

Q3

storm exploration inc.

third quarter interim report 06

THIRD QUARTER HIGHLIGHTS

Unaudited In \$Cdn except volumetric amounts	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Financial				
Gas sales	12,439,000	13,244,000	40,501,000 ⁽¹⁾	33,616,000
NGL sales	1,333,000	2,065,000	4,427,000	6,371,000
Oil sales	4,841,000	2,166,000	10,850,000	5,984,000
Royalty income	360,000	219,000	797,000	642,000
Production revenue	18,973,000	17,694,000	56,575,000	46,613,000
Funds from operations	10,053,000	10,317,000	30,549,000	25,106,000
Per share – basic	0.23	0.27	0.75	0.65
Per share – diluted	0.23	0.25	0.74	0.62
Net income	1,828,000	6,310,000	8,456,000	13,026,000
Per share – basic	0.04	0.16	0.21	0.34
Per share – diluted	0.04	0.15	0.20	0.32
Capital expenditures, net of dispositions	7,619,000	12,680,000	70,870,000	27,280,000
Debt, including working capital deficiency	55,377,000	30,625,000	55,377,000	30,625,000
Weighted average common shares outstanding				
Basic	42,914,000	38,795,000	40,935,000	38,708,000
Diluted	43,343,000	40,829,000	41,260,000	40,767,000
Common shares outstanding				
Basic	42,914,000	39,153,000	42,914,000	39,153,000
Fully diluted	44,916,000	41,919,000	44,916,000	41,919,000
Operations				
Oil equivalent (6:1)				
Barrels of oil equivalent	454,000	295,000	1,222,000	876,000
Barrels of oil equivalent per day	4,933	3,208	4,477	3,209
Average selling price (\$Cdn per Boe)	\$ 41.01	\$ 59.21	\$ 45.64 ⁽¹⁾	\$ 52.48
Royalties	20.1%	22.6%	21.8%	24.5%
Gas production				
Thousand cubic feet	2,232,000	1,417,000	6,068,000	4,137,000
Thousand cubic feet per day	24,262	15,398	22,229	15,155
Average selling price (\$Cdn per Mcf)	\$ 5.57	\$ 9.35	\$ 6.67 ⁽¹⁾	\$ 8.13
NGL production				
Barrels	20,000	30,000	66,000	97,000
Barrels per day	214	327	240	357
Average selling price (\$Cdn per barrel)	\$ 67.58	\$ 68.58	\$ 67.54	\$ 65.40
Oil production				
Barrels	62,000	29,000	145,000	89,000
Barrels per day	675	315	532	326
Average selling price (\$Cdn per barrel)	\$ 77.96	\$ 74.84	\$ 74.73	\$ 67.24
Wells drilled				
Gross	14.0	7.0	32.0	13.0
Net	9.6	4.6	19.4	7.6

⁽¹⁾ Includes proceeds from a fixed-price natural gas contract.

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HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2006

- Production averaged 4,933 Boe per day in the third quarter, a 54% increase from production of 3,208 Boe per day in the same period one year ago and a 10% increase from production of 4,478 Boe per day in the second quarter of 2006. Third quarter production per share is up 39% from the same period one year ago.
- Success with the drill bit has continued with 14 wells (9.6 net) drilled in the third quarter, resulting in 11 gas wells (8.2 net) and two oil wells (1.2 net) for a 93% success rate.
- Cash flow totalled \$10.1 million or \$0.23 per diluted share compared to \$0.25 per diluted share in the year-earlier period. A 40% decline in natural gas prices was almost entirely offset by significant growth in production per share over the same period.
- The third quarter field netback was \$24.24 per Boe, a decrease of 2% from the second quarter field netback of \$24.86 per Boe. An 8% decline in natural gas prices was partially offset by a 2% reduction in the overall royalty rate and a 2% reduction in operating costs, which declined to \$6.96 per Boe.
- Net income was \$1.8 million or \$0.04 per diluted share, down from net income of \$0.15 per diluted share in the third quarter of last year. In addition to much lower natural gas prices, year-over-year net income was impacted by the requirement to record a future income tax provision in 2006; there was no equivalent charge in 2005.
- Net third quarter capital expenditures totalled \$7.6 million, which resulted in bank debt and working capital deficiency declining to \$55.4 million at the end of the quarter when compared to the second quarter. Operations capital expenditures, which exclude acquisitions and dispositions, were \$17.0 million in the quarter. During the quarter, non-core production in the Brazeau area was sold for net proceeds totalling \$9.4 million (July 1 effective date).
- To ensure that the winter capital program is funded primarily with cash flow, Storm entered into hedges that provide an average floor price of \$8.35/GJ on 18,000 GJ per day during the period from November 2006 to March 2007. Details of the hedges are provided in Note 9 of the financial statements and in management's discussion and analysis.

- Storm expects to meet or exceed guidance, which consists of exiting 2006 with production of 5,900 Boe per day. Current production is 5,500 to 5,700 Boe per day, with another 700 Boe per day to be added by early December from facility expansions and tying in wells drilled during the third quarter.

CORE AREA REVIEW

Peace River Arch, North West Alberta and North East British Columbia

The Peace River Arch is the largest of Storm's core areas, with net production averaging 3,250 Boe per day in the third quarter. Various TCPL pipeline outages in September reduced quarterly production by 100 Boe per day. Current production has increased to approximately 4,000 Boe per day, with another 700 Boe per day to be added by early December from facility expansions and tying in wells drilled during the third quarter.

During the third quarter, Storm:

- Drilled 10 wells with 100% success, resulting in two gas wells (2.0 net) at Pouce/Bonanza, one gas well (0.5 net) at Teepee, and seven gas wells (5.2 net) at Parkland.
- Tied in one (1.0 net) Pouce/Bonanza well, which is currently producing 300 Boe per day net.
- Tied in three (2.2 net) of the Parkland wells, which are currently producing 325 Boe per day net.
- Recompleted four wells (3.2 net), which added 220 Boe per day net.
- Installed a wellsite compressor on an oil well (1.0 net), which increased production by 35 Boe per day.
- During the fourth quarter, Storm expects to recomplete four wells (3.2 net) and drill seven wells with three wells (2.2 net) at Parkland, two horizontal oil infills (1.5 net) at Saddle Hills, one well (0.5 net) at Teepee, and one well (0.3 net) at Pouce/Gordondale.

To date in the fourth quarter:

- Four wells have been drilled with 100% success.
- Two gas wells (1.4 net) have been drilled at Parkland. The first of these has been completed and tested 1,500 Mcf/d from the Halfway formation. The second well will be completed by the end of November.

- Two horizontal oil infills (1.5 net) have been drilled at Saddle Hills and both are expected to be equipped and producing by the end of November.
- Compression was installed at Teepee to increase production and reserve recovery from the four wells producing from the Montney A pool. This has resulted in a net production increase of 100 Boe per day (Storm has a 50% working interest).

