Storm Cat Energy CORP
Form 10-K
March 16, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 001-32628

STORM CAT ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

British Columbia, Canada	**06-1762942**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1125 17th Street, Suite 2310	
Denver, Colorado	**80202**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(303) 991-5070**

Securities registered under Section 12(b) of the Act: **Common Shares, without par value**

Securities registered under to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes o No x**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes o No x**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** x **No** o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o **Accelerated filer** x **Non-accelerated filer** o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). **Yes** o **No** x

As of June 30, 2006, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $148,597,821, based on the closing price of the Common Shares on the American Stock Exchange of $2.23 per share. As of March 14, 2007, 80,479,820 shares of registrant s Common Shares, without par value, were issued and outstanding.

STORM CAT ENERGY CORPORATION

DOCUMENTS INCORPORATED BY REFERENCE

Pursuant to Instruction G (3) to Form 10-K, Items 10, 11, 12, 13 and 14 are omitted because the Company will file a definitive proxy statement (the Proxy Statement) pursuant to Regulation 14A under the Securities Exchange Act of 1934 not later than 120 days after the close of the fiscal year. The information required by such items will be included in the Proxy Statement to be so filed for the Company s annual meeting of shareholders to be held on or about June 20, 2007 and is hereby incorporated by reference.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes certain statements that may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Annual Report on Form 10-K, other than statements of historical facts, address matters that the Company reasonably expects, believes or anticipates will or may occur in the future. Forward-looking statements may relate to, among other things:

- the Company s future financial position, including working capital and anticipated cash flow;
- amounts and nature of future capital expenditures;
- operating costs and other expenses;
- wells to be drilled or reworked;
- oil and natural gas prices and demand;
- existing fields, wells and prospects;
- diversification of exploration;
- estimates of proved oil and natural gas reserves;
- reserve potential;
- development and drilling potential;
- expansion and other development trends in the oil and natural gas industry;
- the Company s business strategy;
- production of oil and natural gas;
- effects of federal, state and local regulation;
- insurance coverage;
- employee relations;
- investment strategy and risk; and
- expansion and growth of the Company s business and operations.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Disclosure of important factors that could cause actual results to differ materially from the Company s expectations, or cautionary statements, are included under Risk Factors and elsewhere in this Annual Report on 10-K, including, without limitation, in conjunction with the forward-looking statements. The following factors, among others that could cause actual results to differ materially from the Company s expectations, include:

- unexpected changes in business or economic conditions;

- significant changes in natural gas and oil prices;
- timing and amount of production;
- unanticipated down-hole mechanical problems in wells or problems related to producing reservoirs or infrastructure;
- changes in overhead costs; and
- material events resulting in changes in estimates.

All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on the Company s behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

Note Regarding Reserves Data and Other Oil and Gas Information

National Instrument 51-101 (NI 51-101) of the Canadian Securities Administrators imposes oil and gas disclosure standards for Canadian public companies engaged in oil and gas activities. NI 51-101 and its companion policy specifically contemplate the granting of exemptions from some of the disclosure standards prescribed by NI 51-101 to companies that are active in the U.S. capital markets, to permit the substitution of the standards required by the United States Securities and Exchange Commission (SEC) in order to provide for comparability of oil and gas disclosure with that provided by U.S. and other international issuers. Storm Cat has submitted an application to the Canadian securities regulatory authorities for an exemption that would permit it to provide oil and gas disclosure in Canada in accordance with the relevant legal requirements of the SEC. Storm Cat has provided the reserves data and other oil and gas information included in this Annual Report on Form 10-K in accordance with U.S. disclosure requirements and practices and has filed in Canada, and will continue to file in Canada until such time as an exemption is approved by Canadian securities regulatory authorities, a separate NI 51-101 report. The information disclosed in this Annual Report, as well as the information that Storm Cat discloses in the future in SEC filings, may differ from the corresponding information prepared in accordance with NI 51-101 standards.

The primary differences between the U.S. requirements and the NI 51-101 requirements are that (1) the U.S. standards require disclosure only of proved reserves, whereas NI 51-101 requires disclosure of proved and probable reserves, and (2) the U.S. standards require that the reserves and related future net revenue be estimated under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made, whereas NI 51-101 requires disclosure of proved reserves and the related future net revenue estimated using constant prices and costs as of the effective date of the estimation, and of proved and probable reserves and related future net revenue using forecast prices and costs. The definitions of proved reserves also differ, but according to the Canadian Oil and Gas Evaluation Handbook (the reference source for the definition of proved reserves under NI 51-101), differences in the estimated proved reserve quantities based on constant prices should not be material. Storm Cat concurs with this assessment.

Storm Cat has disclosed proved reserve quantities using the standards contained in SEC Regulation S-X, and the standardized measure of discounted future net cash flows relating to proved oil and gas reserves determined in accordance with United States Statement of Financial Accounting Standards No. 69 Disclosures About Oil and Gas Producing Activities (SFAS 69).

Under U.S. disclosure standards, reserves and production information is disclosed on a net basis (after royalties). The reserves and production information contained in this annual information form is shown on that basis.

Glossary of Natural Gas Terms

The following is a description of the meanings of some of the natural gas and oil industry terms used in this Annual Report on Form 10-K.

Bcf. Billion cubic feet of natural gas.

Btu or British Thermal Unit. The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

CIG Colorado Interstate Gas. CIG is a major transporter of natural gas in the Rocky Mountain region. The Colorado Interstate Gas system is connected to nearly every major supply basin in the Rocky Mountains as well as production areas in the Texas Panhandle, western Oklahoma, western Kansas, and Wyoming. Storm Cat s PRB gas is priced off of CIG.

Completion. The installation of permanent equipment for the production of natural gas or oil.

Condensate. Liquid hydrocarbons associated with the production of a primarily natural gas reserve.

Developed acreage. The number of acres that are allocated or assignable to productive wells or wells capable of production. Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dth. Decatherms.

Dth/D. Decatherms per day.

Dry hole. A well found to be incapable of producing hydrocarbons in sufficient quantities such

that proceeds from the sale of such production exceed production expenses and taxes.

Exploratory well. A well drilled to find and produce natural gas or oil reserves not classified as proved, to find a new reservoir in a field previously found to be productive of natural gas or oil in another reservoir or to extend a known reservoir. Generally, an exploratory well is any well that is not a development well, a service well, or a stratigraphic test well.

Farm-in or farm-out. An agreement under which the owner of a working interest in a natural gas and oil lease assigns the working interest or a portion of the working interest to another party who desires to drill on the leased acreage. Generally, the assignee is required to drill one or more wells in order to earn its interest in the acreage. The assignor usually retains a royalty or reversionary interest in the lease. The interest received by an assignee is a farm-in while the interest transferred by the assignor is a farm-out.

Field. An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

Lead. A specific geographic area which, based on supporting geological, geophysical or other data, is deemed to have potential for the discovery of commercial hydrocarbons.

MBtu. Thousand British Thermal Units.

Mcf. Thousand cubic feet of natural gas.

Mcfe. Thousand cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

MMBtu. Million British Thermal Units.

