

3rd Quarter Highlights

Thousands of \$Cdn, except volumetric and per share amounts (unaudited)	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
FINANCIAL				
Gas sales	30,547 ⁽¹⁾	15,140	86,335 ⁽¹⁾	58,961 ⁽¹⁾
NGL sales	3,612	1,288	9,240	3,629
Oil sales	5,835	3,007	16,886	9,599
Royalty income	221	138	616	549
Production revenue	40,215	19,573	113,077	72,738
Funds from operations ⁽²⁾	24,290	9,372	67,058	38,710
Per share – basic (\$)	0.54	0.21	1.50	0.90
Per share – diluted (\$)	0.53	0.20	1.46	0.88
Net income	12,829	299	28,718	8,197
Per share – basic (\$)	0.28	0.01	0.64	0.19
Per share – diluted (\$)	0.28	0.01	0.63	0.19
Capital expenditures, net of dispositions	27,057	19,953	59,612	76,796
Debt, including working capital deficiency	83,904	80,943	83,904	80,943
Weighted average common shares outstanding (000s)				
Basic	44,692	43,423	44,638	43,086
Diluted	46,001	44,191	45,873	43,836
Common shares outstanding (000s)				
Basic	44,699	44,509	44,699	44,509
Fully diluted	47,015	46,438	47,015	46,438
OPERATIONS				
Oil equivalent (6:1)				
Barrels of oil equivalent (000s)	654	517	1,803	1,557
Barrels of oil equivalent per day	7,107	5,618	6,581	5,702
Average selling price (\$Cdn per Boe)	61.17 ⁽¹⁾	37.60	62.37 ⁽¹⁾	46.38 ⁽¹⁾
Gas production				
Thousand cubic feet (000s)	3,409	2,770	9,352	8,194
Thousand cubic feet per day	37,050	30,104	34,131	30,014
Average selling price (\$Cdn per Mcf)	8.96 ⁽¹⁾	5.47	9.23 ⁽¹⁾	7.20 ⁽¹⁾
NGL production				
Barrels (000s)	37	18	95	57
Barrels per day	397	197	348	210
Average selling price (\$Cdn per barrel)	98.90	71.20	96.92	63.42
Oil production				
Barrels (000s)	49	37	149	134
Barrels per day	535	404	545	490
Average selling price (\$Cdn per barrel)	118.48	80.82	113.17	71.77
Wells drilled				
Gross	9.0	8.0	20.0	19.0
Net	8.7	7.1	18.8	15.6

⁽¹⁾ Includes results of hedging activities.

⁽²⁾ Funds from operations is a non-GAAP measurement. See MD&A.

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

Third Quarter 2008 Highlights

- Production in the third quarter increased to 7,107 Boe per day, a 27% increase from production of 5,618 Boe per day in the same period one year ago. This is a per share increase of 23% using weighted average basic shares outstanding. Since the end of the quarter, production has further increased to average approximately 8,100 Boe per day in October and this leaves us on track to meet our production guidance for 2008 which consists of averaging 8,200 Boe per day in the fourth quarter.
- Drilled nine wells (8.7 net) with 89% success resulting in eight (7.7 net) gas wells. Four of the successful wells (3.7 net) were horizontal development wells in the Montney formation at Parkland. Three of those wells were completed and tied in by the end of the quarter and produced a total of 2,200 net Boe per day in the month of October.
- Funds from operations for the quarter totalled \$24.3 million or \$0.53 per diluted share, an increase of 165% from funds from operations of \$0.20 per diluted share in the year earlier period. Growth in production and higher commodity prices both contributed to the increase.
- Funds from operations per Boe or the cash flow netback was \$37.14 per Boe, an increase of 105% from the cash flow netback of \$18.13 per Boe in the third quarter of 2007. This significant increase resulted from higher commodity prices as well as growth in production from our Montney discovery at Parkland, where a higher price per Boe is received due to the produced natural gas having a higher heat content and being liquids rich. Also contributing to the increase were reductions in interest expense, operating costs and transportation costs per Boe.
- Our continuing efforts to maintain or reduce our cost structure resulted in third quarter operating costs averaging \$6.50 per Boe and cash costs comprising production, general and administrative and interest expenses averaging \$8.58 per Boe.
- Net income for the quarter was \$12.9 million or \$0.28 per diluted share, up 2,700% from net income of \$0.01 per diluted share in the prior year period. The increase is the result of growth in production, a higher corporate cash flow netback and a dilution gain of \$3.5 million related to a reduction in Storm's ownership position in Storm Gas Resource Corp.
- Capital invested in field-related activities totalled \$27.1 million during the quarter and, in addition to this, we increased our investment in Storm Ventures International ("SVI") and Storm Gas Resource Corp. ("SGR") at a cost of \$6.2 million during the quarter. This resulted in the bank debt and working capital deficiency ending the period at \$83.9 million or 0.9 times annualized quarterly funds from operations. At the end of the quarter, Storm had \$26 million of available capacity on our \$110 million bank credit facility.

CORE AREA REVIEW

Parkland/Fort St. John Area, North East British Columbia

This area includes our Montney discovery and is the largest of Storm's core areas, with net production averaging 4,425 Boe per day in the third quarter, an increase of 101% from production of 2,200 Boe per day in the third quarter of 2007. Current production from this area is approximately 5,400 Boe per day.

During the third quarter of 2008, our activity included:

- Drilling five vertical Montney step-outs (5.0 net) resulting in four gas wells (4.0 net) and one abandoned well (1.0 net). Two of the successful wells have been completed and tied in and the remaining two successful wells are expected to be completed and tied in early in the first half of 2009.
- Drilling and completing three horizontal Montney development wells (3.0 net). Average first month production from each of these three horizontals was 4.0 Mmcf per day of gross raw gas or 780 Boe per day of sales per well. By the end of 2008, Storm expects to have drilled a total of 13 horizontal Montney development wells at Parkland since November 2007.

- Drilling the first horizontal Montney well (0.7 net) as part of a farm-in on a seven-section block just southwest of our Parkland property. We completed this well with five fracs and the final test rate was 1.7 Mmcf per day of gross raw gas. We are reviewing ways to improve upon this result with the second horizontal well. Storm has committed to paying 67% of the cost to drill and complete two horizontal wells and has an option to drill a third with each horizontal well earning a 33% working interest in two sections of land. Successful horizontal wells will not be pipelined and producing until late in the first quarter of 2009.

To date in the fourth quarter, we have drilled another three Montney horizontal development wells and one more successful vertical step-out. Two more Montney horizontal development wells will be drilled before year-end.

As a result of the successful vertical step-outs we drilled in the third quarter, we now estimate that gross original gas in place¹ has increased to 410 Bcf, which is at the upper end of the range (330 to 430 Bcf), as was provided in our last

quarterly update on August 14th. This was determined based on an internal evaluation by Storm's technical staff using an areal extent of 10.25 sections (6,640 acres) with log analysis from 13 successful vertical gas wells, which show average net pay of 39 metres (average gross pay of 86 metres) and average porosity of 7.9%. Net pay has been determined using gas effect on logs which is evidenced by cross-over on limestone scale neutron-density logs; this is approximately equivalent to a 6% sandstone scale cut-off. Using a 3% sandstone scale cut-off would result in gross original gas in place¹ increasing to 770 Bcf, with average net pay being 87 metres and with 6.4% average porosity. Our confidence regarding the areal extent of the pool has increased greatly as a result of the vertical step-outs we have drilled this year. Geological mapping suggests that there is still potential to further expand the size of our discovery and, as a result, we plan to drill one more vertical step-out in the fourth quarter and one or two more in the first quarter of next year.

Development of our Montney discovery continues to progress as expected. During October, we produced 20 Mmcf per day of gross raw gas, from eight horizontal Montney gas wells, plus 3.2 Mmcf per day of gross raw gas from 10 Montney vertical wells. The ninth horizontal well has been drilled and completed and tested 9 Mmcf/d of gross raw gas and will be pipeline-connected and producing by mid-November. Completion of the tenth horizontal well is underway, and we expect that it will be producing by the end of November. First year rates from each horizontal well are expected to average approximately 2.2 Mmcf per day of raw gas. Cost inflation and increasing the number of fracs (seven to eight fracs instead of five) has increased the cost of drilling, completing and pipelining each horizontal to \$5.5 million. The presentation on our website www.stormexploration.com is periodically updated (next update in mid-November) and shows monthly average production for each of our producing vertical and horizontal wells.

We are currently planning to drill four horizontal wells per section to develop this pool, which results in an undrilled inventory of 35 horizontal wells, representing three years of activity. This inventory of horizontal locations will further increase should our vertical well step-out program continue to be successful in expanding the pool size. Note that production results from our vertical wells would suggest that reservoir quality and thickness does vary across the pool, which is likely to result in the need for increased horizontal well density in areas of thicker reservoir as well as in areas with lower reservoir quality in order to ensure that the recovery of the resource in place is maximized.