At Parkland, production since early August has been 1,100 to 1,200 Boe per day as a result of drilling success. Upside within the Halfway formation appears to be more significant than originally estimated, with potential gas-in-place of 100 Bcf on Storm's land base. This estimate is based on 3-D seismic data combined with existing well control which now includes 11 wells producing from the Halfway formation and five wells awaiting completion and/or tie-in. Current drilling inventory at Parkland totals 16 locations (12 step-outs and four infills), and one of these locations will also test the deeper and higher impact Belloy and Kiskatinaw formations. Additional Halfway and Doig infill locations are likely to be identified once production rates have stabilized and expected reserve recovery from existing wells can be determined.

Preliminary plans for 2007 include drilling 29 wells (20.7 net). This includes 16 wells (12 net) at Parkland.

Cabin/Kotcho/Junior, North East British Columbia

Net production from this area averaged 1,200 Boe per day in the third quarter. Production during the quarter was reduced by 400 Boe per day due to a planned outage at the Fort Nelson Gas Plant which resulted in 9.5 Mmcf per day (net) being shut-in for 24 days in July and early August. Current production is approximately 1,250 Boe per day.

During the third quarter, Storm finalized plans for this winter's drilling program, which will include the drilling of five wells (2.7 net) targeting natural gas in the Slave Point formation. Four of these wells target extensions to three existing pools and the fifth well will target a new pool gas accumulation. Two of the three pools have potential gas-in-place of 80 to 100 Bcf with recoveries to date being relatively low at 25% to 40% of the potential gas-in-place. The first of these wells will be drilled in the fourth quarter of 2006.

Red Earth, Alberta

Third quarter net production from this area averaged 325 Boe per day. Current production is approximately 250 Boe per day.

In the third quarter, Storm drilled three wells (1.5 net) resulting in two oil wells (1.2 net). One of the wells was suspended after completion and the second well is currently producing at a rate of 15 barrels of oil per day (8 barrels of oil per day net) from the Slave Point formation.

During the fourth quarter of 2006, Storm plans to drill one well (0.6 net) targeting light oil in the Granite Wash formation.

Drilling results from this area over the last year have been encouraging in spite of being less consistent than expected. Financially, the area is very rewarding given that Storm's year-to-date field netback has been \$58 per barrel. In 2007, Storm plans to record a 38-square-kilometre 3-D seismic survey early in the year and seven wells will be drilled primarily targeting the Granite Wash formation. The potential for the area continues to be enticing given that successful Granite Wash wells will often produce in excess of 100 barrels of oil per day. In addition to this, wells will often encounter the uphole Slave Point formation, which is characterized by significant oil-in-place (5 to 6 million barrels of oil-in place per section) and sustainable production rates of 15 to 20 barrels of oil per day.

Other Areas

Current production is approximately 100 Boe per day. One gas well (0.5 net) was drilled at Brazeau in the third quarter which has been tied-in and is currently producing 35 Boe per day net to Storm.

STORM VENTURES INTERNATIONAL INC.

Storm owns 16% or 4.1 million common shares of Storm Ventures International ("SVI"), a Calgary-based, private energy company focused on international exploration and exploitation opportunities.

In the third quarter, SVI's 50% owned affiliate, Silverstone Energy Limited, spudded a second well in the North Sea which resulted in a new pool gas discovery (internally estimated to be 150 to 200 Bcf of gas-in-place). A development plan for this pool is expected to be in place early in 2007. This is the second successful well drilled by Silverstone in the Viking Fields area this year. A third well is

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expected to spud in late November and will target three separate fault blocks, with each block having the potential to contain 40 Bcf of gas-in-place. In 2007, one well is planned targeting an oil prospect in a 110,000-acre block in the Central North Sea Mariner-Gryphon area.

In Tunisia, SVI plans to drill an onshore well in 2007 that will test one of two large structures in the Remada Sud area that each have potential gas-in-place of 200 Bcf. Additionally, several prospects have been identified from a review of available 2-D seismic data over the offshore Gulf of Hammamet lands, and a large marine 3-D seismic program is planned for the summer of 2007 to better define these prospects.

SVI continues to evaluate additional development opportunities and exploration prospects in the North Sea, Tunisia, and other areas with low jurisdictional risk.

OUTLOOK

Production in the fourth quarter is expected to average 5,600 Boe per day after accounting for the loss of 200 Boe per day due to temporary outages at Clairmont, Pouce and Junior in October and November. We expect to meet or exceed guidance which consists of exiting 2006 with production of 5,900 Boe per day. Operating costs are expected to continue to decline towards \$6.50 per Boe by the end of 2006 as a result of volume growth, cost reduction initiatives, and the disposition of a higher cost property. Capital investment is expected to total \$83 million in 2006, with \$55 million directed towards operations capital expenditures and \$28 million for acquisitions (net of dispositions). The majority of operations capital expenditures will be directed towards the drilling of 41 wells (25 net), with nine wells (5.6 net) to be drilled in the fourth quarter of 2006. Storm's balance sheet remains strong given that total debt at the end of 2006 is expected to be \$54 million, or approximately equal to annualized fourth quarter cash flow. Our credit facility remains at \$66 million.

For 2007, preliminary guidance is summarized below:

- Production exiting 2007 is expected to exceed 7,000 Boe per day.
- Capital investment will total \$63 million, which will primarily be directed towards drilling 40 wells (29.5 net).
- Operating costs are expected to be \$6.50 to \$6.75 per Boe.
- Cash G&A costs will be \$1.15 per Boe.
- Royalty rate is estimated to be 22%.

We plan to fund the 2007 capital program with cash flow and a limited amount of debt. However, this level of capital investment may be revised if natural gas prices in 2007 end up being materially lower than the current forward strip of approximately \$7.00 to \$7.50 per GJ.

Our business plan continues to emphasize maximizing capital efficiency by using cash flow to fund exploration and exploitation activities while debt, along with limited amounts of equity, is used to fund strategic acquisitions. The capital required to fund our inventory of opportunities is larger than annualized cash flow, so we are continually high-grading our capital program so that only the best opportunities are funded. Adhering to this plan has resulted in impressive growth as evidenced by third-quarter production per share increasing by 39% from the year-earlier period. We remain excited about our future growth prospects given our continuing success with the drill bit, our strong financial position, and our two-year inventory of opportunities that includes over 70 drilling locations and 25 exploitation opportunities.

Further, Storm's ownership position in SVI has the potential to add significant value through its exposure to large-scale international opportunities. Two wells have been drilled to date this year in the UK sector of the North Sea with 100% success, which illustrates the quality of the opportunity base that SVI has spent the last three years building up. We expect SVI's operational momentum to continue to build throughout 2007 with additional drilling planned in Tunisia and the North Sea. SVI's prospect inventory will also continue to expand with additional seismic to be recorded in Tunisia and as a result of acquiring additional land and prospects in the North Sea and elsewhere.