MMcf. Million cubic feet of natural gas.

MMcf/d. One MMcf per day.

MMcfe. Million cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Net acres or net wells. The sum of the fractional working interest owned in gross acres or wells, as the case may be.

Net feet of pay. The true vertical thickness of reservoir rock estimated to both contain hydrocarbons and be capable of contributing to producing rates.

PRB. Powder River Basin. The region covers Southeast Montana and Northern Wyoming and is approximately 120 miles East to West and 200 miles North to South. Major cities in this area include Gillette and Sheridan, Wyoming. Storm Cat operates only in Wyoming.

Present value of future net revenues or present value or PV-10. The pre-tax present value of estimated future revenues to be generated from the production of proved reserves calculated in accordance with SEC guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.

Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

Prospect. A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

Proved area. The part of a property to which proved reserves have been specifically attributed.

Proved developed oil and gas reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production responses that increased recovery will be achieved.

Proved oil and gas reserves. The estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir. Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the proved classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based. Estimates of proved reserves do not include the following: (a) oil that may become available from known reservoirs but is classified separately as indicated additional reserves ; (b) crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics or economic factors; (c) crude oil, natural gas and natural gas liquids that may occur in undrilled prospects; and (d) crude oil, natural gas and natural gas liquids that may be recovered from oil shales, coal, gilsonite and other such sources.

Proved properties. Properties with proved reserves.

Proved undeveloped reserves. Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Proved undeveloped reserves may not include estimates attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

Service well. A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

Spud. The initial phase of drilling a well.

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Unconventional resources/reserves. Reserves from fractured shales, coal beds and tight sand formations.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of natural gas and oil regardless of whether such acreage contains proved reserves.

Unproved properties. Properties with no proved reserves.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production.

PART I

ITEM 1. BUSINESS

We use the terms Storm Cat , Company , we , us and our to refer to Storm Cat Energy Corporation in this Annual Report on Form 10-K.

General

Storm Cat is an independent oil and gas company focused on exploration and development of unconventional gas reserves, which are reserves from fractured shales, coal beds and tight sand formations. The Company has producing properties in Wyoming s Powder River Basin (PRB), and non-operated producing wells in the Fayetteville Shale area of Arkansas. Its primary exploration and development acreage is located in the United States and Canada.

History

The Company was incorporated under the laws of British Columbia, Canada on May 15, 2000 under the name Toby Ventures Inc. It conducted an initial public offering in Canada and its shares began trading on the Canadian Venture Exchange (now the Toronto Stock Exchange) on November 15, 2001 under the symbol SME. Since incorporation, the Company has been involved in the exploration of natural resource properties. It commenced active exploration and acquisition of mineral resource properties in 2000. In late 2003, the Company decided to dispose, sell or abandon its mineral exploration interests and enter the oil and gas industry through the acquisition of interests in conventional, unconventional and coalbed methane gas projects.

Under a Special Resolution passed by its shareholders, the Company changed its name, effective January 30, 2004, to Storm Cat Energy Corporation. It adopted new Articles of Incorporation under the *Business Corporations Act* of British Columbia on May 21, 2004. In June 2004, the Company changed its authorized share capital to an unlimited number of common shares without par value. Prior to June 2004, the authorized share capital was 20,000,000 common shares without par value. Effective March 31, 2005, the Company undertook a two-for-one share split. All share and per share amounts included in this filing have been restated to give retroactive effect, as necessary, to the effect of the share split.

On October 3, 2005, Storm Cat also began trading its shares on American Stock Exchange (AMEX) under the symbol SCU.

Since the beginning of 2004, Storm Cat has concentrated its efforts on the oil and gas business. The Company s business model consists of three strategies: (1) acquiring producing properties with drilling prospects in focused basins in both the U.S. and Canada; (2) exploring areas of moderate risk; and (3) initiating higher risk projects.

Its primary source of financing for exploration and drilling programs has been through the net proceeds from private placements of common shares and warrants. Between 2004 and 2006, the Company raised a total of $71.0 million in connection with private equity offerings and the issuance of common shares pursuant to warrant exercises net of issuance costs. Additionally, certain of its shares have flow-through rights which entitle the holders to tax deductions in Canada as a result of the Company s exploration and development activities.

Recent Developments

On January 19, 2007, Storm Cat entered into a Series A Note Purchase Agreement for the private placement of Series A Subordinated Convertible Notes Due March 31, 2012 (the Series A Notes) in a total aggregate principal amount of $18.6 million, and a Series B Note Purchase Agreement for the private placement of Series B Subordinated Convertible Notes Due March 31, 2012 (the Series B Notes) in a total aggregate principal amount of $31.7 million. The Series A Notes and the Series B Notes will be convertible into Storm Cat common shares at a price of $1.17 per share, as may be adjusted in accordance with the terms of the Series A Notes or the Series B Notes (as applicable), and Storm Cat may force the conversion of the Series A Notes or the Series B Notes (as applicable) at any time 18 months after the closing date of the applicable issuance that our common shares trade above $2.05, as may be adjusted, for 20 days within a period of 30 consecutive trading days.

On January 30, 2007, Storm Cat closed the private placement of Series A Notes. The Series A Notes will mature on March 31, 2012, unless earlier converted, redeemed or repurchased. The Series A Notes bear interest at a rate of 9 ¼% per annum, commencing on January 30, 2007. Interest on the Series A Notes is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, beginning on June 30, 2007.

The closing on the Series B Notes is contingent upon the successful vote of shareholders approving the underlying common shares should the Series B Note be converted. The shareholder vote is schedule for March 29, 2007. The Series B Notes bear the same interest rate and interest payment schedule as the Series A Notes.

Effective March 9, 2007, President and Chief Executive Officer J. Scott Zimmerman went on administrative leave from the Company. Keith Knapstad, the Company s Chief Operating Officer has assumed the duties of President and CEO.

Business Strategy

Storm Cat s strategy includes four key elements: conducting exploitation programs that provide organic growth, making strategic acquisitions, controlling costs, and remaining financially flexible.

Conduct Exploitation Programs

The acquisitions of producing and undeveloped acreage in the Powder River Basin for $30.7 million and the acquisition of acreage in the Fayetteville Shale in Arkansas provide Storm Cat with a significant asset base from which to conduct exploration and development activities. In 2007, Storm Cat expects to generate organic growth from its planned exploitation activities, including exploration and development, workovers and stimulation treatments.

Make Strategic Acquisitions

The Company pursues strategic acquisitions that meet its criteria for investment returns and that are consistent with its operational focus. This enables Storm Cat to leverage its technical expertise and existing land and infrastructure positions. In general, the Company s recent acquisition plan has focused on acquisitions of properties that have substantial development drilling opportunities and undeveloped acreage.

Continue to Focus on Cost Control

Maintaining capital spending discipline and a focus on cost control are keystones of Storm Cat s business philosophy. The Company establishes budgets that generate discretionary cash flow in the Powder River Basin and it also explores in areas that have a good risk/reward potential. Another critical area of the Company s cost control efforts is lease operating expenses. As Storm Cat acquires additional acreage in the Powder River Basin, it can leverage the work force currently in place in Wyoming and drive costs down on a per MCF basis. Storm Cat was able to reduce its lease operating expense per MCF by 42.9% from 2005 to 2006.