As a result of the success of our horizontal Montney development program, our facility at Parkland is very close to being full, and we have started constructing a second facility with 12.5 Mmcf per day of initial capacity. The total cost of this project is estimated to be \$13.5 million, which includes \$1.5 million to twin parts of our gathering system. When we first announced our intention to add a second facility in mid-August, it was expected to be operational by the end of November; however, due to a reduction in expected 2008 cash flow, this facility will now be operational in late January of 2009. This results in approximately \$7.5 million of the total cost being incurred in 2008 with the remainder incurred in early 2009. In the third quarter of 2009, an additional \$14 million will be invested on this facility to install a second compressor which will increase the capacity of the second facility to 25 Mmcf per day, electrify both compressors and install a refridge plant which will allow us to increase natural gas liquids recovery. This facility has been designed to be expandable to 50 Mmcf per day of capacity.

Financial results from our Parkland property continue to exceed our expectations. Operating costs at Parkland averaged \$3.70 per Boe in the third quarter and \$4.10 per Boe year-to-date. The field netback during the third quarter was \$46.40 per Boe and is currently \$34.00 per Boe, assuming a natural gas price of \$6.75 per GJ at AECO, an Edmonton Par oil price of \$72.00 per barrel, transportation costs of \$1.60 per Boe and a royalty rate of 23%.

Peace River Arch, North West Alberta

Production from this area averaged 1,750 Boe per day in the third quarter, a decline of 1% from the 1,760 Boe per day produced in the immediately prior quarter. Declines are continuing to flatten as evidenced by current production being approximately 1,700 Boe per day. Production in the third quarter of 2007 averaged 2,270 Boe per day.

During the quarter, we tied in one standing well (1.0 net) at our Culp property, which is currently producing 70 Boe per day. We have postponed drilling the four wells (2.2 net) we had planned for this area in the second half of 2008 because of the recent decline in natural gas prices. At higher commodity prices which prevailed in the first half of 2008, the economic returns associated with these prospects were reasonable under Alberta's New Royalty Framework ("NRF") which is being implemented January 1, 2009. However, at current commodity prices, the economic return under the NRF is not great enough to put Storm's capital at risk.

We are currently reviewing our producing wells in this area in order to ensure that each well's production rate is optimized so Storm's economic return is maximized once the NRF is implemented January 1, 2009. This may lead to a modest reduction in production from this area in January.

Cabin/Kotcho/Junior Area, North East British Columbia

Net production from this area averaged 885 Boe per day in the third quarter. This represents a decline of 18% from average production of 1,075 Boe per day in the year earlier period. Current production is approximately 850 Boe per day. Historically, our drilling activity in this winter access area has mainly targeted the Slave Point formation. In the future, our drilling activity will also include prospects in the Bluesky/Debolt formations and horizontal wells in the Jean Marie formation, all in the Junior area. This winter we do not plan to be active in this area drilling wells targeting these conventional prospects, given that our capital resources will be directed towards higher impact opportunities including our Montney discovery at Parkland and the Horn River Basin Devonian shale project.

Since the beginning of this year (including land acquired to date in the fourth quarter), Storm has acquired a 40% interest in 34 sections of undeveloped land (8,940 net acres) prospective for Devonian shale gas in the Horn River Basin, which is just to the west of the Cabin area. This land position was acquired at an average cost of \$550 per acre. These lands were purchased in partnership with SGR which owns the remaining 60% working interest. Combined with Storm's 23% ownership position in SGR, our exposure to this unconventional shale gas play is approximately 54%. Two to three vertical wells (0.8 to 1.2 net) will be drilled and completed this winter to test the productivity of the acquired lands. One of these wells will be drilled in December, but won't be completed until January. Approximately 21 sections (8.4 net) are located in close proximity to the planned vertical test wells, and we estimate that there are 1.6 Tcf of gross original gas in place¹ (internal estimate by Storm and SGR) on these lands, which is based on average gross pay of 80 metres in the Muskwa and Otter Park shales. The Klua/Evie shale was not included in this estimate because less information is available regarding the productivity of this shale in the area. Although this winter's drilling program will prove productivity of these lands, we don't expect to have an indication regarding upside or potential economic returns until we have drilled several horizontal wells and have long-term production data from those wells, which is likely at least two years away.

Surmont Oil Sands Leases, Alberta

As reported in our first quarter update on May 8, McDaniel & Associates Consultants Ltd. updated its evaluation of the bitumen contingent resource contained in the McMurray formation on Storm's 3,840 acres (6 sections) of oil sands leases. The best case estimate of discovered bitumen resources (defined as bitumen in place exploitable using a Steam-Assisted-Gravity Drainage or SAGD process) is 312 million barrels, with the best estimate of contingent bitumen resources recoverable using a SAGD process being 113 million barrels.

This winter (possibly in December), Storm will drill an additional three test holes to further prove up and expand the estimated bitumen in place. One section remains largely unevaluated and could materially increase our bitumen contingent resources. Storm has no plans at present to initiate development of this resource and no assurance can be provided that this resource will ever be exploited with a conventional SAGD project.

¹ *Original Gas in Place ("OGIP") is the same as discovered Petroleum Initially in Place which is defined in the COGEM handbook as the quantity of hydrocarbons that are estimated to be in place within a known accumulation. OGIP is used here as it is a more commonly used industry term when referring to gas accumulations. Discovered Petroleum Initially in Place is divided into recoverable and unrecoverable portions, with the estimated future recoverable portion classified as reserves and contingent resources. There is no certainty that it will be economically viable or technically feasible to produce any portion of this Discovered Petroleum Initially in Place except for those portions identified as proved or probable reserves.*

STORM GAS RESOURCE CORP.

SGR was formed in June 2007, to pursue unconventional gas opportunities in the Horn River Basin and elsewhere. During the third quarter, SGR completed a private equity issue and raised \$38.2 million (net of share issue costs) at a price of \$6.50 per share. Storm invested \$4.9 million to acquire 0.8 million shares as part of this offering. We have now invested a total of \$6.2 million in SGR and own 2.05 million shares representing a 23% ownership position. SGR's focus in the short term will be to expand its Devonian shale land position in the Horn River Basin, and to test the productivity of acquired lands with vertical wells as well as horizontal wells. This winter, two to three vertical wells (60% SGR working interest) are planned in the Horn River Basin and, if flow testing results in commercial gas rates, one to three horizontal test wells may be drilled next winter. SGR will also look to identify other areas with unconventional gas potential where undeveloped land can be acquired. This is a longer term investment and we don't expect to have an indication regarding the upside potential for at least two to three years.

STORM VENTURES INTERNATIONAL INC.

Storm owns 4.5 million shares of SVI, a Calgary-based, private energy company focused on unconventional and international exploration and exploitation opportunities. This includes an additional 200,000 shares which Storm acquired as part of a rights offering which closed in August 2008 and raised \$31 million from existing shareholders at \$6.25 per share. Our share position has a value of \$28 million or \$0.60 per fully diluted Storm share using the rights offering price of \$6.25 per share.

SVI is active in the UK sector of the North Sea through its affiliate, Silverstone Energy Limited, in which SVI has a 32% ownership position. The initial entry into the North Sea came through a farm-in which provided access to the Viking Fields area in the Southern Gas Basin of the North Sea where over five Tcf of gas has been produced to date, and where multiple prospects greater than 50 Bcf in size have been identified.

More recently, Silverstone has expanded its efforts and has been accumulating an acreage position with exposure to oil prospects in the Central North Sea. Silverstone is currently producing 15 Mmcf per day from the recently tied in Victoria gas discovery (100% working interest before payout, 50% after payout) and 1.5 – 2 Mmcf per day from the Tristan NW gas field (54% working interest), which was acquired as part of the Granby Oil and Gas corporate acquisition earlier this year. Activity through to the end of 2008 is expected to include:

- Drilling a well to test the 1.2 billion barrel, 11 degree API Broch prospect in the Quad 9 fairway (Silverstone pays 10% and will maintain a 36% interest in the prospect).
- Spudding Northwest Vulcan well (12% working interest) prior to December 31, 2008.

Activity by the end of 2009 is expected to include:

- A field development plan for Vulcan East will be completed by the end of the first quarter of 2009.
- The Coriander exploration well (65%) and Monkwell appraisal well (20%) in the Central North Sea will be drilled.

With netbacks at current prices (71 pence per therm or US \$11.00 per Mmbtu) being in excess of Cdn \$60 per Boe, much of this activity will be funded using current cash balances (US \$14 million) plus cash flow, and, if required, a limited amount of debt from a facility established with the Royal Bank of Scotland.

In Tunisia, SVI has 2.5 million gross acres of land in five blocks both onshore and offshore. In the 1.2 million acre Remada Sud permit (71% working interest), the recently drilled onshore TT2 Ordovician discovery tested 220 barrels of oil per day from a 65 square kilometre structure with a 57 metre oil column and estimated oil in place of 200 million barrels. The next step is to conduct an extended production test, record 3-D seismic, and drill an additional one to two appraisal wells over the next 12 months. This discovery provides significant early stage encouragement as to the prospectivity of this very large undeveloped land block. In the 60,000 acre Jenein Centre block (65% working interest), a well will be drilled later in the first quarter of 2009 targeting light oil in the Acacus formation. Offshore in the Gulf of Hammamet, SVI is planning to develop the Cosmos Main discovery (100% working interest, estimated oil in place of 25 million barrels) with subsea wells and an FPSO. The decision to move ahead on this project will be made by mid-2009 and is subject to finding a partner to take on as much as a 40% working interest as well as obtaining approval of the Tunisian authorities for the field development plan. First oil is expected in late 2010 with initial production possibly as high as 20,000 barrels of light oil per day. Cosmos South, which

is adjacent to this development, potentially holds another 12 million barrels of oil in place and may be developed as a follow-up project. This block also holds two more existing fallow discoveries at Yasmin (estimated oil in place of 15 to 20 million barrels) and Tazerka (estimated oil in place of 90 million barrels) which will be evaluated in the future as resources allow. One offshore exploratory well is planned for mid-2009, testing of the Fushia prospect (50% working interest).