Respectfully,



Brian Lavergne
President and Chief Executive Officer
November 13, 2006

Set out below is management's discussion and analysis of financial and operating results for Storm (or the "Company") for the quarter ended September 30, 2006. It should be read in conjunction with the unaudited interim financial statements for the three and nine months ended September 30, 2006 included in this quarterly report, and the audited financial statements for the year ended December 31, 2005. This management's discussion and analysis is dated November 6, 2006.

INTRODUCTION AND LIMITATIONS

Basis of Presentation

The financial information presented below has in part been derived from the Company's unaudited financial statements for the three and nine months ended September 30, 2006, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and in accordance with specific accounting policies as set out in footnote 2 to the Company's audited financial statements for the year ended December 31, 2005. The reporting and the measurement currency is the Canadian dollar.

Forward-Looking Statements

Certain information set forth in this document, including management's assessment of Storm's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some 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 industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. 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 update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Boe Presentation

For the purpose of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. Barrels of oil equivalent 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 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.

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Non-GAAP Measurements

Within management's discussion and analysis, references are made to terms having widespread use in the oil and gas industry in Canada. "Funds from operations" and "funds from operations per share" are not defined by GAAP in Canada and are correspondingly regarded as non-GAAP measures. Measurement of funds from operations is detailed on the Statements of Cash Flows. "Funds from operations per share" is calculated based on the weighted average number of common shares outstanding, consistent with the calculation of net income per share. Netbacks equal total revenue less royalties, transportation and operating costs, calculated on a Boe basis. Total Boe for the period is calculated by multiplying the daily production by the number of days in the reporting period.

PRODUCTION AND REVENUE

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Average Daily Production				
Natural gas (Mcf/d)	24,262	15,398	22,229	15,155
Natural gas liquids (Bbls/d)	214	327	240	357
Crude oil (Bbls/d)	675	315	532	326
Total (Boe/d)	4,933	3,208	4,477	3,209

For the three months ended September 30, 2006, the Company's production averaged 4,933 Boe per day, an increase of 54% over average production for the three months ended September 30, 2005 and an increase of 10% over the immediately prior quarter ended June 30, 2006. Average production for the nine months ended September 30, 2006 was 40% higher than production for the equivalent period in 2005. Period-over-period increases in production came from both the Company's successful drilling and exploitation programs and from a property acquisition completed in June 2006. Scheduled maintenance on third-party natural gas facilities resulted in the shut-in of production averaging 500 Boe per day in the quarter ended September 30, 2006; there was no equivalent reduction in 2005. In addition, production for the quarter was reduced by an average of 210 Boe per day as a result of the sale of the Company's Brazeau-Pembina properties.

Production per million shares outstanding in the third quarter of 2006 averaged 115 Boe per day, compared to 83 Boe per day for the third quarter of 2005, an increase of 39%. For the nine-month periods ended September 30, 2006 and 2005, production averaged 109 Boe per million shares and 83 Boe per million shares, respectively, a year-over-year increase of 31%.

Production as of the date of this report approximated 5,500 to 5,700 Boe per day. This represents greater than six-fold growth since oil and gas operations began in July 2004.

Production Profile and Per Unit Prices	Three Months Ended September 30, 2006		Three Months Ended September 30, 2005		Nine Months Ended September 30, 2006		Nine Months Ended September 30, 2005	
	Percentage of Total Boe Production	Average Selling Price Per Unit Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Per Unit Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Per Unit Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Per Unit Before Transportation Costs
Natural gas	82%	\$ 5.57	80%	\$ 9.35	83%	\$ 6.67	79%	\$ 8.13
Natural gas liquids	4%	\$ 67.58	10%	\$ 68.58	5%	\$ 67.54	11%	\$ 65.40
Crude oil	14%	\$ 77.96	10%	\$ 74.84	12%	\$ 74.73	10%	\$ 67.24
Per Boe		\$ 41.01		\$ 59.21		\$ 45.64		\$ 52.48

The Company's production base is largely natural gas and associated liquids. For the three months to September 30, 2006, the AECO C spot price for natural gas averaged Cdn \$5.73 per Mcf, compared to Cdn \$9.30 per Mcf for the three months ended September 30, 2005, a decline of 38%. The average spot price for the third quarter of 2006 was 8% lower than the spot price for the second quarter of the year, which averaged \$6.02. For the nine months ended September 30, 2006, AECO C averaged Cdn \$6.82, compared to Cdn \$7.85 for the nine months ended September 30, 2005. For crude oil, Edmonton par price averaged Cdn \$80.25 per barrel for the quarter ended September 30, 2006, compared to Cdn \$77.21 for the quarter to September 30, 2005, an increase of 4%.

The unit prices received by Storm in the table above do not include any gains from the fixed price natural gas contracts which were recognized during the quarter ended March 31, 2006.

Hedging

During the quarter ended September 30, 2006, the Company entered into hedging agreements as follows:

Product	Volume	Period	Contract	Price
Natural gas	13,000 GJ per day	November to December 2006	Costless Collar	Floor Cdn \$8.00/GJ Ceiling Cdn \$9.90/GJ
Natural gas	13,000 GJ per day	January to March 2007	Costless Collar	Floor Cdn \$9.00/GJ Ceiling Cdn \$11.45/GJ

Storm follows hedge accounting rules. However, a mark-to-market valuation of these contracts at September 30, 2006 would have resulted in a gain to the Company of Cdn \$4.2 million.

8 MANAGEMENT'S DISCUSSION AND ANALYSIS

Subsequent to September 30, 2006, Storm entered into the following additional hedging agreements:

Product	Volume	Period	Contract	Price
Natural gas	5,000 GJ per day	December 2006 to March 2007	Fixed price	Cdn \$7.58/GJ
Natural gas	7,000 GJ per day	April to June 2007	Fixed price	Cdn \$7.10/GJ

In addition, during the quarter ended March 31, 2006, the Company exited a fixed price natural gas sales contract, recognizing a gain of \$2.1 million, equivalent to \$0.34 per Mcf or \$1.69 per Boe for the nine-month period ended September 30, 2006.

Production by Area – Boe per Day	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Peace River Arch	3,257	1,805	2,917	1,840
Cabin/Kotcho/Junior	1,193	888	1,017	815
Red Earth	326	40	276	49
Other	157	475	267	505
Total	4,933	3,208	4,477	3,209

The above sets out the average production from each of the Company's principal areas of operations and illustrates the evolution of the Company's production base.

Production Revenue	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Natural gas	\$ 12,439,000	\$ 13,244,000	\$ 38,438,000	\$ 33,616,000
Natural gas liquids	1,333,000	2,065,000	4,427,000	6,371,000
Crude oil	4,841,000	2,166,000	10,850,000	5,984,000
Gain on fixed price sales contract	–	–	2,063,000	–
Revenue from product sales	\$ 18,613,000	\$ 17,475,000	\$ 55,778,000	\$ 45,971,000
Royalty income	360,000	219,000	797,000	642,000
Total production revenue	\$ 18,973,000	\$ 17,694,000	\$ 56,575,000	\$ 46,613,000

In the three months ended September 30, 2006, revenue from product sales before royalty income increased by 7% over the three months to September 30, 2005. Of this increase, volume increases represented 54%, offset by price decreases of 47%. For the nine months to September 30, 2006, revenue from product sales before royalty income increased by 21% over the equivalent period in 2005. Volume increases represented 40%, pricing a negative 23%, and hedging gains 4%. Royalty income for each of the periods above is derived from ownership of overriding royalties, largely in the Peace River Arch.