Maintain Financial Flexibility

Storm Cat seeks to maintain financial flexibility and sufficient liquidity to capitalize on opportunities as they arise and to support its capital drilling opportunities. Hedging is an important part of the Company s strategy to mitigate exposure to commodity price volatility. Storm Cat has a board-approved policy related to commodity hedging activities. As of March 3, 2007 the Company has hedged, an estimated 75% of its current production. The majority of its current hedges were executed in order to support the economics of recent acquisitions and to support the Company s credit facility.

Acquisition, Exploration and Development Activities

To date, Storm Cat has spent approximately $72.0 million on acquisition, exploration and development (excluding capitalized overhead, lease rental costs and asset retirement obligations) as follows:

Powder River Basin

Approximately $47.0 million has been spent in the Powder River Basin on acquisitions, maintenance and drilling and completion as follows:

Acquisitions. $30.7 million has been spent to acquire 25,200 gross and 17,000 net acres, over 80% of which is undeveloped. This acreage contains 10.2 Bcf of proved reserves, 4.2 Bcf of which are proved developed. Gas production from this acquisition is approximately 6.6 Mmcf/d gross and 3.1 Mmcf/d net. The prospect contains 81 total wells (55 operated), 64 of which are producing (46 operated).

An additional $1.2 million was spent to acquire 6,232 gross and 5,125 net acres in the Ford Ranch / Sheridan area.

Maintenance. Approximately $1.3 million has been spent on roads, water upgrades and well work.

Drilling and Completion. $13.5 million has been spent to drill and complete 86 wells, $1.5 to $2.0 million of which was spent on for permitting, staking and water management plans for the 2007 drilling program.

Fayetteville Shale Area of Arkansas

The Company has spent approximately $3.6 million in the Fayetteville area (Van Buren, Pope and Searcy Counties, Arkansas), $3.3 million of which was spent on acquisition costs. Of the $3.3 million in acquisition costs, $2.6 million related to the acquisition of 16,364 gross acres (12,296 net) and $0.7 million related to an additional 3,638 gross acres (1,386 net). The remaining $0.3 million in expenditures related to associated well costs and preparation expenses.

British Columbia, Canada (Elk Valley)

Storm Cat has spent approximately $13.8 million in Elk Valley, $11.0 million of which was spent to drill and complete two wells in 2005 and another five wells in 2006. Additionally, approximately $2.8 million was spent on operating expenses including line projects, well preparation and approximately $1.2 million of which was for annual upkeep.

Alberta, Canada (Western Canadian Sedimentary Basin)

The Company has spent approximately $3.0 million in Alberta, $1.2 million of which was spent to acquire 11,625 gross/net acres in Redwater, Wetaskiwin and Wainright. Another $1.8 million was spent on the drilling and completion of three wells. Additionally, Storm Cat farmed out the drilling to two wells on its Cessford acreage and retained an overriding royalty until payout.

Alaska

In Alaska, the Company has spent approximately $3.8 million on drilling and acreage acquisitions. Only one well has been drilled to date, and Storm Cat has postponed further development in Alaska until 2008 so that capital can be focused on other plays that are currently generating cash flow.

Saskatchewan, Canada (Moose Mountain)

Storm Cat has spent approximately $0.6 million in Moose Mountain to drill and complete three wells. This property was impaired for a total of $1.9 million in 2006.

Mongolia

As of December 31, 2006, the Company had fully impaired its Mongolia property for a total of $2.2 million.

Capital Expenditures

The following table summarizes capital expenditures made by Storm Cat with respect to its oil and gas operations during the periods indicated (expenditures include areas that have been impaired):

In Thousands	Year Ended December 31, 2006 United States	Canada	Mongolia	Total
Acquisitions:				
Producing properties	$ 11,403	$ 0	$ 0	$ 11,403
Undeveloped acreage	22,538			22,538
Total acquisitions	33,941			33,941
Exploration and development:				
Land and seismic	4,926	923		5,849
Drilling, facilities and equipment	17,450	16,680	117	34,247
Capitalized overhead	1,104	926		2,030
Total exploration and development	23,480	18,529	117	42,126
Asset retirement obligations	866	317		1,183
Other property and equipment	72	73		145
Total capital expenditures	58,359	18,919	117	77,395
Dispositions	(950)			(950)
Net capital expenditures	$ 57,409	$ 18,919	$ 117	$ 76,445

In Thousands	Year Ended December 31, 2005 United States	Canada	Mongolia	Total
Acquisitions:				
Producing properties	$ 6,918	$	$	$ 6,918
Undeveloped acreage	1,814			1,814
Total acquisitions	8,732			8,732
Exploration and development:				
Land and seismic	471	1,933		2,404
Drilling, facilities and equipment	9,283	3,328	618	13,229
Capitalized overhead	312	254		566
Total exploration and development	10,066	5,515	618	16,199
Asset retirement obligations	714			714
Other property and equipment	628	245	(56)	817
Total capital expenditures	20,140	5,760	562	26,462
Dispositions				
Net capital expenditures	$ 20,140	$ 5,760	$ 562	$ 26,462

In Thousands	Year Ended December 31, 2004 United States	Canada	Mongolia	Total
Acquisitions:				
Producing properties	$ 1,267	$ 0	$ 0	$ 1,267
Undeveloped acreage	166		457	623
Total acquisitions	1,433		457	1,890
Exploration and development:				
Drilling, facilities and equipment	13		819	832
Capitalized overhead				
Total exploration and development	13		819	832
Asset retirement obligations	79			79
Other property and equipment		34	56	90
Total capital expenditures	1,525	34	1,332	2,891
Dispositions				
Net capital expenditures	$ 1,525	$ 34	$ 1,332	$ 2,891

Ending balances in each of the Company s unproved properties at December 31 are as follows:

In Thousands	2006	2005
Unproved Properties:		
Wyoming	$ 22,336	$ 1,934
Alaska	4,883	801
Canada	23,126	5,514
Arkansas	4,528	
Total Unproved Properties	$ 54,873	$ 8,249

Principal Products or Services and Markets

Storm Cat focuses its exploration activities on locating natural gas resources. The principal markets for these commodities are natural gas transmission pipeline companies, utilities, refining companies and private industry end-users. Historically, nearly all of the Company s sales have been to a few customers. However, Storm Cat is not confined to, nor dependent upon, any one purchaser or small group of purchasers. Accordingly, the loss of a single purchaser would not materially affect the Company s business because there are numerous other purchasers in the areas in which Storm Cat sells its production. For the years ended December 31, 2006, 2005 and 2004, purchases by the following companies exceeded 10% of the total natural gas revenues of the Company:

	Percent of Production Purchased For the Years Ended December 31,					
	2006		2005		2004	
BP Energy	0.0	%	0.0	%	100	%
Enserco	75.5	%	79.9	%	0.0	%
OGE	13.1	%	0.0	%	0.0	%
Oneok	11.4	%	0.0	%	0.0	%

Competition and Regulation

The oil and gas industry is highly competitive. As a small independent, the Company must compete against companies with substantially larger financial, human and other resources in all aspects of its business.