SVI is currently reviewing the possibility of a business combination with Silverstone and also listing as a public company on the TSX to provide liquidity to existing shareholders. Should such an event occur, it would be Storm's intention to distribute the publicly traded shares to our shareholders. SVI has made considerable progress in advancing its business plan over the last five years, and has accumulated a focused asset base with significant upside potential which could represent material incremental value for Storm's shareholders.

OUTLOOK

When we released our second quarter results on August 14, our planned level of capital investment in 2008 was increased from \$65 million to \$105 million as a result of the year-to-date average natural gas price at AECO being considerably higher than our original budget assumption of \$6.25 per GJ at AECO. The increase would have been funded by higher levels of cash flow, assuming an average AECO price of \$7.75 per GJ in the second half of 2008. Since then, natural gas prices have weakened (October averaged \$6.40 per GJ at AECO) which has resulted in our cash flow being lower than expected. With less cash flow available to invest in our exploration and exploitation activities, we will reduce our capital invested in 2008 to \$95 million, which will still be funded primarily with cash flow plus a limited amount of debt assuming natural gas prices at AECO average \$6.50 per GJ in the fourth quarter and \$7.75 per GJ for the year. This does not include the additional \$6.2 million we invested in adding to our equity investments in SVI or SGR. Our bank debt and working capital deficiency exiting 2008 is forecast to be \$95 million, which represents an increase of 12% or \$10 million over the past year, while production over the same period will have grown by 37% from 5,992 Boe per day in the fourth quarter of 2007 to 8,200 Boe per day in the fourth quarter of 2008. For the past four years, we have been consistent and disciplined about using cash flow, plus limited amounts of debt, to fund our exploitation and exploration activities, while debt and equity have been used to fund acquisitions. This has resulted in strong production growth per share and will continue to be a cornerstone of our business plan in the future.

President's Message

Storm's revised 2008 capital program will now include:

- Drilling 27 wells (25.2 net) including 12 horizontal Montney development wells (11.3 net) with 10 of those horizontals being completed this year and the remaining three early in 2009.
- Investing \$10 million on undeveloped land with 25,700 net acres of undeveloped land having been acquired so far this year, primarily in north east British Columbia at Parkland and in the Horn River Basin.
- Expanding our operated infrastructure with an investment of \$12 million with most of that being at our Parkland property. Construction of the second facility at Parkland has commenced, and an estimated \$7.5 million will be spent on this project in 2008. The new facility will be completed in late January 2009, resulting in the remaining \$6 million of the project cost being incurred in the first quarter of 2009.
- Minor non-core property and undeveloped land dispositions totalling \$8 million.

Although we have reduced planned levels of activity, our production guidance remains unchanged. Production in October averaged approximately 8,100 Boe per day and we expect fourth quarter production to average 8,200 Boe per day, which represents production growth of 35% on both an absolute and per share basis from the fourth quarter of 2007.

Our corporate average field netback has improved significantly so far in 2008, which is partly due to higher commodity prices and partly due to production growth at our Parkland property. Gas produced from our Montney discovery at Parkland receives a higher relative price per Boe, since we recover approximately 25 barrels of natural gas liquids and condensate per Mmcf of sales gas, plus the sales gas (after liquids are removed) has a higher heat content, resulting in a price per Mcf approximately 25% higher than the price per GJ. The field netback at Parkland in the third quarter averaged \$46.40 per Boe which was 17% higher than our corporate average field netback of \$39.77 per Boe. Production at Parkland represented 62% of our corporate production in the quarter and has increased to approximately 67% of our current corporate production.

Preliminary guidance for 2009 is as follows:

- Production exiting 2009 (fourth quarter average) at approximately 10,000 Boe per day, which represents 24% growth from this year's exit rate.
- Capital investment totalling \$100 to \$110 million which will be directed towards completing the second Parkland facility in late January (\$6 million), expanding the capacity and electrifying the new facility in the summer of 2009 (\$14 million), drilling 22 to 27 wells (90% working interest) including nine Montney horizontal development wells (9.0 net), and completing 11 to 12 Montney horizontal wells (11 to 11.7 net).

- Operating costs averaging \$5.50 to \$6.00 per Boe, cash G&A charges averaging \$1.00 per Boe and an average royalty rate of 23% to 24% (includes the impact of Alberta's NRF).

Our 2009 capital program will be funded primarily with cash flow assuming a natural gas price of \$7.00 per GJ at AECO.

Using our expected results for this year and our guidance for 2009, we will have used cash flow plus a limited amount of debt to:

- Grow production per share by approximately 18% this year and 28% next year.
- Significantly expand our infrastructure and competitive advantage in the Parkland area.
- Acquire and, this winter, test the productivity of our large, undeveloped land position in the Horn River Basin containing material amounts of gas in place in the Devonian shale.

Being disciplined and generating strong growth on a per share basis using cash flow and a limited amount of debt is not a new direction for Storm. We have been and will continue to review acquisition opportunities as a way of accelerating our growth; however, we are unlikely to transact unless a high-quality asset can be acquired at a reasonable cost. The acquisition of a lower quality property funded with debt and/or equity would lessen the impact of future growth associated with our expanding Montney discovery at Parkland, our equity ownership in SVI and the undeveloped land position we have accumulated in the Horn River Basin. Although both the financial and commodity markets have been going through a very turbulent period, this is an exciting time for Storm and we appreciate the support and patience of our shareholders.

Respectfully,



Brian Lavergne, President and CEO
November 13, 2008

Management's Discussion and Analysis

Set out below is management's discussion and analysis ("MD&A") of financial and operating results for Storm Exploration Inc. ("Storm" or the "Company") for the three and nine months ended September 30, 2008. It should be read in conjunction with the audited financial statements for the year ended December 31, 2007 and other operating and financial information included in this report. This management's discussion and analysis is dated November 13, 2008.

INTRODUCTION AND LIMITATIONS

Basis of Presentation

Financial data presented below have largely been derived from the Company's unaudited financial statements for the three and nine months ended September 30, 2008, 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 unaudited consolidated financial statements for the three and nine months ended September 30, 2008 and in note 2 to the Company's audited consolidated financial statements for the year ended December 31, 2007. 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.

On January 1, 2008, Storm adopted, with prospective effect, certain new accounting standards introduced as part of GAAP as follows:

Capital Disclosures

Section 1535 of the CICA Handbook, "Capital Disclosures," requires companies to disclose in their financial statements, objectives, policies and processes for managing capital, including compliance with any externally imposed capital requirements.

Financial Instrument Disclosure and Presentation

Section 3862 of the CICA Handbook, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Disclosure and Presentation." The new accounting standards require the Company to provide information about the significance of financial instruments to the Company's financial position and performance. In addition, information about the nature and extent of risks associated with financial

instruments, and how the Company manages such risks, is to be provided.

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 three and nine months ended September 30, 2008.

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. These statements are based on current beliefs and expectations based on information available at the time the applicable assumptions were made. By their nature, forward-looking statements are subject to numerous risks, uncertainties and assumptions, some of which are beyond the Company's control, including the material risk described in Storm's Annual Information Form and in this MD&A under "Risk Assessment" and in Management's Discussion and Analysis for the year ended December 31, 2007 also under "Risk Assessment" and the material assumptions disclosed in the "Production and Revenue" section hereof, under the headings "Production Profile and Per Unit Prices," "Royalties," and "Transportation Costs;" under the "Provision for Account Receivable" and "Depletion, Depreciation and Accretion" sections hereof; and under the "Investment and Finance" section hereof under the headings "Bank Debt, Liquidity and Capital Resources;" and "Asset Retirement Obligation;" 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. Storm disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under securities law.

Boe Presentation

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

in this report are derived by converting natural gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil.

Non-GAAP Measurements

Within management's discussion and analysis, references are made to terms which are not recognized under GAAP in Canada. Specifically, "funds from operations," "funds from operations per share," and "netbacks" do not have any standardized meaning as prescribed by GAAP in Canada and are regarded as non-GAAP measures. It is likely that these non-GAAP measurements may not be comparable to the calculation of similar amounts for other entities. In particular, funds from operations is not intended to represent, or be equivalent to, cash flow from operating activities calculated in accordance with Canadian GAAP which appears on the Company's Consolidated Statements of Cash Flows. Funds from operations is used to benchmark operations against prior periods and peer group companies. It is also used to determine leverage for the purposes of determining interest costs under the Company's banking agreement.

