



THIRD QUARTER 2008 REPORT TO SHAREHOLDERS

**& UNAUDITED FINANCIAL STATEMENTS FOR THE
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008**



STORM VENTURES INTERNATIONAL INC.

2008 Q3 Report to Shareholders

November 11, 2008

The world in which we are growing our Company has changed dramatically over the last three months. It is important to stress at the outset that we have the financial resources in place to continue with an active program through the end of 2009 and we hope to be in a position of relative strength to make headway in a down market. The highlights we will detail in this report include our operational progress in Tunisia, first gas from Victoria and our offer to acquire the balance of shares in Silverstone Energy Limited not already owned by SVI.

The catalyst to much of what Warren Buffett has coined as, “our economic Pearl Harbour” was a mispricing of risk on mortgage backed securities on a massive scale. This led to a credit driven liquidity crisis that spread globally and caused the collapse of major financial institutions, massive government sponsored investments on a scale not seen since the great depression and most recently, direct government equity investment in major banks. It is too early to gauge the degree to which this crisis will impact other sectors of the economy. On the positive side there have been some initial signs of a slowing in the deterioration of the financial markets in general and some signs of increased liquidity. Opinions vary as to the role, in this meltdown, played by the escalation in commodity prices to record levels. Irrespective of the cause, energy prices have fallen, in the case of crude oil, from all time highs above \$140/Bbl to under \$50/Bbl in less than 4 months. This is primarily driven by speculation of decreasing demand as the economies around the world begin to slow. Opinions are now focused on the length and depth of a recession, not whether we will experience one.

The effects of this situation on our industry will include decreased availability of both debt and equity capital. Higher cost of capital, acquisition opportunities created by deteriorating share valuations or excessive leverage and eventually a supply sector response to decreased activity with service costs dropping.

There will be decreased capital availability for both debt and equity which will allow investors to be more selective. Capital that will be available will be on more onerous terms and at a higher cost. We have felt this already in having received a notification from IFC (International Finance Corporation) on October 15th of their decision to not complete a previously agreed \$25 million equity investment at \$6.25CDN/share. This is unfortunate because we had relied on their commitment as a second tranche of our plan to raise \$50 million CDN of equity early in Q3 to the exclusion of other alternatives. Our goal was to gain a long term shareholder interested in also providing debt support in developing countries. IFC informed us of their desire to renegotiate the terms of all deals that were not “irrevocably committed”. With this development following on from the tremendous support of existing shareholders in committing to fund our next leg of growth with an equity commitment of \$31 million CDN in July, we have fallen approximately \$20 million CDN short of our target. Later in the report we discuss how we will manage through this situation. On a positive note, there will be preference by lending institutions to expand

facilities with strong existing clients such as SVI and interest rates have already started to come down. Unfortunately credit spreads are likely to increase on new facilities. We have been presented a term sheet on a development line for our Cosmos Project and will continue to work forward from this positive initial step.

Equity valuations of peer public companies are at approximately 1/4 of the valuation levels of June 2008 and this reality makes corporate acquisition of reserves currently much cheaper than the drill bit and private equity support of these transactions more likely. Institutional investors are focused on liquidity, size and consolidation as they recognize management motivation, with stock based compensation so far under water, will be very low and any new equity brought in at these levels will be massively dilutive as most don't have the desire or ability to increase their exposure to business plans they have lost confidence in.

Banks ability to provide debt has been reduced and their cost of borrowings and risk spreads have both increased making debt more expensive, if available. Our plan is to evaluate potential acquisitions which would be core to our business.

Lower commodity prices have served to decrease the value of our existing assets and the return potential of our projects. These cycles are not new and we are absolutely certain that profitability, although challenged in the short term, will return once service sector pricing is reduced as activity is curtailed. Over time the margin between service costs and commodity prices will improve such that the industry overall can generate reasonable full cycle returns. We need to insure that we wait for the cost response to significantly lower commodity prices before undertaking major capital intensive development projects like Cosmos and Vulcan East. Our challenge is to manage timing and expectations to ensure profitability.

SVI has successfully promoted parties through the evaluation process of all of our blocks in Tunisia and Silverstone hopes to attract partners to our SNS projects to allow us to increase activity. We have to recognize decision drag and the funding risk has increased for all counterparties and insure they are adequately funded and contractually committed before commencing operations.

