

second quarter highlights

Thousands of \$Cdn except volumetric and per share amounts (unaudited)	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
FINANCIAL				
Gas sales	20,381 ⁽¹⁾	12,291	43,821 ⁽¹⁾	28,062 ⁽¹⁾
NGL sales	1,236	1,577	2,341	3,094
Oil sales	3,365	3,536	6,592	6,009
Royalty income	174	194	411	437
Production revenue	25,156	17,598	53,165	37,602
Funds from operations	12,921	9,186	29,338	20,496
Per share – basic	0.30	0.23	0.68	0.51
Per share – diluted	0.29	0.23	0.67	0.51
Net income	2,832	1,767	7,898	6,628
Per share – basic	0.06	0.05	0.18	0.17
Per share – diluted	0.06	0.04	0.18	0.16
Capital expenditures, net of dispositions	32,768	47,570	56,843	63,251
Debt, including working capital deficiency	84,806	57,795	84,806	57,795
Weighted average common shares outstanding				
Basic	42,915	40,582	42,915	39,930
Diluted	43,708	40,871	43,702	40,219
Common shares outstanding				
Basic	43,047	42,914	43,047	42,914
Fully diluted	44,998	43,883	44,998	43,883
OPERATIONS				
Oil equivalent (6:1)				
Barrels of oil equivalent (000s)	520	408	1,040	768
Barrels of oil equivalent per day	5,713	4,478	5,744	4,245
Average selling price (\$Cdn per Boe)	\$ 48.05 ⁽¹⁾	\$ 42.71	\$ 50.74 ⁽¹⁾	\$ 48.37 ⁽¹⁾
Gas production				
Thousand cubic feet (000s)	2,720	2,039	5,424	3,836
Thousand cubic feet per day	29,891	22,402	29,969	21,195
Average selling price (\$Cdn per Mcf)	\$ 7.49 ⁽¹⁾	\$ 6.03	\$ 8.08 ⁽¹⁾	\$ 7.31 ⁽¹⁾
NGL production				
Barrels (000s)	20	22	39	46
Barrels per day	217	244	216	253
Average selling price (\$Cdn per barrel)	\$ 62.66	\$ 71.00	\$ 59.82	\$ 67.52
Oil production				
Barrels (000s)	47	46	97	83
Barrels per day	514	500	533	459
Average selling price (\$Cdn per barrel)	\$ 71.87	\$ 77.67	\$ 68.28	\$ 72.32
Wells drilled				
Gross	1.0	4.0	11.0	17.0
Net	1.0	3.3	8.5	10.1

⁽¹⁾ Includes proceeds from hedging activities

HIGHLIGHTS FOR THE QUARTER ENDED JUNE 30, 2007

- A new Montney pool (100% working interest) was discovered within our Peace River Arch core area with potential gas in place of 200 to 250 Bcf based on well control and 3-D seismic. In the view of management, this discovery represents a significant development opportunity which may have the potential to more than double Storm's total reserves. Horizontal wells will be used to develop this pool, with the first of these to be drilled and completed in the fourth quarter.
- Production averaged 5,713 Boe per day in the second quarter, a 28% increase from production of 4,478 Boe per day in the same period one year ago. This is an increase of 27% on a per share basis using basic shares outstanding at quarter end.
- Cash flow totalled \$12.9 million or \$0.29 per diluted share, an increase of 26% from cash flow of \$0.23 per diluted share in the year earlier period. The year-over-year increase was primarily due to growth in production.
- The second quarter field netback of \$28.02 per Boe represents an increase of 13% from the field netback of \$24.86 per Boe in the same period one year ago.
- One well (1.0 net) was drilled in the quarter, resulting in one gas well.
- Net income was \$2.8 million or \$0.06 per diluted share, 50% higher than net income of \$0.04 per diluted share in the second quarter of 2006.
- During the quarter, we closed an acquisition which added 465 Boe per day at Parkland in our Peace River Arch core area (revenue and production volumes were recognized effective June 1). This transaction increases our working interest in a property where we have a large inventory of drilling prospects and high historical success rates. The purchase price included a cash payment of \$25.2 million plus Storm's working interest in six oil wells at Red Earth producing 110 net barrels of oil per day.
- Second quarter capital expenditures totalled \$32.8 million which resulted in Storm's bank debt and working capital deficiency increasing to \$84.8 million at the end of the quarter. Total debt is approximately 1.6 times annualized second quarter cash flow.

CORE AREA REVIEW

PEACE RIVER ARCH, Northwestern Alberta and Northeastern British Columbia

Production from our largest core area averaged 4,500 Boe per day in the second quarter. Unexpected and temporary outages at several properties reduced production by 275 Boe per day in the quarter. Current production is approximately 4,600 Boe per day.

Our new Montney pool discovery has estimated potential gas in place of 200 to 250 Bcf, based on 3-D seismic and well control. Additional details are as follows:

- Areal extent is estimated to be 5,200 acres (approximately eight sections) using 3-D seismic. The six vertical wells that currently penetrate this pool define approximately 37% of this area. This assumes two vertical wells are required per section for full delineation.
- Storm has a 100% working interest in this discovery.
- The average net pay of the six wells that penetrate this pool is 75 feet (220 feet gross pay) with average porosity of 10%.
- Horizontal wells will be used to develop this pool and the first of these is expected to be drilled, completed and tied in during the fourth quarter. Horizontal wells in analogous pools produce at initial rates of three to five Mmcf per day.
- Recovery factors in analogous pools are recognized to be 40% of the gas in place.

- Two vertical wells are currently producing from this pool. One commenced production five months ago and production appears to have stabilized at the current rate of 700 Mcf per day. The other commenced production more recently and is currently producing 350 Mcf per day.
- Two more vertical wells will be completed and tied in by the end of the quarter.
- We plan to drill two more vertical delineation wells before the end of the third quarter. This discovery has the potential to more than double Storm's reserves.

During the second quarter, we:

- Drilled one well at Parkland in early April, resulting in one gas well (1.0 net). This well is currently being completed.
- Completed two gas wells drilled in the first quarter.
- Tied in one new gas well (1.0 net) at Buick Creek which is currently producing 110 Boe per day.
- Participated in a large, 70-square-kilometre 3-D seismic program at Parkland at a cost of \$2.1 million.
- Closed the acquisition of a partner's working interest at Parkland which added 465 Boe per day of production as well as 1,068 Mboe of proved plus probable reserves (based on the 2006 year-end reserve evaluation adjusted to the May 1 effective date).
- Acquired 7,400 net acres of undeveloped land at Parkland through the acquisition described above as well as Crown land sales.

Activity during the quarter was lower than expected due to wet weather delaying the start of operations in June.