A reconciliation of funds from operations to cash flows from operating activities is as follows:

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Cash flow from operating activities	\$ 24,131	\$ 5,578	\$ 65,901	\$ 36,983
Add: Net changes in non-cash working capital items	159	3,794	1,157	1,727
Funds from operations	\$ 24,290	\$ 9,372	\$ 67,058	\$ 38,710

Funds from operations per share is calculated using the weighted average number of common shares outstanding consistent with the calculation of net income per share. Netbacks equal total revenue adjusted for hedging gains or losses, plus

royalty income, less royalties, production and transportation costs, calculated on a Boe basis for the reporting period. 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 September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Natural gas (Mcf/d)	37,050	30,104	34,131	30,014
Natural gas liquids (Bbls/d)	397	197	348	210
Crude oil (Bbls/d)	535	404	545	490
Total (Boe/d)	7,107	5,618	6,581	5,702

After a flat second quarter, as a result of part of the Company's production being shut in during June due to scheduled maintenance at the McMahon gas plant operated by Spectra Energy in Fort St. John, British Columbia, production in the third quarter grew by 27%, when compared to the same quarter in 2007 and by 16% when compared to the immediately preceding quarter. The quarterly year-over-year production increase is largely attributable to rapidly growing

Montney gas production at the Company's core Parkland area.

Production per million shares outstanding in the third quarter of 2008 averaged 159 Boe per day, compared to 129 Boe per day for the third quarter of 2007, an increase of 23%.

For the nine months ended September 30, 2008, production increased by 12%, when compared to the equivalent period in 2007, or an increase of 15% per million shares outstanding for each period.

Production Profile and Per Unit Prices

	Three Months to September 30, 2008		Three Months to September 30, 2007	
	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%	\$ 9.37 ⁽¹⁾	89%	\$ 5.47 ⁽¹⁾
Natural gas liquids	6%	\$ 98.90	4%	\$ 71.20
Crude oil	7%	\$ 118.48	7%	\$ 80.82
Per Boe		\$ 63.29 ⁽¹⁾		\$ 37.60 ⁽¹⁾

	Nine Months to September 30, 2008		Nine Months to September 30, 2007	
	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%	\$ 9.47 ⁽¹⁾	87%	\$ 6.88 ⁽¹⁾
Natural gas liquids	5%	\$ 96.92	4%	\$ 63.42
Crude oil	8%	\$ 113.17	9%	\$ 71.77
Per Boe		\$ 63.58 ⁽¹⁾		\$ 44.74 ⁽¹⁾

⁽¹⁾ Average selling prices above do not include any hedging gains or losses.

Management's Discussion and Analysis

Storm's production base is largely natural gas and associated liquids. Short- and medium-term exploitation of the Company's existing asset base will not result in crude oil increasing as a percentage of Boe production. Growth in gas production to date in 2008 and for the remainder of the year is expected to come largely from Parkland, in particular from the Company's Montney discovery.

The average AECO spot market reference price for the third quarter of 2008 was \$7.45 per GJ; for the third quarter of 2007 was \$4.91 per GJ; and for the nine months to September 30, 2008 and 2007 was \$8.19 and \$6.21, respectively.

The corporate average realized price per GJ received by Storm for the third quarter of 2008 was approximately 25% higher than the AECO reference price. This pricing premium is in part attributable to high heat content natural gas delivered from the Montney formation at Parkland, which receives a price approximately

25% higher than the AECO reference price. The higher third quarter net gas price is also due to natural gas hedges outstanding during the third quarter of 2008 being priced at a monthly index price, which necessitates that the equivalent amount of Storm's natural gas production be sold at monthly index pricing, instead of AECO spot pricing. During the third quarter of 2008, the monthly index price averaged \$8.75 per GJ, which was considerably higher than the AECO spot price. This price difference is normal when natural gas prices decline rapidly; conversely, spot prices will be higher than the monthly index when natural gas prices are rapidly increasing. As these hedges have expired, all of our natural gas is currently being sold at spot pricing. In addition to superior heat content, Montney natural gas also has a natural gas liquids content of approximately 25 barrels per Mmcf, which has contributed to year-over-year doubling of natural gas liquids production.

Production by Area – Boe per Day

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Peace River Arch – Parkland BC	4,422	2,196	3,758	1,995
Peace River Arch – AB	1,738	2,256	1,853	2,497
Cabin/Kotcho/Junior – BC	883	1,077	910	1,071
Other	64	89	60	139
Total	7,107	5,618	6,581	5,702

The above sets out the average production from each of Storm's core areas. Within the Parkland area of the Peace River Arch, Montney gas production averaged 2,939 Boe per day in the third quarter of 2008, an increase of 37% over the second quarter, with Montney production representing 41% of total corporate production for the quarter. Montney gas production in the third quarter of 2007 averaged

169 Boe per day. For the nine months to September 30, 2008, Montney production averaged 2,250 Boe per day, compared to 105 Boe per day in 2007.

The Company's focus on the Parkland area has resulted in year-over-year production from the area growing by 101%. Correspondingly, reduced investment in Alberta is evidenced by a 23% reduction in year-over-year production.

Production Revenue

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Natural gas	\$ 31,932	\$ 15,140	\$ 88,522	\$ 56,410
Natural gas liquids	3,612	1,288	9,240	3,629
Crude oil	5,835	3,007	16,886	9,599
Hedging (losses) gains	(1,385)	–	(2,187)	2,551
Revenue from product sales	39,994	19,435	112,461	72,189
Royalty income	221	138	616	549
Total production revenue	\$ 40,215	\$ 19,573	\$ 113,077	\$ 72,738

A reconciliation of revenue from product sales between the quarters ended September 30, 2008 and 2007 is as follows:

	Natural Gas	Natural Gas Liquids	Crude Oil	Total
Revenue from product sales – Q3 2007	\$ 15,140	\$ 1,288	\$ 3,007	\$ 19,435
Contribution from increased production quarter-over-quarter	5,991	1,823	1,428	9,242
Contribution from increased product prices quarter-over-quarter	10,801	501	1,400	12,702
Loss from hedging activities	(1,385)	–	–	(1,385)
Revenue from product sales – Q3 2008	\$ 30,547	\$ 3,612	\$ 5,835	\$ 39,994

Hedging

Hedging commitments outstanding during the three months to September 30, 2008 were as follows:

Product	Volume	Period	Contract	Price
Natural gas	12,000 GJ per day	July 1, 2008 – September 30, 2008	Fixed price	Cdn \$8.04 per GJ
Natural gas	11,000 GJ per day	July 1, 2008 – September 30, 2008	Collar	Ceiling Cdn \$8.70 per GJ – Floor Cdn \$7.50 per GJ

Storm follows hedge accounting rules and recognized a loss of \$1.4 million or \$2.12 per Boe, or \$0.41 per Mcf, during the quarter ended September 30, 2008. For the nine-month period to September 30, 2008, the Company realized a loss of \$2.2 million, or \$1.21 per Boe, or \$0.23 per Mcf.

Storm followed hedge accounting rules with respect to hedges outstanding during the quarter ended September 30, 2008, and for all prior hedges. However, any future hedges entered into by Storm may not satisfy hedge accounting criteria; correspondingly, the Company may be obliged to follow mark-to-market rules.

Royalties

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Charge for period	\$ 8,733	\$ 4,013	\$ 24,139	\$ 15,003
Royalties as a percentage of revenue from product sales before hedging				
Crown	19.8%	19.7%	19.8%	19.6%
Other	1.3%	0.9%	1.2%	1.2%
Total	21.1%	20.6%	21.0%	20.8%
Per Boe	\$ 13.36	\$ 7.76	\$ 13.39	\$ 9.64

Royalty rates are based on provincial government reference rates and exclude gains or losses from hedging. Higher per Boe royalty rates in 2008, when compared to the prior year, are due to higher commodity prices.

The introduction of the New Royalty Framework by the Provincial Government of Alberta announced in October 2007, which comes into effect on January 1, 2009, will have the broad effect of increasing Alberta provincial royalties, particularly on wells with high initial production rates. Such wells tend to be wells with higher amounts of capital at risk, with a corresponding reduction in returns accruing to oil and gas investment in the province. Approximately 25% of Storm's production came from Alberta in the third quarter of 2008, compared to 40% in the third quarter of 2007.

All other production comes from British Columbia. For the remainder of 2008 and into the first quarter of 2009, Storm's capital programs will continue to be focused on the exploitation of its largely natural gas properties in the Peace River Arch area of north east British Columbia, which, assuming operational success, will result in revenue from Alberta continuing to fall as a percentage of total revenue. In addition to lower investment, natural declines will further reduce Storm's Alberta-based production and revenue. The allocation of capital by the Company to projects outside of Alberta is not exclusively in response to the changed Crown royalty regime in Alberta as the Company's British Columbia projects, particularly Montney natural gas, offer superior economic returns.

Production Costs

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Charge for period	\$ 4,253	\$ 3,510	\$ 12,679	\$ 11,129
Percentage of revenue from product sales before hedging	10%	18%	11%	16%
Per Boe	\$ 6.50	\$ 6.79	\$ 7.03	\$ 7.15

Total production costs for the quarter ended September 30, 2008 were largely unchanged year-over-year, but fell as a percentage of revenue in response to improved pricing. Per Boe, production costs for the quarter to September 30, 2008 fell by 4% when compared to the same period in 2007, in part due to the concentration of Storm's asset base, and increased contribution from Parkland, which has lower operating costs. Production costs per Boe for the nine-month period to September 30, 2008 were 2% lower compared to the same period in 2007.

Storm's cash costs, which comprise production, general and administrative costs and interest, amounted to \$8.58 for the quarter ended September 30, 2008, compared to \$9.48 for the quarter ended September 30, 2007. For the nine-month periods to September 30, cash costs for 2008 amounted to \$9.78 and \$9.88 for 2007. Lower interest costs, reflecting reduced borrowings, were primarily responsible for the year-over-year decrease.

