STORM
VENTURES
INTERNATIONAL INC.

2007 YEAR END REPORT TO SHAREHOLDERS

& AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2007

STORM VENTURES INTERNATIONAL INC.

Year End 2007 Report to Shareholders **April 15, 2008**

2007 was an exciting year of notable progress in moving Storm Ventures towards our near term objective of first production and longer term goal of material value creation for our shareholders. Our North Sea investment in Silverstone is on track with the Company moving aggressively to first production in late 2008 on the Victoria gas discovery completed in January, 2007. In May the Company successfully raised over $90 million to fund both the Victoria development and participate in a minimum four well program in 2008.

On March 18, 2008 Silverstone Energy Limited announced its intention to bid for Granby Oil and Gas, with the strategic benefit of adding a second near term Southern North Sea (SNS) gas development with the major asset being a 54% interest in the Triston NW gas field which began production in April 2008.

In North Africa we were able to negotiate the purchase of two new blocks that will close in 2008 and completed four seismic surveys to detail 14 exploration prospects. We plan to drill a minimum of two exploration wells onshore Tunisia in 2008 and hope to submit the Plan of Development on one of three fallow oil discoveries on our lands in the Tunisian offshore that should lead to first oil in late 2009.

TUNISIAN OPERATIONS REPORT

2007 was a fantastic year for solidifying the long term potential of our Tunisian business as a cornerstone for growth. SVI was awarded a third permit in addition to negotiating the purchase of two offshore concessions containing fallow oil discoveries. We completed four separate surveys totalling over 900 square kilometres of 3D and 400 line kilometres of 2D seismic data detailing 14 prospects. Exploration drilling on at least two of these prospects will commence in 2008. We now operate over 2.5 million acres on 5 blocks.

At Remada, our 1.2 million acre block in the Ghadames basin, we will operate an exploration well (54% BPO, 71% APO) at TT2 targeting a large structure (60+ square kilometre) prospective for gas/condensate in the Ordovician in Q2 2008. We expect to require a fracture stimulation to prove commerciality of this tight reservoir but have potential on our block in excess of .5 Tcf Gas in Place (GIP) if successful.

Our Jenein block was awarded in June, 2007 under a seismic option which was actually completed prior to finalization of the block award! We shot a 400+ square kilometre 3D survey to detail structures prospective for prolific Silurian Acacus oil targets that produce on the adjoining Adam concession and nearby in Libya. We detailed three leads and hope to drill a well late in 2008 (30% BPO, 65% APO) subject to equipment availability.

In the Hammamet Offshore region we have a signed Purchase and Sale Agreement to acquire two concessions, Cosmos (66%) and Yasmin (100%), that were 'cut outs' from our previously awarded block. Each block has a fallow oil discovery that we consider economic to develop at current prices. We will close on these acquisitions in Q2 2008. ETAP (Entreprise Tunisienne D'Activités Pétrolières) have the right to elect to participate by reimbursing past cost and funding all future costs but in no case will our interest drop below 40%. On our main exploration permit we will be working to select a test well location and drill the first exploration well (10% BPO, 50% APO) early in 2009.

The most prospective discovery, Cosmos, is a 25 million barrel Original Oil in Place (OOIP) Birsa sand discovery that tested >5,000 Bopd and appears to be a direct analogue to the Oudna Field that will recover in excess of 35% of the OOIP. We are negotiating with a Floating Production Storage & Offloading vessel (FPSO) conversion contractor that will convert and operate a purpose built vessel to exploit small offshore discoveries. We should execute a letter of intent in Q2 2008 and begin the project for delivery in Q4 2009. Subject to contract we intend to be a working interest owner in the vessel.

We are actively looking to expand our staff and office in support of increasing activity in Tunis and acknowledge the tremendous support and skill of our General Manager North Africa and Business Development, Jameleddine Lazreg, who has coordinated this year's progress almost single handedly.

SVI has capital in place to fund all the current planned exploration activity with approximately $10 million remaining to contribute towards the cost of the Cosmos development. We will be looking to formalize a finance plan for our portion of the roughly $120 million cost in Q2 2008.