Oil and gas drilling and production operations are regulated by various federal, state and local agencies. These agencies issue binding rules and regulations which carry penalties, often substantial, for failure to comply. The Company anticipates its aggregate burden of federal, state and local regulation will continue to increase, particularly in the area of rapidly changing environmental laws and regulations. The Company also believes that its present operations substantially comply with applicable regulations. To date, such regulations have not had a material effect on the Company s operations, or the costs thereof. There are no known environmental or other regulatory matters related to the Company s operations that are reasonably expected to result in material liability to the Company. Storm Cat does not believe that capital expenditures related to environmental control facilities or other regulatory matters will be material in the coming year.

The Company cannot predict what subsequent legislation or regulations may be enacted or what effect they might have on its business.

Environmental Regulation

Storm Cat s operations are subject to government laws and regulations concerning pollution, protection of the environment and the handling and transport of hazardous materials in both the United States and Canada. These laws and regulations generally require the Company to remove or remedy the effect of its activities on the environment at present and former operating sites, including dismantling production facilities and remediating damage caused by the use or release of specified substances. The Company believes that it is reasonably likely that the trend in environmental legislation and regulation will continue toward stricter standards. While Storm Cat believes that it is in substantial compliance with applicable environmental laws and regulations in effect at the present time and that continued compliance with existing requirements will not have a material adverse impact on the Company, it cannot give any assurance that it will not be adversely affected in the future.

The Comprehensive Environmental Response, Compensation and Liability Act, as amended, also known as CERCLA or Superfund, and comparable state laws impose liability without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. Under CERCLA, these responsible persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances into the environment. The Company may also incur liability under the Resource Conservation and Recovery Act, also known as RCRA , which imposes requirements relating to the management and disposal of solid and hazardous wastes. While there exists an exclusion from the definition of hazardous wastes for drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas or geothermal energy, in the course of its operations, the Company may generate ordinary industrial wastes, including paint wastes, waste solvents, and waste compressor oils that may be regulated as hazardous waste.

Storm Cat currently owns or leases, and has owned or leased in the past, properties that for a number of years have been used for the exploration and production of oil and gas. Although the Company has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by Storm Cat or on or under other locations where such wastes have been taken for disposal. In addition, some of these properties may have been operated by third parties whose disposal or release of hydrocarbons or other wastes was not under the Company s control. These properties and the wastes disposed thereon may be subject to CERCLA, RCRA, and analogous state laws. Under such laws, Storm Cat could be required to remove or remediate previously disposed wastes or property contamination or to perform remedial operations to prevent future contamination.

The Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act and analogous state laws impose restrictions and strict controls regarding the discharge of pollutants, including produced waters and other oil and gas wastes, into state or federal waters. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by EPA or the state. The Clean Water Act provides civil and criminal penalties for any discharge of oil in harmful quantities and imposes liabilities for the costs of removing an oil spill.

The Clean Air Act, as amended (CAA), restricts the emission of air pollutants from many sources, including oil and gas operations. New facilities may be required to obtain permits before work can begin,

and existing facilities may be required to incur capital costs in order to remain in compliance. In addition, the EPA has promulgated more stringent regulations governing emissions of toxic air pollutants from sources in the oil and gas industry, and these regulations may increase the costs of compliance for some facilities.

Under the National Environmental Policy Act (NEPA), a federal agency, in conjunction with a permit holder, may be required to prepare an environmental assessment or a detailed environmental impact statement, also known as an EIS, before issuing a permit that may significantly affect the quality of the environment.

Storm Cat expects to incur abandonment and site reclamation costs as existing oil and gas properties are abandoned and reclaimed in the United States and Canada. The Company accrues for its asset retirement obligation (ARO) liability according to SFAS 143 Accounting for Asset Retirement Obligations . As of December 31, 2006 the Company s total accrued ARO was $1,871,393.

Employees

At December 31, 2006, Storm Cat employed 27 people; 18 in its U.S. corporate office, six in its Canadian office, two in Wyoming and one in South Dakota. The Company values its employees and offers competitive salaries and benefits in order to retain them. As such, management believes that employee-employer relationships are good.

Available Information

Storm Cat s corporate headquarters and executive offices are located at 1125 17th St., Suite 2310, Denver, Colorado 80202. Its telephone number is (303) 991-5070. The Company s Canadian registered office is located at 209 8th Avenue, Alberta, Canada, T2P 1B8. Its telephone number at the Canadian office is (403) 451-5070.

Shareholders can obtain official copies of material agreements and other documents at the Registered and Records Office of the Corporation at Storm Cat Energy Corporation, c/o Bull, Housser & Tupper, LLP, 3000 Royal Center, P. O. Box 11130, 1055 West Georgia Street, Vancouver, BC Canada V6E 3R3. The telephone number of this location is (604) 687-6575.

The Company reports to the SEC information, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), that are available free of charge on the Company s website (www.stormcatenergy.com) as soon as reasonably practicable after the information is electronically filed with or furnished to the SEC. In addition, the Company s Code of Ethics is available on its website. No content of the Company s website is incorporated by reference herein. Copies of any materials the Company files with the SEC can be obtained at www.sec.gov or at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330.

Information and access to most public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators (CSA) can also be found at www.sedar.com. The statutory objective in making public this filed information is to enhance investor awareness of the business and affairs of public companies and investment funds and to promote confidence in the transparent operation of capital markets in Canada. Achieving this objective relies heavily on the provision of accurate information on market participants.

Additionally, in Canada, information concerning electronic disclosure of insider stock trades can be found at www.sedi.ca. This website provides the equivalent to information filed on Form 4 s in the United States.

ITEM 1A. RISK FACTORS

In evaluating the Company, careful consideration should be given to the following risk factors. These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to Storm Cat or that it currently deems to be immaterial at present may become material in the future and affect its business, financial condition and/or operating results, as well as adversely affect the value of the Company s common shares.

Risks Related to the Business

Price volatility may affect financial condition: The prices of oil and natural gas are volatile and the Company s operating results and future rate of growth depend heavily on prevailing market prices for these resources. A substantial or extended decline in prices for these resources would have a material adverse effect on the Company. These prices are affected by numerous factors beyond Storm Cat s control, including international economic and political trends, the effects of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, worldwide and domestic supplies of oil and gas, the ability of members of the Organization of Petroleum Exporting Countries (OPEC) to agree to and maintain oil price and production controls, actions of governmental authorities, the availability of transportation facilities, increased production due to new discoveries or improved recovery techniques and weather conditions.

Storm Cat operates in a highly competitive industry: Storm Cat competes with other energy development companies for properties, equipment, materials and labor. The industry is highly competitive in all aspects. Many of the Company s competitors have larger operations and greater financial resources. Competition in Storm Cat s business may adversely affect its ability to acquire properties, equipment and materials, attract and retain qualified labor, and attract the necessary capital to sustain resource exploration and production in the future.

