

FINANCIALS

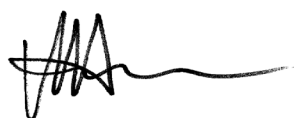
MANAGEMENT'S REPORT

To the Shareholders of Storm Resources Ltd.

The financial statements of Storm Resources Ltd. were prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Management has used estimates and careful judgment, particularly in those circumstances where transactions affecting current periods are dependent on information not known for certain until a future period. The financial and operational information contained in this year-end report is consistent with that reported in the financial statements.

Management is responsible for the integrity of the financial and operational information contained in this report. The Company has designed and maintains internal controls to provide reasonable assurance that assets are properly safeguarded and that the financial records are well maintained and provide relevant, timely and reliable information to management. The financial statements have been prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in the notes to the financial statements.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.



Michael J. Hearn
Chief Financial Officer



Emily Wignes
Vice President, Finance

February 27, 2020

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Storm Resources Ltd.

Opinion

We have audited the consolidated financial statements of Storm Resources Ltd. and its subsidiaries ("Storm"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Storm as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Storm in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Year-End Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Year-End Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Storm's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Storm or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Storm's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Storm's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Storm's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Storm to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Storm to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of Storm's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ryan MacDonald.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Professional Accountants
Calgary, Alberta

February 27, 2020

Consolidated Statements of Financial Position

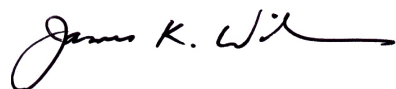
(Canadian \$000s)	Notes	December 31, 2019	December 31, 2018
ASSETS			
Current			
Accounts receivable	16	\$ 21,961	\$ 29,262
Prepays and deposits		764	853
Risk management contracts	16	1,113	2,341
		23,838	32,456
Exploration and evaluation	6	99,737	102,277
Property and equipment	7	490,264	430,801
Right-of-use asset	4, 10	2,657	-
		\$ 616,496	\$ 565,534
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	16	\$ 30,018	\$ 34,359
Risk management contracts	16	2,042	3,521
Current portion of decommissioning liability	11	448	-
Current portion of lease liability	10	507	-
		33,015	37,880
Bank indebtedness	8, 16	121,608	86,776
Risk management contracts	16	904	2,180
Decommissioning liability	11	27,667	26,334
Lease liability	4, 10	2,234	-
Deferred income taxes	12	9,360	4,433
		194,788	157,603
Shareholders' equity			
Share capital	13	391,444	391,444
Contributed surplus	14	17,605	15,141
Retained earnings		12,659	1,346
		421,708	407,931
Commitments	20		
		\$ 616,496	\$ 565,534

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



Director



Director

Consolidated Statements of Income and Comprehensive Income

(Canadian \$000s except per-share amounts)	Notes	Year Ended December 31, 2019	Year Ended December 31, 2018
Revenue			
Revenue from product sales	9	\$ 173,422	\$ 226,258
Royalties		(8,169)	(8,127)
		\$ 165,253	\$ 218,131
Realized gain (loss) on risk management contracts	16	(8,833)	(22,677)
		\$ 156,420	\$ 195,454
Expenses			
Production		43,274	41,242
Transportation		41,703	43,764
General and administrative		6,883	6,112
Share-based compensation	14	2,464	3,127
Depletion and depreciation	7, 10	40,506	45,617
Exploration and evaluation costs expensed	6	1,140	277
Accretion	11	492	517
Interest and finance costs		5,158	4,244
Unrealized (gain) loss on risk management contracts	16	(1,527)	5,833
Unrealized revaluation loss on investment		87	225
		140,180	150,958
Net income and comprehensive income		16,240	44,496
Deferred income tax expense	12	4,927	4,433
Net income and comprehensive income		\$ 11,313	\$ 40,063
Net income per share	15		
- Basic and diluted		\$ 0.09	\$ 0.33

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(Canadian \$000s)		Year Ended December 31, 2019			
	Notes	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance, beginning of year		\$ 391,444	\$ 15,141	\$ 1,346	\$ 407,931
Net income for the year		-	-	11,313	11,313
Share-based compensation	14	-	2,464	-	2,464
Balance, end of year		\$ 391,444	\$ 17,605	\$ 12,659	\$ 421,708

(Canadian \$000s)		Year Ended December 31, 2018			
	Notes	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance, beginning of year		\$ 391,444	\$ 12,014	\$ (38,717)	\$ 364,741
Net income for the year		-	-	40,063	40,063
Share-based compensation	14	-	3,127	-	3,127
Balance, end of year		\$ 391,444	\$ 15,141	\$ 1,346	\$ 407,931

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(Canadian \$000s)	Notes	Year Ended December 31, 2019	Year Ended December 31, 2018
Operating activities			
Net income for the year		\$ 11,313	\$ 40,063
Non-cash items:			
Unrealized (gain) loss on risk management	16	(1,527)	5,833
Depletion, depreciation and accretion	7, 10, 11	40,998	46,134
Share-based compensation	14	2,464	3,127
Lease interest	10	147	-
Exploration and evaluation costs expensed	6	1,140	277
Unrealized revaluation loss on investment		87	225
Deferred income tax expense	12	4,927	4,433
Funds flow		59,549	100,092
Net change in non-cash working capital items	19	8,957	(7,851)
		68,506	92,241
Financing activities			
Payment on lease liability	10	(500)	-
Increase (decrease) in bank indebtedness		34,832	(14,217)
		34,332	(14,217)
Investing activities			
Additions to property and equipment	7	(95,757)	(80,729)
Additions to exploration and evaluation assets	6	(2,169)	(4,034)
Disposition of exploration and evaluation assets	6	1,083	-
Net change in non-cash working capital items	19	(5,995)	6,739
		(102,838)	(78,024)
Change in cash during the year		-	-
Cash, beginning of year		-	-
Cash, end of year		\$ -	\$ -

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for years ended December 31, 2019 and 2018

Tabular amounts in thousands of Canadian dollars, except per share amounts

1. REPORTING ENTITY

Storm Resources Ltd. (the "Company" or "Storm"), is a crude oil and natural gas exploration and development company incorporated in the province of Alberta, Canada on June 8, 2010 and is listed on the TSX under the symbol "SRX". The Company operates primarily in the province of British Columbia and its head office is located at Suite 600, 215 – 2nd Street S.W., Calgary, Alberta T2P 1M4. The Company became a reporting issuer in August 2010.

These audited consolidated financial statements (the "financial statements") include the accounts of Storm and its wholly-owned subsidiary, Storm Gas Resource Corp. All inter-entity transactions have been eliminated upon consolidation. Storm's operations are viewed as a single operating segment by the chief decision maker of the Company for the purpose of resource allocation and assessing asset performance.

