



# **SECOND QUARTER 2008 REPORT TO SHAREHOLDERS**

**& UNAUDITED FINANCIAL STATEMENTS FOR THE  
THREE AND SIX MONTHS ENDED JUNE 30, 2008**



## **STORM VENTURES INTERNATIONAL INC.**

**2008 Q2 Report to Shareholders**

**August 25, 2008**

We are very pleased to report that field operations conducted by us and Silverstone Energy Limited during the second and early third quarters confirmed the productive capability of previously reported discoveries in both Tunisia and the UKCS sector of the North Sea. These results are material confirmation of value creation for our Tunisian and Silverstone's North Sea businesses. Our strategy directly in Tunisia and through Silverstone in the UKCS sector of the North Sea, has been to build an opportunity profile in each core area that is repeatable and supports sustainable growth at high rates and we are very encouraged that the results we are reporting will support that strategy.

### **TUNISIAN OPERATIONS**

The TT2 Ordovician discovery, drilled on our Remada Sud permit, was cased to 1,500 metres on April 30, 2008. Completion operations which began on July 7, 2008 are ongoing. Ten metres of perforations were opened up over a 57 metre interval in the Ordovician Bir Ben Tartar Formation and the well flowed 300 BOPD of 45 degree API oil with a low GOR and very little water prior to any stimulation. Given the relatively low permeability demonstrated in the core and drill stem test build-up analysis the decision was made to fracture stimulate the well to improve productivity. Two separate fracs were attempted with little success in placing sand in the formation and there was no effective increase in productivity. Initial water cuts decreased to <10% as we recovered most of the fluid used in the completion operation. Once we recover recorders and interpret the results we intend to suspend the Bir Ben Tartar zone and attempt an uphole completion on a zone that provided strong shows and some flow while drilling. Following evaluation of this zone the well will be suspended as a future producer. The base case plan is to bring in a service rig as soon as possible and pending approval of an application for an early production test period we would bring the Bir Ben Tartar on production. Further appraisal of the field is planned for 2009 pending equipment availability. This is expected to take 9 to 12 months.

Although it is very early in the evaluation process we are confident the field will be commercial to develop and may prove to be a significant oil discovery in southern Tunisia. The structure as currently mapped has over 70 square kilometres within closure and two crestal wells confirm a gross oil column of 57 metres. We currently estimate over 100 million BOIP and SVI's interest is 71%. The reserves recoverable will be a function of the drive mechanism, the development strategy we choose and ultimately, the density of wells we drill, but we would conservatively estimate 15 to 20% to be a reasonable estimate at this point.

From a regional exploration perspective, when considering the remaining potential of the 1.2 million acre Remada Sud permit, the confirmation of the presence of mature oil source, effective

hydrocarbon migration, and effective trap and seal combination, all support a higher level of prospectivity than we had previously felt comfortable expressing.

On our Jenein block, we have mapped several prospects and are discussing a preferred test well location with our partner PA Resources for a planned well in mid-2009.

Work on our Hammamet Offshore Permit is focused on preparation for a Technical Committee Meeting with our partners Cooper Energy Limited and Madalena Ventures Inc. scheduled for September 2008. We hope to select an initial well location that can be drilled as part of the Cosmos program in 2009.

We completed the acquisition of 66% of the Cosmos concession and 100% of the Yasmin concession early in July. We have submitted documentation for the consideration by Tunisian authorities of our acquisition of the balance of Cosmos. Subject to the anticipated agreement of the Tunisian authorities and publication in the Journal of the Republic of Tunisia, the close of our planned sale of this interest to a technically qualified financially capable partner should conclude in Q4 of this year. The Field Development Plan is ready to be submitted and we anticipate receiving approval and the subsequent decision by Entreprise Tunisienne D'Activités Pétrolières (ETAP) regarding participation in the project in a similar timeframe. SVI has carried all project costs to date but we are not prepared to kick-off the 15 to 18 month project timeline until these events occur and all parties are in a position to fund their proportionate share. We were unable to finalize the Floating Production Storage and Offloading vessel (FPSO) procurement contract we had been negotiating due to a material escalation in cost from the initial bid to final price. This change was well above what we felt was attributable to design change or market forces. As a result we have restarted the tender process with the most competitive bidders from our earlier solicitation. Our best estimate of a likely first oil date is now mid-2010 and we will update that forecast as some of the variables firm up.