Oil and gas exploration is a speculative undertaking: Oil and gas exploration is a speculative business. Storm Cat s future success depends on our ability to economically locate oil and gas production and reserves in commercial quantities. The Company s anticipated exploration and development activities are subject to reservoir and operational risks. Even when oil and gas is found in what are believed to be commercial quantities, reservoir risks, which may be heightened in new discoveries, may lead to higher costs and/or lower production than originally anticipated. These risks include the inability to sustain deliverability at commercially productive levels as a result of decreased reservoir pressures, large amounts of water, or other factors that might be encountered. The effects of these factors may result in Storm Cat not receiving an adequate return on investment capital.

Reserve quantities and values are subject to many variables and estimates and actual results may vary: This Annual Report on Form 10-K contains estimates of the Company s proved oil and natural gas reserves and the estimated future net revenues from those reserves. Any significant negative variance in these estimates could have a material adverse effect on the Company s future performance.

Reserve estimates are based on various assumptions, including assumptions required by the SEC relating to oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating reserves is complex. This process requires significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data.

Reserve estimates are dependent on many variables, and therefore, as more information becomes available, it is reasonable to expect that there will be changes to the estimates. Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves will most likely vary from those estimated. Any significant variance could materially affect the estimated quantities and present value of reserves disclosed by the Company. In addition, estimates of proved reserves will be adjusted in the future to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond the Company s control.

As of December 31, 2006, approximately 46.6% of the Company s estimated proved reserves are classified as proved undeveloped. Estimation of proved undeveloped reserves and proved developed non-producing reserves is generally based on volumetric calculations rather than the performance data used to estimate reserves for producing properties. Recovery of proved undeveloped reserves generally requires significant capital expenditures and successful drilling operations. Revenues from proved developed non-producing and proved undeveloped reserves will not be realized until some time in the future. The reserve estimate includes an estimate of the capital expenditures required to develop these reserves as well as the timing of such expenditures. Although the Company has prepared estimates of its proved undeveloped reserves and the associated development costs in accordance with industry standards, they are based on estimates, and actual results may vary.

The present value of estimated reserves, or PV-10, should not be interpreted as the current market value of reserves attributable to the Company s properties. The 10% discount factor, which is required in calculating PV-10 for reporting purposes, is not necessarily the most appropriate discount factor given actual interest rates and risks to which the Company s business or the oil and natural gas industry in general are subject. The Company has based the PV-10 on prices and costs as of the date of the reserve estimate, in accordance with applicable SEC regulations. Actual future prices and costs may be materially higher or lower. In addition to the price volatility factors discussed above, factors that will affect actual future net cash flows, include:

- the amount and timing of actual production;
- curtailments or increases in consumption by oil and natural gas purchasers; and
- changes in governmental regulations or taxation.

As a result, the Company s actual future net cash flows could be materially different from the estimates included in this Annual Report on Form 10-K.

The Company faces operating risks in its exploration and production activities: Storm Cat s business involves operating risks, including well blowouts, craterings, explosions, uncontrollable flows of oil, natural gas or well fluids, leaks, fires, formations with abnormal pressures, pipeline ruptures or spills, pollution, releases of toxic gas and other environmental hazards and risks, any one of which can cause personal injury, damage to property, equipment and the environment, as well as interruption of operations. Storm Cat maintains insurance against some, but not all, of these risks. If any of these events occurred, the Company could face substantial losses that could reduce or even eliminate funds available for operations.

The industry is highly regulated: Storm Cat s industry is heavily regulated by federal, state, and local authorities. These regulations control many aspects of its business including, among other things, land use, prospecting, the drilling and spacing of wells, protection of ground water, conservation of soil, safety standards, site reclamation, restoration, exports, labor standards, occupational health, waste disposal, toxic substances and other matters. The regulations and laws governing the industry are under constant review and may be amended or expanded. Regulation increases the cost of doing business and decreases profitability. If Storm Cat fails to comply with these laws and regulations, it may be subject to substantial penalties or suspension or termination of operations.

The Company s operations are subject to complex environmental regulations: Storm Cat s current and anticipated future operations require permits from various federal, state and local governmental authorities and such operations are and will be regulated by laws and regulations governing various elements of the oil and gas industries.

The Company cannot predict what environmental legislation, regulation or policy will be enacted or adopted in the future or how in the future laws and regulations will be administered or interpreted. The recent trend in environmental legislation and regulation generally is toward stricter standards and this trend is likely to continue in the future. This recent trend includes, without limitation, laws and regulations relating to air and water quality, waste handling and disposal, the protection of certain species and the preservation of certain lands. These regulations may require permits or other authorizations for certain activities. These laws and regulations may also limit or prohibit activities on certain lands lying within wetland areas, areas providing for habitat for certain species or other protected areas. Compliance with more stringent laws and regulations, as well as potentially more vigorous enforcement policies or stricter interpretation of existing laws, may necessitate significant capital expenditures, may materially affect the results of operations and business, or may cause material changes or delays in the Company s intended activities.

There can be no assurance that Storm Cat will be able to obtain all permits required for future exploration on reasonable terms or that such laws and regulations, or new legislation or modifications to existing legislation, will not have an adverse effect on any project that might undertaken. The Company s failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing the Company s operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Increases in taxes on energy sources may adversely affect the Company s operations: Federal, state and local governments which have jurisdiction in areas where the Company operates impose taxes on the oil and natural gas products sold. Historically, there has been on-going consideration by federal, state and local officials concerning a variety of energy tax proposals. Such matters are beyond the Company s ability to accurately predict or control.

The Company does not have adequate cash flow to fund operations and additional debt or equity financing will be required: The Company makes, and will continue to make, significant expenditures to find, acquire, develop and produce natural gas reserves. If natural gas prices decrease, or if operating difficulties are encountered that result in cash flow from operations being less than expected, the Company may have to reduce capital expenditures unless additional funds are raised through debt or equity financing. Debt or equity financing or cash generated by operations may not be available to the Company in sufficient amounts or on acceptable terms to meet these requirements.

Future cash flows and the availability of financing will be subject to a number of variables, such as:

- the Company s success in locating and producing new reserves;
- the level of production from existing wells; and
- prices of natural gas;

Issuing additional equity securities to satisfy the Company s financing requirements could cause substantial dilution to existing shareholders. Additional debt financing could make the Company more vulnerable to competitive pressures and economic downturns.

Competition for materials and services is intense and could adversely affect the Company: Major oil companies, independent producers, and institutional and individual investors are actively seeking oil and gas properties throughout the world, along with the equipment, labor and materials required to develop and operate properties. Shortages for equipment, labor or materials may result in increased costs or the inability to obtain such resources as needed. Many of the Company s competitors have financial and technological resources which exceed those available to the Company.

The Company s hedging arrangements involve credit risk and may limit future revenues from price increases: To manage the Company s exposure to price risks associated with the sale of natural gas, the Company periodically enters into hedging transactions for a portion of its estimated natural gas production. These transactions may limit the Company s potential gains if natural gas prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose the Company to the risk of financial loss in certain circumstances, including instances in which:

- the Company s production is less than expected;
- the contractual counterparties fail to perform under the contracts; or
- a sudden, unexpected event, materially impacts natural gas prices.