Major activities planned for the third quarter include:

- Drilling 12 wells (10.8 net).
- Re-completing four wells (4.0 net).
- Constructing an oil battery at Saddle Hills (77% working interest).
- Completing the pipeline tie-in of Parkland to the McMahon Gas Plant.

We currently have two drilling rigs at work and have drilled five wells (4.1 net) to date in the third quarter with 60% success resulting in three gas wells (2.1 net). We have also tied in two wells (1.5 net) drilled in the first quarter which are currently producing 160 net Boe per day.

Production at Parkland, the largest property in this core area, grew to average 1,850 Boe per day in the second quarter and is currently approximately 2,250 Boe per day. A seven-day plant turnaround in June resulted in the loss of 500 net Boe per day for the month. Boring operations on the Peace River crossing are progressing on schedule and the tie-in to the McMahon gas plant is expected to be completed in October. During the quarter, we acquired our partner's interest in this property because of the potential gas in place of 110 Bcf in the Halfway and Doig formations. Approximately 55% or 60 Bcf of this gas in place was recognized in our 2006 year-end reserve evaluation. With a 60% recovery factor applied to the unrecognized gas in place, reserve upside of 1,200 Mboe exists net to the 23.5% working interest we acquired.

CABIN/KOTCHO/JUNIOR, Northeastern British Columbia

Net production from this area averaged 1,055 Boe per day in the second quarter. Production during the quarter was reduced by 100 Boe per day due to a turnaround at an operated facility. Current production is approximately 1,100 Boe per day.

In July, a watered out gas well was converted into a salt water disposal well which will eliminate \$200,000 per year in water trucking and disposal costs.

At Junior, we are reprocessing our 3-D seismic in order to identify horizontal well locations in the Jean Marie formation on our 17 sections of land.

Next winter's drilling program is expected to include one well targeting the Slave Point formation and two wells targeting the shallower Bluesky/Debolt formations, all in the Junior area.

RED EARTH, Alberta

Production from this area averaged 86 Boe per day in the second quarter. Current net production is approximately 25 Boe per day. The decrease is the result of the disposition on June 1 of 110 Boe per day as part of the recently closed transaction which increased our working interest at Parkland.

Next winter we plan to complete a large 3-D seismic program and will drill two wells targeting light oil in the Slave Point formation.

STORM VENTURES INTERNATIONAL INC.

Storm owns 4.3 million shares or 13% of the common shares of Storm Ventures International Inc. ("SVI"), a Calgary-based, private energy company focused on unconventional and international exploration and exploitation opportunities. This share position has a value of \$21.5 million or \$0.49 per diluted Storm share using the price of \$5 per share from SVI's last equity issue in December, 2006.

SVI is active in the U.K. Sector of the North Sea through its affiliate, Silverstone Energy Limited. During the second quarter, Silverstone raised £46 million (GBP) or Cdn \$97.5 million which reduced SVI's ownership position from 50% to 37%. These funds will be used to tie in one of its three new pool discoveries (total potential gas in place of 250 to 300 Bcf) with first production expected in the last quarter of 2008. In addition to this, in mid-2008, two wells will be drilled, with one well targeting a 40 to 100 million barrel medium gravity oil prospect in the Central North Sea Mariner-Gryphon area, and the second well targeting a 50 Bcf gas prospect in the Viking Fields area.

In Tunisia, SVI plans to drill an onshore well in 2007 that will test one of two large structures in the Remada Sud. Each has potential gas in place of 200 Bcf. Offshore in the Gulf of Hammamet, a 400- to 500-square-kilometre marine 3-D seismic program is underway to better define nine prospects that have been identified using 2-D seismic data. These prospects offset eight existing pools containing 25 to 300 million barrels of oil in place.

SVI and Storm have jointly formed a company (Storm Gas Resource Corp. or "SGR") to pursue unconventional gas opportunities on certain Storm lands with initial efforts to be focused on the Muskwa shale gas play in the Horn River Basin (Cabin area) of northeastern British Columbia.

OUTLOOK

Storm's production during the second quarter was affected by temporary outages and other factors which reduced production by a total of 440 Boe per day. These outages were in excess of the 100 to 200 Boe per day of lost production that we normally expect. July production has also been affected by temporary outages which totalled 300 Boe per day, leaving estimated production at 5,700 Boe per day.

Operating costs will trend down over the remainder of the year as a result of several projects we have completed or are close to completing:

- At Saddle Hills in the Peace River Arch, a new oil battery became operational in late July which eliminates \$650,000 per year in trucking, processing, and water disposal costs (\$0.30 per Boe).
- The disposition of higher cost production at Red Earth (\$14.00 per Boe operating cost) and the acquisition of production at Parkland with \$5.00 per Boe operating cost will reduce corporate operating costs by \$0.30 per Boe from June 1 onward.
- Converting a well to salt water disposal at Junior in early July eliminates \$200,000 per year in trucking and disposal costs (\$0.10 per Boe).
- Constructing a pipeline across the Peace River to the McMahon gas plant will reduce processing fees by \$1.3 million per year once the project is completed in October. Initially, 50% of the production at Parkland will be redirected to the McMahon gas plant which will reduce total operating costs by \$0.30 per Boe. Savings from this project could double if the remaining volumes are redirected to the McMahon gas plant in early 2008.

These projects are expected to reduce operating costs to \$6.35 per Boe by year-end with operating costs declining below \$6.00 per Boe in 2008 if all of the production at Parkland is redirected to the McMahon gas plant.

In 2007, we now plan to drill 23 net wells (28 gross) which is a reduction from our initial estimate of 28.5 net wells (40 gross). This change is the result of:

- Adding a Montney horizontal well which replaces three vertical wells (equivalent cost).
- Deferring 2.5 net gas wells as a result of lower current natural gas prices reducing expected cash flow.

The majority of the wells drilled in the second half of 2007 will be at our Parkland property where our field netback is high (\$32 per Boe in the first half of 2007) and where we benefit from the Summer Drilling Incentive royalty credit offered by the BC Ministry of Energy, Mines and Petroleum Resources which averages \$100,000 per well.

Production over the remainder of the year is expected to be impacted by:

- Weather-related delays in drilling and completing wells. Since early April, we have tied in two wells and recompleted one well which has added 200 Boe per day. This has not been sufficient to offset declines.
- The deferral of 2.5 net gas wells which reduces year-end production by 200 Boe per day on a risked basis.
- Increased fuel gas consumption at the Parkland facility (110 Boe per day).

In total, this has left production approximately 400 to 700 Boe per day below our initial forecast.