Transportation Costs

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Charge for period	\$ 1,221	\$ 1,287	\$ 3,887	\$ 3,653
Percentage of revenue from product sales before hedging	3%	7%	3%	5%
Per Boe	\$ 1.87	\$ 2.49	\$ 2.16	\$ 2.35

Increased total charges for transportation reflect increasing production levels. The reduction in transportation costs per Boe in both the third quarter

and the first nine months of 2008, is a result of increased production from the Parkland area which has lower associated transportation costs per Boe.

Field Netbacks

Details of netbacks per commodity unit are as follows:

Three Months to September 30, 2008				
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 118.48	\$ 98.90	\$ 9.37	\$ 63.29
Hedging loss	–	–	(0.41)	(2.12)
Royalty income	0.55	0.40	0.05	0.33
Royalties	(19.48)	(24.22)	(2.02)	(13.36)
Production costs ⁽¹⁾	(8.63)	–	(1.12)	(6.50)
Transportation	(4.56)	(1.33)	(0.28)	(1.87)
Field netbacks	\$ 86.36	\$ 73.75	\$ 5.59	\$ 39.77
Three Months to September 30, 2007				
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 80.82	\$ 71.20	\$ 5.47	\$ 37.60
Hedging gain or loss	–	–	–	–
Royalty income	0.73	0.74	0.04	0.27
Royalties	(12.66)	(20.54)	(1.14)	(7.76)
Production costs ⁽¹⁾	(9.44)	–	(1.14)	(6.79)
Transportation	(3.56)	(4.29)	(0.39)	(2.49)
Field netbacks	\$ 55.89	\$ 47.11	\$ 2.84	\$ 20.83
Nine Months to September 30, 2008				
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 113.17	\$ 96.92	\$ 9.47	\$ 63.58
Hedging loss	–	–	(0.23)	(1.21)
Royalty income	1.03	0.43	0.04	0.34
Royalties	(18.54)	(22.39)	(2.06)	(13.39)
Production costs ⁽¹⁾	(8.50)	–	(1.22)	(7.03)
Transportation	(5.23)	(2.15)	(0.31)	(2.16)
Field netbacks	\$ 81.93	\$ 72.81	\$ 5.69	\$ 40.13
Nine Months to September 30, 2007				
	Crude Oil (\$/Bbl)	Natural Gas Liquids (\$/Bbl)	Natural Gas (\$/Mcf)	Total (\$/Boe)
Product sales	\$ 71.77	\$ 63.42	\$ 6.88	\$ 44.74
Hedging gain	–	–	0.31	1.64
Royalty income	0.52	0.68	0.05	0.35
Royalties	(11.45)	(17.53)	(1.52)	(9.64)
Production costs ⁽¹⁾	(8.14)	–	(1.23)	(7.15)
Transportation	(2.44)	(4.12)	(0.38)	(2.35)
Field netbacks	\$ 50.26	\$ 42.45	\$ 4.11	\$ 27.59

⁽¹⁾ Production costs for natural gas liquids are included with natural gas costs.

Management's Discussion and Analysis

Field netback per Boe for the quarter ended September 30, 2008 increased by 91% over the equivalent period of 2007. Storm benefited from increased prices for each product category, supported by lower controllable costs, offset by a hedging loss. For the nine months ended September 30, 2008, Storm's field netback

increased by 45% over the equivalent period in 2007. Excluding the effects of hedging in both 2008 and 2007, the increase in netback per Boe for the third quarter and first nine months of 2008 over the prior year periods amounted to 101% and 59%, respectively.

Interest

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Charge for period	\$ 825	\$ 1,151	\$ 2,830	\$ 2,688
Per Boe	\$ 1.26	\$ 2.23	\$ 1.57	\$ 1.73

Interest is paid on Storm's revolving bank facility. Lower interest expense in the third quarter of 2008, when compared to the prior

year, is a result of lower bank borrowings and lower debt service costs.

General and Administrative Costs

Total costs

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Gross general and administrative costs	\$ 1,368	\$ 1,293	\$ 4,121	\$ 3,800
Capital and operating recoveries	(835)	(1,053)	(1,997)	(2,245)
Net general and administrative costs	\$ 533	\$ 240	\$ 2,124	\$ 1,555

Costs per Boe

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Gross general and administrative costs	\$ 2.09	\$ 2.50	\$ 2.29	\$ 2.44
Capital and operating recoveries	(1.27)	(2.04)	(1.11)	(1.44)
Net general and administrative costs	\$ 0.82	\$ 0.46	\$ 1.18	\$ 1.00

Increases in gross general and administrative costs for the quarter and nine months ended September 30, 2008, when compared to the same periods in 2007, were primarily due to an

increased staff count, as well as higher year-over-year compensation and accommodation costs. Storm does not capitalize general and administrative costs.

Provision for Account Receivable

In July 2008, SemCanada Energy Company ("SemCan"), a purchaser of part of Storm's natural gas production in British Columbia, along with various affiliated companies, filed for creditor protection under the *Companies' Creditors Arrangement Act*. Storm is owed \$718,000 and has set up a provision for 50% of the amount due. Sales contracts with SemCan

were terminated immediately and the Company has no continuing exposure under these contracts. It is not presently determinable as to how much of the amount owing to Storm, if any, will be recoverable.

The Company has taken necessary action to protect its position.

Stock-Based Compensation Costs

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Charge for period	\$ 615	\$ 314	\$ 1,346	\$ 992
Per Boe	\$ 0.94	\$ 0.61	\$ 0.75	\$ 0.64

Stock-based compensation costs are non-cash charges which reflect the value of stock options and performance warrants awarded to directors and employees. The value is recognized as an expense over the period from the grant date to the date of vesting of the award. Storm's

performance warrant plan was terminated mid-2007, upon the exercise of the remaining warrants. The increase in the charge in the third quarter of 2008, when compared to the third quarter of 2007, is due to the issue of additional stock options late in 2007.

Depletion, Depreciation and Accretion

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Depreciation and depletion charge for period	\$ 10,603	\$ 8,619	\$ 30,129	\$ 25,116
Accretion charge for period	122	117	367	344
Total	\$ 10,725	\$ 8,736	\$ 30,496	\$ 25,460
Total per Boe	\$ 16.40	\$ 16.90	\$ 16.91	\$ 16.35

The increase in the total charge for depreciation, depletion and accretion for the three- and nine-month periods to September 30, 2008, when compared to the same periods in 2007, is a consequence of higher production volumes as the depletion component of the charge is based on a cost per Boe.

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%.

Investment Gain

The Company is a shareholder in a private company, Storm Gas Resource Corp. ("SGR"). In July 2008, SGR completed a private placement at a price greater than Storm's average investment cost. Storm's ownership percentage fell from 45% to 23% after completion of the SGR private placement. Storm has included in net income for the quarter and nine months ended September 30, 2008 a non-cash dilution gain of \$3.5 million.

Income and Other Taxes

For the three months ended September 30, 2008, Storm recorded a future income tax provision of \$3.6 million compared to \$0.02 million for the quarter ended September 30, 2007. For the nine-month periods ended September 30, 2008 and 2007, the future income tax provision amounted to \$10.0 million and \$4.1 million, respectively. 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 applicable to pre-tax income in 2008 is 30%, compared to 32% for 2007.

At September 30, 2008, Storm had tax pools carried forward estimated to be \$187 million. In September 2007, the Company entered into a flow-through share issue, which provided for the renunciation of Canadian Exploration

Expense of \$15.1 million, and the incurrence of such expenditures by December 31, 2008. At September 30, 2008, the Company considers that the necessary expenditures have been incurred. Storm also has a capital loss in the amount of \$10.0 million available for application against future capital gains.

Net Income and Net Income Per Share

Net income for the quarter ended September 30, 2008 increased considerably when compared to the quarter ended September 30, 2007, which was essentially break even. Quarter-over-quarter, net income per diluted share showed a similar increase. For the nine months ended September 30, 2008, net income increased by 250% when compared to the nine months ended September 30, 2007. Per diluted share, net income increased by 232% in the first nine months of 2008 over the same period in 2007.

	Three Months to September 30, 2008		Three Months to September 30, 2007		Nine Months to September 30, 2008		Nine Months to September 30, 2007	
	\$000s	Per diluted share (\$)	\$000s	Per diluted share (\$)	\$000s	Per diluted share (\$)	\$000s	Per diluted share (\$)
Net income	12,829	0.28	299	0.01	28,718	0.63	8,197	0.19

Funds from Operations

Non-GAAP funds from operations for the quarter ended September 30, 2008 increased by 159% to \$24.3 million, or \$0.53 per diluted share, compared to \$9.4 million, or \$0.20 per diluted share for the equivalent quarter of 2007. For

the nine-month period to September 30, 2008, funds from operations increased by 73% to \$67.1 million, or \$1.46 per diluted share, compared to \$38.7 million, or \$0.88 per diluted share for the equivalent period in 2007.