2. BASIS OF PRESENTATION

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All financial information is reported in thousands of Canadian dollars, which is the functional currency of the Company.

These financial statements were authorized for issue by the Board of Directors on February 27, 2020.

Basis of Measurement

The Company's financial statements have been prepared on a going concern basis consistent with prior years, and follow the historical cost convention, except for certain financial assets and financial liabilities, which are measured at fair value, as explained in Note 16.

3. SUMMARY OF ACCOUNTING POLICIES

Exploration and Evaluation Expenditures

Exploration and evaluation ("E&E") expenditures are accounted for in accordance with IFRS 6 - *Exploration for and Evaluation of Mineral Resources*, whereby costs associated with the exploration for and evaluation of oil and gas reserves are accumulated on an area-by-area basis and are capitalized as E&E assets when incurred. Future decommissioning costs relating to E&E activities are also included. Costs incurred in advance of land acquisition are charged to the consolidated statement of income in the period in which they are incurred.

E&E costs are not subject to depletion or depreciation until they are reclassified from E&E to property and equipment ("P&E"). E&E costs are accumulated by field or exploration area pending determination of technical feasibility and commercial viability. Technical feasibility and commercial viability is typically considered to be achieved when proved reserves are determined to exist. Once reserves are assigned to specific lands, the associated E&E assets are tested for impairment and the lesser of cost and the estimated recoverable amount is reclassified to P&E.

Property and Equipment

P&E represents both intangible and tangible costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning costs, related to producing assets, are also capitalized. P&E is carried at cost, less accumulated depletion and depreciation and accumulated impairment losses. Gains and losses on disposal of P&E are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and are recognized in the consolidated statement of income.

Depletion and Depreciation

The net carrying amount of intangible crude oil and natural gas assets, categorized as P&E, is depleted using the unit-of-production method based on estimated proved plus probable reserves, taking into account the future development costs required to produce the reserves.

Year-end proved plus probable reserves are determined by independent engineers in accordance with Canadian National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of natural gas to one barrel of crude oil. Changes in estimates used in prior periods, such as proved plus probable reserves, that affect the unit-of-production calculations, do not give rise to prior year adjustments and are dealt with prospectively. Proved plus probable reserves at the end of each interim reporting period are based on reserves determined at the immediately prior year end, adjusted for production and internal estimates of changes to reserves since the prior year end.

Tangible costs, such as processing facilities and well equipment, are depreciated on a straight-line basis over the estimated useful life of the facilities and equipment. Where facilities and equipment includes major components having different useful lives, they are depreciated separately.

Depreciation rates, useful lives and residual values are reviewed at each reporting date.

Impairment of Non-Financial Assets

The carrying amounts of P&E and E&E assets are reviewed separately at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the estimated recoverable amount is calculated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or group of assets (the "cash generating unit" or "CGU"). CGU's are determined by similar geological formation and proximity, shared infrastructure, product type and similar exposure to market risks. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. E&E assets are assessed for impairment at the operating segment level.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using an after-tax discount rate and future commodity prices that reflect current market assumptions. Fair value less costs of disposal ("FVLCD") is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. An impairment loss is recognized in the consolidated statement of income if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Impairment losses previously recognized are assessed at each reporting date for indications that the loss has decreased or no longer exists. If there has been an increase in the estimate of the recoverable amount an impairment loss is reversed to the extent that the asset's new carrying amount does not exceed the original carrying amount, net of related accumulated depletion and depreciation.

Lease Liabilities and Right-of-Use Assets

Policy applicable before January 1, 2019

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. At inception, a leased asset within P&E and a corresponding lease obligation are recognized. The leased asset is depreciated over the shorter of the estimated useful life of the asset or the lease term. All of the Company's leases are operating leases, which are not recognized on the consolidated statement of financial position. Rather, these payments in respect of operating leases are recognized in the consolidated statement of income.

Policy applicable from January 1, 2019

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease liability is recognized at the present value of future lease payments, using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. A corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received and initial direct costs. The Company has elected not to recognize leases with a term of

twelve months or less, or leases for low-value assets. Payments are applied against the lease liability and interest expense is recognized on the lease liability using the effective interest rate method. Depreciation is recognized on the right-of-use asset over the lease term.

Decommissioning Liability

Decommissioning liabilities are measured as the present value of management's best estimate of the expenditure required to settle the future decommissioning liability at the reporting date using a risk-free discount rate. This estimate is recognized when a legal or constructive obligation arises and is capitalized as part of E&E assets or P&E as appropriate. The amount capitalized to P&E is amortized on a unit-of-production basis consistent with the measurement of depletion. The obligation is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future costs underlying the obligation. The increase in the obligation due to the passage of time is recognized as accretion expense in the consolidated statement of income whereas increases or decreases due to changes in the estimated future costs are capitalized. Actual costs incurred upon settlement of decommissioning obligations are charged against the liability; if actual costs exceed the liability recorded, the difference is charged to the consolidated statement of income.

Revenue Recognition

Revenue recognition from the sale of commodities is calculated by reference to consideration specified in contracts with customers and recognized when control of the product is transferred to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

The Company sells its production pursuant primarily to variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors depending on the contract terms. Under its contracts, the Company is required to deliver volumes of natural gas, condensate and NGL to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to fluctuations in commodity prices. Natural gas, condensate and NGL are mostly sold under contracts of varying price and volume terms. Revenues are typically collected on the 25th day of the month following production.

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

Transportation

Transportation expenses include costs incurred by the Company to transport natural gas and condensate from the wellhead to the point of title transfer.

Share-Based Compensation

The Company has issued options to acquire common shares to directors, officers and employees 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 of each tranche of options thus established is recognized as compensation expense over the vesting period of the related options, with an equivalent increase to contributed surplus. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest. The effect of any revision in forfeiture rates is recognized in the consolidated statement of income with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds, together with the amounts recorded in contributed surplus, are recorded in share capital.

Government Grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received. When the conditions of a grant relate to income or expenses, it is recognized in the consolidated statement of income in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a

reduction to the carrying amount of the related asset and amortized into income on a systematic basis over the expected useful life of the underlying asset through reduced depletion and depreciation expense.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognized when the rights to receive cash flows from the instruments have expired, or when the Company has transferred substantially all risks and rewards of ownership.