ROYALTIES

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Charge for period	\$ 3,740,000	\$ 3,969,000	\$ 11,744,000	\$ 11,319,000
Royalties as a percentage of revenue from product sales before fixed price sales contract gains				
Crown	18%	20%	19%	21%
Overriding	2%	3%	3%	3%
Total	20%	23%	22%	24%
Per Boe	\$ 8.24	\$ 13.45	\$ 9.61	\$ 12.92

The decrease of 6% in the total royalty charge and the 39% reduction in the charge per Boe for the three months ended September 30, 2006 when compared to the same quarter of 2005 is largely attributable to lower natural gas prices.

PRODUCTION COSTS

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Charge for period	\$ 3,162,000	\$ 2,030,000	\$ 8,784,000	\$ 6,181,000
Percentage of revenue from product sales before fixed price sales contract gains	17%	11%	16%	13%
Per Boe	\$ 6.96	\$ 6.88	\$ 7.19	\$ 7.06

Total production costs for each period in 2006 have increased due to growing product sales. The increase in production costs as a percentage of revenue in the three months ended September 30, 2006, when compared to other periods, is attributable to lower quarterly per unit revenues. The reasonably constant cost per Boe for the various reporting periods indicates that the Company has managed to keep operating costs at an acceptable level in the face of industry-wide cost escalation.

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Storm's cash costs, which comprise operating, general and administrative costs and interest, amounted to \$9.06 for the third quarter of 2006 compared to \$9.12 for the third quarter of 2005 and \$9.72 for the second quarter of 2006. For the nine-month periods ended September 30, cash costs amounted to \$9.47 in 2006 compared to \$9.24 in 2005.

TRANSPORTATION COSTS

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Charge for period	\$ 1,068,000	\$ 710,000	\$ 2,704,000	\$ 2,080,000
Percentage of revenue from product sales before fixed price sales contract gains Per Boe	6% \$ 2.35	4% \$ 2.41	5% \$ 2.21	4% \$ 2.36

Increased volumes have resulted in increases in total transportation costs. Increased transportation costs as a percentage of revenue in 2006 reflect declining per unit realizations from natural gas sales. However, lower per Boe transportation costs in 2006 reflect changes in the geographical profile of the Company's production base.

FIELD NETBACKS

Details of field netbacks per commodity unit are as follows:

	Three Months Ended September 30, 2006			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 77.96	\$ 67.58	\$ 5.57	\$ 41.01
Royalty income	0.55	0.74	0.14	0.79
Gain on fixed price sales contract	—	—	—	—
Royalties	(13.65)	(20.65)	(1.11)	(8.24)
Production costs	(6.31)	—	(1.24)	(6.96)
Transportation	(1.27)	(2.05)	(0.43)	(2.36)
Field netbacks	\$ 57.28	\$ 45.62	\$ 2.93	\$ 24.24

Three Months Ended September 30, 2005				
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 74.84	\$ 68.58	\$ 9.35	\$ 59.21
Royalty income	0.68	0.67	0.13	0.74
Royalties	(10.76)	(17.18)	(2.22)	(13.44)
Production costs	(6.38)	–	(1.30)	(6.88)
Transportation	(1.32)	(1.89)	(0.43)	(2.41)
Field netbacks	\$ 57.06	\$ 50.18	\$ 5.53	\$ 37.22

Nine Months Ended September 30, 2006				
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 74.74	\$ 67.54	\$ 6.34	\$ 43.95
Royalty income	0.87	0.77	0.10	0.65
Gain on fixed price sales contract	–	–	0.34	1.69
Royalties	(11.37)	(18.20)	(1.47)	(9.61)
Production costs	(6.45)	–	(1.29)	(7.19)
Transportation	(1.38)	(1.73)	(0.39)	(2.21)
Field netbacks	\$ 56.41	\$ 48.38	\$ 3.63	\$ 27.28

Nine Months Ended September 30, 2005				
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 67.24	\$ 65.40	\$ 8.13	\$ 52.48
Royalty income	1.00	0.35	0.13	0.73
Royalties	(7.51)	(22.76)	(2.04)	(12.92)
Production costs	(6.30)	–	(1.36)	(7.06)
Transportation	(1.46)	(1.47)	(0.44)	(2.37)
Field netbacks	\$ 52.97	\$ 41.52	\$ 4.42	\$ 30.86

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

12 MANAGEMENT'S DISCUSSION AND ANALYSIS

As a consequence of lower natural gas prices, average field netback per Boe fell by 35% in the three months ended September 30, 2006 when compared to the equivalent period in 2005, and by 2% when compared to the quarter ended June 30, 2006. For the nine-month period ended September 30, 2006, the average field netback decreased by 12% when compared to the same period in 2005. Included in the field netback measurement for the nine months ended September 30, 2006 is a gain from a fixed price natural gas sales contract totalling \$1.69 per Boe. Excluding this amount, average field netback for the nine months to September 30, 2006 amounted to \$25.59, a reduction of 17% when compared to the equivalent period in 2005.

INTEREST

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Charge for period	\$ 664,000	\$ 264,000	\$ 1,319,000	\$ 815,000
Per Boe	\$ 1.46	\$ 0.89	\$ 1.08	\$ 0.93

Interest is paid on the Company's revolving bank facility. Average bank debt for the third quarter of 2006 amounted to \$50 million; the third quarter of 2005, \$24.3 million; the nine months to September 30, 2006, \$35.2 million; and the nine months to September 30, 2005, \$24.8 million. Average bank debt for the second quarter of 2006 amounted to \$32.8 million. The increase in bank debt for the third quarter of 2006 is due to additional debt being incurred to fund an acquisition which closed late in the second quarter.

