

Storm Exploration Inc. is Pleased to Announce Its Financial and Operating Results for the Three Months Ended March 31, 2009

Highlights - Thousands of \$CDN, except volumetric and per share amounts	Three months to March 31, 2009	Three months to March 31, 2008
Financial		
Gas sales	21,607	26,241
NGL sales	1,876	2,389
Oil sales	2,875 (1)	5,145
Royalty Income	67	199
Production Revenue	<u>26,425</u>	<u>33,974</u>
Funds from operations (2)	13,720	19,518
Per share - basic (\$)	0.30	0.44
Per share - diluted (\$)	0.30	0.43
Net income	1,250	6,424
Per share - basic (\$)	0.03	0.14
Per share - diluted (\$)	0.03	0.14
Capital expenditures, net of dispositions	31,491	26,775
Debt, including working capital deficiency	97,886 (3)	91,952 (3)
Weighted average common shares outstanding (000s)		
Basic	45,216	44,586
Diluted	46,260	45,685
Common shares outstanding (000s)		
Basic	46,553	44,619
Fully Diluted	48,973	46,698
Operations		
Oil Equivalent (6:1)		
Barrels of oil equivalent (000s)	760	591
Barrels of oil equivalent per day	8,441	6,500
Average selling price (\$CDN per BOE)	34.70 (1)	57.10
Gas production		
Thousand cubic feet (000s)	3,914	3,051
Thousand cubic feet per day	43,485	33,525
Average selling price (\$CDN per mcf)	5.52	8.60
NGL Production		
Barrels (000s)	49	30
Barrels per day	542	333
Average selling price (\$CDN per barrel)	38.46	78.81
Oil Production		
Barrels (000s)	59	53
Barrels per day	651	579
Average selling price (\$CDN per barrel)	49.06 (1)	97.63
Wells drilled		
Gross	4.0	11.0
Net	2.8	10.1

(1) Includes results of hedging activities

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

(3) Excludes unrealized liability related to financial instruments

HIGHLIGHTS for the Quarter Ended March 31, 2009

- Production increased to 8,441 Boe per day, a 30% increase from production of 6,500 Boe per day in the same period one year ago. This is a per share increase of 24% using basic shares outstanding at quarter end.
- All four wells drilled in the quarter were successful resulting in four gas wells (2.8 net). This included one vertical and one horizontal well in our Montney discovery at Parkland plus two vertical shale tests (0.8 net) targeting Devonian shales in the Horn River Basin. In addition to this, three horizontal Montney wells drilled at Parkland in the fourth quarter of 2008 were completed and tied in.
- Cash flow for the quarter was \$13.7 million or \$0.30 per diluted share, a decrease of 30% from \$0.43 per diluted share in the prior year first quarter. Not surprisingly, this was the result of lower commodity prices with the year over year decline of 39% in per Boe sales price more than offsetting 24% growth in production per share.
- The first quarter cash flow netback of \$18.06 per Boe represents a decline of 45% from the cash flow netback of \$33.00 per Boe in the year earlier period and, again, this was due to the 39% decline in the per Boe sales price over the same period. A 23% decline in total cash costs from the year earlier period did offset some of the commodity price decline. Total cash costs, which include operating expenses, interest expense, transportation costs, and general and administrative costs, averaged \$9.81 per Boe in the quarter. Notably, operating costs were \$5.87 per Boe in the quarter, a decline of 22% from the previous year.
- Net income for the quarter was \$1.3 million or \$0.03 per diluted share, a decrease of 79% from net income of \$0.14 per diluted share in the prior year period. Charges for depletion, depreciation and accretion at \$14.86 per Boe were 14% lower year over year but, this improvement was more than offset by the decline in commodity prices over the same period.
- On March 6, a bought deal equity offering was completed resulting in the issuance of 1,850,000 common shares at a price of \$10.60 per share. Net proceeds after expenses are estimated to be \$18.7 million, which has been used to retire debt and to fund the \$8.9 million acquisition of a gross overriding royalty burdening three sections of land in our Montney discovery at Parkland.
- Capital investment including the acquisition referenced above totaled \$31.5 million in the quarter, leaving bank debt and working capital deficiency at \$97.0 million or 1.8 times annualized first quarter cash flow. Year over year, total debt increased by 6% while production per share grew by 24%.

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. Barrels of oil equivalent (“Boe”) may be misleading, particularly if used in isolation. A Boe conversion ratio of six Mcf to one barrel (“bbl”) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All Boe 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. Mboe means 1,000 Boe.

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 6,100 Boe per day in the first quarter. During the quarter, approximately 400 Boe per day was shut in or curtailed due to low natural gas prices. Current production is approximately 5,900 Boe per day with approximately 500 Boe per day shut in or curtailed. In addition, two Montney horizontals and one Montney vertical have been completed and tied in and are capable of adding 1,600 Boe per day of production (1/2 of test rates) but have not yet been turned on due to low natural gas prices.

First quarter activity was directed to advancing exploitation of our Montney discovery at Parkland:

- Drilled one successful vertical Montney step-out (1.0 net) which will be completed after break-up.
- Completed a standing vertical well (35% working interest) on five sections (1.7 net) acquired last fall adjacent to our Montney discovery. The final test rate was 0.6 Mmcf per day which is on the lower end of what is economically exploitable with horizontal wells.
- Drilled one horizontal Montney development well (1.0 net) and completed four horizontal Montney development wells (4.0 net) including three horizontals drilled in the fourth quarter of 2008. Two of these horizontals commenced production during the first quarter and averaged 4.3 Mmcf per day in their first month (790 Boe per day sales per well, including natural gas liquids). The remaining two horizontals have been completed and tied in but have not yet been turned on.
- Acquired a 15% gross overriding royalty burdening three sections of our Montney discovery for \$9 million. Using the 2008 year end reserve evaluation, this acquisition is approximately 3% to 5% accretive to net asset value.
- Completed construction of the second gas processing facility in January which added 12 Mmcf per day of capacity and increases our total capacity at Parkland to 45 Mmcf per day. Current gross raw gas throughput is approximately 34 Mmcf per day.

Activity at Parkland in 2009 will include drilling five horizontal development wells (5.0 net) in our Montney discovery, four vertical Montney step-outs (3.7 net), and one exploratory Montney vertical well (1.0 net) to further evaluate a new pool Montney lead.

Development of our Montney discovery continues to progress as expected. We are currently producing 25 Mmcf per day of gross raw gas from 12 horizontal Montney gas wells plus 4 Mmcf per day of gross raw gas from 11 Montney vertical wells. Two more horizontal wells have been completed, tested, pipeline connected, and will be turned on as needed to maintain production from the area should natural gas prices be high enough to ensure a reasonable economic return. To date, the first year rate from all of our producing horizontal wells is averaging approximately 2.3 Mmcf per day of raw gas, which represents 400 Boe per day of sales per well.

Based on the Paddock Lindstrom & Associates Ltd. year-end reserve evaluation, Discovered Petroleum Initially in Place ('DPIIP) or gross Original Gas in Place⁽¹⁾ ("OGIP") for our Montney discovery was estimated to be 409 Bcf using an areal extent of 11 net sections (7,040 acres) based on the 13 successful vertical gas wells we had

drilled by the end of 2008. This estimate of DPIIP also assumed a relatively conservative porosity cut-off of 6% on a sandstone scale which is somewhat conservative in comparison to what is being used by other reserve evaluators in the area. Geological mapping suggests that our discovery could be larger, covering as many as 15 to 17 net sections. During the first quarter, we drilled one more successful step-out (100% working interest) and participated in the completion of another step-out (35% working interest).