Early in July 2008 we solicited the support of our shareholders in funding a portion of the next phase of growth through a proposed \$50 million Canadian non-brokered private placement at \$6.25 per share. Our plan was to raise capital from existing shareholders to meet our short term needs while operations were in progress prior to engaging an agent to raise the balance this fall once completion operations in the North Sea and Tunisia were finished. We are very happy to announce that 51 of our existing shareholders agreed to purchase 5,009,100 common shares for total proceeds of \$31,306,875. These funds will allow us to place long lead time orders for items which define the critical timetable for our 2009 drilling as soon as possible and fund a portion of the Cosmos development costs. A decision on the exact timing of raising the balance of the funds will be taken in parallel with consideration of the potential for a business combination with Silverstone and any resulting initial public offering considerations.

## **NORTH SEA OPERATIONS**

Silverstone continued with the development of its Victoria gas discovery towards planned first gas in the fall of 2008. The Ensco 100 rig arrived on June 17<sup>th</sup>, somewhat later than planned due to problems on the preceding well. The well was perforated and fracture stimulated and the well test is ongoing as of July 28<sup>th</sup>. Results to date confirmed that at a minimum the well is capable of delivering gas in line with the currently booked engineering evaluation. Silverstone will release more definitive information once the test has been completed and the results analyzed. The pipeline and umbilical installation work was completed successfully in July 2008. The Dive Support Vessel (DSV) will arrive in the field in August.

Completion of this program will be a major success for Silverstone and operational performance to date has been excellent. Silverstone has experienced delays at several stages but the complexity and innovation required to deliver the large rig-based frac solution successfully should not be understated. One of Silverstone's differentiating qualities and its strongest attributes, if it is successful, will be its personnel's ability to deliver these kinds of solutions effectively.

Following completion of the Victoria well operations the rig will move to drill the Vantage prospect. The Vantage prospect tests a faulted structure with P50 GIP estimate of 99 Bcf in a position on the fairway likely to encounter high deliverability Leman sands. The tie-in costs and time to first production for this well, if successful, should be reduced due to its proximity to the newly developed Victoria infrastructure.

Production from Tristan NW commenced on April 11<sup>th</sup> at a rate increasing to 15 Mmscf/d. Since the commencement of production Silverstone experienced a significant gas rate and pressure drop in the well which resulted from either decreasing permeability away from the wellbore or water production. On May 6<sup>th</sup> the Tristan NW well was shut-in due to the formation of hydrates in the flowline. The well resumed production on May 30<sup>th</sup> and currently produces at what appears to be a stabilized rate of 6.6 Mmscf/d (3.6 Mmscf/d net to Silverstone) with minimal backout and no water production. Average production for the quarter was 4.2 Mmscf/d. While Silverstone is not producing the volumes it had anticipated from Tristan NW, it now appears to have stabilized the production volumes. Silverstone will spend the next few months monitoring and analyzing production and will provide an update in the next quarter.

During the quarter the 9/22 Globe well was drilled by Valiant. Silverstone was fully carried in this well which unfortunately was dry and was plugged and abandoned in early June.

StatoilHydro completed the interpretation of the seismic data over the Quad 9 acreage which was acquired in late 2007. The well location has been chosen and a well in block 9/16, the Broch prospect, will be drilled in October.

Silverstone signed an agreement for a rig, GSF Labrador, for the 48/25c NW Vulcan well which will be drilled in October or November of this year. Silverstone has contracted Applied Drilling Technology International (ADTI) who will manage the operation on its behalf.

The Monkwell appraisal and Anglesey exploration wells previously planned for 2008 have been deferred until 2009.

Silverstone made a large number of applications in the 25<sup>th</sup> Licensing Round in order to strengthen its position in its core areas of Quad 9 and the Southern Gas Basin as well as build a position in the Central North Sea. This Round closed in mid-May and awards are expected sometime late in 2008.