Financial instruments are measured at fair value upon initial recognition. Measurement in subsequent periods is dependent on the financial instrument's classification, as described below:

- *Fair value through profit or loss ("FVTPL")*
Financial assets and liabilities designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with subsequent changes in fair value charged to the consolidated statement of income. The Company classifies its risk management contracts as FVTPL.
- *Amortized cost*
Amortized cost and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method, net of any impairment. The Company includes accounts receivable, accounts payable and accrued liabilities and bank indebtedness within the amortized cost category.
- *Fair value through other comprehensive income ("FVTOCI")*
Financial assets designated at fair value through other comprehensive income are measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. The Company does not currently have any financial assets classified as FVTOCI.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Any subsequent reclassification of financial assets and liabilities from their initial recognition will be reclassified on the first day of the reporting period.

Impairment of financial assets

Impairment of financial assets is determined by measuring the assets' expected credit losses ("ECLs"). Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is measured as the difference between the present value of the cash flows due to the Company and the cash flows that the Company expects to receive. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, evidence of a deterioration of a debtor's financial condition, evidence that a debtor will enter bankruptcy, increase in the number of days the debtor is past due and change in economic condition that could correlate to increased risk of default. ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component since accounts receivable are due within one year or less.

Risk management contracts

Risk management contracts may be used by the Company to manage exposure to market risks related to commodity prices, exchange rates and interest rates. Storm does not use derivative contracts for speculative purposes. The Company does not designate its derivative contracts as hedges and, as such, does not apply hedge accounting. All derivative contracts are classified at fair value through profit and loss.

Income Tax

Income tax comprises current and deferred taxes. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in other comprehensive income or elsewhere in shareholders' equity, in which case the related income tax expense or recovery is similarly recognized in the appropriate account.

Current tax expense is the expected cash tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

In general, deferred income tax expense and the related liability is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to continue to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current on the consolidated statement of financial position.

Jointly Controlled Assets and Operations

Certain of the Company's exploration and production activities are regarded as joint operations and are conducted under joint operating agreements, whereby two or more parties jointly control the assets. The financial statements reflect only the Company's share of these jointly controlled assets and, once production commences, Storm's proportionate share of the relevant revenue and related costs.

Share Capital

Proceeds from the issuance of common shares are classified as shareholders' equity. Costs directly attributable to the issuance of shares are recognized as a deduction from shareholders' equity.

Net Income Per Share

Basic net income per share is calculated by dividing the net income attributable to equity owners for the reporting period by the weighted average number of common shares outstanding during the reporting period.

Diluted net income per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive instruments comprise stock options granted to directors, officers and employees. The number of shares included with respect to options is computed using the treasury stock method, which assumes that proceeds received from the exercise of in-the-money stock options are used to purchase common shares at average market prices during the period.

4. NEW ACCOUNTING POLICIES

Changes in Accounting Policies

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* which is effective January 1, 2019 and replaces IAS 17 *Leases*. Under IFRS 16, a single recognition and measurement model will apply for lessees, which requires lessees to recognize assets and liabilities for essentially all leases previously classified as operating leases. Short-term leases and leases for low-value assets are exempt from recognition and will continue to be treated as operating leases.

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* using the modified retrospective approach, whereby the cumulative effect of initially applying the standard resulted in the initial recognition of a \$3.1 million "Right-of-use asset" with a corresponding increase to "Lease liability" primarily relating to the Company's corporate office lease in Calgary. The modified retrospective approach does not require restatement of prior period comparative financial information and is applied prospectively.

The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 5% on January 1, 2019. The right-of-use asset was measured at amounts equal to the lease liability.

On adoption, the Company used the following practical expedients permitted by the standard:

- accounted for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- accounted for lease payments as an expense for leases for low-value assets.

The following table provides a reconciliation of the commitments as at December 31, 2018 to the Company's lease liability as at January 1, 2019:

	Total
Transportation and processing commitments	\$ 384,707
Office lease	5,773
Commitments as at December 31, 2018	390,480
Less:	
Agreements that do not contain a lease	(384,707)
Non-lease components	(2,082)
Lease liability commitments as at December 31, 2018	3,691
Discounting at incremental borrowing rate of 5%	(597)
Lease liability as at January 1, 2019	\$ 3,094

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continuously reviewed with the financial statement effect being recognized in the reporting period that the changes to estimates are made.

Critical judgments applied by management to accounting policies that have the most significant effect on the amounts in the financial statements are as follows:

Classification and Carrying Amount of Exploration and Evaluation Assets

Each reporting period, E&E assets are subject to an internally conducted impairment review. Factors brought into the consideration of impairment include the Company's future plans for the property, lease expiries, drilling and development results on proximate or analogous properties, facility and pipeline access, views as to future commodity prices, operating and development costs and availability of capital for exploration and development programs. Judgment is required to determine the level at which E&E is assessed for impairment. E&E assets are assessed for impairment at the operating segment level. An impairment assessment is also completed when the costs of E&E assets are transferred to P&E on a specific identification basis.

Carrying Amount of Property and Equipment

Each reporting period, P&E is subject to an impairment review applied at the CGU level. The impairment review gives recognition to changes in geological interpretation or development plans, drilling results, development costs, changes to reserve estimates and values, future commodity prices, facility and pipeline access, operating results, operating and future development costs, industry activity in the area, access to markets and availability of development capital.

Depletion, Impairment and Reserves

The amounts recorded for depletion and impairment testing are based on estimates of proved plus probable reserves. Significant judgment and estimates are required to calculate the recoverable amount on non-financial assets. The Company estimates the recoverable amount of non-financial assets, including P&E and E&E, based on its FVLCD, calculated using the after-tax future cash flows expected to be derived from production of proved plus probable oil and gas reserves, less estimated selling costs, discounted using market-based rates to reflect a market participant's view of the risks associated with the assets.

Assumptions that are valid at the time of reserve estimation may change materially as new information becomes available. Reserves estimates are based on engineering data, forward price estimates, production and future development costs, recovery rates or decommissioning costs, all of which may change the economic status of reserves and may ultimately result in reserves used for measurement purposes being removed from similar calculations in future reporting periods. Reserves have been evaluated at December 31, 2019 and 2018 by the Company's independent qualified reserves evaluator.

Decommissioning Liability

Measurement of the Company's decommissioning liability involves estimates as to the cost and timing of incurrence of future decommissioning programs. It also involves assessment of appropriate discount rates, rates of inflation applicable to future costs and the rate used to measure the accretion charge for each reporting period. Measurement of the liability also reflects current engineering methodologies as well as current and expected future environmental legislation and standards.

Measurement and Utilization of Tax Assets

The Company has tax pools which may be applied in reduction of future income. The amount of such pools is subject to audit by taxing authorities, possibly several years after the initial measurement. In addition, future changes to tax laws may result in the loss or limitation of use of such pools.