As a result of the success of our horizontal Montney development program, we plan to further expand our infrastructure in 2009 by electrifying and expanding the capacity of the second gas processing facility from 12 to 25 Mmcf per day and by adding a liquids extraction plant (refridge). The second facility was designed to be readily expandable to 50 Mmcf per day of capacity. Cost of the expansion and installation of the refridge plant is forecast to be \$12 million. The refridge is expected to result in liquids recoveries increasing from 16 to 45 barrels per Mmcf of sales which will add 400 to 600 barrels per day of liquids production and two to three million barrels of natural gas liquids to our proven plus probable reserves, based on the 2008 year-end reserve evaluation.

In the first quarter, the field netback realized at our Parkland property was \$22.77 per Boe, production was 5,950 Boe per day (86.5% natural gas), and operating costs were \$4.11 per Boe.

¹ When used in this press release, original gas in place (“OGIP”) means Discovered Petroleum Initially in Place which is defined in the COGEH 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.

Grande Prairie Area, North West Alberta

Production from this area averaged 1,600 Boe per day in the first quarter which is a decline of 22% from production of 2,042 Boe per day in the year earlier period. Current production is approximately 1,500 Boe per day with 100 Boe per day shut in due to low natural gas prices. Despite our lack of activity in this area, declines continue to moderate which is indicative of the higher quality nature of this more mature asset.

Although we had not previously planned to be active in this area in 2009, we will now redirect some capital into this area in 2009 in order to benefit from Alberta’s recently announced royalty incentive programs by drilling four to six locations (70% average working interest), likely in the fourth quarter. Although we have less discretionary cash flow this year, we are adding these wells to our 2009 program given that:

- the royalty incentive programs are temporary and consequently the wells must be drilled in 2009 in order to ensure that they commence production prior to expiry of the incentives in March 2010.
- the locations are all lower risk infills or twins of existing wells to exploit uphole zones and will increase our net asset value if successful given that they benefit from reduced royalties and add new reserves.
- the royalty incentive programs offset 50% to 75% of the cost to drill these wells.

As commodity prices recover, new wells will help to preserve the value of our properties in this area by softening the impact of higher, more punitive royalties imposed under Alberta’s New Royalty Framework (“NRF”) which came into effect on January 1, 2009.

Even with a substantial decline in commodity prices in the first quarter, the NRF resulted in the average royalty rate in this area increasing to 27% in the first quarter from an average of 22% in 2008.

Cabin-Kotcho-Junior Area, North East British Columbia

Net production from this area averaged 677 Boe per day in the first quarter, a decline of 24% from the year earlier period. A salt water disposal pipeline plugged off in early February and the repair was not completed until mid-March which resulted in quarterly production being reduced by 100 Boe per day. Current production is approximately 750 Boe per day.

During June, the Ft. Nelson gas plant will be shut in for a scheduled maintenance turnaround. This will result in production from this area being shut in for 21 days.

In the first quarter, two vertical wells (60% SGR, 40% Storm) were drilled in the Horn River Basin (“HRB”) to prove the productivity of our lands. One of the wells was cored, completed and flow tested in the Muskwa and Otter Park shales. Results from the core analysis are not expected to be available for another one to two months. The next step in advancing this play will be drilling one to three horizontal wells to obtain production data (initial rates, declines, potential recoverable reserves) as well as operational experience (capital costs, possible ways to reduce costs) which we can then use in determining the economic viability of larger scale exploitation with multi-stage frac horizontal wells. A decision on whether to drill these initial horizontal wells next winter will be made later this summer. The cost to drill a horizontal well is estimated to be \$3.5 million, while the cost of a completion with 10 to 12 fracs is estimated to be \$8 to \$9 million. The completions would likely be delayed to the spring/summer of 2010 as this would eliminate the significant cost associated with storing large quantities of water in tanks and heating them during the winter. The cost of drilling and completing wells is expected to be lower than this in a larger scale development. The potential economic returns associated with exploiting these shales is not expected to be known until after we have several months of production history on the horizontal wells which is likely to be at least 1.5 years in the future. This remains an early stage project with a high level of associated economic risk.

Since early 2008, Storm has jointly acquired 43 gross sections of undeveloped land in the HRB at a 40% working interest (8,940 net acres) prospective for Devonian shale gas. This land position was acquired at an average cost of \$500 per acre. These lands were purchased in partnership with Storm Gas Resource Corp. (“SGR”) which owns the remaining 60% working interest. Combined with Storm’s 22% ownership position in SGR, our exposure to this unconventional shale gas play is approximately 53%. The two vertical test wells drilled last winter are within a central project area which encompasses 25 gross sections (10.0 net) containing an estimated 1.9 Tcf of DPIIP (internal estimate by Storm and SGR) 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. The results of the core analysis from one of this winter’s test wells will provide information on the reservoir characteristics of the shales (porosity, total organic content, thermal maturity, gas content scf/ton) which will be used to verify estimated DPIIP or OGIP.

STORM GAS RESOURCE CORP.

Storm Gas Resource Corp was formed in June 2007, to pursue unconventional gas opportunities in the HRB and elsewhere. During 2008, 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's investment to date in SGR totals \$6.2 million and our share ownership position totals 2.05 million shares, representing 22% ownership of SGR. At the end of 2008, SGR's land position in the HRB totaled 106 gross sections or 62 net sections. SGR has also made progress in identifying other areas with unconventional gas potential and has begun accumulating undeveloped land in those areas. Our investment in SGR and partnership in the HRB are at an early stage in terms of information and results and we don't expect to have an indication regarding upside potential for at least two to three years.

STORM VENTURES INTERNATIONAL INC.

Storm owns 4.5 million shares of Storm Ventures International Inc. ("SVI"), a Calgary based, private energy company focused on international exploration and exploitation opportunities. Our share position has a value of \$28 million or \$0.60 per fully diluted Storm share using the price of a rights offering completed in August 2008 which was \$6.25 per share. At the end of 2008, SVI's independently reviewed proven plus probable reserves totaled 36.4 million Boe

SVI's activity in the near term will be focused on advancing three major development projects including the Vulcan East discovery in the North Sea with potentially 160 BCF of original gas in place, the Remada Sud light oil discovery in Tunisia with Stock Tank Original Oil in Place "STOOIP" independently estimated at 170 million barrels, and the Cosmos fallow discovery offshore Tunisia with estimated STOOIP of 25 million barrels. Early indications from the Remada Sud well test are encouraging with the well currently flowing over 200 barrels per day of light oil.

In addition to these development projects, three higher impact exploratory wells will be drilled by year-end. Two are in Tunisia with one being the Fushia prospect offshore in the Gulf of Hammamet targeting a 100 MMbbl prospect (pay 38.75% and retain a 65% interest) and the other being onshore targeting a 25 MMbbl prospect in the Silurian Acacus formation on the Jenein Centre block (pay 30% and retain a 65% interest). The third is the Coriander prospect in the North Sea, which is part of the Vulcan project area containing fallow discoveries and prospects with prospective gas in place totaling 1 TCF.

OUTLOOK

Storm's overall capital budget and guidance for 2009 is unchanged, however, some adjustments have been made as to where our investment is directed.