## **FINANCIAL SUMMARY**

In summary, the confirmation of a successful completion and achievement of a commercial flow rate at Victoria is a material step forward in ensuring that Silverstone's UK business plan will be successful. It provides initial technical confirmation of Silverstone's interpretation of the huge upside of its tight gas prospect inventory, a good measure of Silverstone's operational capabilities and will shortly begin contributing Silverstone's first material cash flow. At Remada Sud we have drilled what may prove up to be a significant new light oil discovery and lead to first oil,

cash flow and bank lending capacity earlier than what we had initially anticipated from Cosmos (mid-2010). Our exploration efforts are ongoing, we have a growing inventory of field developments, and we intend to achieve first production in Tunisia (light oil focus) and through Silverstone in the UKCS sector of the North Sea (SNS gas focus). The Silverstone board will be considering the most appropriate strategy to accelerate delivery of the North Sea business plan and generate liquidity prior to the end of the year and currently considers a business combination with SVI to be a preferred option that aligns management roles and interests between both companies. The basis for any exchange ratio will be heavily weighted to independently derived engineering valuations which are currently underway. Funds already committed to Silverstone represent 2/3 of capital invested to date by us and we will ensure that the long term value objectives of our shareholders are the focus of our efforts in any business combination discussion.

The balance of 2008 will be critical to our future success and the pace of value recognition. Silverstone needs to progress Victoria to completion, complete two SNS exploration wells, submit the Vulcan East Field Development Plan and secure equipment for an active 2009 exploration program. We hope to find a working interest partner, negotiate a FPSO contract and a drilling contract for Cosmos and plan for an active offshore exploration campaign in Tunisia in 2009. We will also continue the evaluation of our exciting project at Remada Sud. We thank our shareholders for their continued support and look forward to reporting on our progress through the balance of the year.

#### **FINANCIAL HIGHLIGHTS**

	<b>Three months ended June 30, 2008</b>	<b>Three months ended June 30, 2007</b>	<b>Six months ended June 30, 2008</b>	<b>Six months ended June 30, 2007</b>
<b>Revenue</b>	\$ 4,276,724	\$ 11,589,325	\$ 5,706,827	\$ 12,169,080
<b>Expenses</b>	\$ 101,302	\$ 76,813	\$ 195,426	\$ 162,365
<b>Net Income</b>	\$ 4,175,422	\$ 11,512,512	\$ 5,511,402	\$ 162,365
<b>Net Income Per Share</b>	\$ 0.12	\$ 0.34	\$ 0.16	\$ 0.36
<b>Shares Outstanding</b>	33,640,727	33,479,627	33,640,727	33,479,627

#### **Revenue Second Quarter**

Revenue for second quarter of 2008 decreased by \$7,312,601 compared with the second quarter of 2007 due to:

- Increased interest income of \$670,385.
- Decreased dilution gain of 7,640,264.
- Decreased foreign exchange gain of \$342,722.

#### **Six Months**

Revenue for first six months of 2008 decreased by \$6,462,253 compared with the first six months of 2007 due to:

- Increased interest income of \$572,545.
- Decreased dilution gain of 7,640,264.
- Decreased foreign exchange gain of \$605,466.

**Expenses  
Second Quarter**

Expenses for second quarter of 2008 increased by \$24,489 compared with the second quarter of 2007 due to:

- Increased general and administration expense of \$19,989.
- Increased amortization expense of \$4,500.

**Six Months**

Expenses for first six months of 2008 increased by \$33,061 compared with the first six months of 2007 due to:

- Increased general and administration expense of \$24,061.
- Increased amortization expense of \$9,000.

**Property and Equipment**

As at June 30, 2008, net property and equipment additions were as follows:

<b>Category/Location</b>	<b>Six months ended June 30, 2008</b>
Tunisia	\$ 3,985,806
UKCS	43,474,257
Head Office	16,095
Total	\$ 47,476,158

Thank you for your continued support.

Yours faithfully,



Matthew J. Brister  
President and Chief Executive Officer  
Storm Ventures International Inc.