As a result of the above changes, our guidance for 2007 now consists of:

- Production exiting 2007 at 6,700 to 7,000 Boe per day, compared to a prior estimate of 7,400 Boe per day.
- Capital investment totalling \$90 to 92 million which primarily will be directed towards drilling 28 wells (23 net), compared to \$94 million previously.
- Operating costs averaging \$6.85 per Boe (\$6.50 – \$6.75 previously), cash G&A costs averaging \$1.15 per Boe and an average royalty rate of 22%.

Moving forward, our business plan will continue to emphasize doing more of what has worked so well for us in the past. We have an inventory of opportunities totalling 75 drilling locations and 25 exploitation projects which represents two years of activity. Our recent Montney discovery represents a significant development opportunity that could more than double our total reserve base. Although natural gas prices are now lower than in the first half of the year and will reduce our cash flow as well as overall industry cash flows, we have generated better than average results during challenging periods when adherence to basic business principles is rewarded. One benefit that we have already seen is a 15% to 20% reduction in the cost to drill and complete wells due to lower levels of equipment utilization. Our disciplined business plan, combined with our solid inventory of opportunities, will continue to generate growth in shareholder value. We look forward to providing updates on our progress over the remainder of 2007.

Respectfully,



Brian Lavergne
President and CEO
August 13, 2007

Set out below is management's discussion and analysis of financial and operating results for Storm (or the "Company") for the three and six months ended June 30, 2007. It should be read in conjunction with the audited financial statements for the year ended December 31, 2006 and other operating and financial information included herein. This management's discussion and analysis is dated August 8, 2007.

INTRODUCTION AND LIMITATIONS

Basis of Presentation

Financial data presented below have largely been derived from the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2007, prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Specific accounting policies adopted by the Company are set out in Note 1 to the consolidated unaudited financial statements for the three and six months ended June 30, 2007 and in Note 2 to the Company's audited financial statements for the year ended December 31, 2006. The reporting and the measurement currency is the Canadian dollar. Unless otherwise indicated, tabular financial amounts, other than per share and per Boe amounts, are in thousands of dollars.

Effective January 1, 2007, Storm adopted with prospective effect certain new accounting standards introduced as part of GAAP as follows:

Comprehensive Income

Comprehensive income is the sum of net income for the reporting period plus certain other measurements of value that cannot be recognized currently in the statement of income and retained earnings. Such other measurements may include items such as an unrealized holding gain or loss from securities held for sale, unrealized gains or losses from hedging and foreign currency translation gains or losses. Although such items do not satisfy criteria necessary for inclusion in the Company's statement of income and retained earnings, largely because they have not been realized, their identification and measurement provide relevant additional information about the financial condition of the Company.

Financial Instruments

The new disclosure standard establishes criteria for identifying and measuring the carrying amount of financial assets and liabilities including derivative instruments. Financial assets and liabilities include accounts receivable and payable, prepaid costs, bank loans, and securities held for sale. The intent of the disclosure is to establish a carrying amount for such assets and liabilities equal to their fair value, which is established by reference to current market values or by using appropriate discounting.

Additional details about such accounting changes and their effect on the Company are described in the notes to the unaudited consolidated financial statements for the quarter ended June 30, 2007.

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

Non-GAAP Measurements

Within management’s discussion and analysis, references are made to terms having widespread use in the oil and gas industry in Canada. ‘Funds from operations,’ ‘funds from operations per share,’ ‘cash flow from operations’ and ‘netbacks’ are not defined by GAAP in Canada and are regarded as non-GAAP measures. Measurement of funds from operations is detailed on the Statement 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 is calculated by multiplying the daily production by the number of days in the year or quarter as the case may be.

PRODUCTION AND REVENUE

Average Daily Production

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Natural gas (Mcf/d)	29,891	22,402	29,969	21,195
Natural gas liquids (Bbls/d)	217	244	216	253
Crude oil (Bbls/d)	514	500	533	459
Total (Boe/d)	5,713	4,478	5,744	4,245

Total Boe production in the second quarter of 2007 increased by 28% when compared to the same quarter in 2006. The year-over-year increase in production came from Storm’s successful drilling and exploitation programs, coupled with an acquisition completed in June 2006. Production per million shares outstanding at the end of the second quarter of 2007 averaged 133 Boe per day, compared to 104 Boe per day for the second quarter of 2006, an increase of 27%. Production during the second quarter was reduced by a total of 440 Boe per day due to plant turnarounds at Parkland and Junior (loss of 230 Boe per day), fuel gas consumption at Parkland (65 Boe per day), plus other unexpected and temporary outages (145 Boe per day).

For the six months ended June 30, 2007, production increased by 35% when compared to the equivalent period in 2006, or an increase of 26% per million shares outstanding for each period.

Production Profile and Per Unit Prices

	Three Months to June 30, 2007		Three Months to June 30, 2006	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Natural gas	87%	\$ 7.46/Mcf	83%	\$ 6.03/Mcf
Natural gas liquids	4%	\$ 62.66/Bbl	6%	\$ 71.00/Bbl
Crude oil	9%	\$ 71.87/Bbl	11%	\$ 77.67/Bbl
Per Boe		\$ 47.92		\$ 42.71

	Six Months to June 30, 2007		Six Months to June 30, 2006	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Natural gas	87%	\$ 7.61/Mcf	83%	\$ 6.78/Mcf
Natural gas liquids	4%	\$ 59.82/Bbl	6%	\$ 67.52/Bbl
Crude oil	9%	\$ 68.28/Bbl	11%	\$ 72.32/Bbl
Per Boe		\$ 48.28		\$ 45.68

Storm's production base is largely natural gas and associated liquids, and has not changed materially quarter-over-quarter. For the quarter to June 30, 2007, the AECO C spot price for natural gas averaged \$6.72 per GJ, compared to \$5.70 for the quarter to June 30, 2006, an increase of 18%, and to \$7.00 for the quarter ended March 31, 2007. For crude oil, Edmonton par price averaged \$69.58 per barrel for the quarter to June 30, 2007, compared to \$80.64 for the quarter to June 30, 2006 and \$69.95 for the quarter to March 31, 2007.

For the six-month period to June 30, 2007, AECO C averaged \$6.86 per GJ, compared to \$6.42 per GJ for the six months to June 30, 2006. Edmonton par averaged \$69.58 for the six months to June 30, 2007, compared to \$73.86 for the six months to June 30, 2006, a decline of 6%.

Per unit prices in the tables above do not include any gains or losses from hedging.

Production by Area (Boe per day)

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Peace River Arch	4,509	2,695	4,506	2,749
Cabin/Kotcho/Junior	1,053	1,180	1,068	927
Red Earth	86	273	105	251
Other	65	330	65	318
Total	5,713	4,478	5,744	4,245

The above sets out the average production from each of Storm's core areas. Within the Peace River Arch, production from the largest property, Parkland, averaged 1,847 Boe per day for the quarter ended June 30, 2007, compared to 680 Boe per day for the quarter ended June 30, 2006.