SILVERSTONE NORTH SEA REVIEW

2007 was an active exciting year of notable firsts for Storm's UKCS business Silverstone Energy Limited. We successfully completed our first field development plan with the sanctioning of the Victoria Field for development towards first gas in the fall of 2008 and we introduced the first new institutional shareholders, outside the founding group, with the successful issuance of 9.1 million shares for net proceeds of £46 million GBP in June. Although SVI did participate in this issuance for £7 million GBP our ownership was diluted from 50% down to 37%. This issue provided much needed capital at an accretive valuation to further the Silverstone business plan towards a more stable sustainable platform and potential Initial Public Offering (IPO) in 2008.

The Company's most important assets are in the proven gas fairway of the UK sector of the Southern North Sea (SNS) in the V Fields area. We have 112 Bcf of independently verified 2p reserves in two large discoveries (300+ Bcf GIP) with a current present value of £30 million GBP. In addition, we have a third discovery with a management estimated 15 Bcf GIP and 5 fallow discoveries that have wells indicating approximately 465 Bcf GIP and 14 exploration prospects and leads. The next exploration well will be drilled on the 99 Bcf Vantage prospect in June 2008 and the first of the fallow discoveries will be tested in the NW Vulcan area prior to year end. This area defines our first core area in that we have a large acreage position that provides a strong prospect inventory that will increase over time as our understanding of the play matures, we have demonstrated an ability to add value through the discovery of new reserves and we have operational capabilities that can make us a cost efficient operator.

The most notable achievement over the past year was the progress from the successful completion of the 163 Bcf GIP Viking Lx discovery in January to the receipt of Field Development Plan approval for the Victoria field development (36 Bcf recoverable from the first well) prior to year end. This required a high level of effort, coordination and support from our partners, key contractors and suppliers, and most importantly from our Aberdeen staff to accomplish this in such a short time. The plan calls for the well to be fracture stimulated and completed subsea beginning in April and tied back 4 kilometres to a Conoco platform following modifications that are scheduled to be completed early in the fall. The overall development is at an estimated cost of £38.5 million GBP with several components being available for use in subsequent phases of the Victoria project or other discoveries brought back over the same infrastructure. Although there is still significant risk in landing the various components and operations in the required timing and sequence, we do have a robust operational plan that has secured the required commitments to mitigate those risks to the degree possible at this stage. We will continue to be diligent in delivering this project with the confidence that based on the wealth of opportunities that we control on the Southern North Sea gas fairway; this will be the first of many similar developments.

Our Vulcan project is comprised of the Vulcan East discovery, NW Vulcan fallow discoveries and our Coriander and Aloe exploration prospects in Block 48/9b. All are characterized by thick accumulations of tight sand that require fracture stimulation to produce at commercial rates. Historically, the exploitation of this significant resource has been delayed by low gas prices, a poor early understanding of how to exploit tight gas reservoirs and an inability to deliver 'state of the art' strategies offshore cost effectively. The scale of the opportunity controlled by Silverstone on this project makes it a potential company maker. The tight aoelian sandstone reservoirs (<.5md) of the Permian Rotleigendes group result from diagenetic alterations associated with increased depth of burial in the Sole Pit Basin. Despite the poor reservoir there are commercial analogues that produce from reservoirs that were buried deeper and that are tighter than permeabilities indicated from our Vulcan project core control. We have successfully modelled the application of multi fractured normally balanced horizontal wells as a preferred exploitation strategy for these reservoirs and acknowledge the success of Venture Production Co., in a recent press release, of having achieved a flow rate above 40 Mmscf/d from a prospect located between Coriander and Vulcan NW on exactly the same reservoir, as a very positive indicator we are on the right track. In 2008 we hope to develop the best strategy to progress the Vulcan East discovery towards commerciality, farm down a portion of the Coriander test well and operate the drilling of an initial appraisal well on one of the NW Vulcan fallow discoveries.

It is important to develop a second core project that will be capable of sustaining material growth over several years as a means of providing for both geographic and commodity diversification. The geographic diversification can allow us to better balance activity through weather windows and equipment availability whilst the commodity balance affords us the option of focusing development capital towards the commodity capable of generating the strongest near term cash flow in volatile price environments.