**Storm Ventures International Inc.**  
**Consolidated Balance Sheets**  
(Unaudited)

	<b>June 30, 2008</b>		December 31, 2007
<b>Current</b>			
Cash and cash equivalents	\$ 31,023,434	\$	49,131,036
Accounts receivable and prepaid charges	3,959,120		925,470
	<b>34,982,554</b>		50,056,506
Investment (Note 3)	1,250,000		1,250,000
Property and equipment (Note 4)	107,323,556		59,856,394
	<b>\$ 143,556,110</b>	\$	111,162,900
 <b>Liabilities and Shareholders' Equity</b>			
<b>Current</b>			
Accounts payable	\$ 10,661,413	\$	7,231,475
	<b>10,661,413</b>		7,231,475
Long-term liabilities (Note 11)	20,679,119		-
Other long-term liabilities (Note 9)	2,175,822		556,024
<b>Shareholders' equity</b>			
Share capital (Note 5)	91,755,771		90,950,271
Contributed surplus	777,117		429,662
Retained earnings	17,506,868		11,995,468
	<b>\$ 110,039,756</b>	\$	103,375,401
	<b>\$ 143,556,110</b>	\$	111,162,900

**Storm Ventures International Inc.**  
**Consolidated Statements of Income, Comprehensive Income and Retained Earnings**  
(Unaudited)

	<b>Three Months Ended June 30, 2008</b>	Three Months Ended June 30, 2007	<b>Six Months Ended June 30, 2008</b>	Six Months Ended June 30, 2007
<b>Revenue</b>				
Interest	\$ 75,562	\$ 305,078	\$ 188,336	\$ 779,943
Other income	939,873	39,972	1,204,124	39,972
Dilution gain (Note 12)	6,840,244	14,480,508	6,840,244	14,480,508
Foreign exchange gain (loss)	(3,578,955)	(3,236,233)	(2,525,877)	(3,131,343)
	<b>4,276,724</b>	11,589,325	<b>5,706,827</b>	12,169,080
<b>Expenses</b>				
General and administrative	96,802	76,813	186,427	162,365
Amortization	4,500	-	9,000	-
	<b>101,302</b>	76,813	<b>195,427</b>	162,365
<b>Net Income and Comprehensive Income before income tax</b>	<b>4,175,422</b>	11,512,512	<b>5,511,400</b>	12,006,715
<b>Income Taxes</b>	-	(21,162)	-	(6,258)
<b>Net Income and Comprehensive Income</b>	<b>4,175,422</b>	11,533,674	<b>5,511,400</b>	12,012,973
<b>Retained Earnings, beginning of period</b>	<b>13,331,446</b>	2,701,632	<b>11,995,468</b>	2,222,333
<b>Retained Earnings, end of period</b>	<b>\$ 17,506,868</b>	\$ 14,235,306	<b>\$ 17,506,868</b>	\$ 14,235,306

**Storm Ventures International Inc.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	<b>Three Months Ended June 30, 2008</b>	Three Months Ended June 30, 2007	<b>Six Months Ended June 30, 2008</b>	Six Months Ended June 30, 2007
<b>Operating activities</b>				
Net Income (Loss)	\$ 4,175,421	\$ 11,533,675	\$ 5,511,400	\$ 12,012,973
Dilution Gain	(6,840,244)	(14,480,508)	(6,840,244)	(14,480,508)
Unrealized foreign exchange gain (loss)	3,578,955	3,236,233	2,525,877	3,131,343
Amortization	4,500	-	9,000	-
Prospect evaluation costs	-	1,409	-	1,409
Funds from operations	918,632	290,809	1,206,033	665,217
Change in non cash working capital	99,990	54,734	1,825,848	(23,697)
	<b>1,018,622</b>	<b>345,543</b>	<b>3,031,881</b>	<b>641,520</b>
<b>Financing activities</b>				
Issue of share capital	805,500	-	805,500	227,177
Share issue costs	-	-	-	(3,129)
Change in non cash working capital	26,557	13,668	(11,542)	(21,068)
	<b>832,057</b>	<b>13,668</b>	<b>793,958</b>	<b>202,980</b>
<b>Investing activities</b>				
Dilution gain	-	-	-	-
Investment	-	(1,250,000)	-	(1,250,000)
Property and equipment	(15,730,577)	20,223,126	(20,515,423)	11,640,789
Prospect evaluation costs	-	(5,813)	-	(24,153)
Change in non cash working capital	1,801,160	2,629,402	(1,418,018)	(5,205,052)
	<b>(13,929,417)</b>	<b>21,596,715</b>	<b>(21,933,441)</b>	<b>5,161,584</b>
<b>Change in cash during the period</b>	<b>(12,078,738)</b>	<b>21,955,926</b>	<b>(18,107,602)</b>	<b>6,006,084</b>
<b>Cash, beginning of period</b>	<b>43,102,172</b>	<b>41,534,195</b>	<b>49,131,036</b>	<b>57,484,037</b>
<b>Cash, end of period</b>	<b>\$ 31,023,434</b>	<b>\$ 63,490,121</b>	<b>\$ 31,023,434</b>	<b>\$ 63,490,121</b>