Production Revenue

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Natural gas	\$ 20,310	\$ 12,291	\$ 41,270	\$ 25,999
Natural gas liquids	1,236	1,577	2,341	3,094
Crude oil	3,365	3,536	6,592	6,009
Hedging gains	71	-	2,551	2,063
Revenue from product sales	24,982	17,404	52,754	37,165
Royalty income	174	194	411	437
Total Production Revenue	\$ 25,156	\$ 17,598	\$ 53,165	\$ 37,602

A reconciliation of revenue from product sales between the quarters ended June 30, 2007 and 2006 is as follows:

	Natural Gas	Natural Gas Liquids	Crude Oil	Total
Revenue from product sales – Q2 2006	\$ 12,291	\$ 1,577	\$ 3,536	\$ 17,404
Effect of increased (decreased) production quarter-over-quarter	4,109	(174)	99	4,034
Effect of increased (decreased) product prices quarter-over-quarter	3,911	(168)	(271)	3,472
Increased contribution from hedging gains	71	–	–	71
Revenue from product sales – Q2 2007	\$ 20,382	\$ 1,235	\$ 3,364	\$ 24,981

Royalty income for each quarter is derived from ownership of overriding royalties, largely in the Peace River Arch.

Hedging – Natural Gas

Hedging commitments outstanding during the three months to June 30, 2007 were as follows:

	Volume	Contract	Price
April to June 2007	7,000 GJ per day	Fixed price	Cdn \$7.10 per GJ

Storm follows hedge accounting rules and recognized a gain of \$71,000 or \$0.14 per Boe or \$0.03 per Mcf during the quarter ended June 30, 2007. For the six-month period to June 30, 2007, the Company realized a gain of \$2.6 million, or \$2.45 per Boe or \$0.47 per Mcf compared to a gain of \$2.0 million, or \$2.69 per BOE or \$0.54 per Mcf in the six-month period ending June 30, 2006. No hedges were in place at June 30, 2007.

ROYALTIES

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Charge for period	\$ 5,398	\$ 3,699	\$ 10,990	\$ 8,004
Royalties as a percentage of revenue from product sales before hedging gains				
Crown	20.3%	19.2%	20.3%	20.2%
Other	1.4%	2.1%	1.6%	2.6%
Total	21.7%	21.3%	21.9%	22.8%
Per Boe	\$ 10.38	\$ 9.08	\$ 10.57	\$ 10.42

The increase in the royalty rate in the three months to June 30, 2007, when compared to the equivalent quarter of 2006, is largely due to royalty incentives in place in 2006.

PRODUCTION COSTS

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Charge for period	\$ 3,959	\$ 2,905	\$ 7,619	\$ 5,622
Percentage of revenue from product sales before hedging gains	15.9%	16.7%	15.2%	16.0%
Per Boe	\$ 7.62	\$ 7.13	\$ 7.33	\$ 7.32

Total production costs for the three and six months ended June 30, 2007 increased over production costs for the equivalent periods in 2006 in response to growing product sales. Per Boe, production costs for the quarter to June 30, 2007 increased by 7% when compared to the same period in 2006, in part due to increased processing fees, increased trucking costs associated with road bans, increased methanol usage during the winter and receipt of invoices relating to prior quarters. Production costs per Boe for the six-month periods to June 30, 2007 and 2006 were unchanged. The Company expects that cost-reduction initiatives will result in production-cost reductions in the second half of 2007.

Storm's cash costs per Boe, which comprise production, general and administrative costs and interest, amounted to \$10.78 for the quarter ended June 30, 2007, compared to \$9.50 for the quarter ended June 30, 2006. For the six-month periods to June 30, cash costs for 2007 amounted to \$10.07 and for 2006 to \$9.72.

TRANSPORTATION COSTS

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Charge for period	\$ 1,238	\$ 863	\$ 2,366	\$ 1,636
Percentage of revenue from product sales before hedging gains	5.0%	5.0%	4.7%	4.7%
Per Boe	\$ 2.38	\$ 2.12	\$ 2.28	\$ 2.13

Increased charges for transportation reflect increasing production levels. Increased per Boe charges for the quarter to June 30, 2007 are attributable to certain prior period costs being included in the quarter.

FIELD NETBACKS

Details of field netbacks per commodity unit are as follows:

	Three Months to June 30, 2007			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 71.87	\$ 62.66	\$ 7.46	\$ 47.92
Hedging gains	–	–	0.03	0.14
Royalty income	0.40	0.53	0.05	0.34
Royalties	(11.35)	(15.09)	(1.68)	(10.38)
Production costs	(8.46)	–	(1.31)	(7.62)
Transportation	(2.34)	(4.82)	(0.38)	(2.38)
Field netbacks	\$ 50.12	\$ 43.28	\$ 4.17	\$ 28.02

	Three Months to June 30, 2006			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 77.67	\$ 71.00	\$ 6.03	\$ 42.71
Hedging gains	–	–	–	–
Royalty income	1.06	0.56	0.07	0.48
Royalties	(12.83)	(16.65)	(1.35)	(9.08)
Production costs	(6.46)	–	(1.28)	(7.13)
Transportation	(1.52)	(1.55)	(0.37)	(2.12)
Field netbacks	\$ 57.92	\$ 53.36	\$ 3.10	\$ 24.86

	Six months to June 30, 2007			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 68.28	\$ 59.82	\$ 7.61	\$ 48.28
Hedging gains	–	–	0.47	2.45
Royalty income	0.44	0.66	0.06	0.40
Royalties	(10.98)	(16.15)	(1.71)	(10.57)
Production costs	(7.64)	–	(1.27)	(7.33)
Transportation	(2.01)	(4.05)	(0.37)	(2.28)
Field netbacks	\$ 48.09	\$ 40.28	\$ 4.79	\$ 30.95

	Six months to June 30, 2006			
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 72.32	\$ 67.52	\$ 6.78	\$ 45.68
Hedging gains	–	–	0.54	2.69
Royalty income	1.10	0.78	0.08	0.57
Royalties	(9.67)	(17.14)	(1.67)	(10.42)
Production costs	(6.55)	–	(1.32)	(7.32)
Transportation	(1.47)	(1.60)	(0.38)	(2.13)
Field netbacks	\$ 55.73	\$ 49.56	\$ 4.03	\$ 29.07

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

Field netbacks for the quarter ended June 30, 2007 increased by 13% over the equivalent period of 2006. Stronger prices for natural gas offset reduced prices for crude oil and modestly higher production costs. For the six months ended June 30, 2007, field netbacks increased by 6% over the equivalent period in 2006. Key to the increased netbacks for the first half of 2007 was a first quarter hedging gain. Excluding this gain, field netbacks for the first half of 2007 fell slightly.

