004
Accounts receivable	\$ (243,422)	\$ (3,396,727)
Prepaid expenses	(71,848)	(129,638)
Accounts payables and accrued liabilities	6,040,792	10,035,667
Change in non-cash working capital	<u>\$ 5,725,522</u>	<u>\$ 6,509,302</u>
Relating to:		
Financing activities	\$ -	\$ -
Investing activities	5,315,192	6,714,388
Operating activities	410,330	(205,086)
	<u>\$ 5,725,522</u>	<u>\$ 6,509,302</u>

9. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the balance sheet consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximate their carrying amounts due to their short term to maturity.

10. SUBSEQUENT EVENT

On December 3, 2004 the Company entered into an agreement to acquire producing oil and gas properties in the Peace River Arch area of Alberta and British Columbia for a total cost of \$37.9 million. Closing is scheduled for December 21, 2004. The acquisition will be financed through bank borrowings and proceeds from the issue of four million common shares including one million flow-through common shares, at an average price of \$3.60, for total proceeds of \$14.4 million prior to commission and expenses.