In adjusting our plan to deal with these risks short term we intend to preserve capital to take advantage of lower cost opportunities on existing projects and look to allocate resources to only the best opportunities

TUNISIAN ACTIVITIES

We are preparing an application for early production on our Ordovician oil discovery at Remada Sud that could lead to an extended test beginning Q2 2009 to confirm sustained production at commercial rates and help scope the development. Our appraisal plan currently includes a 3D survey and minimum of one step out well that we hope will allow us to prepare a phased development plan for submission to the Tunisian authorities late in 2009. This light oil discovery has been independently assessed by Paddock Lindstrom & Associates Ltd. to have in excess of 220 Mmbbls STOOIP with net 2 Mmboe 2p reserves net to the Company with Present Value After Tax (discounted at 10%) of \$22 million USD. Prior to being granted long term production approval, exploration permits need to be converted to a Concession requiring the preparation and approval of a Plan of Development (POD) which sets out the prudent strategy for maximizing value and recovery. In contrast to neighboring Algeria or Libya, the state through ETAP does not participate in the development and does not have any commercial reason to slow or deny

development consent and much to the contrary, as an energy importer, development approval is typically granted after a thorough technical review in the hope of speeding development.

At Cosmos, we continue to make progress on commercial negotiations on several fronts but to date have not landed these issues to the point of a final internal project approval to proceed out of which would come a robust project cost estimate and firmer First Oil projection. During the quarter we submitted the Field Development Plan (FDP) to the Tunisian authorities with an expected response by the end of January 2009. We also received approval to acquire and closed on the acquisition of the last third, bringing our Cosmos interest to 100% prior to the ETAP election to participate. Our plans to have committed debt, equity and partner finance have been impacted by the financial turmoil and the capital cost estimates we are currently using are reflective of a market much hotter than we currently think will prevail. With an anticipated 20-25% improvement in costs and a decreased initial scope by phasing the development we will be in a position to commit to major contracts from available financial resources, subject to finding a partner, ETAP's decision on participation, and DGE approval of the FDP and agreement on past costs. This project remains viable at \$70/Bbl and represents the best opportunity to underpin our Tunisian business with internally generated cash flow and as such, it will remain a priority.

We have selected an exploratory location on our Hammamet block on a 73 Mmbbl STOOIP prospect named Fushia which will be drilled in 90 meters of water at a location 20 kilometers west of Cosmos and 25 kilometers from the coast, northeast of an Ente Nazionale Idrocarburi (ENI) development named Mammourra. We will await partner approval before moving to secure a rig slot and long lead items for a test well that we hope to drill in the second half of 2009. This well is estimated to cost \$20 million USD with SVI paying 8.75% and retaining a 50% interest and operating.

PA Resources, our partner at Jenein, has agreed a location for our 4200m test with the primary target being the Acacus and a secondary objective in the Ordovician. The well is planned to spud in the first half 2009. SVI will fund 30% of the estimated \$12.6 million USD cost of the exploratory well and retain a 65% interest in the block and operate.

UKCS OPERATIONS

Our North Sea operations recorded a number of firsts in the quarter. The Victoria development was successfully completed at the end of September and first gas was achieved on the 19th October 2008. After completion of the largest rig based fracture stimulation ever performed in the North Sea the well successfully flowed 20 Mmscf/d at over 1500psi which exceeded the estimated initial production rate in our 3p reserve case. The test supported our accessing up to 25 million GBP of the 30 million GBP facility established with RBS to fund the Victoria development. The pipeline and umbilical installation work was completed successfully in July. The Dive Support Vessel (DSV) completed the tie-in works and was released by the end of September 2008. First gas was delayed by a few days due to issues with low pipeline pressures and temperatures and also liquid handling restrictions at the Theddlethorpe terminal which caused production from the whole Viking complex to be restricted. These issues have now been resolved and the well is flowing at 15 Mmscf/d with no sand or water production.

Following completion of the Victoria well operations the rig moved to drill the Vantage prospect. The well was drilled to a depth of 9,626 feet and unfortunately did not encounter commercial volumes of hydrocarbons and was abandoned.

Production from Tristan NW averaged 2.9 Mmscf/d for the quarter. On the 25th August 2008 production was shut in due to a problem with the sub-sea control module. Intervention work was successfully conducted by the Osprey DSV vessel after the completion of the Victoria work and production recommenced on the 13th October 2008. The well ceased production early in November and will remain shut in for the foreseeable future. We have evaluated the well performance and future potential for the field. Pressures continue to fall and the total recoveries from the existing well configuration are forecast to be in the 1-2 Bcf range. We are in discussions with Mitsubishi, our partner in this well and holder of a non recourse debt facility on the project, about defining the most appropriate way forward and our likely exit from the project.