The terms of the Company s hedging agreements may also require that it furnish cash collateral, letters of credit or other forms of performance assurance in the event that mark-to-market calculations result in settlement obligations by the Company to the counterparties, which would encumber the Company s liquidity and capital resources.

In addition, hedging transactions using derivative instruments involve basis risk. Basis risk in a hedging contract occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset is based, thereby making the hedge less effective.

The Company has minimized ineffectiveness by entering into gas derivative contracts indexed to Colorado Interstate Gas (CIG). As the Company s derivative contracts contain the same index as the Company s sale contracts, this results in hedges that are highly correlated with the underlying hedged item.

The marketability of the Company s natural gas production is dependent upon infrastructure, such as gathering systems, pipelines and processing facilities, that the Company does not own or control: The marketability of the Company s natural gas production depends in part upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities necessary to move the Company s natural gas production to market. The Company does not own this infrastructure and is dependent on other companies to provide it.

Storm Cat has a history of net losses and a current working capital deficit: Since Storm Cat s incorporation in May of 2000, it has experienced annual net losses. In the year ended December 31, 2006 the Company had a net loss of $6.9 million and its cumulative net loss from date of incorporation to December 31, 2005 is $16.6 million. There is no guarantee as to when, if ever, the Company will realize a net profit. At December 31, 2006 the Company had a working capital deficit of $15.6 million as the result of a delay in its convertible notes financing.

Fluctuations in foreign currency exchange rates could adversely affect the business: Storm Cat maintains accounts in U.S. and Canadian dollars. A material decrease in the value of the Canadian dollar relative to the U.S. dollar could negatively impact the Company s income statement and share price.

Storm Cat depends on certain key personnel: The Company depends heavily on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term. The Company carries no key man life insurance on any of its executives. As operations expand, Storm Cat will require additional key personnel and related resources.

Some of Storm Cat s directors serve as officers and directors of other companies: Some of the Company s directors are also officers or directors of other companies including those that are similarly engaged in the business of acquiring, developing and exploiting oil and gas producing properties. Such associations may give rise to conflicts of interest from time to time. The Company s directors are required by law to act honestly, in good faith and in the best interest of Storm Cat and to disclose any interest that

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they may have in any competing project or opportunity. Further, Storm Cat has an internal conflict policy (Code of Business Conduct and Ethics) which addresses directors conflicts of interest. Under the policy, if a conflict of interest arises at a meeting of the Board, any director with a conflict must disclose his interest and abstain from voting on such matters. In making the determination as to whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to it and Storm Cat s financial position at that time.

Storm Cat focuses heavily on unconventional plays, which rely on technological advances that in the future may not be effective: Unconventional resources are reserves from fractured shales, coal beds and tight sand formations and they are a central element of Storm Cat s business model. The development of typical unconventional plays may involve greater extraction and retrieval costs than are involved in development of typical conventional plays. Often, the quality of gas and commercial viability is less known in a typical unconventional play. Therefore, the process of developing an unconventional play involves significant expenditures before commercial viability can be ascertained and presents a risk of cost overruns and inadequate gas recovery.

Further, technological innovation is a key component to realizing the economic value of unconventional plays. The Company continues to explore and rely on advances in technologies such as drilling, well completion and geophysical technologies that have helped the viability of the unconventional play.

Storm Cat may incur compression difficulties and expense: As production increases, more compression is generally required to maximize the production flowing through the pipeline. Production costs increase as additional compression is required, primarily because the compression process requires more fuel. In addition, the compression process is a mechanical process, and should a breakdown occur the Company will be unable to deliver gas until repairs to the machinery are completed.

Storm Cat does not obtain title insurance or other warranties of title with its leases and working interests: Storm Cat does not obtain title insurance or other guaranty or warranty of good title with its gas leases and well working interests. Title insurance is not available for subsurface leases. Accordingly, third parties may assert claims against the Company s legal entitlement to the gas leases and working interests being acquired, irrespective of the Company s leases and working well interests. In order to alleviate this risk, Storm Cat requires a title search and title opinion on all leases prior to drilling. There is no assurance, however, that all title defects will be cured prior to drilling.

Risks Related to Storm Cat s Common Shares

U.S. Investors may have difficulty effecting service of process against some of Storm Cat s Canadian directors: Storm Cat is incorporated under the laws of the Province of British Columbia, Canada. Consequently, it may be difficult for United States investors to effect service of process in the United States upon its directors or officers who are not residents of the United States, or to realize in the United States upon judgments of United States courts predicated upon civil liabilities under the Exchange Act. A judgment of a U.S. court predicated solely upon such civil liabilities would probably be enforceable in Canada by a Canadian court if the U.S. court in which the judgment was obtained had jurisdiction, as determined by the Canadian court, in the matter. There is substantial doubt whether an original action could be brought successfully in Canada against any of such persons or Storm Cat predicated solely upon such civil liabilities.

Storm Cat was previously a Foreign Private Issuer and exempt from the Section 16 and the Proxy Rules of Section 14 of the Securities Exchange Act of 1934: On June 30, 2006, the Company became a U.S. issuer under the U.S. federal securities laws. As such, it is subject to certain regulation under U.S. securities laws, such as Section 16 and the Proxy Rules of Section 14 of the Exchange Act. Prior to June 30, 2006, as a foreign private issuer, Storm Cat filed its Annual Report on Form 20-F and reported its current events, including the dissemination of proxy materials and information regarding its annual meeting of shareholders, on Form 6-K.

Storm Cat is subject to the Continued Listing Criteria of the American Stock Exchange (AMEX) and the Toronto Stock Exchange (TSX): Storm Cat s common shares are listed on AMEX and the TSX.

In order to maintain its listing on AMEX, Storm Cat must maintain certain share prices, financial and distribution targets, including maintaining a minimum amount of shareholders equity and a minimum number of public shareholders. In addition to objective standards, AMEX may delist the securities of any issuer if in its opinion, the issuer s financial condition and/or operating results appear unsatisfactory; if it appears that the extent of public distribution or the aggregate market value of the security has become so reduced as to make further dealings on AMEX inadvisable; if the issuer sells or disposes of principal operating assets or ceases to be an operating company; if an issuer fails to comply with AMEX s listing requirements; if an issuer s common shares sell at what AMEX considers a low selling price and the issuer fails to correct this via a reverse split of shares after notification by AMEX; or if any other event shall occur or any condition shall exist which makes further dealings with AMEX, in its opinion, unadvisable.

Similarly, if the Company fails to meet any of the continued listing criteria of the TSX or is not in compliance with all TSX requirements applicable to listed companies, including TSX rules, policies, rulings and procedural requirements and any additions or amendments which may be made thereto from time to time, the TSX may delist the Company s securities. Without limiting the generality of the foregoing, the TSX requires that Storm Cat: (i) not issue any securities without the prior consent of the TSX; (ii) not undergo a material change in its business or affairs without the prior consent of the TSX; (iii) file copies of all written correspondence sent to holders of its listed securities with the TSX; (iv) not change the provisions attaching to any warrants, rights or other out standing securities without the prior consent of the TSX; (v) pay all applicable TSX fees; and (vi) file, at any time upon demand, such other information or documentation concerning the Company s business and affairs as the TSX may reasonably require.