GENERAL AND ADMINISTRATIVE COSTS

Total costs	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Gross general and administrative costs	\$ 996,000	\$ 765,000	\$ 3,095,000	\$ 2,211,000
Capital and operating recoveries	(710,000)	(386,000)	(1,620,000)	(1,162,000)
Cash general and administrative costs	286,000	379,000	1,475,000	1,049,000
Stock-based compensation costs	324,000	115,000	608,000	283,000
Net general and administrative costs	\$ 610,000	\$ 494,000	\$ 2,083,000	\$ 1,332,000

Costs per Boe	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Gross general and administrative costs	\$ 2.19	\$ 2.59	\$ 2.53	\$ 2.52
Capital and operating recoveries	(1.56)	(1.31)	(1.33)	(1.33)
Cash general and administrative costs	0.63	1.28	1.20	1.19
Stock-based compensation costs	0.71	0.39	0.50	0.32
Net general and administrative costs per Boe	\$ 1.34	\$ 1.67	\$ 1.70	\$ 1.51

Gross general and administrative costs for the three months ended September 30, 2006 increased by 30% when compared to the three months ended September 30, 2005. Increases were primarily due to additions to staff and other costs associated with a growing asset base, increased compensation levels in response to market conditions and increased accommodation costs. These changes also affected the nine months to September 30, 2006. However, measured per Boe, both gross and net costs declined due to higher capital and operating recoveries and an increased production base, a trend that is expected to continue as production grows. Nevertheless, although Storm's general and administrative costs are low, the Company faces industry-wide pressures on many components of its cost structure. In addition, the issue of additional stock options in July 2006 has resulted in increased non-cash stock-based compensation costs.

The Company does not capitalize general and administrative or exploration overhead costs.

DEPLETION, DEPRECIATION AND ACCRETION

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Depreciation and depletion charge for period	\$ 6,826,000	\$ 3,843,000	\$ 17,041,000	\$ 11,657,000
Accretion charge for period	104,000	49,000	274,000	140,000
Total	\$ 6,930,000	\$ 3,892,000	\$ 17,315,000	\$ 11,797,000
Total per Boe	\$ 15.26	\$ 13.19	\$ 14.17	\$ 13.47

14 MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in the total charge for depreciation, depletion and accretion for the three months ended September 30, 2006 compared to the equivalent quarter in 2005 results from higher production volumes, as the depletion component of the charge is based on a cost per Boe. Measured per Boe, the charge for depletion, depreciation and accretion increased by 16% in the three months to September 2006 when compared to the equivalent quarter in 2005 and by 10% when compared to the quarter ended June 30, 2006. The increase is attributable to the completion of a major asset acquisition late in the second quarter of 2006. The largely uniform charge per Boe for the two nine-month periods presented indicates that the Company has been able to find or acquire reserves during each reporting period at a largely consistent cost, in spite of industry-wide increases in costs of equipment and services. Accretion represents the increase in the present value of the Company's asset retirement obligation, which is discounted using an interest rate of 8%.

INCOME AND OTHER TAXES

At September 30, 2006, the Company had resource pools and operating tax losses carried forward estimated to be \$175 million. In addition, the Company has a capital tax loss in the amount of \$10 million available for application against future capital gains. Upon commencement of oil and gas operations in 2004, the Company had an inventory of operating losses which was sufficient to eliminate future income taxes on the Company's income for the three and nine months ended September 30, 2005 in the amounts of \$2.4 million and \$5.0 million. However, by December 31, 2005, the Company's accumulated operating losses had been largely used up, and future income tax provisions have been recorded for the three and nine months ended September 30, 2006. As a consequence, deferral of cash taxes into future periods will be subject to the amount and quality of the Company's resource pools. Nevertheless, subject to commodity pricing, the Company does not expect to pay cash taxes in 2006 and 2007.

NET INCOME AND NET INCOME PER SHARE

Net income for the three months ended September 30, 2006 fell by 71% to \$1.8 million or \$0.04 per diluted share, when compared to the three months ended September 30, 2005. For the nine months to September 30, 2006, net income fell by 35% to \$8.5 million or \$0.20 per diluted share when compared to the equivalent period in 2005. This reduction is attributable to continuing lower natural gas prices in the third quarter of 2006 and the requirement to provide for future income taxes in both reporting periods in 2006.

FUNDS FROM OPERATIONS

Funds from operations fell by 3% to \$10.1 million for the three months ended September 30, 2006, or \$0.23 per diluted share, compared to \$10.3 million, or \$0.25 per diluted share, for the three months to September 30, 2005. For the nine-month period to September 30, 2006, funds from operations amounted to \$30.5 million, or \$0.74 per diluted share, compared to \$25.1 million, or \$0.62 per diluted share, for the equivalent period in 2005, an increase of 22%. Year-over-year growth in product volumes was offset by falling natural gas prices.

INVESTMENT AND FINANCING

Working Capital

Receivables comprise production revenue receivables and receivables in respect of operating and capital costs. Prepaid costs include unamortized insurance premiums, deposits and field inventory.

Accounts payable 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 Company had a working capital deficiency of \$8.0 million at September 30, 2006 compared to \$7.7 million at September 30, 2005 and \$4.0 million at June 30, 2006. The increase in the working capital deficiency at September 30, 2006, when compared to the prior year, is due to increased payables which reflect the growing scope of the Company's operations. Payables also increased at September 30, 2006 over the immediately prior quarter of 2006 as field activity increased from the low level of activity characteristic of the second quarter of the year.

Property and Equipment

Capital costs incurred were as follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Land and lease	\$ 437,000	\$ 2,142,000	\$ 3,079,000	\$ 3,118,000
Seismic	72,000	107,000	4,249,000	1,937,000
Drilling and completions	11,467,000	5,295,000	24,469,000	9,746,000
Facilities and equipment	5,048,000	3,693,000	12,898,000	13,999,000
Property acquisitions	–	1,443,000	39,276,000	1,442,000
Property dispositions	(9,405,000)	–	(13,101,000)	(2,962,000)
Total	\$ 7,619,000	\$ 12,680,000	\$ 70,870,000	\$ 27,280,000

Bank Debt, Liquidity and Capital Resources

The Company has a revolving borrowing base bank credit facility of \$66 million. The amount drawn on this facility at September 30, 2006 amounted to \$47.4 million. Debt, including working capital deficiency, amounted to \$55.4 million at September 30, 2006, resulting in a debt to annualized third quarter cash flow of 1.4 times.

The Company funds its field capital programs through cash flow and bank borrowings. Acquisitions are funded by a combination of debt and, if required, equity. In June 2006, the Company issued 1.9 million flow-through common shares for gross proceeds of \$15.6 million. Field capital programs tend to be concentrated in the winter months, with the result that capital expenditures in the first and fourth quarters of the year will exceed cash flow, which is compensated by lower capital expenditures in the second and third quarters. In quarters of high field activity, the Company operates with a substantial working capital deficit, which is paid down in quarters of lower field activity.

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Investment

At September 30, 2006, the Company's investment in Storm Ventures International Inc. ("SVI") represented a 16% ownership position. The carrying amount of the investment on the Company's balance sheet represents the transfer value of the investment in SVI to the Company under a Plan of Arrangement completed effective July 2004, a subsequent investment, plus the dilution gain accruing to Storm as a result of a private placement by SVI during 2005. This carrying amount should not be regarded as representative of the value of Storm's investment in SVI.