Our first effort to deliver a second core project is focused on the Tertiary heavy oil fairway in the Quad 9 area of the Central North Sea. The Quad 9 area is recognized by the Department for Business Enterprise and Regulatory Reform (BERR) as the largest undeveloped oil resource in the UKCS and the area is seeing renewed activity both as a result of the entry of StatoilHydro and several other operators who have seen activity climb from zero wells in 2006, to 2 wells in 2007 and an expected 5 wells in 2008.

Silverstone's position in Quad 9 comprises 140,000 acres covering Blocks 9/11e, 16,17 & 18c with several prospects identified immediately south of the Mariner undeveloped field that was recently purchased by StatoilHydro. We also participated in a dry hole testing the Mermaid prospect in Block 9/11c, late in 2007 that was operated by Nautical Petroleum. As part of their focus on the area, StatoilHydro has committed to carry forward an exploration program on our lands that will include a well in the summer of 2008 and a subsequent operation to earn a portion of our interest. Silverstone intends to participate at 10% cost in the first well and will retain a 30% interest in the project. An independent contingent resource assessment of the largest prospect, named Broch, attributed net recoverable resource of 70 million barrels to our interest from a P50 OOIP of over 1 billion barrels. This substantial resource is likely to be below 15 degree API gravity and although it has demonstrated commercial flow rates from Mariner, its commercial development will be enhanced by StatoilHydro's technical depth and recognized expertise in offshore heavy oil development. We will continue to explore ways of increasing our exposure to the play through farm-in, acquisition or new round offerings.

Over the last several licensing rounds Silverstone has successfully acquired promote licenses that have been converted to traditional licenses following the identification of drillable prospects, the most advanced of which are Broch and Coriander. The internal generation of drillable prospects on targeted open acreage is an important value creation strategy and element of our business plan. The 25th round has been announced for June of this year, and as the first sale in two years, has a tremendous amount of prospective acreage available. Silverstone will be active in the evaluation and submission of both traditional and promote bids in both our existing core project areas and on new ideas. We hope that when results are announced late in the year we will have added materially to our drillable prospect inventory.

Silverstone's £17.6 million GBP 2007 capital program was funded by an opening cash position of £12.9 million GBP, revenue of £1.4 million GBP (mainly bank interest) and use of a portion of the equity proceeds leaving a year end cash position of £40.5 million GBP as the basic source of funds for our initial 2008 capital budget.

Total General & Administration Expenses were £2.6 million GBP and of this we capitalized £1.0 million GBP. Much of this capitalized cost will be recovered under the payout provisions from our Southern North Sea gas projects.

Late in 2007 Silverstone began discussions with banks around establishing a debt facility to fund the Victoria field development which would in turn free up equity capital for new drilling, acceleration of the development of Vulcan East or new acquisition opportunities. In February, 2008, the Company executed a mandate letter with Royal Bank of Scotland (RBS) to act as lead arranger for a facility that, subject to successful completion of the Victoria discovery, will provide up to £30 million GBP of asset backed term debt at competitive rates to continue to help finance the Company's growth. RBS has been supportive of the Company's business plan from both a competitive debt provider and as a meaningful equity participant in our June financing. As a sophisticated and knowledgeable player in the oil and gas industry we are very proud of the confidence they have shown in us at these early stages of the Company's growth.

On March 18, 2008 Silverstone launched a 63 pence per share bid for AIM (Alternative Investment Market) listed Granby Oil and Gas that should close, prior to May 1, 2008 for a total cash consideration of £23.1 million GBP plus the assumption of £31.5 million GBP of non recourse project debt. The acquisition is funded by a 5 million share rights offering at £5.25 GBP share that is set to close in parallel. Over 90% of the Company's assets are associated with the

Triston NW gas field (first gas April 2008), adjoining lands to our Quad 9 acreage that will be drilled in July 2008, and cash.

OUTLOOK FOR 2008

In the North Sea, Silverstone will as a minimum, operate three Southern North Sea well operations and participate in an exploration well targeting crude oil on our Broch prospect in Quad 9. With the assumption of a successful commercial flow rate from Victoria supporting the well tie-in operation and facility modifications, our budget for this program is £50 million GBP. The forecast program can be financed from the available cash on hand at year end and use of a portion of the bank facility.