The TSX has the right, at any time, to halt or suspend trading in any of listed securities with or without notice and with or without giving any reason for such action, or to delist such securities, provided that the TSX will not delist the securities without providing the Company with an opportunity to be heard.

If AMEX or the TSX delists Storm Cat s common shares, investors may face material adverse consequences, including, but not limited to, a lack of trading market for its securities, decreased analyst coverage of its securities, and an inability for the Company to obtain additional financing to fund operations.

Storm Cat s common shares are traded on more than one market and this may result in price variations: Storm Cat s common shares are traded on AMEX and on the TSX. Trading in the Company s common shares on these markets is effected in different currencies (U.S. dollars on AMEX and Canadian dollars on the TSX) and at different times, as the result of different time zones, different trading days and different public holidays in the United States and Canada. Consequently, the trading prices of Storm Cat s common shares on these two markets often differ, resulting from the factors described herein as well as differences in exchange rates and from political events and economic conditions in the United States and Canada. Any decrease in the trading price of the Company s common shares on one of these markets could cause a decrease in the trading price of its common shares on the other market.

Storm Cat s share price has fluctuated and could continue to fluctuate significantly: The market price for Storm Cat s common shares, as well as the price of shares of other energy companies, has been volatile. Numerous factors, many of which are beyond the Company s control, may cause the market price of its common shares to fluctuate significantly, such as:

- Fluctuations in the Company s quarterly revenues and earnings and those of its publicly held competitors;
- Shortfalls in operating results from levels forecast by securities analysts;
- Announcements concerning the Company or its competitors;
- Changes in pricing policies by the Company or its competitors;
- General market conditions and changes in market conditions in the industry; and
- The general state of the securities market.

In addition, trading in shares of companies listed on AMEX and the TSX, generally, and trading in shares of energy companies, specifically, has experienced price and volume fluctuations that have often been unrelated or disproportionate to operating performance. These broad market and industry factors may depress the Company s share price, regardless of actual operating results. In addition, if Storm Cat issues additional shares in financings or acquisitions, its shareholders will experience additional dilution and the existence of more shares could decrease the amount that purchasers are willing to pay for the Company s common shares.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

Storm Cat is an independent oil and gas company focused on exploration and development of unconventional gas reserves, which are reserves from fractured shales, coal and tight sand formations. The Company has producing properties in Wyoming s Powder River Basin. Its primary exploration and development acreage is located in the United States and Canada. Storm Cat continues to execute on its long-term strategy of growth through continued development and the acquisition of prospective acreage that exploits the abilities of the Company s technical team to find, drill, complete and operated in unconventional reservoirs.

Natural Gas Properties

Powder River Basin

On May 5, 2006, Storm Cat closed a mineral leasehold transaction in the Powder River Basin, Campbell County, Wyoming, with two private companies. The acquisition included an interest in 3,942 gross (3,548 net) undeveloped acres. As consideration, 50% was paid in cash at closing and the private companies retained a carried interest as to capital costs covering their 10% working interest to be paid over a period of 18 months after closing.

On June 7, 2006, Storm Cat acquired six state tracts in Sheridan County, Wyoming totaling 1,521 gross (and net) acres at a Wyoming State Lease Sale for $0.7 million lease bonus (average of $458/acre). Development preparation has begun on the acreage including permitting of locations and water management planning. Development should consist of 19 multi-seam wells.

On August 29, 2006, but effective as of July 1, 2006, the Company acquired producing leases totaling 25,200 gross acres and 17,000 net acres for $30.7 million. The production from this field represented 26.4% of 2006 production volumes and 22.9% of 2006 natural gas revenue, and the reserves attributable to this acquisition comprise approximately 44.6% of estimated proved reserves as of December 31, 2006.

On September 14, 2006, Storm Cat entered into a Joint Development Agreement with an unaffiliated third party to jointly develop certain lands for coalbed methane. Under this agreement, Storm Cat and its partner will establish an area of mutual interest in which Storm Cat will act as operator. The Company acquired an undivided 50% of its partner s working interest and production in existing wells, leasehold and infrastructure. The Company will have the option to earn an undivided 50% interest in its partner s leasehold within the area of mutual interest through development.

At December 31, 2006, Storm Cat had operational control of approximately 41,730 gross acres and 31,905 net acres. The Company was operating 277 wells and owned a working interest percentage in 41 additional non-operated wells. For the full year 2006, 86 wells were spud. Wells drilled during 2006 were concentrated in our Northeast Spotted Horse and Jamison/Twenty Mile operating areas.

At year-end 2006, the Powder River Basin exit-rate production was 15 MMcf/d gross and 8 MMcf/d net. The Powder River Basin production currently comprises 100% of Storm Cat s production.

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Fayetteville Shale Area of Arkansas

On May 10, 2006, Storm Cat closed a $2.0 million transaction in the Fayetteville Shale play in Arkansas with two private operators. The Company acquired an interest in approximately 16,364 gross undeveloped acres and 12,596 net acres in Van Buren, Pope and Searcy Counties, Arkansas at a cost per net mineral acre of $165.

In the Arkoma Basin s Fayetteville Shale play in Arkansas, the Company owned or controlled 20,051 gross and 13,982 net acres at December 31, 2006. This property consists of an 80% net revenue interest in 16,364 gross (12,596 net) acres and an 81% net revenue interest in 3,688 gross (1,386 net) acres in the Fayetteville Shale Prospect area of Arkansas (mostly in Van Buren County). Storm Cat plans to commence drilling on the first of six net wells in the Fayetteville Shale beginning mid-year 2007.

At year-end 2006, Storm Cat was participating in 14 (non-operated) Fayetteville Shale wells where it owned between a 1% and 8% working interest. These wells were at various stages of planning, drilling, completion or production.

British Columbia, Canada (Elk Valley)

In Elk Valley, British Columbia, Storm Cat farmed-in on approximately 77,775 gross (77,775 net) acres on an unconventional natural gas prospect. On October 31, 2006, the Company assumed 100% operatorship of the Elk Valley land and the former operator retained a 2.5% overriding royalty interest. During 2006, the Company drilled and completed five wells in Elk Valley. These wells are currently on production and have begun the de-watering stage. Storm Cat expects to have preliminary production results from these wells during the second half of 2007.

Alberta, Canada (Western Canadian Sedimentary Basin)

In the Western Canadian Sedimentary Basin of Alberta, Canada, Storm Cat owned or controlled approximately 19,693 gross acres and 17,453 net acres at December 31, 2006. Efforts have been focused

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on evaluating the potential of the Horseshoe Canyon and Mannville Coals. Horseshoe Canyon has been established as a commercial production target in the Western Canadian Sedimentary Basin, while the Mannville Coals are still in the early stages of development. During the course of 2006, Storm Cat experienced a greater than eight-fold increase in its undeveloped acreage position from a starting point of 2,080 acres (gross and net). In 2006, five gross wells were drilled. This total includes two wells drilled at no cost to the Company through a farm out of its interest in two sections of land.