The Broch well location has been chosen in block 9/16 and will be drilled in November. An independent contingent resource assessment of Broch, attributed net resource of 75 Mmbbls to our interest from a total contingent resource of 253 Mmbbls. 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 being a company with the technical depth and recognized expertise in offshore heavy oil development.

Well planning continues for the NW Vulcan well in 48/25c which will be drilled in December of this year. We have contracted ADTI who will manage the operation on our behalf and the well will be drilled using the GSF Labrador rig.

OUTLOOK FOR 2009

Looking forward into 2009, on a combined company basis with no new equity, we will plan initially for a budget of \$37-40mm financed from available cash resources (\$20mm), cash flow from Victoria (\$35mm) and available debt up to a ceiling of the lesser of 1.0x cash flow or the available limit dependent on a redetermination to be completed early next year (-\$18mm).

In Tunisia we expect to spend \$10.3 million USD on the capital program described previously which does not include material expenditures at Cosmos. This will fund the drilling of two exploration wells and one appraisal well. Although we do expect cash flow to begin from Remada in 2009 we will not factor that in until it is realized and the proposed budget can be financed by cash on hand at this stage.

In the North Sea we will end the year with 21 million GBP drawn on our facility, which we plan to pay down by 10mm GBP. We expect to realize approximately 20 million GBP of cash flow on the basis of an average gas price of 50p/therm. Current futures markets suggest an average price of 54p/therm for calendar 2009 and we have factored in a hedge collar on 40% of our production with a floor of 60p (\$11.51 CDN/Mcf at \$1.90 CDN/GBP) and ceiling of 70p (\$13.46 CDN/Mcf at \$1.90 CDN/GBP) for calendar 2009.

We are budgeting to spend 3 million GBP on one well in 2009. Under this scenario we would have 6 million GBP of uncommitted capital, to pursue other opportunities. We will be submitting the Vulcan East FDP early in 2009 and subject to finding a partner to participate in the development and arranging a debt facility similar to Victoria; we will allocate the available capital to this development project which could see first gas in 2010.

Our plans to seek liquidity and eventual access to capital through public markets in 2009 now seems a less prudent strategy to pursue short term. We will explore alternate ways to access capital and be in a position to go to the public market at a point when valuations are more reflective of the asset value of the company and access to capital in the public markets improves.

SILVERSTONE ACQUISITION PROPOSAL

Storm has completed its evaluation of Silverstone Energy on a basis agreed as equitable by both Boards and submitted a proposal to the Silverstone Board to acquire the 67% of Silverstone not currently owned by SVI in exchange for shares in SVI that will represent 46% of the combined entity post close. The basis for the exchange ratio was a comparison of independent engineering valuations of Proven and Probable reserves on an after tax basis, cash and certain other minor assets such as carried exploration costs and shares at market value. Approximately 90% of the value was in cash and independently verified reserves. Our offer has been accepted by the Silverstone Board and it will be mailed to Silverstone shareholders immediately with a planned closing before Christmas.

The combined Company would have approximately 76.2 million shares outstanding, 2p reserves of 36 Mmboe, 2009 estimated production of 2200 Boe/d, cash flow of \$40 million CAD and an NAV of approximately \$800 million CAD based on the valuation methodology used in determining the ratio. The very high RLI and relatively low cash flow to NAV will come into line as we develop Victoria phase 2, Cosmos and Vulcan East.

The Companies compliment each other in Silverstone being a focused gas story in the UKCS and SVI being a focused oil story in Tunisia. Both have an excellent balance of leads, prospects and discoveries to progress to development and we can see financially independent active operations funded from domestic cash flow in each area within two years. The major benefits of the combination to SVI shareholders are:

- An increase in attractive operated assets with good upside;
- Reasonably priced acquisition of 15 Mmboe's at approximately \$15/Boe
- Increased size is a positive attribute in access and cost of capital in the current market;
- Improved clarity and concentration of executive management roles;
- Simplified process to deliver liquidity or return on our investment.

We are excited by the prospects this opportunity provides to strengthen our platform for delivery in all arenas in which we operate and feel we will have a stronger team with the inclusion of the Silverstone staff into SVI.