- Capital investment remains at \$75 million which includes \$16 million to further expand infrastructure at Parkland and \$9 million for the acquisition of a gross overriding royalty completed in the first quarter. This will be funded primarily with cash flow which is expected to total \$57 million assuming average 2009 prices of \$4.75 per GJ at AECO for natural gas and \$50.00 per barrel for oil at Edmonton.
- Our 2009 drilling program will now total 16 gross wells (13.4 net) including two vertical test wells (0.8 net) in the HRB, five Montney horizontal wells (5.0 net) at Parkland, five Montney verticals (4.7 net), and four wells (2.9 net) in the Grande

- Prairie area. In addition, three Montney horizontals at Parkland drilled in the fourth quarter of 2008 were completed and tied in during the first quarter.
- An increase in our infrastructure investment at Parkland to \$16 million including \$4 million in the first quarter to complete the second facility which added 12 Mmcf per day of capacity, \$5.5 million to electrify and expand the second facility to 25 Mmcf per day, and \$6.5 million to install a liquids extraction plant (refridge) at the second facility to increase NGL recoveries. The expansion and liquids extraction plant are expected to be completed by December of 2009.
 - Exit production or production for the final quarter of 2009 is still expected to be approximately 9,300 Boe per day, an increase of 15% over 2008 fourth quarter production.
 - Operating costs are forecast to be \$5.75 per Boe, general and administrative costs \$1.25 per Boe, and the corporate royalty rate, giving effect to the New Royalty Framework's effect on Alberta production, is forecast to be somewhat lower at 21%.

Our capital is expected to go a little further this summer with the cost of drilling and completing wells potentially declining by 10% to 15% based on the information available at this time. This is primarily the result of lower steel costs, reductions in day rates for drilling rigs and reduced bid levels on fracture treatments. Further reduction of overall costs are likely but are not quantifiable at this time.

Production is currently approximately 8,200 Boe per day with 600 Boe per day currently curtailed or shut in due to low natural gas prices. In addition, at Parkland, two Montney horizontal wells have been completed and tied in but have not commenced production due to the current depressed level of natural gas prices. The horizontals (both 100% working interest) are each expected to average 4.5 Mmcf per day or 800 Boe per day of sales in their first month of production which is half of the test rate after completion. We expect to maintain production at current levels through the second quarter and into the summer.

At Parkland, we will continue to work at expanding our Montney discovery with vertical delineation wells to increase both reserves and our inventory of undrilled horizontal development locations. Our current undrilled inventory of 30 net horizontal wells represents potential future production additions totaling 12,000 Boe per day using the expected average first year rate of 400 Boe per day per horizontal. This is based on our 2008 year-end reserve evaluation which recognized an areal extent of 11 net sections in assigning proved plus probable reserves. Ultimately, the pool could cover as many as 15 to 17 net sections, increasing the inventory of undrilled horizontal wells to 46 to 54 locations (four horizontal wells per section). This represents potential future production additions of 18,400 to 21,600 Boe per day. In addition, considerable upside potential remains associated with:

- separate, new pool Montney leads on the 72 net sections of Montney rights that we own which we will further test with at least one vertical well in 2009.
- recognizing a higher recovery factor and/or a lower porosity cut-off which would greatly increase DPIIP (gas in place) and could potentially significantly increase our inventory of horizontal locations.
- installing liquids recovery which is expected to increase natural gas liquids ('NGL') recovery from 16 to 45 barrels per Mmcf of produced sales gas thereby adding 400 to 600 barrels per day of NGL production and two to three million barrels of proved plus probable NGL reserves (based on the 2008 year end reserve evaluation).

Although reserves at Parkland have increased significantly over the last two years, this is far from being a mature asset.

In the current depressed natural gas price environment, our business plan will emphasize accretive growth in net asset value. This approach will impact our production growth in the near term as we:

- restrict initial production rates from new Montney horizontal gas wells to flatten out the production profile and level out the price and netback received over a well's life.
- shut-in higher cost wells or properties to ensure that reserves are not produced at a loss.
- drill fewer horizontal Montney gas wells given that the increase in forward strip pricing encourages us to defer drilling wells with high initial rates and steep initial declines.
- continue to drill Montney vertical step-outs which add horizontal locations and new reserves but do not have a meaningful impact on production.

At current natural gas prices, spending capital to grow production has little impact on our cash flow which is what we have historically re-invested to grow our business and increase net asset value. In the current economic environment, opportunities are likely to arise where we can use our capital to acquire assets or undeveloped land at much lower valuations than what we've seen in the last three to four years and this will have a greater impact on net asset value growth.

During this period of depressed commodity prices and volatile capital markets, we will continue to adapt and adjust our business plan and capital spending as commodity prices change and as new opportunities are identified. Our low cost structure and high quality asset base, containing several years of low risk development opportunities, as well as exposure to a very high impact gas project in the HRB leave us well positioned in the current economic environment. We will remain patient and disciplined in pursuing new opportunities which must be accretive to our net asset value.

Sincerely,

Brian Lavergne,
President and Chief Executive Officer
May 13, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL AND OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2009

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 months ended March 31, 2009. It should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2009 and other operating and financial information included in this press release. In addition, readers are directed to the discussion below regarding Forward-Looking Statements, Boe Presentation and Non-GAAP Measurements.

This management's discussion and analysis is dated May 13, 2009.

INTRODUCTION AND LIMITATIONS

Basis of Presentation – Financial data presented below have largely been derived from the Company's unaudited consolidated financial statements for the three months ended March 31, 2009, prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Accounting policies adopted by the Company are set out in note 2 to the audited consolidated financial statements for the year ended December 31, 2008. 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.

Forward-Looking Statements - Certain information set forth in this document, including management's assessment of Storm's future plans and operations contain forward-looking information (within the meaning of applicable Canadian securities legislation). Such statements or information are generally identifiable by words such as "anticipate", "believe", "intend", "plan", "expect", "estimate", "budget", "outlook", "forecast" or other similar words and include statements relating to or associated with individual wells, regions or projects. Any statements regarding the following are forward-looking statements:

- future crude oil or natural gas prices;
- future production levels;
- future capital expenditures and their allocation to exploration and development activities;
- future drilling of new wells;
- future earnings;
- future asset acquisitions or dispositions;
- future sources of funding for capital program;
- future debt levels;
- availability of committed credit facilities;
- development plans;
- ultimate recoverability of reserves or resources;
- expected finding and development costs and operating costs;
- estimates on a per share basis;
- dates by which certain areas will be developed; and

- changes to any of the foregoing.

Statements relating to “reserves” or “resources” are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include the material risks described in Storm’s Annual Information Form and this MD&A under “Risk Assessment” and the material assumptions disclosed in the “Production and Revenue” section hereof under the headings “Production Profile and Per Unit Prices” and “Royalties”; under “Field Netback” is “Interest” and “General and Administrative costs”; under the “Investment and Financing” section hereof under the headings “Bank Debt, Liquidity and Capital Resources”; and “Asset Retirement Obligation”; 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. All of these caveats should be considered in the context of current economic conditions, in particular reduced commodity prices and the distressed condition of financial institutions and markets, each of which is outside the control of the Company. 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. References to forward-looking information are made in the press release dated May 13, 2009 this MD&A forms part of. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

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. Barrels of oil equivalent (“Boe”) may be misleading, particularly if used in isolation. A Boe conversion ratio of six Mcf to one barrel (“Bbl”) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All Boe 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 and similar non-GAAP terms are used to benchmark operations against prior periods and peer group companies. Funds from operations is also used to determine leverage for the purposes of establishing interest costs under the Company’s banking agreement.

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

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Cash flow from operating activities	\$14,633	\$16,880	\$20,071
Net change in non-cash working capital items	(913)	2,638	361
Funds from operations	\$13,720	\$19,518	\$20,432

OPERATIONAL AND FINANCIAL RESULTS

Production and Revenue

Average Daily Production

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Natural gas (Mcf/d)	43,485	33,525	41,919
Natural gas liquids (Bbls/d)	542	333	489
Crude oil (Bbls/d)	651	579	686
Total (Boe/d)	8,441	6,500	8,161

Total Boe production for the first quarter of 2009 increased by 30% when compared to the first quarter of 2008 and by 3% compared to the fourth quarter of 2008. Increased year-over-year production came from Storm's horizontal drilling program in the Parkland area of British Columbia. Production per million weighted-average shares outstanding for the first quarter of 2009 averaged 187 Boe per day, compared to 146 Boe per day for the first quarter of 2008, and to 183 Boe per day for the final quarter of 2008.