	Three Months to September 30, 2008		Three Months to September 30, 2007		Nine Months to September 30, 2008		Nine Months to September 30, 2007	
	\$000s	Per diluted share (\$)	\$000s	Per diluted share (\$)	\$000s	Per diluted share (\$)	\$000s	Per diluted share (\$)
Funds from operations	24,290	0.53	9,372	0.20	67,058	1.46	38,710	0.88

Cash Flows from Operating Activities

Non-GAAP funds from operations is not a measure recognized by GAAP in Canada. The most directly comparable measure under GAAP is cash flows

from operating activities. Cash flows from operating activities for each period are as follows:

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Cash flows from operating activities	\$ 24,131	\$ 5,578	\$ 65,901	\$ 36,983

INVESTING AND FINANCING

Working Capital

Receivables comprise production revenue receivables and accruals, and receivables in respect of operating and capital costs. Prepaid costs and deposits include unamortized insurance premiums and software licensing fees, 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 \$16.9 million at September 30, 2008 compared to \$10.2 million at September 30, 2007 and \$10.2 million at December 31, 2007. 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 normally highest at the end of the first quarter of each year and lowest at the end of the second quarter.

Property and Equipment

Capital costs incurred were as follows:

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Land and lease, net	\$ 1,416	\$ 421	\$ 4,213	\$ 2,197
Seismic	(1,122)	27	(1,199)	2,973
Drilling and completions	23,640	12,780	51,483	26,445
Facilities and equipment	6,523	6,568	10,661	16,425
Field expenditures	30,457	19,796	65,158	48,040
Property acquisitions	–	157	507	28,756
Property dispositions	(3,400)	–	(6,053)	–
Total	\$ 27,057	\$ 19,953	\$ 59,612	\$ 76,796

Bank Debt, Liquidity and Capital Resources

Storm has a revolving borrowing base bank credit facility of \$110 million. The amount drawn on this facility at September 30, 2008 amounted to \$67.0 million. Net debt, including working capital deficiency, amounted to \$83.9 million at September 30, 2008, resulting in a ratio of net debt to annualized non-GAAP quarterly cash flow of 0.9 times.

In response to recent turmoil in capital and debt markets, management has met with the Company's banking syndicate to review the Company's lending arrangements, and has received assurances with respect to the capacity of each member of the syndicate to continue to lend to the Company in accordance with the current banking agreement. In addition, the Company's bankers have recently completed a semi-annual review of the Company's borrowing base and have confirmed that the facility will remain in place, unchanged until the next scheduled review date of May 31, 2009.

Storm funds its field capital programs through cash flow and bank borrowings. Over a reasonable period of time, the cost of capital programs is limited to available funds from operations, which is dependent on commodity prices. 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 may exceed cash flow from operations, 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. The Company considers that its estimate of cash flow, risked for potential changes in commodity prices, plus its existing borrowing capacity, will be sufficient to fund field operations in the winter of 2008-2009. In the event that cash flow and borrowing capacity are not sufficient to fund activity, the Company will reduce its field capital.

Investments

Storm Ventures International Inc.

During the quarter ended September 30, 2008, the Company purchased an additional 200,000 common shares of Storm Ventures International Inc. ("SVI") for a total price of \$1,250,000 or \$6.25 per share. At the quarter-end, Storm owned 4.5 million shares in SVI, comprising a 12% ownership position. The carrying amount of the investment on the Company's balance sheet comprises the Company's investment cost, plus a dilution gain recognized in a prior year and is equivalent to \$2.34 per share. The direct cost per share amounts to \$1.55. This carrying amount should not be regarded as representative of the value of Storm's investment in SVI.

Storm Gas Resource Corp.

SGR was incorporated to identify and participate in unconventional natural gas opportunities; initially a shale gas resource in the Horn River Basin of north east British Columbia, Storm's initial ownership position was 45%, the remaining shareholders being SVI, also at 45%, and SGR employees at 10%. Storm's initial investment in SGR at \$1.00 per share was satisfied by a cash contribution of \$833,000 for common shares at a price of \$1.00 per share and the transfer of properties at a value of \$417,000. In July 2008, Storm subscribed for 200,000 common shares in SGR at a price of \$5.20 per share and also participated in a private placement, subscribing for an additional 600,000 common shares at a price of \$6.50 per share. The private placement resulted in SGR issuing 5,880,000 common shares at a price of \$6.50 per share, for total proceeds after commission and expenses of \$38,220,000. Storm owns 2,050,000 common shares of SGR, equivalent to an ownership position of 23%, at an average cost per share of \$3.02. Including the dilution gain, the carrying amount of the investment is \$4.14 per share. This amount should not be regarded as representative of the value of Storm's investment in SGR. In addition, Storm has a direct 40% working interest in the Horn River Basin prospect. This interest, together with Storm's investment in SGR, provides the Company with 54% exposure to the potential upside in the Horn River Basin.

Future Income Taxes

Estimated future income tax at September 30, 2008 represents the excess of the accounting amounts over the related tax bases of property and equipment and share capital.

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

	As at September 30, 2008	Maximum Annual Deduction
Canadian oil and gas property expense	\$ 80,484	10%
Canadian development expense	75,157	30%
Canadian exploration expense	–	100%
Undepreciated capital cost	29,833	20 – 100%
Other	1,611	20%
Total	\$ 187,085	
Capital losses	\$ 9,666	

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 the amount of the obligation between September 30, 2008 and December 31, 2007 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 and for the nine months ended September 30, 2008:

	September 30, 2008	December 31, 2007
Common shares outstanding		
End of period	44,699	44,532
Stock options	2,316	2,166
Fully diluted common shares		
End of period	47,015	46,698
Weighted average common shares – basic	44,638	43,449
Weighted average common shares – diluted	45,873	44,132

Stock options outstanding are exercisable over five years on various dates beginning September 2005 at prices ranging from \$2.60 to \$11.40.

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; and
- 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)	2008	2009	2010	2011	2012
Lease of premises	\$ 759	\$ 759	\$ 772	\$ 785	\$ -
Equipment leases	27	56	-	-	-
Total	\$ 786	\$ 815	\$ 772	\$ 785	\$ -

QUARTERLY RESULTS

Summarized information by quarter for the two years ended September 30, 2008 appears below:

Quarter Ended	Sept. 30 2008	June 30, 2008	Mar. 31 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006
Production revenue (\$000s)	40,215	38,888	33,974	25,553	19,573	25,156	28,009	23,590
Funds from operations (\$000s)	24,290	23,250	19,518	13,233	9,372	12,921	16,417	12,748
Per share – basic (\$)	0.54	0.52	0.44	0.30	0.21	0.30	0.38	0.30
Per share – diluted (\$)	0.53	0.50	0.43	0.30	0.20	0.29	0.38	0.29
Net income (\$000s)	12,829	9,465	6,426	2,852	299	2,832	5,066	3,049
Per share – basic (\$)	0.28	0.21	0.14	0.06	0.01	0.06	0.12	0.07
Per share – diluted (\$)	0.28	0.20	0.14	0.06	0.01	0.06	0.12	0.07
Average daily production (Boe)	7,107	6,130	6,500	5,992	5,618	5,713	5,776	5,442
Average field netbacks (\$/Boe)	39.77	45.09	35.87	27.44	20.83	28.02	33.91	27.88
Capital expenditures – net (\$000s)	27,057	5,780	26,775	17,094	19,953	32,768	24,075	13,635

Critical Accounting Estimates

Financial amounts included in the Company's Management's Discussion and Analysis and in the unaudited consolidated financial statements for the three and nine months ended September 30, 2008 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, 2007 and the unaudited consolidated financial statements for the three and nine months ended September 30, 2008.

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 most recent Annual Information Form and Management's Discussion and Analysis for the year ended December 31, 2007.

In addition to risks identified in Storm's most recent Annual Report and Annual Information Form, a worldwide and unprecedented series of events in recent months has resulted in the collapse of, or losses reported by, major international financial institutions, along with severe curtailment of liquidity in debt markets and the injection of public money to support both debt and equity markets and financial institutions. Although the Canadian banking sector, in comparison to its international peers, has shown resilience in the face of these events, it has still incurred considerable losses and will be affected by any continuing weakness in credit markets. In view of these circumstances, the Company has reviewed its lending arrangements with its bankers and has received assurances that existing credit arrangements will be maintained and that criteria necessary to secure additional borrowing to support the Company's growth has not been changed. However, additional circumstances may emerge that could have the effect of reducing credit available to Storm, or being available only at an unacceptable cost, thus reducing the Company's ability to finance future growth. Further, access to equity markets is expected to be negatively affected by recent events.

Nevertheless, Storm's long-standing approach to financing operations through internally generated cash flow should mitigate the effect of any reduction in access to debt and equity markets. However, falling commodity prices will reduce cash flows; correspondingly, the rate of growth of the Company's business may slow.

Recent events are likely to result in changed and increased regulation of debt and equity markets, which may also have an undeterminable effect on Storm's financial structure and cost of doing business.

Reporting Controls

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for developing and maintaining disclosure controls and procedures and internal controls over financial reporting. Storm has codified and distributed to staff its policies, controls and procedures with respect to disclosure to third parties of information concerning the Company's operations and results. In addition, disclosure controls and procedures are designed to provide reasonable assurance that relevant information is collected and provided to the CEO and CFO, who have concluded such controls and procedures are effective to provide reasonable assurance that material information related to Storm is made known to them by others within the Company. Internal controls over financial reporting as designed by the CEO and CFO, either directly or under their supervision, are intended to provide reasonable assurance regarding the reliability of financial reporting, including financial reporting for external purposes under GAAP. No changes to internal controls were made and no circumstance suggesting a possible breach of disclosure controls was identified in the three and nine months ended September 30, 2008.