# **STORM VENTURES INTERNATIONAL INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2008**

### **1. BASIS OF PRESENTATION**

Storm Ventures International Inc. (the "Company") was incorporated under the laws of the Province of Alberta, Canada, on August 28, 2003.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Storm Ventures International (BVI) Limited and Storm Ventures International (Barbados) Limited. The accounts of the Company also include the Company's 33.15% proportionate share of Silverstone Energy Limited ("Silverstone") a joint venture incorporated in the United Kingdom.

All dollar amounts are reported in Canadian Dollars.

### **2. ACCOUNTING POLICIES**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

#### **Preproduction Activities**

The Company is in the business of identifying and, if appropriate, participating in international and unconventional oil and gas exploration and development opportunities. As costs are incurred in respect of the evaluation of possible opportunities they are capitalized as prospect evaluation costs. These costs are assigned to cost centres in the event that the opportunities to which they relate are advanced to the licencing or ownership stage, or are written off if no prospect is identified. The Company has exploration licences in Tunisia and through Silverstone in the UK sector of the North Sea; correspondingly, related costs incurred to date, including prior prospect evaluation costs, have been categorized as property and equipment in the Tunisian and UK cost centres. Such costs will be amortized on the unit of production basis upon commencement of production at commercial levels, or will be written off if the projects are deemed uneconomic. Costs incurred in respect of evaluation of other prospects which are not pursued are expensed.

#### **Office furniture and equipment**

Office furniture and equipment are recorded at cost and amortized on a straight line basis over its expected useful life of 10 years.

## **Joint Operations**

Certain of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

## **Investments**

Investments are accounted for using the cost method.

## **Asset Retirement Obligation**

The Company recognizes the fair value of the retirement obligation associated with tangible properties in the period in which this liability arises and when reasonable estimates of this fair value can be made. The fair value of the liability is calculated as the present value of the expected future costs of abandonment. The obligation is recorded as a long-term liability with a corresponding increase to the carrying amount of property and equipment. The liability is increased each reporting period through the accretion of interest up to the future amount of the liability with the charge for accretion being recorded as an expense in the Company's financial statements. The addition to the carrying amount of property and equipment will be amortized. Actual costs incurred upon settlement of the abandonment obligation are charged against the liability.

## **Income Taxes**

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets and liabilities. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The Company has an estimated future income tax asset of \$1,400,000 relating to the share issue costs and losses of prior years which has not been recognized in the financial statements due to the uncertainty of realization.

## **Foreign currency translation**

The Company operates in jurisdictions where the US dollar, UK sterling and the Tunisian dinar are the operating currencies. The activities of the Company's subsidiaries and joint venture are considered to be integrated and foreign currency balances are translated on the following basis:

- monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date;
- non – monetary assets and liabilities are translated at historical rates; and
- income and expenses are translated at the average rate of exchange during the quarter they are recognized.

Any resulting foreign exchange gain or loss is included in the determination of net income.

### **Stock Based Compensation**

The Company has granted options to employees, directors, officers and key contractors to acquire common shares of the Company. These options are accounted for using the fair value method, which estimates the value of the options at the date of the grant using the Black-Scholes option pricing model. The fair value established is included in general and administrative costs over the life of the options with a corresponding increase to contributed surplus.

### **Financial Instruments**

Financial instruments consist primarily of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. There are no significant differences between the carrying value of these instruments and their estimated fair value.