INTEREST

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Charge for period	\$ 868	\$ 417	\$ 1,537	\$ 655
Per Boe	\$ 1.67	\$ 1.02	\$ 1.48	\$ 0.85

Interest is paid on Storm's revolving bank borrowings. Increased interest costs for the second quarter of 2007, when compared to the equivalent quarter of 2006, correspond to increased borrowings required to fund a property acquisition late in June 2006. In addition, the Company has experienced a year-over-year increase in debt service costs. In June 2007, the Company closed an additional property acquisition, which will result in increased interest costs in the second half of 2007.

GENERAL AND ADMINISTRATIVE COSTS

Total Costs	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Gross general and administrative costs	\$ 1,100	\$ 966	\$ 2,507	\$ 2,124
Capital and operating recoveries	(328)	(416)	(1,192)	(935)
Net general and administrative costs	\$ 772	\$ 550	\$ 1,315	\$ 1,189

Costs per Boe

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Gross general and administrative costs	\$ 2.10	\$ 2.39	\$ 2.41	\$ 2.73
Capital and operating recoveries	(0.61)	(1.04)	(1.15)	(1.18)
Net general and administrative costs	\$ 1.49	\$ 1.35	\$ 1.26	\$ 1.55

Increases in gross general and administrative costs for the quarter ended June 30, 2007, when compared to the quarter ended June 30, 2006, were primarily due to increases in personnel. In addition, lower field activity in the three months to June 30, 2007, when compared to the equivalent period in 2006, resulted in lower capital and operating recoveries.

Storm does not capitalize general and administrative costs. General and administrative costs per Boe for future quarters should be lower, due to higher capital and operating recoveries and an increased production base.

STOCK-BASED COMPENSATION COSTS

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Charge for period	\$ 341	\$ 140	\$ 678	\$ 284
Per Boe	\$ 0.66	\$ 0.34	\$ 0.65	\$ 0.37

The increase in stock-based compensation costs for the three- and six-month periods to June 30, 2007, when compared to the equivalent periods in 2006, reflects the mid-2006 issue of stock options to certain individuals who were not already participants in the Company's stock option program.

DEPLETION, DEPRECIATION AND ACCRETION

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Depreciation and depletion charge for period	\$ 8,137	\$ 5,573	\$ 16,497	\$ 10,215
Accretion charge for period	115	91	227	170
Total	\$ 8,252	\$ 5,664	\$ 16,724	\$ 10,385
Total per Boe	\$ 15.87	\$ 13.90	\$ 16.08	\$ 13.52

The increase in the charge for depreciation, depletion and accretion for the three- and six-month periods to June 30, 2007, when compared to the same periods in 2006, is a consequence of higher production volumes as the depletion component of the charge is based on a cost per Boe.

The year-over-year increases in the charge for depletion and depreciation per Boe is largely attributable to a mid-2006 property acquisition, as acquired reserves were purchased at a higher cost per Boe than Storm's historical finding costs. A property acquisition in June 2007 had no material effect on the charge for depreciation and depletion for the three- and six-month periods to June 30, 2007; however, it will result in increased charges in subsequent reporting periods. Accretion is the increase for the reporting period in the present value of the Company's asset retirement obligation, which is discounted using an interest rate of 8%.

INCOME AND OTHER TAXES

For the three months ended June 30, 2007, Storm recorded a future income tax provision of \$1.5 million compared to \$1.6 million for the quarter ended June 30, 2006. For the six-month periods ended June 30, 2007 and 2006, the future income tax provision amounted to \$4.0 million and \$3.2 million. The deferral of taxes to future periods largely results from resource pool deductions exceeding the accounting charge for depletion, depreciation and accretion. The statutory combined federal and provincial rate for 2007 is 32%, compared to 35% for 2006.

At June 30, 2007, Storm had tax pools carried forward estimated to be \$197 million. In June 2006, the Company entered into a flow-through share issue, which provided for the renunciation of Canadian Exploration Expense of \$15.6 million, and the incurrence of such expenditures by December 31, 2007. At June 30, 2007, the Company considers that \$12.6 million of such expenditures has been incurred. In addition, Storm has a capital loss in the amount of \$10 million available for application against any future capital gains.

NET INCOME AND NET INCOME PER SHARE

Net income for the quarter ended June 30, 2007 increased by 60%, when compared to the quarter ended June 30, 2006. Quarter-over-quarter, income per diluted share increased by 50%. For the six months ended June 30, 2007, net income increased by 19% when compared to the six months ended June 30, 2006. Measured per diluted share, net income increased by 13% in the first half of 2007 over the same period in 2006.

	Three Months to June 30, 2007		Three Months to June 30, 2006		Six Months to June 30, 2007		Six Months to June 30, 2006	
	Per diluted share		Per diluted share		Per diluted share		Per diluted share	
Net income for quarter	\$ 2,832	\$ 0.06	\$ 1,767	\$ 0.04	\$ 7,898	\$ 0.18	\$ 6,628	\$ 0.16

FUNDS FROM OPERATIONS

Funds from operations for the quarter ended June 30, 2007 increased by 41% to \$12.9 million, or \$0.29 per diluted share, compared to \$9.2 million, or \$0.23 per diluted share for the equivalent quarter of 2006. For the six-month period to June 30, 2007, funds from operations increased by 43% to \$29.3 million, or \$0.67 per diluted share, compared to \$20.5 million, or \$0.51 per diluted share for the equivalent period in 2006.

	Three Months to June 30, 2007		Three Months to June 30, 2006		Six Months to June 30, 2007		Six Months to June 30, 2006	
	Per diluted share		Per diluted share		Per diluted share		Per diluted share	
Funds from operations for quarter	\$ 12,921	\$ 0.29	\$ 9,186	\$ 0.23	\$ 29,338	\$ 0.67	\$ 20,496	\$ 0.51

INVESTING AND FINANCING

WORKING CAPITAL

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

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.

Storm had a working capital deficiency of \$2.0 million at June 30, 2007, compared to \$4.0 million at June 30, 2006 and \$6.9 million at December 31, 2006. The working capital deficiency at each quarter end reflects the Company's preference to act as operator and the seasonality of its field operations. The Company's working capital deficiency is cyclical and is highest at the end of the first quarter of each year and lowest at the end of second quarter. The low working capital deficiency at June 30, 2007 corresponds to the Company's limited field activity in the second quarter of 2007.