Measurement of Share-Based Compensation

The charge for share-based compensation involves the estimate of the fair value of stock options at time of issue. The estimate involves assumptions regarding the life of the option, dividend yields, interest rates, and volatility of the security subject to the option. The charge is measured using the Black-Scholes option pricing model, which could be replaced by a pricing model producing different results.

Carrying Amounts of Financial Instruments

Financial instruments are subject to valuation at the end of each reporting period. Generally the valuation is based on active and efficient markets. However, certain financial instruments may not be traded on an efficient market, or the market may disappear or be subject to circumstances or controls that impede the efficiency of the market.

6. EXPLORATION AND EVALUATION

	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance, beginning of year	\$ 102,277	\$ 103,907
Additions	2,169	4,034
Dispositions	(1,083)	-
Expiries - exploration and evaluation costs expensed	(1,140)	(277)
Future decommissioning costs	178	370
Transfer to property and equipment	(2,664)	(5,757)
Balance, end of year	\$ 99,737	\$ 102,277

For the year ended December 31, 2019, the Company determined certain of its E&E assets to be technically feasible and commercially viable and they were, therefore, transferred to P&E. An impairment test was conducted prior to the transfer (determined using the same methodology outlined in Note 7 – Property and Equipment), but no impairment was recognized as the recoverable amount of these assets exceeded the carrying value.

As at December 31, 2019, management reviewed the carrying amounts of the remaining assets in E&E for indicators of impairment and due to continued volatility in the natural gas price environment and resulting declines in forecasted long-term natural gas prices, the Company performed an asset impairment test on its E&E assets, aggregated at the operating segment level. The impairment test was performed using recoverable amount based on the FVLCD using the same inputs described in Note 7. As at December 31, 2019, the Company determined that there was no impairment to E&E.

7. PROPERTY AND EQUIPMENT

	Year Ended December 31, 2019	Year Ended December 31, 2018
Cost		
Balance, beginning of year	\$ 646,983	\$ 559,524
Additions	95,757	80,729
Future decommissioning costs	1,111	973
Transfer from exploration and evaluation assets	2,664	5,757
Balance, end of year	\$ 746,515	\$ 646,983
Accumulated depletion and depreciation		
Balance, beginning of year	\$ (216,182)	\$ (170,565)
Depletion and depreciation	(40,069)	(45,617)
Balance, end of year	\$ (256,251)	\$ (216,182)
Net book value, beginning of year	\$ 430,801	\$ 388,959
Net book value, end of year	\$ 490,264	\$ 430,801

Future capital costs required to develop proved plus probable reserves in the amount of \$566.2 million (December 31, 2018 - \$538.9 million) are included in the depletion calculation.

As at December 31, 2019, the balance of assets under construction not subject to depreciation or depletion was \$65.0 million (December 31, 2018 - \$11.4 million) and relates to the construction of a gas plant at Nig, located in northeast British Columbia.

Impairment Assessment and Testing

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At December 31, 2019, the Company determined that an indicator of impairment existed for its material producing CGU at Umbach as the market capitalization of the Company was less than the net asset value. Although there was a decline in commodity prices, specifically related to Western Canadian natural gas prices, the Company was sheltered from this decline through its diversified marketing strategy including approximately 20% of production attracting liquids pricing (mainly WTI based).

An impairment is recognized if the carrying value of an asset exceeds the recoverable amount. The Company determines the recoverable amount by using discounted future cash flows of proved plus probable reserves using forecast prices and costs.

Forecast future prices, as prepared by an independent qualified reserve evaluator, used in the impairment evaluation as at December 31, 2019, reflect the benchmark prices set forth in the table below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

	2020	2021	2022	2023	2024	2025	2026 ⁽¹⁾
WTI Cushing Oklahoma (US\$/Bbl)	61.00	64.50	66.50	68.20	69.90	71.50	73.50
NYMEX Henry Hub (US\$/Mmbtu)	2.50	2.75	3.00	3.15	3.25	3.35	3.42
AECO-C Spot (Cdn\$/Mmbtu)	2.05	2.32	2.60	2.69	2.81	2.94	3.00
Station 2 (Cdn\$/Mmbtu)	1.70	2.02	2.30	2.44	2.59	2.71	2.82
Exchange rate (US\$/Cdn\$)	0.76	0.77	0.78	0.80	0.80	0.80	0.80

(1) Prices escalate at 2% thereafter.

Recoverable amounts were estimated based on a fair value less costs of disposal ("FVLCD") methodology, using the present value of the CGUs expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at December 31, 2019, including long-term forecasts of commodity prices, inflation rates and foreign exchange rates (Level 3 fair value inputs as described in Note 16). Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rate applied in the impairment calculation as at December 31, 2019 was 10%. All else being equal, a 1% increase in the assumed discount rate or a 10% decrease in future planned funds flows would not result in an impairment for the year ended December 31, 2019.

As at December 31, 2019, the Company determined that there was no impairment to P&E.

8. BANK INDEBTEDNESS

As at December 31, 2019, the Company had an extendible revolving credit facility in the amount of \$205 million (December 31, 2018 – \$180 million) of which \$121.6 million was drawn as at December 31, 2019. The credit facility is based on a bank determined borrowing base related to the Company's producing reserves. The credit facility is available to the Company until May 29, 2020, at which time the borrowing base amount will be reviewed and in the ordinary course of business the Company will have the option to extend the facility for an additional year. If the credit facility is not extended, the facility moves into a term phase whereby the outstanding loan amount is to be repaid in full one year later. In the event that the lenders reduce the borrowing base below the amount drawn, the Company would have 90 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the credit facility do not exceed the authorized borrowing amount. Interest is paid on the utilized portion of the credit facility at bankers' acceptance rates, plus a stamping fee. Collateral provided comprises a floating charge demand debenture on the assets of the Company.

As at December 31, 2019, the Company had issued letters of credit in the amount of \$10.0 million (December 31, 2018 - \$7.6 million) in support of future natural gas transportation and processing obligations. Availability under the Company's credit facility is reduced by a like amount.

9. REVENUE FROM PRODUCT SALES

The following table presents the Company's revenue from product sales disaggregated by revenue source:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Natural gas	\$ 115,488	\$ 146,852
Condensate	51,522	59,071
NGL	6,412	20,335
Total	\$ 173,422	\$ 226,258

Storm's revenue was generated mostly in British Columbia where production was sold primarily to two major energy customers with investment grade credit ratings which accounted for 80% and 81% of the Company's total revenue from product sales for the three months and year ended December 31, 2019, respectively (December 31, 2018 – 56% from one major customer). The majority of revenues are derived from variable price contracts based on index prices at each sales point. Of total natural gas revenue for the year ended December 31, 2019, 57% received Chicago pricing, 19% received Station 2 pricing, 11% received Sumas pricing, 11% received AECO pricing and the remaining 2% received ATP pricing.