SUMMARY

We have managed through significant cycles in the energy business before and remain confident of a mid term return to profitability and that the short term volatility will surface a number of attractive opportunities in our core areas of focus. We have a degree of stability provided by a strong producing asset in a fiscally attractive and stable area and are very excited with our existing discoveries and the exploratory leads we will pursue as we harvest that cash flow. With projects currently in progress there is even the chance for more good news (not sure we can stand all the good news lately!) prior to year end. We will have to move forward cautiously in committing our available cash and be creative in sourcing alternate sources of capital to fund new opportunities.

Apologies for the length of this "interim" report but there seemed like a lot to cover. The Company added to its senior staff in both Tunis and Aberdeen and moved our headquarters to new premises on 12th Avenue just out of the downtown core in Calgary. With our expanding

staff, assets and activity we are also in the market to move premises in both Tunis and Aberdeen, hopefully by early in 2009.

A summary of financial highlights for the period;

FINANCIAL HIGHLIGHTS

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue	\$ 6,588,160	\$ (2,307,668)	\$ 12,294,987	\$ 9,861,412
Expenses	\$ 258,183	\$ 123,173	\$ 453,610	\$ 285,538
Net Income (loss) before tax	\$ 6,329,977	\$ (2,430,841)	\$ 11,841,377	\$ 9,575,874
Net Income Per Share	\$ 0.16	\$ (0.07)	\$ 0.31	\$ 0.29
Shares Outstanding	38,744,827	33,479,627	38,744,827	33,479,627

Revenue Third Quarter

Revenue for the third quarter of 2008 increased by \$8,895,828 compared with the third quarter of 2007 primarily due to:

- Increased dilution gain of \$4,660,639.
- Increased foreign exchange gain of \$4,053,130.

Nine Months

Revenue for the nine months of 2008 increased by \$2,433,575 compared with the nine months of 2007 primarily due to:

- Increased foreign exchange gain of \$7,412,155.
- Decreased dilution gain of \$5,733,183.
- Increased other income of \$1,127,979.

Expenses Third Quarter

Expenses for the third quarter of 2008 increased by \$135,010 compared with the third quarter of 2007 due to:

- Increased general and administration expense of \$129,910.
- Increased amortization expense of \$5,100.

Nine Months

Expenses for the nine months of 2008 increased by \$168,072 compared with the nine months of 2007 due to:

- Increased general and administration expense of \$153,972.
- Increased amortization expense of \$14,100.

DEBT
Third Quarter and Nine Months

As at September 30, 2008 Debt is as follows:

Loan - Mitsubishi (Tristan)	\$	18,420,804
Loan - Gemini		789,661
Royal Bank of Scotland		9,382,113
Total	\$	<u>28,592,578</u>

The Mitsubishi and Gemini loans were assumed on the acquisition of Grandby and the Royal Bank of Scotland Loan represents a secured facility obtained for the purpose of developing the Victoria gas field. For more details please refer to Note 6. Long-term Liabilities of the Financial Statements.

Property and Equipment

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

Category/Location	Nine months ended September 30, 2008
Tunisia	\$ 13,805,199
UKCS	68,211,261
Head Office	38,683
Total	\$ <u>82,055,143</u>

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)

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Assets		
Current		
Cash and cash equivalents	\$ 44,506,517	\$ 49,131,036
Accounts receivable and prepaid charges	3,525,497	925,470
	48,032,014	50,056,506
Investments (Note 3)	7,025,486	1,250,000
Property and equipment (Note 4)	141,911,537	59,856,394
	\$ 196,969,037	\$ 111,162,900
 Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 18,149,860	\$ 7,231,475
Long-term liabilities (Note 6)	28,592,578	-
Other long-term liabilities (Note 7)	2,024,729	556,024
Commitments (Note 8)		
Shareholders' equity		
Share capital (Note 9)	123,427,695	90,950,271
Contributed surplus	955,986	429,662
Retained earnings	23,818,189	11,995,468
	\$ 148,201,870	\$ 103,375,401
	\$ 196,969,037	\$ 111,162,900