During the quarter ended September 30, 2006, SVI's 50% owned affiliate Silverstone Energy Limited spudded the Vulcan East well in the Viking Fields sector of the UK North Sea. The well was drilled to 8,125 feet and was suspended for re-entry and completion as a future gas producer. Formation evaluation has confirmed a 300-foot gas column. Initial estimates are that Vulcan East has 150 – 200 Bcf of gas-in-place. This follows a successful well drilled in the first quarter of 2006. One additional well will be drilled prior to the end of 2006, making Silverstone one of the most active explorers in the southern gas basin of the North Sea. Exploitation plans are being developed and production is expected to begin in the second half of 2008. Silverstone has identified two prospects in the Mariner-Gryphon area of the central North Sea, and one location will be selected for drilling in 2007. In Tunisia, two large structures have been identified on SVI's Remada Sud property, one of which will be tested in 2007.

Storm has no financing or other obligations to SVI, although certain administrative services are provided on a fee basis.

Future Income Taxes

The future income tax asset is made up of the excess of the tax basis over the related accounting amounts of property and equipment transferred to the Company under the Plan of Arrangement, less the tax value of share issue costs and the provision for future income taxes for the first nine months of 2006.

Details of the Company's tax pools are as follows:

(\$000s)	As at September 30, 2006	Maximum Annual Deduction
Canadian oil and gas property expense	\$ 90,091	10%
Canadian development expense	25,798	30%
Canadian exploration expense	7,023	100%
Undepreciated capital cost	45,751	20 – 100%
Total	\$ 168,663	
Operating losses	\$ 6,966	
Capital losses	\$ 9,666	

Under the terms of a flow-through share issue in June 2006, the Company is obligated to allocate Canadian Exploration Expense in the amount of \$15.6 million to subscribers and to incur these costs by December 31, 2007. The amount of Canadian Exploration Expense shown above is net of estimated expenditures eligible for renunciation of approximately \$6.0 million.

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. Changes in the amount of the obligation between September 30, 2006 and December 31, 2005 comprise the present value of additional obligations accruing to the Company as a result of field activity and net asset acquisitions during the nine-month period ended September 30, 2006, less costs paid in settlement of abandonment obligations, plus the quarter-by-quarter increase in the present value of the obligation. The discount rate used to establish the present value is 8%. Future costs to abandon and reclaim the Company's properties are based on an evaluation conducted by an external environmental consulting firm.

Share Capital

Details of outstanding share capital and dilutive elements:

	September 30, 2006	December 31, 2005
Common shares outstanding – end of period	42,914,000	39,184,000
Share purchase warrants	–	1,715,000
Performance warrants	116,000	240,000
Stock options	1,886,000	873,000
Fully diluted common shares – end of period	44,916,000	42,012,000

Outstanding performance warrants total 170,834 and are convertible into common shares using a formula based on the market price on the date of conversion. Stock options outstanding are exercisable over five years on various dates beginning September 2005 at prices ranging from \$2.60 to \$6.70. During the three months to September 30, 2006, the Company issued an additional 1,026,000 options to acquire a like amount of common shares. These options expire on July 12, 2011 and are exercisable at a price of \$5.67.

18 MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY INFORMATION

Set out below are summarized results for the eight quarterly reporting periods from December 31, 2004 to September 30, 2006:

	Sept. 30 2006	June 30 2006	March 31 2006	Dec. 31 2005	Sept. 30 2005	June 30 2005	March 31 2005	Dec. 31 2004
Production revenue (\$000s)	18,973	17,598	20,004	23,733	17,694	15,951	12,968	7,405
Funds from operations (\$000s)	10,053	9,186	11,310	12,866	10,317	8,701	6,718	3,453
Per share								
– basic	\$ 0.23	\$ 0.23	\$ 0.29	\$ 0.33	\$ 0.27	\$ 0.21	\$ 0.17	\$ 0.10
– diluted	\$ 0.23	\$ 0.23	\$ 0.28	\$ 0.32	\$ 0.25	\$ 0.20	\$ 0.17	\$ 0.09
Net income (\$000s)	1,828	1,767	4,861	13,507	6,310	3,643	3,073	5,586
Per share								
– basic	\$ 0.04	\$ 0.05	\$ 0.12	\$ 0.35	\$ 0.16	\$ 0.09	\$ 0.08	\$ 0.16
– diluted	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.33	\$ 0.15	\$ 0.09	\$ 0.08	\$ 0.16
Average daily production (Boe)	4,933	4,478	4,009	3,665	3,208	3,481	2,933	1,727
Average field netback per Boe	\$ 24.24	\$ 24.86	\$ 33.85	\$ 41.54	\$ 37.22	\$ 27.50	\$ 27.79	\$ 24.45
Capital expenditures – net (\$000s)	7,619	47,570	15,681	15,297	12,680	4,261	10,339	47,882

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 at the time of contract and none are with related parties.

Obligations with a fixed term are as follows:

(\$000s)	2006	2007	2008	2009	2010
Lease of premises	340	343	352	352	
Equipment leases	28	11	–	–	
Total	368	354	352	352	

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in the Company's management's discussion and analysis and in the unaudited financial statements for the three and six months ended September 30, 2006 are based on accounting policies, estimates and judgement which reflect information available to management at the time of preparation. Information with respect to the accounting policies selected by the Company and its use of estimates is set out in the Company's annual report for the year ended December 31, 2005.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses, while others are specific to the sector and others are specific to Storm. Information with respect to such risks is set out in the Company's annual report for the year ended December 31, 2005.

ADDITIONAL INFORMATION

Additional information relating to the Company can be viewed at or on the Company's website at www.stormexploration.com. Information can also be obtained by contacting the Company at Storm Exploration Inc., 3250, 205 – 5th Avenue S.W., Calgary, Alberta, T2P 2V7.

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BALANCE SHEETS

Unaudited

	September 30, 2006	December 31, 2005
Assets		
Current		
Accounts receivable	\$ 10,431,000	\$ 12,683,000
Prepaid expenses	2,593,000	1,012,000
	13,024,000	13,695,000
Property and equipment – net (Note 2)	171,273,000	116,051,000
Investments	8,275,000	8,275,000
Future income taxes (Note 3)	5,059,000	8,968,000
	\$ 197,631,000	\$ 146,989,000
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 21,020,000	\$ 21,420,000
	21,020,000	21,420,000
Bank indebtedness (Note 4)	47,381,000	25,523,000
Asset retirement obligation (Note 5)	5,468,000	3,801,000
	73,869,000	50,744,000
Shareholders' equity (Note 6)		
Share capital	81,300,000	62,762,000
Contributed surplus	977,000	454,000
Retained earnings	41,485,000	33,029,000
	123,762,000	96,245,000
	\$ 197,631,000	\$ 146,989,000

On behalf of the Board:



Director



Director

STATEMENTS OF INCOME AND RETAINED EARNINGS

Unaudited

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenue				
Production revenue	\$ 18,973,000	\$ 17,693,000	\$ 56,575,000	\$ 46,612,000
Royalties	(3,740,000)	(3,969,000)	(11,744,000)	(11,319,000)
	15,233,000	13,724,000	44,831,000	35,293,000
Expenses				
Production	3,162,000	2,030,000	8,784,000	6,181,000
Transportation	1,068,000	710,000	2,704,000	2,080,000
Interest	664,000	264,000	1,319,000	815,000
General and administrative	610,000	494,000	2,083,000	1,332,000
Depletion, depreciation and accretion	6,930,000	3,892,000	17,315,000	11,797,000
	12,434,000	7,390,000	32,205,000	22,205,000
Income before the following:	2,799,000	6,334,000	12,626,000	13,088,000
Income and other taxes (Note 3)				
Future income taxes	(971,000)	–	(4,170,000)	–
Capital taxes	–	(24,000)	–	(62,000)
	(971,000)	(24,000)	(4,170,000)	(62,000)
Net income for the period	1,828,000	6,310,000	8,456,000	13,026,000
Retained earnings, beginning of period	39,657,000	13,212,000	33,029,000	6,496,000
Retained earnings, end of period	\$ 41,485,000	\$ 19,522,000	\$ 41,485,000	\$ 19,522,000
Net income per share (Note 7)				
Basic	\$ 0.04	\$ 0.16	\$ 0.21	\$ 0.34
Diluted	\$ 0.04	\$ 0.15	\$ 0.20	\$ 0.32

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STATEMENTS OF CASH FLOWS

Unaudited

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Operating activities				
Net income for the period	\$ 1,828,000	\$ 6,310,000	\$ 8,456,000	\$ 13,026,000
Add non-cash items:				
Depletion, depreciation and accretion	6,930,000	3,892,000	17,315,000	11,797,000
Future income tax	971,000	–	4,170,000	–
Stock-based compensation	324,000	115,000	608,000	283,000
Funds from operations	10,053,000	10,317,000	30,549,000	25,106,000
Net change in non-cash working capital items (Note 8)	1,417,000	167,000	(1,492,000)	4,268,000
	11,470,000	10,484,000	29,057,000	29,374,000
Financing activities				
Issue of common shares – net of expenses	–	770,000	18,192,000	773,000
Increase (Decrease) in bank indebtedness	(6,445,000)	(3,238,000)	21,858,000	(753,000)
	(6,445,000)	(2,468,000)	40,050,000	20,000
Investing activities				
Additions to property and equipment	(17,024,000)	(12,680,000)	(83,971,000)	(30,242,000)
Disposals of property and equipment	9,405,000	–	13,101,000	2,962,000
Net change in non-cash working capital items (Note 8)	2,594,000	4,664,000	1,763,000	(2,114,000)
	(5,025,000)	(8,016,000)	(69,107,000)	(29,394,000)
Change in cash during the period	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	\$ –	\$ –	\$ –	\$ –

Three and Nine Months Ended September 30, 2006
Unaudited

1. SIGNIFICANT ACCOUNTING POLICIES

These interim unaudited financial statements of the Company have been prepared by management in accordance with accounting policies generally accepted in Canada, following the same accounting policies and methods of computation as those in the financial statements for the year ended December 31, 2005. The interim financial statement note disclosures do not include all of those disclosures applicable for annual financial statements. Accordingly, the interim financial statements should be read in conjunction with the financial statements and the notes thereto contained in the Company's annual report for the year ended December 31, 2005.

2. PROPERTY AND EQUIPMENT

	September 30, 2006	December 31, 2005
Petroleum and natural gas properties	\$ 206,739,000	\$ 134,567,000
Furniture and equipment	441,000	350,000
	207,180,000	134,917,000
Accumulated depletion and depreciation	(35,907,000)	(18,866,000)
	\$ 171,273,000	\$ 116,051,000

At September 30, 2006, the depletion calculation excluded unproved properties of \$14,161,000 (December 31, 2005 – \$12,207,000).

3. FUTURE INCOME TAXES

The future income tax asset is made up of the excess of the tax bases of property and equipment of the Company over the accounting amounts, plus the effect of tax deductions associated with share issue costs.

The Company has tax pools associated with property and equipment and operating tax losses (which generally expire in the period 2008 to 2011) of approximately \$175 million as well as capital losses of approximately \$10 million, which are not subject to expiry.

Under the terms of a flow-through share issue in September 2006, the Company is obligated to incur Canadian Exploration Expenditures in the amount of \$15,580,000 prior to December 31, 2007.

The federal large corporation tax has been eliminated, retroactively effective to January 1, 2006.

The provision for future income taxes is different from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to pre-tax income for the period.

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The differences are as follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Statutory combined federal and provincial income tax rate	35%	38%	35%	38%
Expected income taxes	\$ 981,000	\$ 2,415,000	\$ 4,426,000	\$ 4,984,000
Add (deduct) the income tax effect of:				
Non-deductible Crown charges	368,000	844,000	1,258,000	2,424,000
Resource allowance	(438,000)	(887,000)	(1,134,000)	(2,077,000)
Benefit of losses not previously recognized	–	(2,418,000)	(183,000)	(5,446,000)
Other	60,000	46,000	(197,000)	115,000
Future income tax	971,000	–	4,170,000	–
Large corporations tax	–	24,000	–	62,000
	\$ 971,000	\$ 24,000	\$ 4,170,000	\$ 62,000

4. BANK INDEBTEDNESS

The Company has an extendible revolving bank facility in the amount of \$66,000,000 (December 31, 2005 – \$37,000,000), based on the Company's producing reserves. The revolving facility is available to the Company until May 31, 2007, but may be extended at the Company's request until May 30, 2008, subject to the bank's review of the Company's reserve lending base. 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 payable on the revolving facility at bank prime rate or banker's acceptance rates plus a stamping fee. Security comprises a floating charge demand debenture on the assets of the Company. Interest paid on the revolving facility in the three and nine months to September 30, 2006 amounted to \$664,000 and \$1,319,000 (2005 – \$264,000 and \$815,000).

5. 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 Company's asset retirement obligations is approximately \$11 million (December 31, 2005 – \$7.3 million), which is to be incurred over the next 15 years, with the majority of costs to be incurred between 2015 and 2020. A credit adjusted risk-free rate of 8% was used to calculate the present value of the asset retirement obligations, amounting to \$5,468,000 (December 31, 2005 – \$3,801,000).

6. SHARE CAPITAL

Authorized

An unlimited number of non-voting common shares

An unlimited number of voting common shares

An unlimited number of preferred shares

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

Issued

	Number of Shares	Amount
Balance as at December 31, 2005	39,184,000	\$ 62,762,000
Flow-through common shares issued (i)	1,900,000	15,580,000
Common shares issued on exercise of warrants (ii)	1,715,000	3,430,000
Common shares issued under the performance warrant plan (iii)	112,000	83,000
Stock options exercised (iv)	3,000	14,000
Share issue costs (net of income tax benefit)	–	(569,000)
Balance as at September 30, 2006	42,914,000	\$ 81,300,000

Common Share Issues

- (i) On June 1, 2006, 1,900,000 flow-through common shares were issued at a price of \$8.20 per share for total proceeds of \$15,580,000, before commission and expenses. The terms of this share issue require the Company to renounce to subscribers Canadian Exploration Expenditures in the amount of \$15,580,000, to be incurred prior to December 31, 2007.
- (ii) During the first nine months of 2006, 1,715,000 warrants were exercised and 1,715,000 common shares were issued for proceeds of \$3,430,000 based on the exercise price of \$2.00 per share.
- (iii) On June 29, 2006, 170,833 warrants under the performance warrant plan were exercised. Based on a closing price of \$5.75, 112,000 common shares were issued. Proceeds were one cent per share and related prior stock compensation expense of \$83,000 was added to share capital.
- (iv) In June 2006, 3,000 stock options were exercised for proceeds of \$13,000 and related prior stock compensation expense of \$1,000 was added to share capital.