PROPERTY AND EQUIPMENT

Capital costs incurred were as follows:

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Land and lease, net	\$ 632	\$ 881	\$ 1,776	\$ 2,642
Seismic	2,173	1,073	2,946	4,177
Drilling and completions	1,689	5,188	13,665	13,002
Facilities and equipment	2,163	1,884	9,895	7,765
Field Expenditures	6,657	9,026	28,282	27,586
Property acquisitions	26,111	39,361	28,561	39,361
Property dispositions	–	(817)	–	(3,696)
Total	\$ 32,768	\$ 47,570	\$ 56,843	\$ 63,251

BANK DEBT, LIQUIDITY AND CAPITAL RESOURCES

Storm has a revolving borrowing base bank credit facility of \$94 million, increased from \$66 million at December 31, 2006. The amount drawn on this facility at June 30, 2007 amounted to \$82.8 million. Debt, including working capital deficiency, amounted to \$84.8 million at June 30, 2007, resulting in a ratio of debt to annualized first half cash flow of 1.4 times. A growing production base, along with the Company's policy of limiting non-acquisition capital expenditures to cash flow, should result in this ratio falling throughout 2007.

Storm funds its field capital programs through cash flow and bank borrowings. Acquisitions are funded by a combination of debt and, if required, equity. 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, Storm operates with a substantial working capital deficit, which is paid down in quarters of lower field activity.

INVESTMENT

At June 30, 2007, the Company's investment in SVI represented a 13% ownership position, comprising 4.3 million common shares. The carrying amount of the investment on the Company's balance sheet comprises the Company's investment cost, plus a dilution gain recognized during the year ended December 31, 2005. This carrying amount should not be regarded as representative of the value of Storm's investment in SVI.

FUTURE INCOME TAXES

Estimated future income taxes at June 30, 2007 represent the excess of the accounting amounts over the related tax bases of property and equipment and share capital.

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

	As at June 30, 2007	Maximum Annual Deduction
Canadian oil and gas property expense	\$ 107,816	10%
Canadian development expense	33,972	30%
Canadian exploration expense (CEE) ⁽¹⁾	15,939	100%
Undepreciated capital cost	50,720	20 – 100%
Other	1,435	20%
	209,882	
Less: CEE incurred to date and renounced to subscribers	(12,600)	
Total	\$ 197,282 ⁽¹⁾	
Capital losses	\$ 9,666	

⁽¹⁾ An additional \$3.0 million of CEE is required to be spent prior to December 31, 2007 to satisfy the full amount of the flow-through share obligation.

ASSET RETIREMENT OBLIGATION

Storm'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 amount of the obligation between June 30, 2007 and December 31, 2006 comprise the present value of additional obligations accruing to the Company as a result of field activity and acquisitions during the quarter, less costs paid in settlement of abandonment obligations, plus the quarterly 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 Storm's properties are based on an internal evaluation of each of the Company's properties, supported by external data from industry sources.

SHARE CAPITAL

Details of outstanding share capital and dilutive elements:

	As at June 30, 2007	As at December 31, 2006
Common shares outstanding		
End of period	43,047	42,914
Performance warrants	–	122
Stock options	1,951	1,934
Fully diluted common shares		
End of period	44,998	44,970
Weighted average common shares – basic	42,915	41,434
Weighted average common shares – diluted	43,708	41,935

Stock options outstanding are exercisable over five years on various dates beginning September 2005 at prices ranging from \$2.60 to \$6.70.

QUARTERLY RESULTS

Set out below are key performance indicators by quarter for Storm for the last two years:

Quarter Ended	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005
Production revenue (\$000s)	25,156	28,009	23,590	18,973	17,598	20,004	23,733	17,694
Funds from operations (\$000s)	12,921	16,417	12,748	10,053	9,186	11,310	12,886	10,317
Per share – basic (\$)	0.30	0.38	0.30	0.23	0.23	0.29	0.33	0.27
Per share – diluted (\$)	0.29	0.38	0.29	0.23	0.23	0.28	0.32	0.25
Net income (\$000s)	2,832	5,066	3,049	1,828	1,767	4,861	13,507	6,310
Per share – basic (\$)	0.06	0.12	0.07	0.04	0.05	0.12	0.35	0.16
Per share – diluted (\$)	0.06	0.12	0.07	0.04	0.04	0.12	0.33	0.15
Average daily production (Boe)	5,713	5,776	5,442	4,933	4,478	4,009	3,665	3,208
Average field netbacks (\$/Boe)	28.02	33.91	27.88	24.24	24.86	33.85	41.54	37.22
Net capital expenditures (\$000s)	32,768	24,075	13,635	7,619	47,570	15,681	15,297	12,680

CONTRACTUAL OBLIGATIONS

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

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

All such contractual obligations reflect market conditions at the time of contract and do not involve related parties.

Obligations with a fixed term are as follows:

(\$000s)	2007	2008	2009	2010	2011
Lease of premises	450	759	759	772	785
Equipment leases	11	11	-	-	-
Total	461	770	759	772	785

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in the Company's Management's Discussion and Analysis and in the consolidated unaudited financial statements for the three months ended June 30, 2007 are based on accounting policies, estimates and judgment which reflect information available to management at the time of preparation. Information with respect to the accounting policies selected by the Company and the use of estimates is set out in the Company's annual report for the year ended December 31, 2006 and the consolidated unaudited financial statements for the three months ended June 30, 2007.

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, 2006.

DISCLOSURE CONTROLS

Storm has codified and distributed to staff its controls, policies and procedures with respect to disclosure to third parties of information concerning the Company's operations and results. Controls and procedures are designed to provide reasonable assurance that relevant information is collected and provided to senior management. Storm's disclosure control policy provides for the establishment of a Disclosure Committee, comprised of the Chief Executive Officer and Chief Financial Officer, which reviews policies and procedures applicable to the provision of information to any party, other than industry partners in the ordinary course of business, and reviews any circumstances which may suggest a breach of disclosure controls. Although Storm's disclosure control policy is believed to be effective, it cannot provide more than reasonable assurance that its objectives have been realized. No circumstance suggesting a possible breach of disclosure controls was identified by the Disclosure Committee in the three months ended June 30, 2007.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, can be viewed at www.sedar.com or on the Company's website at www.stormexploration.com. Information can also be obtained by contacting the Company at Storm Exploration Inc., 800, 205 – 5th Avenue S.W., Calgary, Alberta, T2P 2V7.