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue				
Interest	\$ 211,430	\$ 461,303	\$ 867,870	\$ 1,241,246
Other income	393,759	(38,173)	1,129,778	1,799
Dilution gain (Note 11)	4,660,639	-	8,747,325	14,480,508
Foreign exchange gain (loss)	1,322,332	(2,730,798)	1,550,014	(5,862,141)
	6,588,160	(2,307,668)	12,294,987	9,861,412
Expenses				
General and administrative	253,083	123,173	439,510	285,538
Amortization	5,100	-	14,100	-
	258,183	123,173	453,610	285,538
Net Income (loss) and Comprehensive Income before income tax	6,329,977	(2,430,841)	11,841,377	9,575,874
Income Taxes	18,656	59,647	18,656	53,389
Net Income (loss) and Comprehensive Income	6,311,321	(2,490,488)	11,822,721	9,522,485
Retained Earnings, beginning of period	17,506,868	14,235,306	11,995,468	2,222,333
Retained Earnings, end of period	\$ 23,818,189	\$ 11,744,818	\$ 23,818,189	\$ 11,744,818

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Operating activities				
Net Income (loss)	\$ 6,311,321	\$ (2,490,488)	\$ 11,822,721	\$ 9,522,485
Dilution Gain	(4,660,639)	-	(8,747,325)	(14,480,508)
Unrealized foreign exchange	(1,322,333)	2,730,798	(1,550,014)	5,862,141
Amortization	5,100	-	14,100	-
Funds from operations	333,449	240,310	1,539,482	904,118
Change in non cash working capital	(687,853)	(47,279)	1,137,995	(70,976)
	(354,404)	193,031	2,677,477	833,142
Financing activities				
Issue of share capital	31,588,126	-	32,393,626	-
Proceeds from exercise of stock options	46,000	-	46,000	78,677
Share issue costs	(24,307)	-	(24,307)	(3,129)
Change in non cash working capital	-	(72,247)	(11,542)	(93,315)
	31,609,819	(72,247)	32,403,777	(17,767)
Investing activities				
Property and equipment - net	(33,537,914)	(6,463,310)	(54,053,337)	(5,793,132)
Proceeds on Dilution	8,270,507	-	8,270,507	11,096,367
Investment (Storm Gas Resources)	(1,040,010)	-	(1,040,010)	(1,250,000)
Investment (Petrol One)	-	1,150,000	-	1,150,000
Investment (Other)	(74,837)	-	(74,837)	-
Change in non cash working capital	8,609,922	649,482	7,191,904	(4,555,570)
	(17,772,332)	(4,663,828)	(39,705,773)	647,665
Change in cash during the period	13,483,083	(4,543,044)	(4,624,519)	1,463,040
Cash, beginning of period	31,023,434	63,490,121	49,131,036	57,484,037
Cash, end of period	\$ 44,506,517	\$ 58,947,077	\$ 44,506,517	\$ 58,947,077

See accompanying notes to the consolidated financial statements.

STORM VENTURES INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

1. BASIS OF PRESENTATION

Storm Ventures International Inc. (the "Company" or "SVI") 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.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that mature within three months of their purchase. They are recorded at cost, which approximates fair value.

Pre-production 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 other 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. As at December 31, 2007 the Company had 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.

Non-monetary Transactions

Non-monetary transactions are measured based on fair value when there is evidence to support the fair value unless the transaction lacks commercial substance or is an exchange of product or property held for sale in the ordinary course of business.

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

On January 1, 2007 the Company adopted 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 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 cost 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 statement of comprehensive income, comprises of net income and other comprehensive income, may report changes in fair value in, derivatives designated as cash flow hedges and available for sale investments and foreign currency translation.

On January 1, 2008 we prospectively adopted the following new standards issued by the CICA: Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures, Section 3863 – Financial Instruments Presentation. The disclosures required by Section 3862 and 3863 provide additional information on the risks associated with our financial instruments and how we manage those risks.

In October 2008 the Canadian Accounting Standards Board (“AcSB”) announced that private companies are exempt from the financial instruments standards. SVI has chosen to follow these standards.

Reclassification

Certain amounts presented for purpose of comparison have been reclassified to conform to the current period’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

In February 2008, the 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.

In February 2008, the AcSB issued Section 3064 – Goodwill and Intangible Assets and amended Section 1000 – Financial Statement Concepts, clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized as assets. The standard is effective for the Company on January 1, 2009. As a result of issuing this guidance Emerging Issues Committee Abstract No. 27 – Revenues and Expenditures during the Pre-Operating Period will be withdrawn. The Company is currently determining the impact of this standard.