If Silverstone is successful in achieving first cash flow late in 2008 and the portfolio continues to support the reinvestment of increasing capital we will very seriously look at an Initial Public Offering (IPO) of Silverstone late 2008, if markets are supportive.
In the event the Victoria completion is unsuccessful and debt is not available to the Company, the cost savings from the project will fund the balance of the program and we will revisit the most appropriate way forward.

In Tunisia we will drill a minimum two exploration wells, submit the plan of development of the Cosmos Field, commence the construction of the FPSO and secure all long lead items in support of field development in 2009.

MARKET CONDITIONS

The competition for new opportunities of the scale SVI have been able to assemble has increased not only from small and medium public companies looking for opportunities, but from small majors as a result of high commodity prices and scarcity. Confirmation of value creation in our portfolio is the successful structuring of several farm-outs to knowledgeable trade players that will allow us to aggressively accelerate development of our assets through the exploration phase, while maintaining a minimum 50% operated position, and still ensure our available cash will sustain our operation until we can confirm an economic field development. We will be looking at alternatives to finance the Cosmos field development prior to mid year.

The proposed changes to taxation of royalty trust distributions, its effect on junior company valuations and increased Alberta royalties have resulted in deterioration in the investment case for Canadian domestic emerging companies, at a time when the escalating cost structure was putting downward pressure on recycle rates, despite record commodity prices. This has in part led to an increased focus of institutional investors on the international arena that SVI entered as a blind pool four years ago. Increased institutional interest may support a successful IPO if we can mature our projects to the point where execution risk is minimized and first cash flow is imminent. Our current plan would be to look at IPO options for SVI by early 2009.

The Company's progress to date has been the direct result of the skill and dedication of a talented and committed group of employees and directors based in Calgary, Aberdeen and Tunis. We feel significant progress has been made and we are getting very close to realizing value that will confirm this recent Storm adventure as a success! We thank you for your patience and support and look forward to reporting on our progress over the next few quarters.

SUMMARY FINANCIAL INFORMATION

FINANCIAL HIGHLIGHTS		2007		2006
Revenue	$	10,370,515	$	2,992,439
Expenses	$	578,794	$	707,071
Net Income	$	9,773,136	$	2,177,368
Net Income Per Share	$	0.29	$	0.07
Capital Expenditures	$	17,200,717	$	34,036,344
Shares Outstanding		33,479,627		33,408,260

REVENUE

Increased to $10,370,515 in 2007 from $2,992,439 in 2006 due to:

- $14,480,508 dilution gain realized as a result of SVI ownership in Silverstone reduced to 37% from 50%.
- Increase interest income of $1,143,254 million.
- Foreign exchange loss of $6,443,534.

EXPENSES

Decreased to $578,794 in 2007 from $707,071 in 2006 due to:

- Reduction of prospect evaluation expenses of $338,227.
- Offset by additional general and administrative expenses of:
  - $88,851 for Audit and Legal.
  - $54,433 for Rent.
  - $17,021 for Information/Technology Services.
  - $15,518 for Moving.

INCOME TAX

Decreased to $18,585 in 2007 from $108,000 in 2006 due to lower tax expense in the results of Silverstone Energy Limited.

WORKING CAPITAL

The Company had working capital of $42,831,936 at December 31, 2007 compared to $49,885,807 at December 31 2006. The decrease is attributable to the use of cash to fund on-going operations.

INVESTMENT

The $1,250,000 represents the Company's investment in Storm Gas Resource Corp.

PROPERTY AND EQUIPMENT

Costs were $17,182,717 for 2007 which were incurred as follows:

Geological/Geophysical	$	8,572,943
Silverstone		8,574,993
Furniture		9,161
Computers		43,620
	$	17,200,717

The Geological and Geophysical cost were expended on the assets in Tunisia.

OTHER LONG TERM LIABILITIES

This amount is comprised of our share of Silverstone Energy Limited, Asset Retirement Obligation and share option scheme liability.

SHAREHOLDER'S EQUITY

Increase by $224,048 which is comprised of deemed proceeds of $148,500 as consideration for the provision of services, valued at market rates, options exercised for aggregate gross proceeds of $78,677 offset by $3,219 of issues costs.

Yours faithfully,

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
111 5th Avenue SW, Suite 3100
Calgary, Alberta
Canada T2P 5L3
Telephone +1 (403) 509 7500
Facsimile +1 (403) 781 1825

Auditors' Report

To the Shareholders of
Storm Ventures International Inc.