Because of inherent limitations, disclosure controls and procedures and internal controls over financial reporting cannot prevent or identify all mismeasurements, errors and fraud.

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 SW, Calgary, Alberta, T2P 2V7.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(\$000s) (unaudited)	September 30, 2008	December 31, 2007
ASSETS		
Current		
Accounts receivable	\$ 15,292	\$ 11,949
Prepaid and other costs	3,195	1,945
	18,487	13,894
Property and equipment – net (Note 2)	267,403	237,738
Investments (Note 9)	20,242	9,275
	\$ 306,132	\$ 260,907
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 35,436	\$ 24,103
Unrealized mark-to-market hedging provision (Note 10)	–	–
	35,436	24,103
Bank indebtedness (Note 4)	66,955	74,472
Asset retirement obligation (Note 5)	7,467	6,918
Future income taxes (Note 3)	20,544	10,519
	130,402	116,012
Shareholders' equity (Note 6)		
Share capital	87,983	86,994
Contributed surplus	3,446	2,318
Retained earnings	84,301	55,583
Accumulated other comprehensive income (deficit)	–	–
	175,730	144,895
	\$ 306,132	\$ 260,907

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(\$000s, except per share amounts) (unaudited)	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Revenue				
Production revenue	\$ 40,215	\$ 19,573	\$ 113,077	\$ 72,738
Royalties	(8,733)	(4,013)	(24,139)	(15,003)
	31,482	15,560	88,938	57,735
Expenses				
Production	4,253	3,510	12,679	11,129
Transportation	1,221	1,287	3,887	3,653
Interest	825	1,151	2,830	2,688
General and administrative	533	240	2,124	1,555
Stock-based compensation	615	314	1,346	992
Provision for account receivable	360	–	360	–
Depletion, depreciation and accretion	10,725	8,736	30,496	25,460
	18,532	15,238	53,722	45,477
Income before the following:	12,950	322	35,216	12,258
Investment gains (Note 9)	3,527	–	3,527	–
Future income taxes (Note 3)	(3,648)	(23)	(10,025)	(4,061)
Net income for the period	12,829	299	28,718	8,197
Retained earnings, beginning of period	71,472	52,432	55,583	44,534
Retained earnings, end of period	\$ 84,301	52,731	84,301	52,731
Net income per share (Note 7)				
– basic	\$ 0.28	\$ 0.01	\$ 0.64	\$ 0.19
– diluted	\$ 0.28	\$ 0.01	\$ 0.63	\$ 0.19

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$000s) (unaudited)	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Net income for the period	\$ 12,829	\$ 299	\$ 28,718	\$ 8,197
Reversal of unrealized hedging loss	5,267	–	–	–
Related income tax benefit	(1,580)	–	–	–
Other comprehensive income (Note 10)	3,687	–	–	–
Comprehensive income for the period	\$ 16,516	\$ 299	\$ 28,718	\$ 8,197

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s) (unaudited)	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Operating activities				
Net income for the period	\$ 12,829	\$ 299	\$ 28,718	\$ 8,197
Less: Investment gains (Note 9)	(3,527)	–	(3,527)	–
Add non-cash items:				
Depletion, depreciation and accretion	10,725	8,736	30,496	25,460
Future income tax	3,648	23	10,025	4,061
Stock-based compensation	615	314	1,346	992
Funds from operations	24,290	9,372	67,058	38,710
Net change in non-cash working capital items (Note 8)	(159)	(3,794)	(1,157)	(1,727)
	24,131	5,578	65,901	36,983
Financing activities				
Issue of common shares – net of expenses	196	14,442	771	14,455
Increase (Decrease) in bank indebtedness	541	(12,008)	(7,517)	20,357
	737	2,434	(6,746)	34,812
Investing activities				
Increase in investments	(6,190)	–	(7,440)	–
Additions to property and equipment	(30,457)	(19,953)	(65,665)	(76,796)
Disposals of property and equipment	3,400	–	6,053	–
Net change in non-cash working capital items (Note 8)	8,379	11,941	7,897	5,001
	(24,868)	(8,012)	(59,155)	(71,795)
Change in cash during the period	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	\$ –	\$ –	\$ –	\$ –

Notes to Consolidated Financial Statements

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008
Tabular amounts in thousands, except per share amounts
(unaudited)

1. Significant Accounting Policies

These interim unaudited consolidated financial statements of Storm Exploration Inc. (“Storm” or the “Company”) have been prepared by management in accordance with accounting principles generally accepted in Canada, following, except as described below, the same accounting policies and methods of computation as used in the audited consolidated financial statements for the year ended December 31, 2007. The interim unaudited consolidated financial statement note disclosures do not include all disclosures applicable for annual audited financial statements. Accordingly, the interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto contained in the Company’s annual report for the year ended December 31, 2007.

Changes in Accounting Policies

On January 1, 2008, the Company adopted additional accounting pronouncements promulgated by the Canadian Institute of Chartered Accountants (“CICA”). The new accounting policies are set out in CICA Handbook Section 1535 “Capital Disclosures”; Section 3862 “Financial Instruments - Disclosures”; and Section 3863 “Financial Instruments – Presentation.” As required by the new standards, prior periods have not been restated.

Section 1535

“Capital Disclosures” This new accounting pronouncement requires companies to describe their objectives, policies and processes regarding management of capital. Information about what constitutes capital is also required; further, the existence of any obligations relating to capital maintenance must be disclosed, along with the consequences of non-compliance. Note 11 to these unaudited consolidated interim financial statements provides the required disclosures.

Section 3862

“Financial Instruments – Disclosures” This pronouncement is an expansion of existing standards relating to financial instruments and requires the disclosure of information about financial instruments to which the Company is a party. Information is provided about financial instruments and their actual or potential effect on the financial position and results of the Company. Further, information is provided about risks to which the Company is exposed through recognized and unrecognized financial instruments and how these risks are managed. See Note 10.

Section 3863

“Financial Instruments – Presentation” This pronouncement also enhances existing disclosure requirements and establishes presentation standards for financial instruments and non-financial derivatives. See Note 10.

The adoption of these pronouncements has had no effect on the Company’s net income or funds from operations for the period.

Notes to Consolidated Financial Statements

2. Property and Equipment

	September 30, 2008	December 31, 2007
Property and equipment	\$ 375,381	\$ 315,587
Accumulated depletion and depreciation	(107,978)	(77,849)
	\$ 267,403	\$ 237,738

At September 30, 2008, the depletion calculation excluded unproved properties of \$19.7 million (December 31, 2007 – \$21.0 million) and

included future development costs of \$6.1 million (December 31, 2007 – \$23.1 million).

3. Future Income Taxes

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, share capital and other comprehensive income.

The Company has tax pools associated with property and equipment, for accounting purposes, of approximately \$187 million as well as capital losses of approximately \$10 million, all of which are not subject to expiry.

Under the terms of a flow-through share issue in September 2007, the Company is obligated to incur Canadian Exploration Expenditures in the

amount of \$15.1 million prior to December 31, 2008. As at September 30, 2008, the Company estimates that it had incurred the full amount of qualifying expenditures. The full amount has been renounced to the subscribers at December 31, 2007 and has been deducted from the Company's tax pool balance.

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 September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Statutory combined federal and provincial income tax rate	30%	32%	30%	32%
Expected income taxes	\$ 5,060	\$ 100	\$ 11,764	\$ 3,962
Add (deduct) the income tax effect of:				
Stock-based compensation	189	211	409	321
Investment gain	(1,071)	–	(1,071)	–
Rate adjustments	(531)	(288)	(1,081)	(222)
Other	1	–	4	–
Future income tax	\$ 3,648	\$ 23	\$ 10,025	\$ 4,061

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

	September 30, 2008	December 31, 2007
Property and equipment	\$ 23,076	\$ 13,073
Asset retirement obligation	(2,106)	(2,006)
Share issue costs	(426)	(548)
Future income tax liability	\$ 20,544	\$ 10,519

4. Bank Indebtedness

The Company has an extendible revolving bank facility in the amount of \$110 million (December 31, 2007 – \$94 million), based on the Company’s producing reserves. The revolving facility is available to the Company until May 31, 2009, but may be extended at the Company’s request until May 30, 2010, 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.

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 estimated undiscounted amount required to settle the Company’s asset retirement obligations is approximately \$13.7 million (December 31, 2007 – \$13.1 million),

which will be paid over the next 20 years, with the majority of costs incurred between 2018 and 2028. A credit adjusted risk-free rate of eight percent was used to calculate the present value of the asset retirement obligations, amounting to \$7.5 million (December 31, 2007 – \$6.9 million).

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

	September 30, 2008	December 31, 2007
Asset retirement obligation, beginning of period	\$ 6,918	\$ 5,925
Liabilities incurred, net of liabilities disposed	182	531
Accretion expense	367	462
Asset retirement obligation, end of period	\$ 7,467	\$ 6,918

Notes to Consolidated Financial Statements

6. Share Capital

Authorized

An unlimited number of non-voting common shares

Included in the following common share balances are 1,275,000 non-voting common shares.