On January 1, 2007 the Company adopted the new Canadian accounting standards regarding the recognition and measurement of financial instruments. The financial instruments must be classified into one of these five categories: held for trading, held to maturity, loans and receivables, available for sale financial assets or other financial liabilities. The new standard requires all financial instruments within its scope, including all derivatives, to be recognized in the balance sheet initially at fair market value. Subsequent measurement of all financial assets and liabilities except those held for trading and available for sale are measured at amortized costs determined using the effective interest rate method. Held for trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available for sale financial assets are measured at the fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in income. The adoption of the standards had no effect on the financial statements of the Company.

The new standards require a new statement of comprehensive income, which is comprised of net income and other comprehensive income which may report changes in fair value in, derivatives designated as cash flow hedges and available for sale investments and foreign currency translation. The Company has no “other comprehensive” transactions during the period ended March 31, 2008 and no opening or closing balance for the accumulated other comprehensive income or loss thus a separate statement for comprehensive income is not required.

### **Reclassification**

Certain amounts presented for purpose of comparison have been reclassified to conform to the current year's presentation.

### **Use of accounting estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

### **Accounting Pronouncements**

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 1535 – Capital Disclosures, which requires entities to disclose objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Company is assessing the impact of this new standard on its financial statements and anticipates that the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 3862 – Financial Instruments Disclosures, which describes the required disclosures to evaluate the significance of financial instruments for the Company's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. The Company is assessing the impact of this new standard on its financial statements and anticipates that the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 3863 – Financial Instruments Presentation which set the standards for presentation of financial instruments and non-financial derivatives. The Company is assessing the impact of this new standard on its financial statements and anticipates that the main impact will be in terms of additional disclosures required.

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. The supporting rules and regulations have not been finalized, and as such the Company has not determined its impact, but will continue to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

## **3. INVESTMENT**

The Company has purchased 1,250,000 common shares in Storm Gas Resource Corp. ("SGR") for a total subscription price of \$1,250,000. The Company and Storm Exploration Inc. have jointly formed SGR to pursue unconventional gas opportunities on certain Storm Exploration Inc. lands with initial efforts to be focused on the Muskwa shale gas play in the Horn River Basin of north-east British Columbia.

#### 4. PROPERTY AND EQUIPMENT

The Company has incurred the following property and equipment costs as follows:

	June 30 2008	December 31 2007
United Kingdom	\$ 82,374,785	\$ 38,462,232
Tunisia	24,782,151	21,234,637
Office Furniture and Equipment	194,130	177,525
	107,351,066	59,874,394
Accumulated Amortization	27,500	18,000
	\$ 107,323,566	\$ 59,856,394

Included in the above amount is \$5,386,778 (2007 - \$2,508,623) of capitalized general and administrative costs.

#### 5. SHARE CAPITAL

##### Authorized:

An unlimited number of common shares.

An unlimited number of first preferred shares.

##### Issued and outstanding:

	Number of Common Shares	Consideration
<b>Balance as at December 31, 2005</b>	<b>24,808,435</b>	<b>\$ 50,150,659</b>
Private placement	8,520,200	42,601,000
Share issue costs		(2,343,936)
Shares issued to employees and directors	79,625	318,500
<b>Balance as at December 31, 2006</b>	<b>33,408,260</b>	<b>\$ 90,726,223</b>
Shares issued to employees and directors	29,700	148,500
Options exercised	41,667	78,677
Less: Issue costs		(3,129)
<b>Balance as at December 31, 2007</b>	<b>33,479,627</b>	<b>\$ 90,950,271</b>
Shares issued to employees and directors	61,100	305,500
Shares issues for asset purchase	100,000	500,000
Less: Issue costs	-	-
<b>Balance as at June 30 , 2008</b>	<b>33,640,727</b>	<b>\$ 91,755,771</b>

##### Share Issues:

In June 2008, 61,100 common shares of the Company were issued to employees and directors for deemed proceeds of \$305,500 as consideration for the provision of services, valued at market rates. 100,000 common shares of the Company were issued with deemed proceeds of \$500,000 in exchange for a working interest in the Cosmos concession.

During 2007, 29,700 common shares of the Company were issued to employees and directors for deemed proceeds of \$148,500 as consideration for the provision of services, valued at market rates. In March 2007, 41,667 options were exercised in exchange for 41,667 common shares for aggregate gross proceeds of \$78,677 and 108,333 options were cancelled.