High operating cost production, averaging 400 Boe per day, was shut in for the first quarter of 2009 due to low natural gas prices. Similarly, average daily production for the second quarter of 2009 will be reduced by approximately 500 Boe per day. Additional production may be shut in if product prices continue to fall.

Production Profile and Per Unit Prices

	Quarter Ended March 31, 2009		Quarter Ended March 31, 2008		Quarter Ended December 31, 2008	
	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs	Percentage of Total Boe Production	Average Selling Price Before Transportation Costs
Natural gas - Mcf	86%	\$5.52	86%	\$8.60	86%	\$7.49
Natural gas liquids - Bbl	6%	\$38.46	5%	\$78.81	6%	\$56.52
Crude oil - Bbl	8%	\$49.95	9%	\$97.63	8%	\$62.35
Per Boe		\$34.76		\$57.10		\$47.08

Average selling prices do not include hedging gains or losses.

Storm's production base is largely natural gas and associated liquids. Short and medium term exploitation of the Company's existing asset base is not expected to result in crude oil increasing as a percentage of Boe production. Growth in gas production year-over-year and quarter-over-quarter came largely from the Parkland area in British Columbia, in particular from the Company's Montney discovery.

The average AECO spot market reference price for the first quarter of 2009 was \$4.67 per GJ, compared to \$7.49 per GJ for the first quarter of 2008, a year-over-year reduction of 38%, and \$6.34 per GJ for the final quarter of 2008, a reduction of 26%. Storm's corporate average realized price for natural gas for the first quarter of 2009 was approximately 18% higher than the AECO reference price. This pricing premium is attributable to high heat content natural gas delivered from the Montney formation at Parkland. Growing volumes of Montney natural gas should result in an expansion of the heat content premium in the corporate average realized gas price. In addition to superior heat content, Montney natural gas has a natural gas liquids content of approximately 15 barrels per Mmcf, which has resulted in 63% growth year-over-year in natural gas liquids production.

Production by Area – Boe per Day

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Fort St John/Parkland - BC	6,105	3,511	5,557
Grande Prairie Area - Alberta	1,600	2,042	1,736
Cabin-Kotcho-Junior - BC	677	885	806
Other	59	62	62
Total	8,441	6,500	8,161

The above sets out the average production from each of Storm's core areas. The Company's focus on the Parkland area has resulted in 74% year-over-year production growth from this area. Correspondingly, reduced investment in Alberta is evidenced by a 22 % reduction in year-over-year production.

Production Revenue

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Natural gas	\$21,607	\$26,241	\$28,875
Natural gas liquids	1,876	2,389	2,542
Crude oil	2,927	5,145	3,935
Hedging losses	(52)	-	-
Revenue from product sales	26,358	33,775	35,352
Royalty income	67	199	95
Total Production Revenue	\$26,425	\$33,974	\$35,447

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

A reconciliation of revenue from product sales between 2009 and 2008 is as follows:

	Natural Gas	Natural Gas Liquids	Crude Oil	Hedging Activities	Total
Revenue from product sales – Q1 2008	\$26,241	\$2,389	\$5,145	-	\$33,775
Contribution from increased production year-over-year	7,033	1,499	640	-	9,972
Effect of decreased product prices year-over-year	(12,467)	(2,012)	(2,858)	-	(17,337)
Loss on crude oil derivatives	-	-	-	(52)	(52)
Revenue from product sales – Q1 2009	\$21,607	\$1,876	\$2,927	\$(52)	\$26,358

Hedging:

Storm has entered into a fixed price sale agreement in respect of 350 barrels of crude oil per day, at a price of \$59.40 per barrel for the period April 1 to June 30, 2009 and collars for the same volume for each of the last two quarters of 2009, at prices of \$60 - \$65/Bbl and \$60 - \$70/Bbl, respectively. At March 31, 2009 the Company had an unrealized mark-to-market loss of \$0.6 million on these derivative contracts.

In March 2009 Storm sold 350 barrels of crude oil per day at a fixed price of \$55.89 per barrel, realizing a loss of \$52, 000.

ROYALTIES

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Charge for period	\$5,253	\$6,902	\$6,882
Royalties as a percentage of revenue from product sales before hedging	19.9%	20.4%	19.5%
Per Boe	\$6.91	\$11.67	\$9.17

Royalties are paid primarily to the provincial governments in Alberta and British Columbia. The year-over-year reduction in the effective rate and the per Boe reduction are a result of falling commodity prices which offset a 5% increase in the average royalty rate on properties in Alberta resulting from the implementation of the NRF on January 1, 2009.

PRODUCTION COSTS

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Charge for period	\$4,461	\$4,448	\$4,386
Percentage of revenue from product sales before hedging	16.9%	13.2%	12.4%
Per Boe	\$5.87	\$7.52	\$5.84

Although production volumes grew, total production costs were largely the same for each of the quarters. Lower per Boe costs in the first quarter of 2009 are attributable to cost-effective operating practices, as well as increasing volumes of low operating cost Montney natural gas in the corporate product mix. The modest increase in the first quarter of 2009 when compared to the immediately prior quarter is primarily due to seasonally higher costs in the winter months.

Storm's cash costs per Boe, which comprise production, general and administrative and interest costs, amounted to \$7.96 for the first quarter of 2009, compared to \$10.39 for the first quarter of 2008 and to \$8.49 for the fourth quarter of 2008.

TRANSPORTATION COSTS

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Charge for period	\$1,402	\$1,408	\$1,392
Percentage of revenue from product sales before hedging	5.3%	4.2%	3.9%
Per Boe	\$1.85	\$2.38	\$1.85

Total transportation costs were largely the same over each of the above quarters, although production grew 30%. Increased gas production from the Parkland area resulted in lower per unit costs year-over-year. Storm's low per unit production and transportation costs are a direct benefit of the Company's commitment to operatorship and to facility control and ownership.

FIELD NETBACKS

Details of field netbacks per commodity unit are as follows:

	Quarter ended March 31, 2009			
	Crude Oil (\$ Bbl)	Natural Gas Liquids (\$ Bbl)	Natural Gas (\$ Mcf)	Total (\$ Boe)
Product sales	\$49.95	\$38.46	\$5.52	\$34.76
Hedging loss	(0.89)	-	-	(0.07)
Royalty income	0.13	0.08	0.01	0.09
Royalties	(7.55)	(8.78)	(1.12)	(6.91)
Production costs ⁽¹⁾	(7.61)	-	(1.03)	(5.87)
Transportation	(5.06)	(3.89)	(0.23)	(1.85)
Field netback	\$28.97	\$25.87	\$3.15	\$20.15

	Quarter ended March 31, 2008			
	Crude Oil (\$ Bbl)	Natural Gas Liquids (\$ Bbl)	Natural Gas (\$ Mcf)	Total (\$ Boe)
Product sales	\$97.63	\$78.81	\$8.60	\$57.10
Royalty income	1.67	0.48	0.03	0.34
Royalties	(14.82)	(17.34)	(1.83)	(11.67)
Production costs ⁽¹⁾	(8.44)	-	(1.31)	(7.52)
Transportation	(5.28)	(3.45)	(0.34)	(2.38)
Field netback	\$70.76	\$58.50	\$5.15	\$35.87

	Quarter ended December 31, 2008			
	Crude Oil (\$ Bbl)	Natural Gas Liquids (\$ Bbl)	Natural Gas (\$ Mcf)	Total (\$ Boe)
Product sales	\$62.35	\$56.52	\$7.49	\$47.08
Royalty income	0.28	0.16	0.02	0.13
Royalties	(10.21)	(10.14)	(1.50)	(9.17)
Production costs ⁽¹⁾	(6.95)	-	(1.02)	(5.84)
Transportation	(4.57)	(1.16)	(0.27)	(1.85)
Field netback	\$40.90	\$45.38	\$4.72	\$30.35

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

Field netbacks for the first quarter of 2009 fell 44% year-over-year as a direct result of a 39% reduction in per Boe revenue. Direct costs, plus price-sensitive royalties, fell by 32% year-over-year, but the decline was insufficient to offset the revenue erosion. Cost management will continue to be a priority in coming months and Storm will shut in additional production if individual wells are not providing a high enough economic return, which may result in lower production levels in future quarters.