An unlimited number of voting common shares

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

An unlimited number of preferred shares

Issued

	Number of Shares	Consideration
Balance as at December 31, 2007	44,532	\$ 86,994
Stock options exercised	167	989
Balance as at September 30, 2008	44,699	\$ 87,983

Stock-Based Compensation Plans

- i) 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 3,700,000 common shares has been reserved for issuance. Details of the options outstanding at September 30, 2008 are as follows:

Range of Exercise Price	Outstanding Options			Exercisable Options	
	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price
\$2.60 to \$3.61	266	1.4	\$ 3.33	210	\$ 3.27
\$3.91 to \$5.71	1,299	2.5	\$ 5.46	635	\$ 5.44
\$6.03 to \$8.57	743	3.9	\$ 7.97	70	\$ 6.79
\$9.00 to \$11.40	8	4.4	\$ 11.40	-	-
	2,316	2.9	\$ 6.04	915	\$ 5.05

7. Per Share Amounts

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Basic				
Net income per share	\$ 0.28	\$ 0.01	\$ 0.64	\$ 0.19
Weighted average number of shares outstanding (000s)	44,692	43,423	44,638	43,086
Diluted				
Net income per share	\$ 0.28	\$ 0.01	\$ 0.63	\$ 0.19
Weighted average number of shares outstanding (000s)	46,001	44,191	45,873	43,836

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

8. Supplemental Cash Flow Information

Changes in non-cash working capital

	Three Months to September 30, 2008	Three Months to September 30, 2007	Nine Months to September 30, 2008	Nine Months to September 30, 2007
Accounts receivable	\$ (4,009)	\$ (3,514)	\$ (3,343)	\$ (1,633)
Prepaid costs and deposits	(213)	(20)	(1,249)	496
Accounts payable and accrued liabilities	12,442	11,681	11,332	4,411
Change in non-cash working capital	\$ 8,220	\$ 8,147	\$ 6,740	\$ 3,274
Relating to:				
Financing activities	\$ –	\$ –	\$ –	\$ –
Investing activities	8,379	11,941	7,897	5,001
Operating activities	(159)	(3,794)	(1,157)	(1,727)
	\$ 8,220	\$ 8,147	\$ 6,740	\$ 3,274
Interest paid during the period	\$ 825	\$ 1,151	\$ 2,830	\$ 2,688
Income taxes paid during the period	\$ –	\$ –	\$ –	\$ –

9. Investments

	September 30, 2008	December 31, 2007
Investment in Storm Gas Resource Corp.	\$ 9,717	\$ –
Investment in Storm Ventures International Inc.	10,525	9,275
	\$ 20,242	\$ 9,275

The Company holds shares in a private company, Storm Gas Resource Corp. (“SGR”), which is accounted for using the equity method. The Company’s initial investment, comprising cash and lands transferred at fair value, totalled \$1,250,000 and represented a 45% interest. In July 2008, the Company participated in a private placement of common shares in SGR in the amount of \$4,940,000. The terms of the private placement were such that the Company’s ownership position was reduced from 45% to 23%. As the shares issued under the private placement were sold at a share

price greater than the price of Storm’s initial investment, the Company recognized a dilution gain of \$3,527,000.

The Company holds shares in another private company, Storm Ventures International Inc. (“SVI”), which is accounted for using the cost method. In July, 2008, the Company participated in a private placement of common shares of SVI in the amount of \$1,250,000; as the Company’s participation was not pro rata to its existing interest, the Company’s ownership position in SVI fell from 13% to 12%.

10. Financial Instruments

The Company holds various financial instruments. These financial instruments expose the Company to the following risks:

- credit risk;
- market risk; and
- liquidity risk.

Management has primary responsibility for monitoring and managing financial instrument risks under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework. In certain circumstances, for example hedging of future production revenue, the Board has established policies and has established risk limits and controls, and monitors these risks in relation to market conditions. In other circumstances, for example extending credit to purchasers of the Company's products, the Board has delegated responsibility for credit assessment to management, but receives frequent financial and operating reports.

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

Credit risk

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 this concentration of credit risk to be limited, as commodity purchasers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies. In addition, the Company's high working interest in its major operating properties mitigates the risk of partner default. The Company requires cash calls from its partners on major field projects in advance of commencement. Receivables related to the sale of the Company's production are normally collected on the 25th day of the month following delivery.

Market risk

Market risks are as follows and are largely outside of the control of the Company:

- commodity prices;
- interest rates; and
- foreign exchange.

The Company faces certain other financial risks as follows:

Commodity prices

The Company is constantly exposed to the risk of declining prices for its products with a corresponding reduction in cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous declines from existing properties. In certain circumstances, usually when debt levels are forecast to increase due to capital expenditures exceeding cash flow, or where the Company has financed, in whole or in part, an acquisition using bank debt, the Company may enter into oil and natural gas hedging contracts in order to provide stability to future cash flow. These contracts reduce the fluctuation in production revenue by fixing prices of future deliveries of oil and natural gas.

For the three- and nine-month periods ending September 30, 2008, the Company realized hedging losses of \$1.4 million and \$2.2 million, respectively. (2007 – Nil) This amount has been offset against production revenues.

As at September 30, 2008, Storm had no hedges in place. All unrealized hedge losses and related income tax benefits previously charged to Other Comprehensive Income have been reversed in the current quarter.

Interest rates

Interest on the Company's revolving bank facility varies, and is most commonly based on bankers' acceptance rates plus a stamping fee. The Company is thus exposed to increased borrowing costs during periods of increasing interest rates, with a corresponding reduction in both cash flows and project economics. The Company had no interest rate swaps or similar contracts in place at September 30, 2008 to reduce interest rate risk.

Foreign exchange

Although the Company's product revenues are denominated in Canadian dollars, the underlying market prices are affected by the exchange rate between the Canadian and the United States dollar. As at September 30, 2008, the Company had no contracts in place to reduce foreign exchange risk.

Liquidity risk

Liquidity difficulties would emerge if the Company was unable to meet its financial obligations as they fell due within normal credit terms. This may be the consequence of diminished cash flows

resulting from lower product prices, production interruptions, or unexpected operating or capital cost increases. Liquidity difficulties could also occur if the Company's bankers were unable to continue to provide credit at a level and on terms compatible with the Company's capital requirements. Generally, the Company will, over a reasonable period of time, limit its capital programs to cash flow from operations. In addition, the Company endeavours to maintain its debt at a level somewhat less than the maximum amount of its total bank facility to ensure financial flexibility to deal with unforeseen or rapidly changing circumstances.

11. Capital Management

Capital management is fundamental to the Company's objective of cost-effective production growth, while simultaneously replacing continuous production declines. The Company's capital comprises shareholders' equity, bank indebtedness and working capital. Capital management involves the preparation of an annual budget, which may only be implemented after approval by the Company's Board of Directors. As the Company's business

evolves during the fiscal year, the budget may be amended; however, any changes are again subject to approval by the Board of Directors. As part of the budget process, and as part of capital management control procedures, the Company continuously, during the fiscal year, uses a non-GAAP measurement of net debt to cash flow to measure and control debt levels. This measurement is established as follows:

	September 30, 2008	December 31, 2007
Current assets	\$ 18,487	\$ 13,894
Accounts payable and accrued liabilities	35,436	24,103
Working capital deficiency	16,949	10,209
Bank indebtedness	66,955	74,472
Net debt	\$ 83,904	\$ 84,681
Annualized cash flow for the period	\$ 97,160	\$ 51,943
Net debt to cash flow ratio	0.9 : 1	1.6 : 1

Notes to Consolidated Financial Statements

Annualized cash flow is defined as the current quarter's funds from operations, per the consolidated statements of cash flows, multiplied by four. The ratio of net debt to cash flow is subject to quarterly variations and is usually highest in the first and fourth quarter of each year, when capital expenditures normally exceed cash flow, with a resulting increase in net debt.

The Company's bank indebtedness is based on the Company's producing reserves and generally is not subject to restrictions which would potentially affect the Company's operations. However, the ratio of net debt to

cash flow is used to determine the interest rate applied to the Company's bank indebtedness, with interest rates changing at certain threshold levels of net debt to cash flow.

From time to time, the Company may enter into hedging arrangements if capital programs or acquisitions result in a high net debt to cash flow ratio. Such arrangements provide for stability of cash flow during periods when the Company applies cash flow to reduce its net debt.

The Company may issue share capital when debt levels are high and potentially constrain operations, usually in circumstances when the Company has completed a large acquisition.

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⁽¹⁾⁽²⁾

John A. Brussa⁽³⁾

Mark Butler⁽³⁾

Stuart G. Clark⁽¹⁾
Chairman

Brian Lavergne
CEO

Henry R. Lawrie⁽¹⁾⁽²⁾

Gregory G. Turnbull⁽³⁾
Corporate Secretary

P. Grant Wierzbza⁽²⁾

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

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

CIBC, Oil & Gas Group
Bank of Montreal, Oil & Gas Group
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

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	Mstb	Thousand stock tank barrels
Boe/d	Barrels of oil equivalent per day	NGL	Natural gas liquids
Bopd	Barrels of oil per day	NPV	Net present value
\$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		

STORM EXPLORATION INC.

800, 205 – 5 Avenue S.W., Calgary AB T2P 2V7

Phone: (403) 264-3520 Fax: (403) 264-3552

www.stormexploration.com