We have audited the consolidated balance sheets of Storm Ventures International Inc. as at December 31, 2007 and 2006 and the consolidated statements of income and comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
April 15, 2008

Storm Ventures International Inc.
Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
Assets		
Current		
Cash and cash equivalents	**$ 49,131,036**	$ 57,484,037
Accounts receivable and prepaid charges	**925,470**	657,615
	50,056,506	58,141,652
Investment (Note 3)	**1,250,000**	1,150,000
Property and equipment (Note 4)	**59,856,394**	42,679,701
	$ 111,162,900	$ 101,971,353
Liabilities and Shareholders' Equity		
Current		
Accounts payable	**$ 7,231,475**	$ 8,286,565
	7,231,475	8,286,565
Other Long Term Liabilities (note 10)	**556,024**	570,060
Shareholders' equity		
Share capital (Note 5)	**90,950,271**	90,726,223
Contributed surplus	**429,662**	166,173
Retained earnings	**11,995,468**	2,222,332
	103,375,401	93,114,728
	$ 111,162,900	$ 101,971,353

Storm Ventures International Inc.
Consolidated Statements of Income , Comprehensive Income and Retained Earnings

	Year Ended December 31, 2007	Year Ended December 31, 2006
Revenue		
Interest	**$ 2,333,540**	$ 1,190,286
Dilution gain (Note 6)	**14,480,508**	-
Foreign exchange gain (loss)	**(6,443,534)**	1,802,153
	10,370,514	2,992,439
Expenses		
General and administrative	**528,590**	336,640
Amortization	**18,000**	-
Prospect evaluation costs	**32,204**	370,431
	578,794	707,071
Net Income and Comprehensive Income before Income Tax	**9,791,720**	2,285,368
Income Tax	**18,584**	108,000
Net Income and Comprehensive Income	**9,773,136**	2,177,368
Retained Earnings, beginning of year	**2,222,332**	44,964
Retained Earnings, end of year	**$ 11,995,468**	$ 2,222,332

Storm Ventures International Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
Operating activities		
Net Income (Loss)	$ 9,773,136	$ 2,177,368
Dilution Gain	(14,480,508)	-
Unrealized foreign exchange	3,385,281	(1,802,153)
Amortization	18,000	-
Funds from operations	(1,304,091)	375,215
Change in non cash working capital	6,817	(18,027)
	(1,297,273)	357,188
Financing activities		
Issue of share capital	78,677	42,919,500
Share issue costs	(3,129)	(2,343,936)
Change in non cash working capital	1,259	10,280
	76,807	40,585,844
Investing activities		
Investment (Storm Gas Resources)	(1,250,000)	-
Investment (Petrol One)	1,150,000	(1,150,000)
Property and equipment	(16,797,880)	(31,309,394)
Proceeds on Dilution	11,096,367	
Change in non cash working capital	(1,331,022)	5,167,053
	(7,132,535)	(27,292,341)
Change in cash during the period	(8,353,001)	13,650,691
Cash, beginning of period	57,484,037	43,833,346
Cash, end of period	$ 49,131,036	$ 57,484,037

STORM VENTURES INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. BASIS OF PRESENTATION

Storm Ventures International Inc. ("SVI" or 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 37.04% 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

SVI 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 licensing or ownership stage, or are written off if no prospect is identified. The Company has exploration licences in Tunisia and 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 depreciated 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 equity 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 this held for trading and available for sale are measured at amortized costs determined using 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 year ended December 31, 2007 and no opening or closing balance for the accumulated other comprehensive income or loss thus a separate statement for comprehensive income in 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

On June 22, 2007, the Company purchased 1,250,000 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.

On September 22, 2006, the Company purchased 1,150 units in Petrol One Corp. ("Petrol One") for a total subscription price of $1,150,000. Each unit of Petrol One consists of a $1,000 principal amount of a 5% secured convertible subordinated debenture ("Debenture") and 1,000 share purchase warrants. During the third quarter of 2007 the Company redeemed its investment in Petrol One Corp and received $1.2 million (principle amount plus interest of $58,000).