In December 2006, the Company completed a private placement of 8,520,200 common shares for aggregate gross proceeds of \$42,601,000 before costs of \$2,343,936. During 2006, 79,625 common shares of the Company were issued to employees and directors for deemed proceeds of \$318,500 as consideration for the provision of services, valued at market rates.

### Stock Based Compensation Plan

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted to employees, directors, officers, and key contractors of the Company. The number of options granted pursuant to the share option plan may not exceed ten percent of issued and outstanding common shares of the Company. The outstanding options of the Company are exercisable for a period of five years and vest over a period of three years. A summary of options outstanding at year end is as follows:

<b>Balance as at December 31, 2007</b>	<b>2,300,000</b>
Granted during the period	150,000
Exercised during the period	-
Forfeited during the period	-
<b>Balance as at June 30, 2008</b>	<b>2,450,000</b>

	June 30, 2008	December 31, 2007
Weighted average exercise price	\$3.97	\$3.90
Average remaining life	3.1 years	3.6 years
Number exercisable at end of year	701,667	533,333
Option price	\$1.15 - \$5.00	\$1.15 - \$5.00

Outstanding Options		Exercisable Options		
Options	Price	Weighted	Options	Price

Outstanding		Average Remaining Life	Outstanding	
505,000	\$ 1.15	2.1	421,667	\$ 1.15
590,000	\$ 4.00	3.0	271,666	\$ 4.00
1,355,000	\$ 5.00	4.3	8,333	\$ 5.00
2,450,000		3.1	701,667	

Using the Black-Scholes pricing model, the weighted average fair value of the options granted in 2007 was estimated to be \$0.74 using risk-free interest rates of 4.25%, volatility of 0.001% and an expected average life of four years. The amortized cost of the options is included in capitalized general and administrative costs with an equivalent allocation to contributed surplus. The charge for the period ended June 30, 2008 was \$347,455 (2007 – \$99,400).

## 6. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in non-cash working capital:

Changes in non-cash working capital	Period ended June 30 , 2008	Period ended June 30 , 2007
Accounts receivable & prepaid charges	\$ 3,033,650	\$ 201,232
Accounts payable	\$ (3,429,938)	\$ (5,541,049)
Changes in non-cash working capital	\$ (396,288)	\$ (5,249,817)
Relating to:		
Financing activities	\$ 11,542	(21,068)
Investing activities	1,418,018	(5,205,052)
Operating activities	(1,825,848)	(23,697)
	\$ (396,288)	\$ (5,249,817)

## 7. COMMITMENTS

The Company has annual office lease payments of \$420,800 until August 2013.

## 8. INTEREST IN JOINT VENTURE

The investment in Silverstone, a joint venture in the United Kingdom, has been accounted for on a proportionate consolidation basis. Summarized financial information for the Company's interest in Silverstone is as follows:

	June 30 , 2008	December 31, 2007
Current Assets	\$ 24,924,774	\$ 30,106,645
Long Term Asset	81,286,941	37,812,743
Current Liabilities	29,315,273	4,896,826
Long Term Liabilities	2,069,820	556,024
Revenues	1,276,356	3,357,675
Expenses	-	14,913
Net Income	1,276,356	3,342,762
Cash Provided by Operating Activities	-	-
Cash Used in Investing Activities	\$ 629,597	\$ 3,507,462
Cash Used in Financing Activities	-	-

## 9. OTHER LONG TERM LIABILITIES

	June 30 , 2008	December 31, 2007
Asset retirement obligation, beginning of year	\$ 422,700	\$ 570,060
Provision	1,678,193	-
Revision	(44,343)	(147,360)
Asset retirement obligation, end of period	\$ 2,056,550	\$ 422,700

Asset retirement obligation represents the Company's share of the decommissioning costs of two wells completed but not plugged as at June 30, 2008. At the present time it is not practical to estimate the decommissioning date and consequently the provision has not been discounted. In addition to the foregoing, there is a long term liability of \$119,272 (\$133,324 – December 31, 2007) which relates to Silverstone's share option arrangement.