Based on an all-in proved plus probable finding cost for 2008 of \$11.10, Storm's recycle ratio (field netback divided by finding costs) for the first quarter of 2009 was 1.8.

INTEREST

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Charge for period	\$578	\$1,061	\$673
Per Boe	\$0.76	\$1.79	\$0.90

Interest is paid on Storm's revolving bank facility. Lower total and per unit interest costs year-over-year are a result of lower borrowing costs as interest rates fell considerably in the second half of 2008 and into 2009. Nevertheless interest costs will rise in future quarters by as much as 50%, assuming the same level of bank borrowings, as Storm's recently renewed bank facility provides for a considerable increase in interest costs.

GENERAL AND ADMINISTRATIVE COSTS

Total costs	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Gross general and administrative costs	\$1,869	\$1,358	\$2,269
Capital and operating recoveries	(858)	(721)	(952)
Net general and administrative costs	\$1,011	\$637	\$1,317

Costs per Boe	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Gross general and administrative costs	\$2.46	\$2.30	\$3.02
Capital and operating recoveries	(1.13)	(1.22)	(1.27)
Net general and administrative costs	\$1.33	\$1.08	\$1.75

Year-over-year gross general and administrative costs increased due to increased compensation and the inclusion in the first quarter of 2009, of certain professional services costs associated with the Company's 2008 year end. General and administrative costs are expected to fall in succeeding quarters.

Storm does not capitalize general and administrative costs.

STOCK-BASED COMPENSATION COSTS

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Charge for period	\$396	\$336	\$540
Per Boe	\$0.52	\$0.57	\$0.72

Stock-based compensation costs are non cash charges which reflect the estimated value of stock options issued to Storm's directors and employees. The value of the award is recognized as an expense over the period from the grant date to the date of vesting of the award. The increase in the charge in the first quarter of 2009, when compared to the prior year, relates to the issue of additional stock options to new employees in 2008.

The reduction in the first quarter of 2009, compared to the fourth quarter of 2008, is a result of certain prior year awards being fully expensed.

DEPLETION, DEPRECIATION AND ACCRETION

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Depreciation and depletion charge for period	\$11,167	\$10,057	\$11,472
Accretion charge for period	119	121	121
Total	\$11,286	\$10,178	\$11,593
Total per Boe	\$14.86	\$17.21	\$15.44

The increase in the total charge for depletion, depreciation and accretion for the first quarter of 2009 compared to the prior year, is a consequence of higher production volumes, as the depletion component of the charge is based on a cost per Boe.

The decrease in the charge for depletion and depreciation per Boe for the first quarter of 2009 when compared to the equivalent quarter of 2008 is 14%. The reduction is attributable to proved oil and gas reserves being added in 2008 at a cost considerably lower than in prior periods. Accretion is the increase for the reporting period in the present value of the Company's asset retirement obligation, which is discounted using an interest rate of 8%.

INCOME AND OTHER TAXES

For quarter ended March 31, 2009, Storm recorded a future income tax charge of \$0.2 million compared to \$2.6 million for the first quarter of 2008. 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 used to measure the future income tax obligation for the first quarter of 2008 is 29%, compared to 30% for the first quarter of 2008.

At March 31, 2009, Storm had tax pools carried forward estimated approximating \$220 million to be applied against future taxable income. In addition, Storm has a capital loss in the amount of \$10 million available for application against future taxable capital gains.

NET INCOME AND NET INCOME PER SHARE

As a consequence of lower production revenue, net income for the first quarter of 2009 amounted to \$1.3 million, compared to \$6.4 million in the first quarter of 2008 and \$6.0 million in the final quarter of 2008.

	Quarter Ended March 31, 2009		Quarter Ended March 31, 2008		Quarter Ended December 31, 2008	
		Per diluted share		Per diluted share		Per diluted share
Net income	\$1,250	\$0.03	\$6,424	\$0.14	\$5,968	\$0.13

NON-GAAP FUNDS FROM OPERATIONS AND FUNDS FROM OPERATIONS PER SHARE

	Quarter Ended March 31, 2009		Quarter Ended March 31, 2008		Quarter Ended December 31, 2008	
		Per diluted share		Per diluted share		Per diluted share
Funds from operations	\$13,720	\$0.30	\$19,518	\$0.43	\$20,432	0.45

Non-GAAP funds from operations is not a measure recognized by GAAP in Canada, although it is widely used by analysts and other financial statement users. It is used by the Company's bankers to determine interest rates. The most directly comparable measure under GAAP is cash flows from operating activities. Cash flows from operating activities for each period is as follows:

CASH FLOWS FROM OPERATING ACTIVITIES

	Quarter Ended March 31, 2009		Quarter Ended March 31, 2008		Quarter Ended December 31, 2008	
		Per diluted share-		Per diluted share		Per diluted share
Cash flows from operating activities	\$14,633	\$0.32	\$16,880	\$0.37	\$20,071	\$0.44

INVESTMENT AND FINANCING

Working Capital

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

Accounts payable and accrued liabilities 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.

Excluding an unrealized financial instrument provision, Storm had a working capital deficiency of \$13.0 million at March 31, 2009, compared to \$11.9 million at March 31, 2008 and \$16.9 million at December 31, 2008. The working capital deficiency at each period end reflects the Company's preference to act as operator and the seasonality of its field operations. The Company's working capital deficiency is cyclical and is highest at the end of the first quarter of each year and lowest at the end of second quarter.

Property and Equipment

Capital costs incurred were as follows:

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Land and lease, net	\$806	\$1,793	\$4,494
Seismic	664	-	-
Drilling and completions	15,802	20,807	22,542
Facilities and equipment	6,766	5,237	8,098
Other	3	16	3
Field Expenditures	24,041	27,853	35,137
Property acquisitions	9,012	514	205
Property dispositions	(1,562)	(1,592)	-
Total	\$31,491	\$26,775	\$35,342

Bank Debt, Liquidity and Capital Resources

Storm has a revolving borrowing base bank credit facility which is renewable annually. The facility was renewed effective May 1, 2009 and resulted in the facility increasing from \$110 million to \$120 million. The amount drawn on the facility at March 31, 2009 amounted to \$84.9 million, or 71% of the renewed facility. Total debt, including working capital deficiency, amounted to \$97.9 million at March 31, 2009, resulting in a ratio of year end debt to annualized funds from operations for the first quarter of 2009 of 1.8 times. Upon renewal of the bank line, two additional banks were added to Storm's syndicate to provide flexibility in the event of a bank failure or if acquisition financing is required.

The Company normally funds its borrowing by drawing bankers' acceptances plus a stamping fee. Terms of the renewed facility involve a very large increase in stamping fees, standby fees and other costs. For example, under the prior facility the stamping fee applicable to borrowings under bankers acceptances at certain levels of indebtedness was 110 basis points; this has now been increased to 300 basis points. Nevertheless, year-over-year, the core bankers' acceptance rate has fallen considerably, such that year-over-year total borrowing costs have fallen. In this circumstance, Storm has fixed its bankers' acceptance rate, before application of stamping fees, for \$60 million through a swap mechanism at a cost of 69.5 basis points for a period of twelve months, beginning May 2009.