4. PROPERTY AND EQUIPMENT

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

	2007	2006
United Kingdom	$ 38,462,232	$ 30,998,005
Tunisia	21,234,637	11,550,928
Office Furniture and Equipment	177,525	124,744
	59,874,394	42,673,677
Accumulated Amortization	18,000	-
	$ 59,856,394	$ 42,673,677

Included in the above amount is $2,508,623 (2006 - $2,128,781) 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
Balance as at December 31, 2005	**24,808,435**	**$ 50,150,659**
Private Placement	8,520,200	42,601,000
Share Issue Costs		(2,343,936)
Shares Issued to Employees and Directors	79,625	318,500
Balance as at December 31, 2006	**33,408,260**	**$ 90,726,223**
Shares Issued to Employees and Directors	29,700	148,500
Options Exercised	41,667	78,677
Less: Issue Costs		(3,129)
Balance as at December 31, 2007	**33,479,627**	**$ 90,950,271**

Share Issues:

During 2007, 29,700 common shares 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 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. 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:

	Number of Shares
Balance as at December 31, 2005	**605,000**
Granted during the year	640,000
Balance as at December 31, 2006	**1,245,000**
Granted during the year	1,205,000
Exercised during the year	(41,667)
Forfeited during the year	(108,333)
Balance as at December 31, 2007	**2,300,000**

	December 31, 2007	December 31, 2006
Weighted average exercise price	$3.90	$2.69
Average remaining life	3.6 years	4.0 years
Number exercisable at end of year	533,333	336,667
Option price	$1.15 - $5.00	$1.15 - $4.00

Outstanding Options			Exercisable Options	
Options Outstanding	Price	Weighted Average Remaining Life	Options Outstanding	Price
505,000	$ 1.15	2.6	336,667	$ 1.15
590,000	$ 4.00	3.5	196,666	$ 4.00
1,205,000	$ 5.00	4.6	-	$ 5.00
2,300,000		3.6	533,333	

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 rate 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 2007 was $263,489 (2006 - $141,873).

6. 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.

7. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital:

Changes in non-cash working capital	Year ended December 31, 2007	Year ended December 31, 2006
Accounts receivable & prepaid charges	$ (267,854)	$ (130,365)
Accounts payable	(1,055,091)	5,289,671
Changes in non-cash working capital	$ (1,322,945)	$ 5,159,306
Relating to:		
Financing activities	$ 1,259	$ 10,280
Investing activities	(1,331,022)	5,167,053
Operating activities	6,818	(18,027)
	$ (1,322,945)	$ 5,159,306

8. COMMITMENTS

The Company has annual office lease payments of $160,000 until April 29, 2013.

9. INTEREST IN JOINT VENTURE

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

	Year ended December 31, 2007	Year ended December 31, 2006
Current Assets	$ 30,106,645	$ 15,166,503
Long Term Asset	$ 37,812,743	$ 31,465,754
Current Liabilities	$ 4,896,826	$ 8,379,279
Long Term Liabilities	$ 556,024	$ 570,060
Revenues	$ 3,357,675	$ 2,064,590
Expenses	$ 14,913	$ 108,000
Net Income	$ 3,342,762	$ 2,064,590
Cash Provided by Operating Activities	-	-
Cash Used in Investing Activities	$ 3,507,462	$ 7,557,824
Cash Used in Financing Activities	-	-

10. OTHER LONG TERM LIABILITIES

		Year ended December 31, 2007		Year ended December 31, 2006
Asset retirement obligation, beginning of year	$	570,060	$	570,060
Provision		-		-
Revision	$	(147,360)		-
Asset retirement obligation, end of year	$	422,700	$	570,060

Asset retirement obligation represent the Company's share of the decommissioning costs of two well completed but not plugged as at December 31, 2007. 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 above, there is a long term liability of $133,324 which relates to Silverstone Energy Limited share option scheme.

11. SUBSEQUENT EVENT

Silverstone Energy Limited announced a new share issue on March 26, 2008 of 5 million ordinary shares. The Company has subscribed for an additional 650,000 shares of Silverstone Energy Limited at a price of £5.25 per share for total investment of £3,412,500. SVI will after completion of the new share issue hold 10,243,739 shares which represent 33.15% of the total issued and outstanding.