## 10. SUBSEQUENT EVENTS

- On July 17, 2008, the Company purchased an additional 200,000 common shares in SGR at a price of \$6.50 per share for total cost of \$1,040,000. The Company holds an aggregate of 1,450,000 common shares of SGR.
- On August 8, 2008, the Company completed a non-brokered private placement of 5,009,100 common shares at a subscription price of \$6.25 per share for total gross proceeds of \$31,306,875.

## 11. Long Term Liabilities

The long term liabilities are comprised of debt assumption by Silverstone as part of the acquisition of Grandby as follows:

Loan - Mitsubishi (Tristan)	\$19,833,648
Loan – Gemini	<u>845,471</u>
Total	<u>\$20,679,119</u>

For the Mitsubishi Loan:

- the term is 60 months
- interest rate of 13%, with main conditions of
- non-recourse
- first 95% of available cash flow to pay down debt from the Tristan well.

For the Gemini Loan, the term is duration of Concession (life of Field) with main conditions of:

- non-recourse
- only payable out of production from the Kerloch field
- repayment is based on recoverable reserves.

## **12. Dilution Gain**

During 2007, the Company's affiliate, Silverstone Energy Limited, completed a private placement in the amount of £47,813,000, before expenses. Although the Company participated in the private placement to the extent of £7,033,000, the terms of the private placement were such that the Company's ownership position was reduced from 50% to 37.04%. As the shares issued under the private placement were sold at a price greater than the per share price of the Company's initial investment, the Company recognized a dilution gain of \$14,480,508.

In June of 2008, the Company's affiliate, Silverstone Energy Limited, completed a private placement in the amount of £26,250,000, before expenses. Although the Company participated in the private placement to the extent of £3,412,500, (650,000 shares) the terms of the private placement were such that the Company's ownership position was reduced from 37.04% to 33.15%. As the shares issued under the private placement were sold at a price greater than the per share price of the Company's initial investment, the Company recognized a dilution gain of \$6,840,244.

## **CORPORATE INFORMATION**

### **DIRECTORS**

Matthew J. Brister  
P. Grant Wierzba  
John A. Brussa  
Simon Munro  
Dwain M. Lingenfelter  
Raymond I. Woods

### **SENIOR MANAGEMENT**

Matthew J. Brister  
President & C.E.O.

Roy Smitshoek  
Vice President, Engineering & C.O.O.

Thomas N. Lindskog  
Vice President, Exploration

L. Geoffrey Barlow  
Vice President, Finance & C.F.O.

### **SOLICITORS**

Burnet, Duckworth & Palmer LLP, Calgary, Alberta

### **AUDITORS**

PricewaterhouseCoopers LLP, Calgary, Alberta

### **RESERVE ENGINEERS**

Sproule Associates Limited  
Paddock Lindstrom & Associates Ltd.

### **BANKERS**

CIBC, Oil & Gas Group, Calgary, Alberta

### **REGISTRAR & TRANSFER AGENT**

Valiant Trust Company, Calgary, Alberta

### **EXECUTIVE OFFICES**

Suite 1400, 340 – 12<sup>th</sup> Avenue, SW  
Calgary, Alberta T2R 1L5 Canada  
Telephone: (403) 265-1619  
Fax: (403) 265-2746  
Website: [www.stormventuresinc.com](http://www.stormventuresinc.com)

## **ABBREVIATIONS**

API	American Petroleum Institute
Bcf	Billions of cubic feet
Boe	Barrels of oil equivalent
Boe/d	Barrels of oil equivalent per day
Bbls	Barrels
Bbls/d	Barrels per day
BOPD	Barrels of oil per day
BOIP	Barrels of original oil in place
£GBP	Great Britain Pound
GIP	Gas in place
GOR	Gas-oil ratio
Mbbls	Thousands of barrels
Mmbbls	Millions of barrels
Mmscf/d	Million standard cubic feet per day
Mboe	Thousands of barrels of oil equivalent
Mcf	Thousands of cubic feet
Mcf/d	Thousands of cubic feet per day
Mmcf	Millions of cubic feet
Mmcf/d	Millions of cubic feet per day
SNS	Southern North Sea
UKCS	United Kingdom Continental Shelf