Storm funds its field capital programs through cash flow and bank borrowings. Acquisitions are funded by a combination of debt and, if required, equity. Field capital programs tend to be concentrated in the winter months, with the result that capital expenditures in the first and fourth quarters of the year will exceed cash flow, 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.

In March 2009, Storm issued 1,850,000 common shares at a price of \$10.60 per share for total proceeds of \$19.6 million, before commission and expenses. Proceeds from the offering were initially used to reduce bank indebtedness.

Capital programs were funded as follows:

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Funds from operations	\$13,720	\$19,518	\$20,432
Non cash working capital	(3,894)	1,693	(63)
Issue of common shares – net of expenses	18,675	-	-
Issue of common shares – option proceeds	-	403	24
Increase in bank indebtedness	2,990	5,578	14,949
Proceeds on property sales	1,562	1,592	-
Cash available for investment	\$33,053	\$28,784	\$35,342
Field expenditures	24,041	27,853	35,137
Property acquisition	9,012	514	205
Investment in Storm Gas Resource Corp.	-	417	-
Total cost of investment programs	\$33,053	\$28,784	\$35,342

Investments

Storm Gas Resource Corp.

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 northeastern British Columbia. Storm’s initial investment in SGR at \$1.00 per share in June, 2007, was satisfied by a cash contribution of \$833,000 and the transfer of undeveloped lands with a value of \$417,000. In July 2008, Storm subscribed for an additional 200,000 common shares in SGR at a price of \$5.20 per share, and also participated in a private placement, subscribing for 600,000 common shares at a price of \$6.50. 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. As the private placement involved the sale of shares by SGR at a price higher than Storm’s initial investment cost, the Company recognized a dilution gain in 2008 of \$3.5 million. Storm’s ownership position in SGR is 22%. Including the dilution gain, the carrying amount of Storm’s 2,050,000 common shares of SGR is \$4.74 per share. This amount should not be regarded as representative of the value of Storm’s investment in SGR. Total cash

invested plus property transferred to SGR amounts to \$6.19 million. In addition to its investment in SGR, Storm has a direct 40% working interest in undeveloped lands jointly acquired with SGR in the Horn River Basin of northeastern British Columbia. This interest, together with Storm's investment in SGR, provides the Company with 53% exposure to the potential upside in the Horn River Basin lands.

Storm provides management services to SGR at cost. Amounts charged by Storm to SGR in the three months ended March 31, 2009 were \$65,000 (three months ended March 31, 2008 - \$nil; three months ended December 31, 2008 - \$62,000).

Storm Ventures International Inc.

At March 31, 2009, the Company's investment in Storm Ventures International Inc. ("SVI") represented a 6% ownership position, comprising 4.5 million common shares. The carrying amount of SVI on Storm's consolidated balance sheet approximates \$2.34 per SVI share, and comprises Storm's investment cost, plus a dilution gain recognized during a prior year. This carrying amount should not be regarded as representative of the value of Storm's investment. During 2008, Storm invested \$1.25 million to acquire an additional 200,000 common shares, resulting in total cash invested in SVI since inception of Storm being \$4.25 million.

Future Income Taxes

Estimated future income taxes at March 31, 2009 represent the tax effect of 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 March 31, 2009	Maximum Annual deduction
Canadian oil and gas property expense	\$91,634	10%
Canadian development expense	80,311	30%
Canadian exploration expense	3,211	100%
Undepreciated capital cost	42,809	20 – 100%
Other	2,426	20%
Total	220,391	
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 amount of the obligation between March 31, 2009 and December 31, 2008 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 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:

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008	Quarter Ended December 31, 2008
Common shares outstanding – end of period	46,553	44,619	44,703
Stock options	2,420	2,079	2,267
Fully diluted common shares – end of period	48,973	46,698	46,970
Weighted average common shares - basic	45,216	44,586	44,702
Weighted average common shares - diluted	46,260	45,685	45,981

Stock options outstanding are exercisable over five years on various dates beginning September 2005 at prices ranging from \$2.60 to \$12.03.

QUARTERLY RESULTS

Summarized information by quarter for the two years ended March 31, 2009 appears below:

Quarter Ended	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Production revenue – (\$000s)	26,425	35,447	40,215	38,888	\$33,974	25,553	19,573	25,156
Funds from operations - (\$000s)								
Per share	13,720	20,432	24,290	23,250	19,518	13,233	9,372	12,921
- basic	0.30	0.46	\$0.54	\$0.52	\$0.44	\$0.30	\$0.21	\$0.30
- diluted	0.30	0.45	\$0.53	\$0.50	\$0.43	\$0.30	\$0.20	\$0.29
Net income - (\$000s)								
Per share	\$1.250	5,968	12,829	9,465	\$6,426	2,852	299	2,832
- basic	0.03	0.13	\$0.28	\$0.21	\$0.14	\$0.06	\$0.01	\$0.06
- diluted	0.03	0.13	\$0.28	\$0.20	\$0.14	\$0.06	\$0.01	\$0.06
Average daily production - Boe	8,441	8,161	7,107	6,130	6,500	5,992	5,618	5,713
Average field netback per Boe	\$20.15	\$30.35	\$39.77	\$45.09	\$35.87	\$27.44	\$20.83	\$28.02
Capital expenditures – net - (\$000s)	\$31,491	35,342	27,057	5,780	26,775	17,094	19,953	32,768

CONTRACTUAL OBLIGATIONS

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

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

All such contractual obligations reflect market conditions at the time of contract and do not involve related parties, except that SGR subleases office space from the Company at the same rate as the Company's head lease

Obligations with a fixed term are as follows:

(\$000's)	2009	2010	2011	2012	2013
Lease of premises	\$811	\$825	\$838	\$838	\$419
Equipment leases	164	101	62	5	-
Gas transportation and processing commitments	2,235	1,437	1,146	599	198
Total	\$3,210	\$2,363	\$2,046	\$1,442	\$617

CRITICAL ACCOUNTING ESTIMATES

Financial amounts included in the Company's MD&A and in the unaudited consolidated financial statements for the three months ended March 31, 2009 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 audited consolidated financial statements for the year ended December 31, 2008 and the unaudited consolidated financial statements for the three months ended March 31, 2009.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector and others are specific to Storm. Information with respect to such risks is set out in the Company's Annual Report for the year ended December 31, 2008 and Annual Information Form dated March 31, 2009.

REPORTING CONTROLS

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"). 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, DC&P are designed to provide reasonable assurance that material information is made known to the CEO and CFO on a timely basis and that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have concluded such controls are effective.

ICFR have been designed by the CEO and CFO, either directly or under their supervision, to provide reasonable assurance regarding the reliability of financial reporting, including financial reporting for external purposes under GAAP.

As at December 31, 2008, the CEO and CFO evaluated the design and operating effectiveness of the Company's ICFR. In part, this evaluation was based on the work of third party specialists who were engaged by the Company to update documentation and test the operating effectiveness of such controls. Based on this evaluation and enquiries made since that date, the CEO and CFO conclude that the design of ICFR is sufficiently effective as at March 31, 2009 to provide

reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

No changes to internal controls were made and no circumstances suggesting a possible breach of disclosure controls were identified in the quarter ended March 31, 2009.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Institute of Chartered Accountants, the primary source for accounting standards in Canada, proposes to implement International Financial Reporting Standards (“IFRS”) as part of Canadian GAAP. Such standards have been established cooperatively by many countries and have widespread application to financial reporting by businesses throughout the world. The adoption of IFRS in Canada will result in major changes to GAAP in Canada and to financial reporting practices followed by Storm. The effective date of introduction for IFRS is proposed for years beginning after December 31, 2010; thus, in the case of Storm, the year ended December 31, 2011. However, the need to have comparative information presented in accordance with IFRS for the year ended December 31, 2010, requires that the Company’s consolidated balance sheet at January 1, 2010 be IFRS compliant, meaning that the Company must plan its conversion considerably in advance of the proposed implementation date. Currently, the application of IFRS to the oil and gas industry in Canada requires considerable clarification: correspondingly, the effect of IFRS on the Company’s accounting policies and reporting standards and practices is not presently determinable.