Warrants

As part of a June 29, 2004 private placement of common shares, the Company issued warrants to acquire 2,100,000 common shares at a price of \$2.00. As of September 30, 2006, all warrants have been exercised.

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

26 NOTES TO FINANCIAL STATEMENTS

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. On both June 29, 2005 and June 29, 2006, 170,833 warrants were exercised, resulting in 170,834 warrants outstanding as at September 30, 2006.

Using the Black-Scholes pricing model, the fair value of each warrant was estimated to be \$0.51 using a risk-free interest rate of 4.25%, volatility of 40% and an expected average life of two years. The cost of the warrant thus determined is amortized over its expected life, the expense being 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 2,337,500 common shares has been reserved for issuance. Options to purchase 1,886,000 common shares issued to directors and employees of the Company were outstanding at the end of the period as follows:

Outstanding at December 31, 2005	873,000
Granted during 2006	1,026,000
Exercised during 2006	(3,000)
Cancelled during 2006	(10,000)
Outstanding at September 30, 2006	1,886,000
Weighted average exercise price	\$5.08
Average remaining life at September 30, 2006	4.26 years
Number exercisable at September 30, 2006	193,000
Option prices	\$2.60 – \$6.70

Using the Black-Scholes pricing model, the weighted average fair value of the options granted in 2006 was estimated to be \$1.91 – \$2.03 (2005 – \$1.48), using risk-free interest rates of 4.25% – 6.00%, volatility of 40% and an expected average life of 30 months. The amortized cost of the options is included in general and administrative costs with an equivalent allocation to contributed surplus.

7. PER SHARE AMOUNTS

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Basic				
Net income per share	\$ 0.04	\$ 0.16	\$ 0.21	\$ 0.34
Weighted average number of shares outstanding (000s)	42,914	38,795	40,935	38,708
Diluted				
Net income per share	\$ 0.04	\$ 0.15	\$ 0.20	\$ 0.32
Weighted average number of shares outstanding (000s)	43,343	40,829	41,260	40,767

The reconciling items between the basic and diluted average common shares are the warrants, performance warrants and stock options described in Note 6.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Accounts receivable	\$ 432,000	\$ (1,590,000)	\$ 2,251,000	\$ (745,000)
Prepaid expenses	(495,000)	(424,000)	(1,581,000)	(463,000)
Accounts payable and accrued liabilities	\$ 4,074,000	6,845,000	(399,000)	3,362,000
Change in non-cash working capital	\$ 4,011,000	\$ 4,831,000	\$ 271,000	\$ 2,154,000
Relating to:				
Financing activities	\$ –	\$ –	\$ –	\$ –
Investing activities	2,594,000	4,664,000	1,763,000	(2,114,000)
Operating activities	1,417,000	167,000	(1,492,000)	4,268,000
	\$ 4,011,000	\$ 4,831,000	\$ 271,000	\$ 2,154,000
Income taxes paid during the period	\$ –	\$ –	\$ –	\$ –

9. FINANCIAL INSTRUMENTS

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

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price fluctuations. Such arrangements are made in accordance with the Company's risk management policy and the Company does not use these instruments for trading or speculative purposes. The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking hedge transactions. Realized gains and losses on these contracts are recognized as revenue in the same period in which the revenues associated with the hedged transactions are recognized. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the instruments that are used are highly effective in offsetting the changes in fair values or cash flows of hedged items. In the event that a derivative does not meet the designation or effectiveness criterion, the financial instrument is valued on a mark-to-market basis and the resulting gain or loss is recognized in income.

As at September 30, 2006, Storm has hedged, by way of costless collars, the following gas volumes:

Volume	Floor Ceiling (Cdn \$/Gj)	Term
13,000 Gj/d	\$ 8.00 – \$ 9.90 – AECO	November 1, 2006 – December 31, 2006
13,000 Gj/d	\$ 9.00 – \$ 11.45 – AECO	January 1, 2007 – March 31, 2007

These collars have been designated as meeting the criteria for hedge accounting and as at September 30, 2006, the market value of the contracts was approximately \$4.2 million.

28 CORPORATE INFORMATION

Senior Management

Brian Lavergne
President & CEO

Robert S. Tiberio
Chief Operating Officer

Donald G. McLean
Vice President, Finance & CFO

Harry Ediger
Vice President, Land

Eric Blakely
Vice President, Exploration

John Devlin
Controller

Directors

Matthew J. Brister
Chairman

John A. Brussa

Mark Butler

Stuart G. Clark

Brian Lavergne
CEO

Henry R. Lawrie

Gregory G. Turnbull
Corporate Secretary

P. Grant Wierzba

Executive Offices

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Website: www.stormexploration.com

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol "SEO"

Solicitors

McCarthy Tétrault LLP
Burnet Duckworth & Palmer LLP
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Reserve Engineers

Paddock Lindstrom & Associates Ltd.
Calgary, Alberta

Bankers

C.I.B.C., Oil & Gas Group
Calgary, Alberta

Registrar & Transfer Agent

Valiant Trust Company
Calgary, Alberta

Abbreviations

3-D	Three-dimensional	Mcf	Thousands of cubic feet
API	American Petroleum Institute	Mcf/d	Thousands of cubic feet per day
ARTC	Alberta Royalty Tax Credit	Mmbbls	Millions of barrels
Bbls	Barrels of oil or natural gas liquids	Mmbtu	Millions of British Thermal Units
Bbls/d	Barrels per day	Mmbtu/d	Millions of British Thermal Units per day
Bcf	Billions of cubic feet	Mmcf	Millions of cubic feet
Bcfe	Billions of cubic feet equivalent	Mmcf/d	Millions of cubic feet per day
Boe	Barrels of oil equivalent	Mmcf/d	Millions of cubic feet equivalent per day
Boe/d	Barrels of oil equivalent per day	Mstb	Thousand stock tank barrels
Bopd	Barrels of oil per day	NGL	Natural gas liquids
\$Cdn	Canadian dollar	OPEC	Organization of Petroleum Exporting Countries
GJ	Gigajoules	TSX	Toronto Stock Exchange
GJ/d	Gigajoules per day	SUS	United States dollar
Mbbls	Thousands of barrels	WTI	West Texas Intermediate
Mboe	Thousands of barrels of oil equivalent		