3. INVESTMENTS

In 2007 the Company purchased 1,250,000 common shares in Storm Gas Resource Corp. (“SGR”) for a total subscription price of \$1,250,000. On July 17, 2008 the Company purchased an additional 200,000 common shares for a total

subscription price of \$1,040,010. The Company's ownership position was reduced from 44.2% to 15.9%. As the shares issued were sold at a price greater than the per share price of the Company's initial investment, the Company recognized a dilution gain of \$4,660,639, which was offset to the investment. The Company and Storm Exploration Inc. 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.

In addition to the foregoing, there are portfolio investments of \$74,837, which Silverstone have an interest in. The shares held are listed investments registered in Australia and listed on the Australian Stock Exchange.

4. PROPERTY AND EQUIPMENT

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

	September 30 2008	December 31 2007
United Kingdom	\$ 107,523,800	\$ 38,462,232
Tunisia	34,192,848	21,234,637
Office Furniture and Equipment	226,989	177,525
	141,943,637	59,874,394
Accumulated Amortization	32,100	18,000
	\$ 141,911,537	\$ 59,856,394

Included in the above amount is \$9,356,006 (December 31, 2007 - \$2,508,623) of capitalized general and administrative costs.

5. 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:

	September 30 , 2008	December 31, 2007
Current Assets	\$ 17,829,048	\$ 30,106,645
Investments	74,837	-
Property and Equipment	106,210,423	37,812,743
Current Liabilities	16,817,130	4,896,826
Long-Term Liabilities	28,592,578	-
Other Long-Term Liabilities	2,024,729	556,024
Revenues	7,435,793	9,195,423
Expenses	18,656	14,913
Net Income	7,417,137	9,180,510
Cash Provided by Operating Activities	-	-
Cash Used in Investing Activities	\$ 9,845,883	\$ 3,507,462
Cash Used in Financing Activities	-	-

6. LONG-TERM LIABILITIES

The long-term liabilities are comprised of debt of Silverstone as follows:

Loan - Mitsubishi (Tristan)	\$ 18,420,804
Loan - Gemini	789,661
Royal Bank of Scotland	9,382,113
Total	<u>\$ 28,592,578</u>

The Mitsubishi Loan assumed on the acquisition of Grandby includes main conditions of:

- non-recourse
- first 95% of available cash flow to pay down debt from the Tristan well.

Interest is payable at the rate of 13% and the Loan matures in November 2011.

The Gemini Loan assumed on the acquisition of Grandy is available for the 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.

The Royal Bank of Scotland Loan represents a secured facility obtained for the purpose of developing the Victoria gas field. The interest rate is based on LIBOR plus 1.50% and the loan matures at the earlier of December 2014 or the date on

which the reserves are projected to be 25% or less of the approved borrowing base reserves.

7. OTHER LONG-TERM LIABILITIES

Asset Retirement Obligation

	September 30 , 2008	December 31, 2007
Beginning of year	\$ 422,700	\$ 570,060
Provision	1,547,780	-
Revision	(44,392)	(147,360)
End of period	<u>\$ 1,926,088</u>	<u>\$ 422,700</u>

Asset retirement obligation represents the Company's share of the decommissioning costs of two wells completed but not plugged as at September 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 \$98,641 (December 31, 2007 - \$133,324) which relates to Silverstone's share option arrangement.

8. COMMITMENTS

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

9. 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, 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
Shares issued to employees and directors	71,100	355,500
Shares issues for asset purchase	100,000	500,000
Private placement	5,054,100	31,588,126
Options exercised	40,000	58,105
Less: Issue costs		(24,307)
Balance as at September 30 , 2008	38,744,827	\$ 123,427,695

Share Issues

On August 8, 2008 the Company completed a private placement of 5,054,100 common shares for aggregate gross proceeds of \$31,588,126 before costs of \$24,307. During 2008, 71,100 common shares of the Company were issued to employees and directors for deemed proceeds of \$355,500 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. 40,000 options were exercised in exchange for aggregate gross proceeds of \$58,105.

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.