With respect to organizing for the changeover, the Company has recruited appropriately qualified staff and has identified external resources to assist in the process. Key elements of the changeover plan include: staff education; choosing among policies permitted under IFRS; deciding whether certain changes will be applied on a retroactive or prospective basis; evaluating the effect of adoption on Storm’s information technology and data systems and internal control over financial reporting and disclosure controls and procedures; alignment of internal and outsourced processes, applications and internal controls; external and internal communications; and liason with peers, industry groups and professional advisors.

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.

Storm Exploration Inc.
Consolidated Balance Sheets
(\$000s)
(UNAUDITED)

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
ASSETS		
Current		
Accounts receivable	10,155	14,274
Prepaid and other costs	3,187	2,916
	<u>13,342</u>	<u>17,190</u>
Property and Equipment - Net (Note 3)	311,522	290,944
Investments (Note 4)	20,242	20,242
	<u>345,106</u>	<u>328,376</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	26,334	34,076
Unrealized financial instrument provision (Note 11)	606	-
	<u>26,940</u>	<u>34,076</u>
Bank Indebtedness (Note 5)	84,894	81,904
Asset Retirement Obligation (Note 6)	7,632	7,259
Future Income Taxes (Note 7)	22,797	22,875
	<u>142,263</u>	<u>146,114</u>
 Shareholders' Equity (Note 8)		
Share capital	106,948	88,013
Contributed surplus	4,376	3,980
Retained earnings	91,519	90,269
Accumulated other comprehensive income (deficit)	-	-
	<u>202,843</u>	<u>182,262</u>
 Commitments (note 13)		
	<u>345,106</u>	<u>328,376</u>

Storm Exploration Inc.
Consolidated Statements of Income and Retained Earnings
(\$000s)
(UNAUDITED)

	<u>Three months to March 31, 2009</u>	<u>Three months to March 31, 2008</u>
Revenue		
Production revenue	26,425	33,974
Unrealized loss on financial instruments (note 11)	(606)	-
Royalties	<u>(5,253)</u>	<u>(6,902)</u>
	<u>20,566</u>	<u>27,072</u>
Expenses		
Production	4,461	4,448
Transportation	1,402	1,408
Interest	578	1,061
General and administrative	1,011	637
Stock based compensation	396	336
Depletion, depreciation and accretion	<u>11,286</u>	<u>10,178</u>
	<u>19,134</u>	<u>18,068</u>
Income before taxes:	1,432	9,004
Future income taxes (Note 7)	<u>(182)</u>	<u>(2,580)</u>
Net income for the period	1,250	6,424
Retained earnings, beginning of period	90,269	55,583
Retained earnings, end of period	<u>91,519</u>	<u>62,007</u>
Net Income per share (Note 9) - basic	0.03	0.14
- diluted	0.03	0.14

Storm Exploration Inc.
Consolidated Statements of Comprehensive Income
(\$000s)
(UNAUDITED)

	<u>Three months to March 31, 2009</u>	<u>Three months to March 31, 2008</u>
Net Income for the period	1,250	6,424
Reversal of unrealized hedging loss	-	(2,778)
Related income tax benefit	-	778
Comprehensive income for the period	<u>1,250</u>	<u>4,424</u>

Storm Exploration Inc.
Consolidated Statements of Cash Flows
(\$000s)
(UNAUDITED)

	Three months to March 31, 2009	Three months to March 31, 2008
Operating activities		
Net income for the period	1,250	6,424
Add non-cash items:		
Depletion, depreciation and accretion	11,286	10,178
Unrealized loss on financial instruments (note 11)	606	-
Future income tax	182	2,580
Stock based compensation	396	336
Funds from operations	13,720	19,518
Net change in non-cash working capital items (Note 10)	913	(2,638)
	14,633	16,880
Financing activities		
Issue of common shares - net of expenses	18,675	403
Increase (Decrease) in bank indebtedness	2,990	5,578
	21,665	5,981
Investing activities		
Increase in investments	-	(417)
Additions to property and equipment	(33,053)	(28,367)
Disposals of property and equipment	1,562	1,592
Net change in non-cash working capital items (Note 10)	(4,807)	4,331
	(36,298)	(22,861)
Change in cash during the period	-	-
Cash, beginning of period	-	-
Cash, end of period	-	-

STORM EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

Tabular amounts in '000s, except per share amounts

1. NATURE OF OPERATIONS

Storm Exploration Inc. (the "Company" or "Storm"), is an oil and gas exploration and development company listed on the Toronto Stock Exchange under the symbol SEO. The Company operates in the provinces of Alberta and British Columbia. The Company's production base is largely natural gas and natural gas liquids. These consolidated financial statements include the accounts of Storm and its wholly owned subsidiary and partnership.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim unaudited consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada ("GAAP"), following the same accounting policies and methods of computation as used in the audited consolidated financial statements for the year ended December 31, 2008. 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, 2008.

FUTURE ACCOUNTING CHANGES

Convergence with International Financial Reporting Standards

Canada's Accounting Standards Board has confirmed January 1, 2011 as the effective date for the convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). The Company will be required to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP; however, there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

The Company has established a project team to review the adoption of IFRS and its impact on financial reporting software, bank covenants, business contracts and internal controls over financial reporting and to provide regular updates to the Audit Committee.

3. PROPERTY AND EQUIPMENT

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Property and equipment	\$442,139	\$410,394
Accumulated depletion and depreciation	(130,617)	(119,450)
	<u>\$311,522</u>	<u>\$290,944</u>

At March 31, 2009, the depletion calculation excluded unproved properties of \$23.9 million (December 31, 2008 - \$23.3 million) and included future development costs of \$126.3 million (December 31, 2008 - \$140.3 million).

4. INVESTMENTS

	March 31, 2009	December 31, 2008
Investment in Storm Gas Resource Corp.	\$9,717	\$ 9,717
Investment in Storm Ventures International Inc.	10,525	10,525
	\$20,242	\$ 20,242

The Company holds a 22% interest in a private company, Storm Gas Resource Corp. and accounts for its holding using the equity method.

The Company also has a 6% interest in another private company, Storm Ventures International Inc., which is accounted for using the cost method as the ownership position does not meet the requirements for equity accounting.

5. BANK INDEBTEDNESS

The Company has an extendible revolving bank facility in the amount of \$120 million (December 31, 2008 - \$110 million), based on the Company's producing reserves. The revolving facility is available to the Company until April 30, 2010, but may be extended at the Company's request until April 29, 2011, 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 paid on the revolving facility at banker's acceptance rates plus a stamping fee. Security comprises a floating charge demand debenture on the assets of the Company.

6. ASSET RETIREMENT OBLIGATION

The estimated future asset retirement obligation is based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total estimated undiscounted amount required to settle the Company's asset retirement obligations is approximately \$13.7 million (December 31, 2008 - \$13.0 million), which will be paid over the next 23 years, with the majority of costs paid between 2015 and 2031. A credit adjusted risk-free rate of eight percent was used to calculate the present value of the asset retirement obligations, amounting to \$7.6 million (December 31, 2008 - \$7.3 million).