CONSOLIDATED BALANCE SHEETS

(\$000s)	(unaudited) June 30, 2007	December 31, 2006
ASSETS		
Current		
Accounts receivable	\$ 11,279	\$ 13,161
Prepaid costs	1,992	2,508
	13,271	15,669
Property and equipment – net (Note 2)	218,322	177,708
Investment	9,275	9,275
	\$ 240,868	\$ 202,652
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 15,302	\$ 22,573
	15,302	22,573
Bank indebtedness (Note 4)	82,775	50,410
Asset retirement obligation (Note 5)	6,422	5,925
Future income taxes (Note 3)	5,638	1,600
	110,137	80,508
Shareholders' equity (Note 6)		
Share capital	76,426	76,285
Contributed surplus	1,873	1,325
Retained earnings	52,432	44,534
Accumulated other comprehensive income	–	–
	130,731	122,144
	\$ 240,868	\$ 202,652

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(\$000s) (unaudited)	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Revenue				
Production revenue	\$ 25,156	\$ 17,598	\$ 53,165	\$ 37,602
Royalties	(5,398)	(3,699)	(10,990)	(8,004)
	19,758	13,899	42,175	29,598
Expenses				
Production	3,959	2,905	7,619	5,622
Transportation	1,238	863	2,366	1,636
Interest	868	417	1,537	655
General and administrative	772	550	1,315	1,189
Stock-based compensation	341	140	678	284
Depletion, depreciation and accretion	8,252	5,664	16,724	10,385
	15,430	10,539	30,239	19,771
Income before the following:	4,328	3,360	11,936	9,827
Income and other taxes (Note 3)				
Future income taxes	(1,496)	(1,615)	(4,038)	(3,199)
Capital taxes	-	22	-	-
	(1,496)	(1,593)	(4,038)	(3,199)
Net income for the period	2,832	1,767	7,898	6,628
Retained earnings, beginning of period	49,600	37,890	44,534	33,029
Retained earnings, end of period	\$ 52,432	\$ 39,657	\$ 52,432	\$ 39,657
Net income per share (Note 7)				
Basic	\$ 0.06	\$ 0.05	\$ 0.18	\$ 0.17
Diluted	\$ 0.06	\$ 0.04	\$ 0.18	\$ 0.16

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$000s) (unaudited)	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Net income for the period	\$ 2,832	\$ 1,767	\$ 7,898	\$ 6,628
Other comprehensive income				
Reversal of unrealized hedging loss (net of related income tax of \$50,000)	105	-	-	-
Comprehensive income for the period	\$ 2,937	\$ 1,767	\$ 7,898	\$ 6,628

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS**

(\$000s) (unaudited)	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Operating activities				
Net income for the period	\$ 2,832	\$ 1,767	\$ 7,898	\$ 6,628
Add non-cash items:				
Depletion, depreciation and accretion	8,252	5,664	16,724	10,385
Future income tax	1,496	1,615	4,038	3,199
Stock-based compensation	341	140	678	284
Funds from operations	12,921	9,186	29,338	20,496
Net change in non-cash working capital items (Note 8)	(299)	(3,028)	2,067	(2,924)
	12,622	6,158	31,405	17,572
Financing activities				
Issue of common shares – net of expenses	13	16,691	13	18,207
Increase (decrease) in bank indebtedness	28,992	29,288	32,365	28,303
	29,005	45,979	32,378	46,510
Investing activities				
Additions to property and equipment	(32,768)	(48,387)	(56,843)	(66,947)
Disposals of property and equipment	–	817	–	3,696
Net change in non-cash working capital items (Note 8)	(8,859)	(4,567)	(6,940)	(831)
	(41,627)	(52,137)	(63,783)	(64,082)
Change in cash during the period	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	\$ –	\$ –	\$ –	\$ –

THREE AND SIX MONTHS ENDED JUNE 30, 2007

Tabular amounts in thousands, except per share amounts
(unaudited)

SIGNIFICANT ACCOUNTING POLICIES 1

These interim unaudited consolidated financial statements of Storm Exploration Inc. (“Storm” or “the Company”) have been prepared by management in accordance with accounting policies generally accepted in Canada, following, except as described below, the same accounting policies and methods of computation as used in the financial statements for the year ended December 31, 2006. The interim consolidated financial statement note disclosures do not include all disclosures applicable for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto contained in the Company’s annual report for the year ended December 31, 2006. These consolidated financial statements include the results of Storm and its wholly owned subsidiary and partnership.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted additional accounting pronouncements promulgated by the Canadian Institute of Chartered Accountants (“CICA”). The new accounting standards are set out in CICA Handbook Section 1530 “Comprehensive Income”; Section 3251 “Equity”; Section 3855 “Financial Instruments – Recognition and Measurement”; and Section 3865 “Hedges.” As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no effect on the Company’s net income or cash flows. The other effects of the implementation of the new standards are discussed below.

Comprehensive Income

The new standards introduce comprehensive income, which consists of net income and other comprehensive income (“OCI”). The Company’s consolidated financial statements now include a Consolidated Statement of Comprehensive Income, which measures comprehensive income.

The cumulative changes in OCI are included in accumulated other comprehensive income (“AOCI”), which is presented as a new category within shareholders’ equity on the balance sheet. During the three- and six-month periods ended June 30, 2007, the Company participated in certain hedging transactions which resulted in the recognition of other comprehensive income. However, as all hedging positions have been closed out at June 30, 2007, there is no AOCI at that date.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net income. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in OCI. The methods used by the Company in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Cash and cash equivalents are designated as “held-for-trading” and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and accrued revenues are designated as “loans and receivables.” Accounts payable and long-term debt are designated as “other liabilities.” Investments that do not have a quoted market price in an active market are measured at cost. Accordingly, the Company’s investment in Storm Ventures International Inc. (“SVI”) is carried at adjusted cost. Further details on this investment are contained in the notes to the Company’s audited annual financial statements for the year ended December 31, 2006.

The risk management asset and liability contracts entered into by the Company have been designated as meeting the criteria for “hedge accounting” under Section 3865 “Hedges,” which will result in unrealized hedging gains or losses being recognized in other comprehensive income.

PROPERTY AND EQUIPMENT 2

	June 30, 2007	December 31, 2006
Petroleum and natural gas properties	\$ 277,774	\$ 220,701
Furniture and equipment	504	466
Accumulated depletion and depreciation	278,278 (59,956)	221,167 (43,459)
	\$ 218,322	\$ 177,708

At June 30, 2007, the depletion calculation excluded unproved properties of \$21.9 million (December 31, 2006 – \$14.4 million).

FUTURE INCOME TAXES 3

The future income tax liability is made up of the excess of the accounting amounts over the related tax bases of the Company’s property and equipment and share capital.

The Company has tax pools associated with property and equipment, for accounting purposes, of approximately \$194 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 June 2006, the Company is obligated to incur Canadian Exploration Expenditures in the amount of \$15.6 million prior to December 31, 2007. As at June 30, 2007, the Company had incurred an estimated \$12.6 of qualifying expenditures. The full amount of \$15.6 million has been renounced to the subscribers at December 31, 2006 and this amount has been deducted from the Company’s tax pool balance.