10. RIGHT-OF-USE ASSET AND LEASE LIABILITY

Right-of-Use Asset

The following table provides a reconciliation of the carrying amount of the right-of-use asset on initial adoption of the lease standard on January 1, 2019 pertaining to the Company's corporate office lease in Calgary:

	Year Ended December 31, 2019
Cost	
Balance, beginning of year (Note 4)	\$ 3,094
Additions	-
Balance, end of year	\$ 3,094
Accumulated depreciation	
Balance, beginning of year	\$ -
Depreciation	(437)
Balance, end of year	\$ (437)
Net book value, beginning of year	\$ 3,094
Net book value, end of year	\$ 2,657

As at December 31, 2019, the net book value of the right-of-use asset for the Company's corporate office lease in Calgary is \$2.7 million with a remaining lease term to the year 2026.

Lease Liability

The following table provides a reconciliation of the carrying amount of the liability recognized on initial adoption of the lease standard on January 1, 2019 pertaining to the Company's corporate office lease in Calgary:

	Year Ended December 31, 2019
Balance, beginning of year (Note 4)	\$ 3,094
Lease payments	(500)
Lease interest	147
Balance, end of year	\$ 2,741
Less current portion	507
Long-term portion	\$ 2,234

As at December 31, 2019, the total undiscounted amount of the estimated future cash flows to settle the Company's lease liability over the remaining lease term is \$3.2 million.

Short-term leases are leases with a lease term of twelve months or less. During the year ended December 31, 2019, short-term lease costs of approximately \$1.7 million were incurred primarily relating to the lease of drilling equipment which was captured within property and equipment costs.

11. DECOMMISSIONING LIABILITY

The Company provides for the future cost of decommissioning crude oil and natural gas production assets, including well sites, gathering systems and facilities. The total decommissioning liability is estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon and reclaim the wells, gathering systems and facilities and the estimated timing of future costs. The total estimated inflated and undiscounted liability required to settle the Company's decommissioning obligation is approximately \$38.3 million (December 31, 2018 - \$43.2 million), with the majority of payments being made in the years 2034 to 2054. A risk-free discount rate of 1.7% (December 31, 2018 - 2.2%) and an inflation rate of 1.4% (December 31, 2018 - 2.0%) was used to calculate the present value of the decommissioning obligation, amounting to \$28.1 million at December 31, 2019.

The following table provides a reconciliation of the carrying amount of the obligation:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance, beginning of year	\$ 26,334	\$ 24,474
Obligations incurred	2,706	1,406
Obligations settled	(246)	(242)
Change in estimates ⁽¹⁾	(1,171)	179
Accretion expense	492	517
Balance, end of year	\$ 28,115	\$ 26,334
Less current portion	448	-
Long-term portion	\$ 27,667	\$ 26,334

(1) Relates to changes in risk-free discount rates, inflation rates and estimated settlement dates.

12. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are based on the differences between the accounting amounts and the related tax bases of the Company's E&E and P&E assets, risk management contracts, decommissioning liability, share issue costs and unrealized gains and losses on investments.

Storm was not required to pay income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. The Company has tax pools associated with E&E and P&E of approximately \$304.1 million as well as non-capital losses of approximately \$197.6 million. The non-capital losses begin to expire in 2027.

The provision for deferred income taxes is different from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to pre-tax income for the year.

The differences are as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net income before income taxes	\$ 16,240	\$ 44,496
Statutory combined federal and provincial income tax rate	26.8%	27.0%
Expected income tax expense	\$ 4,353	\$ 12,014
Add (deduct) the income tax effect of:		
Share-based compensation	660	844
Change in unrecorded deferred income tax asset	-	(11,701)
Change in enacted corporate tax rate	(471)	-
Change in estimated tax pool balances	-	3,260
Other	385	16
Deferred income tax expense	\$ 4,927	\$ 4,433
Effective tax rate	30.3%	10.0%

The components of the deferred income tax assets and liabilities are as follows:

	As at December 31, 2019	As at December 31, 2018
Deferred tax assets:		
Non-capital losses	\$ 50,494	\$ 44,632
Decommissioning liability	7,145	7,110
Fair value of risk management contracts	466	907
Share issue costs	-	116
Investments	283	289
Deferred tax liabilities:		
Property and equipment in excess of tax basis	\$ (67,748)	\$ (57,487)
Deferred income tax asset (liability)	\$ (9,360)	\$ (4,433)

13. SHARE CAPITAL

Authorized

An unlimited number of voting common shares without nominal or par value

An unlimited number of first preferred shares without nominal or par value

Issued

	Number of Common Shares	Consideration
Balance as at December 31, 2018 and December 31, 2019	121,557	\$ 391,444

For the period from January 1, 2019 to February 27, 2020, no common shares were issued upon the exercise of stock options.

14. SHARE-BASED COMPENSATION

The Company has a stock option plan under which it may grant, at the Company's discretion, options to purchase common shares to directors, officers and employees. Options are granted at the volume weighted average price of the shares on the TSX for the five trading days immediately preceding the date of grant, have a four-year term and vest in one-third tranches over three years. Under the stock option plan, at December 31, 2019, a total of 12,155,681 common shares were available for issuance, options in respect of 10,188,100 common shares were issued and outstanding and options in respect of 1,967,581 common shares were available for future issue.

At February 27, 2020, the date of this report, options in respect of 10,212,100 common shares are issued and outstanding and options in respect of 1,943,581 common shares are available for future issue.