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

	Three months ended March 31, 2009	Year ended December 31, 2008
Asset retirement obligation, beginning of period	\$7,259	\$ 6,918
Liabilities incurred	254	108
Liabilities disposed	-	(255)
Accretion expense	119	488
Asset retirement obligation, end of period	\$ 7,632	\$ 7,259

7. FUTURE INCOME TAXES

The future income tax liability is based on the excess of the accounting amounts over the related tax bases of the Company's property and equipment, asset retirement obligation and share capital.

The Company has tax pools associated with property and equipment, for accounting purposes, of approximately \$220 million as well as capital losses of approximately \$10 million, all of which are not subject to expiry.

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:

	<u>March 31, 2009</u>	March 31, 2008
Statutory combined federal and provincial income tax rates	29%	30%
Expected income taxes	\$423	\$ 2,712
Add (deduct) the income tax effect of:		
Stock-based compensation	117	101
Rate adjustments	(452)	(234)
Other	94	1
Future Income Tax	\$182	\$ 2,580

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

	<u>March 31, 2009</u>	December 31, 2008
Property and equipment	\$25,525	\$ 25,331
Asset retirement obligation	(2,091)	(2,033)
Share issue costs	(637)	(423)
Future income tax liability	\$22,797	\$ 22,875

8. SHARE CAPITAL

Authorized

An unlimited number of non-voting common shares

An unlimited number of voting common shares

An unlimited number of preferred shares

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

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

Issued

	<u>Number of Shares</u>	<u>Consideration</u>
Balance as at December 31, 2008	44,703	\$ 88,013
Issuance of common shares (i)	1,850	19,610
Share issue costs (net of income tax benefit)		(675)
Balance as at March 31, 2009	46,553	\$ 106,948

(1) On March 6, 2009, 1,850,000 common shares were issued at a price of \$10.60 per share for total proceeds of \$19,610,000, before commission and expenses.

Stock Based Compensation Plans

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 have been reserved for issuance. Details of the options outstanding at March 31, 2009 are as follows:

	Number of options	Weighted Average Exercise Price
Outstanding at December 31, 2008	2,267	\$6.03
Issued during period	153	\$11.84
Outstanding at March 31, 2009	2,420	\$6.40

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	0.9	\$3.33	220	\$3.27
\$3.91 to \$5.71	1,299	2.0	\$5.46	721	\$5.36
\$6.03 to \$8.57	694	3.5	\$8.06	195	\$7.81
\$9.62 to \$12.03	161	4.8	\$11.81	2	11.40
	2,420	2.5	\$6.40	1,138	\$5.39

Using the Black-Scholes pricing model, the weighted average fair value of the options granted in 2009 was estimated to be \$3.70 (2008 - \$8.68), using risk-free interest rates of 2.5 %, volatility of 40% and an expected average life of 30 months. The amortized cost of the options is charged as stock based compensation in the consolidated statement of income with an equivalent offset to contributed surplus.

9. PER SHARE AMOUNTS

	Three months ended March 31, 2009	Three months ended March 31, 2008
Basic		
Net income per share	\$ 0.03	\$ 0.14
Weighted average number of shares outstanding	45,216	44,586
Diluted		
Net income per share	\$ 0.03	\$ 0.14
Weighted average number of shares outstanding	46,260	45,685

The reconciling items between basic and diluted weighted average common shares are stock options described in Note 8.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three months ended March 31, 2009	Three months ended March 31, 2008
Accounts receivable	\$ 4,119	\$ (2,421)
Prepaid and other costs	(271)	(652)
Accounts payable and accrued liabilities	(7,742)	4,766
Change in non-cash working capital	<u>\$ (3,894)</u>	<u>\$ 1,693</u>
Relating to:		
Operating activities	\$ 913	\$ (2,638)
Financing activities	-	-
Investing activities	(4,807)	4,331
	<u>\$ (3,894)</u>	<u>\$ 1,693</u>
Interest paid during the period	<u>\$ 578</u>	<u>\$ 1,061</u>
Income taxes paid during the period	<u>\$ -</u>	<u>\$ -</u>

11. FINANCIAL INSTRUMENTS

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

- credit risk
- market risk
- 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 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 consolidated balance sheet consist of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and unrealized financial instrument provision. The fair value of these financial instruments approximates their carrying amounts.

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. Nevertheless, the recent widespread disruption of credit markets exposes the Company to greater credit risks, necessitating greater vigilance regarding provision of credit to customers and to joint venture partners.

Market risk

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

- Commodity prices
- Interest rates
- Foreign exchange

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

For the three months ended March 31, 2009, the Company realized a loss on financial instruments of \$52,000 (2008 – \$nil) which is recorded in production revenues.

As at March 31, 2009, Storm has the following derivative contracts in place, which do not meet the hedge accounting criteria, and therefore, the unrealized mark-to-market loss of \$0.6 million is recognized in the financial statements:

<u>Volume</u>	<u>Price</u>	<u>Term</u>
Fixed price financial sale		
350 Bbls/d	\$59.40 / Bbl	April 1, 2009 - June 30, 2009
Costless Collars		
350 Bbls/d	\$60.00 - \$65.00 / Bbl	July 1, 2009 - Sept 30, 2009
350 Bbls/d	\$60.00 - \$70.00 / Bbl	Oct 1, 2009 - Dec 31, 2009

Interest rates

Interest on the Company's revolving bank facility varies with changes in interest rates, 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 March 31, 2009 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 March 31, 2009, the Company had no contracts in place to reduce foreign exchange risk.

Sensivities

Using the Company's actual production volumes, royalty rates, income tax rates and debt levels for the first quarter of 2009 and 2008, the estimated after-tax effects that changes in certain factors would have on net income and net income per share is as follows:

FACTOR	2009		2008	
	CHANGE IN NET INCOME	CHANGE IN NET INCOME PER SHARE	CHANGE IN NET INCOME	CHANGE IN NET INCOME PER SHARE
\$US 1.00/BBL CHANGE IN THE PRICE OF WTI	\$80,000	\$0.00	\$50,000	\$0.00
\$0.10/MCF CHANGE IN THE PRICE OF NATURAL GAS	\$225,000	\$0.00	\$171,000	\$0.00
1% CHANGE IN THE INTEREST RATE	\$603,000	\$0.01	\$549,000	\$0.01

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 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, cost 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.

12. 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 uses a non-GAAP measurement of net debt to cash flow to measure and control debt levels during the fiscal year. This measurement is established as follows:

	As at March 31, 2009	As at December 31, 2008
Current assets	\$13,342	\$17,190
Accounts payable and accrued liabilities	26,334	34,076
Working capital deficiency	12,992	16,886
Bank indebtedness	84,894	81,904
Net debt	97,886	98,790
Annualized funds from operations for the period	\$54,880	\$87,490
Net debt to non-GAAP funds from operations	1.8 : 1	1.1 : 1

The above measurement 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 credit availability is based on the Company's producing reserves. 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. The Company's bankers are entitled to complete a year-end and a mid-year evaluation of the Company's borrowing base, which, in circumstances of falling commodity prices, negative changes to the Company's operating activities, or credit limitations affecting the Company's banking syndicate, may result in a decrease in the line of credit available to the Company.

From time to time the Company may enter into hedging arrangements if capital programs or acquisition costs 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.

Increased debt levels arising from acquisitions, or capital programs exceeding cash flow, may be addressed by reduced capital expenditures, disposal of non-core assets or the issue of common shares.

13. COMMITMENTS

The Company has the following fixed term commitments relating to its on-going business:

	2009	2010	2011	2012	2013
Lease of premises	\$811	\$825	\$838	\$838	\$419
Equipment leases	164	101	62	5	-
Gas transportation and processing commitments	2,235	1,437	1,146	599	198
Total	\$3,210	\$2,363	\$2,046	\$1,442	\$617