In April of 2006 the federal large corporations tax was 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.

The differences are as follows:

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Statutory combined federal and provincial income tax rate	32%	35%	32%	35%
Expected income taxes	\$ 1,399	\$ 1,161	\$ 3,858	\$ 3,445
Add (deduct) the income tax effect of:				
Non-deductible crown charges	–	414	–	890
Resource allowance	–	(287)	–	(696)
Benefit of losses not previously recognized	–	512	–	(183)
Stock-based compensation	110	49	219	100
Other	(13)	(234)	(39)	(357)
Future income tax	1,496	1,615	4,038	3,199
Large corporations tax	–	(22)	–	–
	\$ 1,496	\$ 1,593	\$ 4,038	\$ 3,199

The significant components of the future income tax liability are as follows:

	June 30, 2007	December 31, 2006
Property and equipment	\$ 8,120	\$ 3,970
Asset retirement obligation	(2,055)	(1,896)
Share issue costs	(427)	(474)
Future income tax liability	\$ 5,638	\$ 1,600

BANK INDEBTEDNESS 4

The Company has an extendible revolving bank facility in the amount of \$94 million (December 31, 2006 – \$66 million), based on the Company's producing reserves. The revolving facility is available to the Company until May 29, 2008, but may be extended at the Company's request until May 28, 2009, 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.

ASSET RETIREMENT OBLIGATION 5

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 \$12.5 million (December 31, 2006 – \$11.8 million), which will be incurred over the next 20 years, with the majority of costs incurred between 2015 and 2025. A credit adjusted risk-free rate of 8% was used to calculate the present value of the asset retirement obligations, amounting to \$6.4 million (December 31, 2006 – \$5.9 million).

SHARE CAPITAL 6

Authorized

An unlimited number of non-voting common shares

An unlimited number of voting common shares

An unlimited number of preferred shares

Included in the following common share balances are 1,275,000 non-voting common shares. Except for voting rights, non-voting and voting common shares are identical.

Issued

	Number of Shares	Consideration
Balance as at December 31, 2006	42,914	\$ 76,285
Common shares issued under the performance warrant plan (i)	130	126
Stock options exercised (ii)	3	15
Balance as at June 30, 2007	43,047	\$ 76,426

- Common Share Issues**
- i) On June 29, 2007, 170,834 warrants under the performance warrant plan were exercised. Based on a closing price of \$8.55, 130,000 common shares were issued. Proceeds were one cent per share and related prior stock compensation expense of \$126,000 was added to share capital.
 - ii) In June 2007, 3,000 stock options were exercised for proceeds of \$13,000 and related prior stock compensation expense of \$2,000 was added to share capital.

Stock-Based Compensation Plans

- (i) The Company had a performance warrant plan under which 512,500 warrants were issued to employees to acquire common shares. The number of common shares issuable upon exercise of the warrants was based on a formula using the closing price of the share on the day immediately preceding the exercise date. The warrants were exercisable in three equal annual amounts commencing June 29, 2005. All warrants were exercised and the plan was terminated as of June 30, 2007.
- (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 2,850,000 common shares has been reserved for issuance. Details of the options outstanding at June 30, 2007 are as follows:

Range of Exercise Price	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$2.60 to \$3.61	320	2.6	\$ 3.28	160	\$ 3.28
\$3.91 to \$5.71	1,511	3.7	\$ 5.40	167	\$ 4.62
\$6.03 to \$6.70	120	3.9	\$ 6.44	15	\$ 6.62
	1,951	3.5	\$ 5.11	342	\$ 4.08

PER SHARE AMOUNTS 7

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Basic				
Net income per share	\$ 0.06	\$ 0.05	\$ 0.18	\$ 0.17
Weighted average number of shares outstanding	42,915	40,582	42,915	39,930
Diluted				
Net income per share	\$ 0.06	\$ 0.04	\$ 0.18	\$ 0.16
Weighted average number of shares outstanding	43,708	40,871	43,702	40,219

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

SUPPLEMENTAL CASH FLOW INFORMATION 8

Changes in non-cash working capital

	Three Months to June 30, 2007	Three Months to June 30, 2006	Six Months to June 30, 2007	Six Months to June 30, 2006
Accounts receivable	\$ 1,247	\$ (822)	\$ 1,881	\$ 1,819
Prepaid expenses	(403)	(536)	516	(1,086)
Accounts payable and accrued liabilities	\$(10,002)	(6,237)	(7,270)	(4,488)
Change in non-cash working capital	\$ (9,158)	\$ (7,595)	\$ (4,873)	\$ (3,755)
Relating to:				
Financing activities	\$ –	\$ –	\$ –	\$ –
Investing activities	(8,859)	(4,567)	(6,940)	(831)
Operating activities	(299)	(3,028)	2,067	(2,924)
	\$ (9,158)	\$ (7,595)	\$ (4,873)	\$ (3,755)
Interest paid during the period	\$ 868	\$ 417	\$ 1,537	\$ 655
Income taxes paid during the period	\$ –	\$ –	\$ –	\$ –

FINANCIAL INSTRUMENTS 9

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

A substantial portion of the Company's accounts receivable are concentrated with a limited number of purchasers of commodities and joint venture partners in the oil and gas industry and are subject to normal industry credit risk. Management considers these concentrations of credit risk to be minimal, as commodity purchasers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies.

As at June 30, 2007, Storm had no hedge contracts in place.

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 ^{(1) (2)}
Chairman

John A. Brussa ⁽³⁾

Mark Butler ⁽³⁾

Stuart G. Clark ⁽¹⁾

Brian Lavergne
CEO

Henry R. Lawrie ^{(1) (2)}

Gregory G. Turnbull ⁽³⁾
Corporate Secretary

P. Grant Wierzba ⁽²⁾

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

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	\$US	United States dollar
	Mbbls	Thousands of barrels	WTI	West Texas Intermediate
Mboe	Thousands of barrels of oil equivalent			

Stock Exchange Listing	Toronto Stock Exchange Trading Symbol "SEO"	Reserve Engineers	Paddock Lindstrom & Associates Ltd. Calgary, Alberta
Solicitors	McCarthy Tétrault LLP Burnet Duckworth & Palmer LLP Calgary, Alberta	Bankers	CIBC, Oil & Gas Group Calgary, Alberta
Auditors	PricewaterhouseCoopers LLP Calgary, Alberta	Registrar & Transfer Agent	Valiant Trust Company Calgary, Alberta
Executive Offices	Suite 800, 205 – 5th Avenue S.W. Calgary, Alberta, T2P 2V7 Canada Tel: (403) 264-3520 Fax: (403) 264-3552 Website: www.stormexploration.com		