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:

Balance as at December 31, 2007	2,300,000
Granted during the period	150,000
Exercised during the period	(40,000)
Forfeited during the period	-
Balance as at September 30, 2008	2,410,000

	September 30, 2008	December 31, 2007
Weighted average exercise price	\$4.01	\$3.90
Average remaining life	3.0 years	3.6 years
Number exercisable at end of period	795,000	533,333
Option price	\$1.15 - \$5.00	\$1.15 - \$5.00

Outstanding Options			Exercisable Options	
Options Outstanding	Price	Weighted Average Remaining Life	Options Outstanding	Price
465,000	\$ 1.15	1.9	465,000	\$ 1.15
590,000	\$ 4.00	2.8	288,333	\$ 4.00
1,355,000	\$ 5.00	4.2	41,667	\$ 5.00
2,410,000		3.0	795,000	

Using the Black-Scholes pricing model, the weighted average fair value of the options granted in 2008 and 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 September 30, 2008 was \$538,429 (September 30, 2007 - \$168,945).

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital:

	Period ended September 30,	
	2008	2007
Accounts receivable & prepaid charges	\$ (2,600,027)	\$ 73,670
Accounts payable	\$ 10,918,384	\$ (4,793,531)
Changes in non-cash working capital	\$ 8,318,357	\$ (4,719,861)
Relating to:		
Financing activities	\$ (11,542)	(93,315)
Investing activities	7,191,904	(4,555,570)
Operating activities	1,137,995	(70,976)
	\$ 8,318,357	\$ (4,719,861)

11. DILUTION GAIN

In July of 2008, Storm Gas Resources which the Company has an investment in completed a private placement in the amount of \$40,300,000. The Company participated in the private placement to the extent of \$1,040,010 (200,000 shares) reducing its ownership position from 44.2% to 15.9%. As the shares issued were sold at a price greater than the per share price of the Company's initial investment, the Company recognized a dilution gain of \$4,660,639.

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 \$4,086,686.

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.

12. FINANCIAL INSTRUMENTS and RISK MANAGEMENT

Effective January 1, 2008, the Company adopted CICA Section 3862 – Financial Instruments Disclosures and CICA Section 3863 – Financial Instruments Presentation. Section 3862 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. Section 3863 sets out the standards for presentation of financial instruments and non-financial derivatives.

Financial instruments carried at fair value on our balance sheet include cash and cash equivalents. Our other financial instruments including accounts receivable, investments, accounts payable and accrued liabilities and long-term debt are carried at cost or amortized cost. There are no significant differences between the carrying value of these instruments and their estimated fair value. The carrying value of our short-term receivables and payables approximates their fair value because the instruments are near maturity.

The Company has no "other comprehensive" transactions during the period ended September 30, 2008 and no opening or closing balance for the accumulated other comprehensive income or loss.

These financial instruments expose the Company to the following risks:

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

Management has primary responsibility for monitoring and managing financial instrument risks under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework.

Credit risk

A substantial portion of the Company's accounts receivable are concentrated with a limited number of joint venture partners in the oil and gas industry and are subject to normal industry credit risk. Management considers these concentrations of credit risk to be minimal 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.

Market risk

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

- Commodity prices;
- Foreign exchange.

Commodity prices

The Company is constantly exposed to the risk of declining commodity prices.

Foreign exchange

Although the Company's capital expenditures are denominated in United States dollars, the underlying market prices are affected by the exchange rate between the Canadian and the United States dollar.

Liquidity risk

Liquidity difficulties would emerge if the Company was unable to meet its financial obligations as they fell due within normal credit terms. Generally the Company will, over a reasonable period of time, limit its capital programs to available funds.

13. CAPITAL DISCLOSURES

Effective January 1, 2008, the Company adopted CICA 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.

Capital management is fundamental to the Company's objective to create value and provide returns to our shareholders through being a profitable small project niche exploiter in the upstream energy business outside of conventional resources in Western Canada. The Company's capital comprises shareholders' equity and

working capital. Management of capital 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.

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.

P. Grant Wierzba
Vice President, Operations

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

Alliance Trust Company, Calgary, Alberta

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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
DGE	Direction Générale de l’Energie
ETAP	Entreprise Tunisienne D’Activités Pétrolières
£GBP	Great Britain Pound
GIP	Gas in place
GOR	Gas-oil ratio
LIBOR	London Interbank Offered rate
Mbbls	Thousands of barrels
Mmbbls	Millions of barrels
Mmscf/d	Million standard cubic feet per day
Mboe	Thousands of barrels of oil equivalent
Mmboe	Millions 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
NAV	Net Asset Value
SNS	Southern North Sea
STOOIP	Stock Tank Original Oil In Place
UKCS	United Kingdom Continental Shelf