Details of the options outstanding at December 31, 2019 and 2018 are as follows:

	Number of Options (000s)	Weighted Average Exercise Price
Outstanding at December 31, 2017	7,914	\$ 4.46
Granted during the year	4,993	\$ 2.34
Cancelled/forfeited during the year	(399)	\$ 4.10
Expired during the year	(3,420)	\$ 4.51
Outstanding at December 31, 2018	9,088	\$ 3.29
Granted during the year	3,017	\$ 1.52
Cancelled/forfeited during the year	(184)	\$ 3.34
Expired during the year	(1,733)	\$ 3.38
Outstanding at December 31, 2019	10,188	\$ 2.74
Number exercisable at December 31, 2019	3,813	\$ 4.02

Range of Exercise Price	Outstanding Options			Exercisable Options	
	Number of Options Outstanding (000s)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Outstanding (000s)	Weighted Average Exercise Price
\$1.36 - \$2.85	5,478	3.5	\$ 1.65	820	\$ 1.81
\$2.86 - \$4.50	2,696	2.0	\$ 3.00	992	\$ 3.10
\$4.51 - \$5.50	2,014	0.9	\$ 5.39	2,001	\$ 5.39
Total	10,188	2.6	\$ 2.74	3,813	\$ 4.02

The fair value of employee stock options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, exercise price of the instrument, expected volatility, forfeiture rate, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the year ended December 31, 2019 of \$0.56 per share (2018 - \$0.88 per share) include the following:

	2019	2018
Share price	\$1.36 - \$2.35	\$1.81 - \$3.09
Exercise price	\$1.36 - \$2.35	\$1.81 - \$3.09
Volatility	48%	49%
Forfeiture rate	2%	10%
Expected option life (years)	3.7	3.7
Risk-free interest rate	1.4% - 1.7%	1.7% - 2.1%

Share-based compensation expense of \$2.5 million was charged to the consolidated statement of income during the year ended December 31, 2019 (2018 - \$3.1 million) with an equivalent offset to contributed surplus.

15. NET INCOME PER SHARE

Basic and diluted net income per share were calculated as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net income for the year	\$ 11,313	\$ 40,063
Weighted average number of common shares outstanding – basic		
Common shares outstanding at beginning of year	121,557	121,557
Effect of shares issued	-	-
Weighted average number of common shares outstanding – basic	121,557	121,557
Dilutive effect of outstanding options ⁽¹⁾	-	40
Weighted average number of common shares outstanding - diluted	121,557	121,597
Net income per share		
Basic and diluted	\$ 0.09	\$ 0.33

(1) Excludes the effect of 9.2 million weighted average common shares related to stock options that were anti-dilutive for the year ended December 31, 2019 (8.5 million weighted average common shares related to stock options for the year ended December 31, 2018).

16. FINANCIAL INSTRUMENTS

The Company's financial instruments include accounts receivable, prepaids and deposits, accounts payable and accrued liabilities, bank indebtedness and risk management contracts.

Storm classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continual and verifiable pricing information.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities and interest rates, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying value of bank indebtedness approximates its fair value as it bears interest at market rates. The fair value of the Company's risk management contracts described below is based on forward prices of commodities and interest rates available in the market place and they are therefore classified as Level 2 financial instruments. The Company does not have any financial instruments classified as Level 3 and there were no transfers between levels within the fair value hierarchy for the years ended December 31, 2019 and December 31, 2018.

The Company's risk management contracts are subject to master netting agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities on the Company's consolidated statements of financial position. The following is a summary of the Company's financial assets and financial liabilities that are subject to offset as at December 31, 2019:

	Gross Amounts Recognized as Financial Assets (Liabilities)	Gross Amounts of Financial Assets (Liabilities) Offset	Net Amounts Recognized as Financial Assets (Liabilities)
Risk management contracts			
Current asset	\$ 1,805	\$ (692)	\$ 1,113
Long-term asset	-	-	-
Current liability	(2,734)	692	(2,042)
Long-term liability	(904)	-	(904)
Net position	\$ (1,833)	\$ -	\$ (1,833)

The following is a summary of the Company's financial assets and financial liabilities that are subject to offset as at December 31, 2018:

	Gross Amounts Recognized as Financial Assets (Liabilities)	Gross Amounts of Financial Assets (Liabilities) Offset	Net Amounts Recognized as Financial Assets (Liabilities)
Risk management contracts			
Current asset	\$ 6,900	\$ (4,559)	\$ 2,341
Long-term asset	-	-	-
Current liability	(8,080)	4,559	(3,521)
Long-term liability	(2,180)	-	(2,180)
Net position	\$ (3,360)	\$ -	\$ (3,360)

Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, marketing and financing activities such as:

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer, joint venture partner or counterparty to a financial instrument fails to meet its contractual obligations.

Cash

When the Company has a cash surplus, it limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating or are supported by provincial government guarantees.

Accounts Receivable

The Company's accounts receivable tend to be concentrated with a limited number of marketers of the Company's production as well as joint venture partners and are subject to normal industry credit risk. Receivables from crude oil and natural gas marketers are typically collected on or about the 25th of the following month. The Company's production is sold to organizations whose credit worthiness is in part assessable from publicly available information. As at December 31, 2019, the Company's two major energy customers with investment grade credit ratings accounted for \$17.0 million of total receivables (December 31, 2018 - \$22.1 million from one major customer) and 81% of total revenues (December 31, 2018 – 56%). Where operations involve partners in a joint venture, the Company attempts to mitigate the risk from joint venture receivables by obtaining pre-approval and cash call deposits from its partners in advance of significant capital expenditures. Receivables from joint ventures are typically collected within one to three months of the joint venture bill being issued. As at December 31, 2019 and 2018, there were no receivables outstanding for more than 60 days. No material default on outstanding receivables is anticipated as none of the Company's outstanding receivables are considered past due at December 31, 2019.

The maximum exposure to credit risk at December 31, 2019 was the carrying amount of accounts receivable of \$22.0 million and risk management contract assets of \$1.1 million. No receivables were impaired at December 31, 2019.

Risk Management Contracts

The Company enters into derivative risk management contracts with counterparties with an acceptable credit rating and with a demonstrated capability to execute such contracts. The contracts, individually and in aggregate, are subject to controls established by the Board of Directors and limitations set out in the Company's banking agreement.

Market Risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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

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

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for crude oil, natural gas, condensate and natural gas liquids are affected by many known and unknown factors such as demand and supply imbalances, market access, the relationship between the Canadian and United States dollar as well as national and international economic and geopolitical events.

The Company is exposed to the risk of declining prices for production resulting in a corresponding reduction in projected funds flow. Reduced funds flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow total production while at the same time replacing continuous production declines from existing properties. Bank financing available to the Company is in the form of a reserves based loan, which is reviewed semi-annually, and is based on future funds flows and commodity price expectations. Changes to commodity prices will have an effect on credit available to the Company under its banking agreement.

The Company uses risk management contracts to manage its exposure to fluctuations in commodity prices, by fixing prices of future deliveries of crude oil and natural gas and thus providing stability of funds flow. The Company does not use these instruments for trading or speculative purposes. Although the Company had no crude oil production at December 31, 2019, part of its condensate and NGL stream is sold at a price based on crude oil. Accordingly, a financial investment based on crude oil is used as a proxy for the Company's condensate and NGL stream.

Fair values for risk management contracts are based on quotes received from financial institution counterparties and are calculated using current market rates and prices and option pricing models using forward pricing curves and implied volatility.

At the date of this report, Storm has the undernoted risk management contracts in place. The fair market value of these contracts at December 31, 2019, a net liability position of \$1.8 million (December 31, 2018 - net liability position of \$3.4 million), is included in current and non-current assets or current and non-current liabilities as appropriate. For the year ended December 31, 2019, this resulted in an unrealized mark-to-market gain of \$1.5 million (December 31, 2018 - an unrealized mark-to-market loss of \$5.8 million) when measured against the fair market value at the end of the preceding reporting period. These amounts are recognized in the consolidated statement of income and comprehensive income.

Period Hedged	Daily Volume	Average Price
Natural Gas Swaps		
Jan – Mar 2020	13,000 GJ	Station 2 Cdn\$1.92/GJ
Apr – Aug 2020	7,000 GJ	Station 2 Cdn\$1.48/GJ
Jan – Mar 2020	1,500 GJ	AECO Cdn\$2.00/GJ
Jan – Mar 2020	7,000 Mmbtu	Sumas Cdn\$3.93/Mmbtu
Jan – Jun 2020	20,000 Mmbtu	Chicago Cdn\$3.33/Mmbtu
Jul – Dec 2020	1,500 Mmbtu	Chicago Cdn\$3.34/Mmbtu
Apr – Dec 2020	2,000 Mmbtu	NYMEX US\$2.45/Mmbtu
Natural Gas Collars		
Jan – Mar 2020	2,000 Mmbtu	NYMEX \$2.60 - \$3.12 US\$/Mmbtu
Jan – Mar 2020	5,500 GJ	AECO \$1.77 - \$2.28 Cdn\$/GJ
Natural Gas Differential Swaps		
Jan – Dec 2020	12,500 Mmbtu	Price at Chicago = NYMEX minus US\$0.274/Mmbtu
Jan – Dec 2021	12,500 Mmbtu	Price at Chicago = NYMEX minus US\$0.256/Mmbtu
Crude Oil Collars		
Jan – Jun 2020	900 Bbls	\$70.89 - \$80.89 Cdn\$/Bbl
Jul – Dec 2020	400 Bbls	\$68.38 - \$79.01 Cdn\$/Bbl

Period Hedged	Daily Volume	Average Price
Crude Oil Swaps		
Jan – Jun 2020	750 Bbls	\$71.92 Cdn\$/Bbl
Jul – Dec 2020	400 Bbls	\$71.16 Cdn\$/Bbl
Crude Oil Differential Swaps		
Jan – Jun 2020	400 Bbls	WTI minus Cdn\$4.25/Bbl
Jan – Dec 2020	600 Bbls	WTI minus Cdn\$7.90/Bbl

The Company realized a loss from risk management contracts in place in the amount of \$8.8 million for the year ended December 31, 2019 (December 31, 2018 - realized loss of \$22.7 million).

Physical Delivery Sales Contracts

The Company also enters into physical delivery sales contracts from time to time to manage commodity price risk. These contracts are considered normal executory contracts and are not recognized in the consolidated statement of income and comprehensive income until volumes are delivered.

	Daily Volume	Contract Price
Natural Gas		
Jan 2020 – Oct 2020	14,028 Mmbtu at Station 2	Sumas less US\$0.69/Mmbtu
Apr 2020 – Oct 2020	6,000 GJ at Station 2	AECO 7A less Cdn\$0.295/GJ
Nov 2020 – Oct 2021	5,000 GJ at Station 2	AECO 7A less Cdn\$0.125/GJ
Apr 2020 – Mar 2021	6,000 GJ at ATP	AECO 5A plus Cdn\$0.09/GJ

Interest Rate Risk

Interest on the Company's revolving bank facility varies with changes in market interest rates and is most commonly based on bankers acceptances issued by the Company's banks, plus a stamping fee. The stamping fee may change based on the Company's debt-to-funds-flow ratio for the previous quarter. The Company is thus exposed to increased borrowing costs during periods of increasing interest rates, with a corresponding reduction in both funds flows and project economics. In addition, a higher debt-to-cash-flow ratio will mean an increase in stamping fees, and correspondingly, interest rates.

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. If interest rates applicable to floating rate debt were to have increased by 100 basis points (1%) it is estimated that the Company's net income for the year ended December 31, 2019 would have decreased by \$0.8 million. A decrease in interest rates by 1% would result in an increase in net income by an equivalent amount.

In the second quarter of 2019, the Company entered into an interest rate swap contract to manage the uncertainty of variable interest rates by fixing the variable component of a portion of the interest paid on the Company's revolving bank facility. Interest rate swaps are classified as derivative financial assets and liabilities at fair value through profit and loss and measured at fair value, with gains and losses on re-measurement included as a component of unrealized risk management contracts in the period in which they arise. This interest rate swap is included on the balance sheet as either a risk management contract asset or liability and is classified as current or non-current based on the contractual terms specific to the instrument. As at December 31, 2019, the Company had the following interest rate contract in place to manage interest rate risk:

Index	Effective Date	Notional Principal	Remaining Term	Fixed Contract Rate
One-month bankers' acceptance – CDOR ⁽¹⁾	May 31, 2019	\$25 million	Jan 2020 – May 2022	1.949%

(1) Canadian Dollar Offered Rate.

Risk Management

Subsequent to December 31, 2019, the Company entered into the following interest rate swap contracts to manage interest rate risk:

Index	Effective Date	Notional Principal	Remaining Term	Fixed Contract Rate
One-month bankers' acceptance – CDOR ⁽¹⁾	January 21, 2020	\$10 million	Jan 2020 – Jan 2023	1.943%
One-month bankers' acceptance – CDOR ⁽¹⁾	January 31, 2020	\$15 million	Jan 2020 – Jan 2021	1.985%

(1) Canadian Dollar Offered Rate.

Foreign Currency Exchange Rate Risk

Prices for crude oil are determined in global markets and generally denominated in US dollars. Natural gas prices are largely influenced by both US and Canadian supply and demand structures. Changes in the Canadian dollar relative to the US dollar affect the Company's natural gas revenue, some of which is sold at a US\$ price; therefore, variation in the Canadian-US dollar exchange rate will affect Canadian dollar prices for the Company's production. In addition, costs of imported materials used in the Company's operations will be affected by the Canadian-US dollar exchange rate.

Sensitivities

The following table summarizes the effects of movement in commodity prices on net income due to changes in the fair value of risk management contracts in place at December 31, 2019. Changes in the fair value generally cannot be extrapolated because the relationship of a change in an assumption to the change in fair value may not be linear.

Year Ended December 31, 2019		
Factor		
Increase of US\$10.00/Bbl in the price of WTI ⁽¹⁾	\$	(6,510)
Decrease of US\$10.00/Bbl in the price of WTI ⁽¹⁾	\$	6,510
Increase of US\$0.10/Mmbtu in the price of NYMEX natural gas	\$	(2,056)
Decrease of US\$0.10/Mmbtu in the price of NYMEX natural gas	\$	2,056

(1) A portion of the Company's condensate and NGL production is sold at a price based on WTI.

Liquidity Risk

Liquidity difficulties would emerge if the Company is unable to establish or maintain a profitable production base and thus generate sufficient funds flow to cover both operating and capital requirements. This may be the consequence of insufficient funds flows resulting from low product prices, production interruptions, operating or capital cost increases, unsuccessful investment programs, limitations in the Company's access to markets, or delays in bringing on stream new wells or facilities. These risks cannot be eliminated; however, the Company uses the following guidelines to address financial exposure:

- internal funds flow provides the initial source of funding on which the Company's capital expenditure program is based;
- debt, if available, may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be controlled;
- equity, if available on acceptable terms, may be raised to fund acquisitions and exploration expenditures;
- farm-outs of projects may be arranged if management concludes that a project requires too much capital or where the project affects the Company's investment risk profile.

The timing of cash flows related to financial liabilities as at December 31, 2019 is as follows:

	Less than 1 year	2-3 years	Total
Accounts payable and accrued liabilities	\$ 30,018	\$ -	\$ 30,018
Risk management contracts	2,042	904	2,946
Bank indebtedness ⁽¹⁾	-	121,608	121,608
Total financial liabilities	\$ 32,060	\$ 122,512	\$ 154,572

(1) Bank indebtedness is based on a revolving credit facility, which is reviewed annually. At renewal, the Company has the option to extend the facility for an additional year. If the revolving facility is not extended, the facility converts to a non-revolving facility payable in one year.

17. CAPITAL MANAGEMENT

The Company's capital structure comprises shareholders' equity and bank indebtedness. The Company's objective when managing capital is to maintain financial flexibility to support capital programs that will replace production sold as well as production declines and provide a base for future growth in production. Capital management involves the preparation of an annual budget, which is implemented after approval by the Company's Board of Directors. As the Company's business evolves throughout the year, the budget will be amended; however, any changes are again subject to approval by the Board of Directors.

Funds flow, bank financing and potential proceeds from the issue of equity and the sale of assets will be invested in exploration and development operations with the intent of growing short and medium term operating funds flow. Growing funds flow enables the Company to increase bank or other debt financing, thus expanding capital available for investment. It may be that capital currently available to the Company is insufficient to adequately grow funds flow, thus requiring additional capital which may be available only on terms dilutive to existing shareholders, if available at all.

18. RELATED PARTY TRANSACTIONS

The remuneration of the key management personnel of the Company, which includes directors and officers, is set out below in aggregate:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Salaries and short-term benefits	\$ 3,293	\$ 3,001
Share-based compensation	1,381	1,697
Total compensation	\$ 4,674	\$ 4,698

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Year Ended December 31, 2019	Year Ended December 31, 2018
Accounts receivable	\$ 7,214	\$ (14,305)
Prepays and deposits	89	3,611
Accounts payable and accrued liabilities	(4,341)	9,582
Change in non-cash working capital	\$ 2,962	\$ (1,112)
Relating to:		
Operating activities	\$ 8,957	\$ (7,851)
Investing activities	(5,995)	6,739
Change in non-cash working capital	\$ 2,962	\$ (1,112)
Interest paid during the year	\$ 5,087	\$ 4,207
Income taxes paid during the year	\$ -	\$ -

20. COMMITMENTS

At December 31, 2019, the Company has the following long-term commitments over the next five years and thereafter:

	2020	2021	2022	2023	2024	Thereafter	Total
Transportation and processing commitments	\$ 65,155	\$ 68,406	\$ 52,855	\$ 30,073	\$ 30,203	\$ 226,277	\$ 472,969
Office lease ⁽¹⁾	356	356	356	356	356	385	2,165
Total	\$ 65,511	\$ 68,762	\$ 53,211	\$ 30,429	\$ 30,559	\$ 226,662	\$ 475,134

(1) Office lease commitment includes the operating cost component of the office lease costs.

CORPORATE INFORMATION

Officers

Brian Lavergne
President & Chief Executive Officer

Robert S. Tiberio
Chief Operating Officer

Michael J. Hearn
Chief Financial Officer

Emily Wignes
Vice President, Finance

Jamie P. Conboy
Vice President, Geology

H. Darren Evans
Vice President, Exploitation

Bret A. Kimpton
Vice President, Production

Directors

Matthew J. Brister ⁽²⁾⁽³⁾

John A. Brussa

Mark A. Butler ⁽¹⁾⁽³⁾

Stuart G. Clark ⁽¹⁾
Chairman

Brian Lavergne
President & Chief Executive Officer

Sheila A. Leggett ⁽²⁾

Gregory G. Turnbull ⁽²⁾

P. Grant Wierzbza ⁽²⁾⁽³⁾

James K. Wilson ⁽¹⁾

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

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol "SRX"

Solicitors

Stikeman Elliott LLP
Burnet Duckworth & Palmer LLP
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar & Transfer Agent

Alliance Trust Company
Calgary, Alberta

Bankers

ATB Financial
Canadian Imperial Bank of Commerce
Royal Bank of Canada
Canadian Western Bank
Calgary, Alberta

Executive Offices

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Abbreviations

ATP	Alliance Transfer Point	kPa	Kilopascal
Bbls	Barrels of oil or natural gas liquids	Mbbl	Thousands of barrels
Bbls/d	Barrels per day	Mboe	Thousands of barrels of oil equivalent
Bcf	Billions of cubic feet	Mcf	Thousands of cubic feet
Boe	Barrels of oil equivalent	Mcf/d	Thousands of cubic feet per day
Boe/d	Barrels of oil equivalent per day	Mmbtu	Millions of British Thermal Units
Bopd	Barrels of oil per day	Mmbtu/d	Millions of British Thermal Units per day
Btu	British thermal unit	Mmcf	Millions of cubic feet
Cdn\$	Canadian dollar	Mmcf/d	Millions of cubic feet per day
CGU	Cash generating unit	NGL	Natural gas liquids
DPIIP	Discovered Petroleum Initially in Place	TSX	Toronto Stock Exchange
GJ	Gigajoules	US	United States
GJ/d	Gigajoules per day	US\$	United States dollar
		WTI	West Texas Intermediate



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