The Alberta, Canada acreage is concentrated in five main areas. From north to south these are Judy Creek, Redwater, Wetaskiwin, Wainwright and Cessford. The Wetaskiwin area is prospective for gas from the Horseshoe Canyon and the Mannville Coals while the other areas are all prospective for gas from the Mannville Coals.

During 2006, Storm Cat participated in the drilling of three wells in the Cessford area on a drill-to-earn farm-out deal. Two of the wells were drilled at no cost to the Company. The first well drilled was a vertical test which targeted a Lower Mannville Channel sand as well as the Mid Mannville Coal. The channel sand was wet, and the well was completed uphole in the Mannville Coal section. A core was cut through the coals. Subsequent analysis showed significant quantities of gas in place, which led to the decision to begin horizontal development drilling. The remaining four earning wells have been farmed out to a third party. Two of the wells have been drilled, and the remaining two earning wells are scheduled to be drilled in the first and second quarters of 2007.

During the fourth quarter of 2006, Storm Cat drilled a 1,450 meter vertical test in the Judy Creek area to evaluate the potential of the Mannville coals as well as unconventional targets in the Colorado Shale. The coals encountered were deemed to be too thin to follow up with horizontal wells.

Storm Cat drilled a 760 meter vertical well in the Wetaskiwin area that was designed to test the gas potential of the Horseshoe Canyon Coal as well as conventional targets in the Belly River and Edmonton Sand. The well encountered gas pay in both the Upper Belly River Sand and the Horseshoe Canyon. Based on these results, the Company has entered into a drill-to-earn deal to earn a 100% working interest in four sections of land subject to a non-convertible overriding royalty. Storm Cat will earn an interest in one section with each well drilled. Tie-in options are currently being evaluated.

Alaska

The Company has an 89.5% net revenue interest in 11,782 gross (11,782 net) acres and an 87.5% net revenue interest in 12,723 gross (12,723 net) acres in the Cook Inlet region of Alaska. Storm Cat drilled one well in this area in 2006. The Company is in the process of evaluating the completion potential and costs based upon equipment availability.

Saskatchewan, Canada (Moose Mountain)

Storm Cat previously owned a 30% working interest in the Moose Mountain exploration project in Saskatchewan, covering 235,830 gross acres of unconventional natural gas exploration. Storm Cat drilled, cased and completion tested three Moose Mountain wells in 2006. This property was impaired in the amount of $1.9 million in the third quarter of 2006. The Company sold its working interest in this property to avoid plugging and abandonment costs, but retained a 1% overriding royalty interest.

Mongolia

As of December 31, 2006, Storm Cat had fully impaired our Mongolia property for a total of $2.2 million.

Accounting for Natural Gas Properties

Storm Cat follows the full cost method of accounting whereby all costs related to the acquisition and development of oil and gas properties are capitalized into a single cost center referred to as a full cost pool. Depletion of exploration and development costs and depreciation of production equipment is computed using the units-of-production method based upon estimated proved oil and gas reserves. Under the full cost method of accounting, capitalized oil and gas property costs less accumulated depletion and net of deferred income taxes may not exceed an amount equal to the present value, discounted at 10%, of estimated future net revenues from proved oil and gas reserves plus the cost, or estimated fair value if lower, of unproved properties. Should capitalized costs exceed this ceiling, an impairment would be recognized.

Estimated reserve quantities and future net cash flows have the most significant impact on the Company because these reserve estimates are used in providing a measure of the Company s overall value. These estimates are also used in the quarterly calculations of depletion, depreciation and impairment of the Company s proved properties.

Estimating accumulations of gas is complex and is not exact because of the numerous uncertainties inherent in the process. The process relies on interpretations of available geological, geophysical, engineering and production data. The extent, quality and reliability of this technical data can vary. The process also requires certain economic assumptions, some of which are mandated by the SEC, such as gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The accuracy of a reserve estimate is a function of the quality and quantity of available data; the interpretation of that data; the accuracy of various mandated economic assumptions; and the judgment of the persons preparing the estimate.

The most accurate method of determining proved reserve estimates is based upon a decline analysis method, which consists of extrapolating future reservoir pressure and production from historical pressure decline and production data. The accuracy of the decline analysis method generally increases with the length of the production history. Since most of the Company s wells have been producing less than five years, their production history is relatively short, so other (generally less accurate) methods such as volumetric analysis and analogy to the production history of wells of other operators in the same reservoir were used in conjunction with the decline analysis method to determine the Company s estimates of proved reserves including developed producing, developed non-producing and undeveloped. As the Company s wells are produced over time and more data is available, the estimated proved reserves will be re-determined on an annual basis and may be adjusted based on that data.

Actual future production, gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable gas reserves most likely will vary from the Company s estimates. Any significant variance could materially affect the quantities and present value of the Company s reserves. For example, a decrease in price of 10% per Mcf for natural gas would result in a decrease in the Company s December 31, 2006 present value of future net cash flows of approximately $2.0 million. In addition, the Company may adjust estimates of proved reserves to reflect production history, acquisitions, divestitures, ownership interest revisions, results of exploration and development and prevailing gas prices. The Company s reserves may also be susceptible to drainage by operators on adjacent properties.

2007 Capital Budget

Storm Cat intends to announce its 2007 capital expenditure program in first quarter 2007. The Company continues to grow production and leasehold in its core Powder River Basin operating area. The Powder River Basin continues to provide opportunity for increased production as Storm Cat continues to successfully apply multi-seam completion technology to its drilling operations, resulting in increasing cash

flow for the Company and its shareholders. Storm Cat has successfully drilled five wells in Elk Valley which continues to be a focused area to the Company for future growth. The Fayetteville Shale acquisition and Cessford project are especially important, allowing the Company to have access to data as a working interest partner in the wells with limited financial exposure. Storm Cat will use this data to help refine its 2007 program in these areas.

For additional information regarding current year activities, including gas production, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations .

Company Reserve Estimates

Netherland, Sewell & Associates, Inc. of Houston, Texas, an independent petroleum engineering firm, estimated proved reserves for the Company s properties. At December 31, 2006, natural gas from the Powder River Basin represented 100% of total reserves.

The following table sets forth information regarding the Company s proved reserves at the end of each year for 2004 through 2006. Reserve estimates are based on the assumptions set forth in Note 17 to the Consolidated Financial Statements and additional reserve information is provided. The year-end price used to calculate estimated future net revenues was $4.46, $7.72, and $5.90 per Mcf of gas at December 31, 2006, 2005 and 2004, respectively. Prices are based on Rocky Mountain CIG on the last sales day of each year. Amounts do not include estimates of future Federal and state income taxes.

Year	**Gas (MMcf)**	**Estimated Net Revenues (In Thousands)**	**Estimated Future Net Revenues Discounted at 10% (In Thousands)**
2006	25,015.3	$ 41,944.7	$ 32,036.4
2005	10,010.0	37,461.0	29,017.2
2004	458.2	1,011.3	807.0

The percentage of total reserves classified as proved developed was approximately 53.4% in 2006, 38.7% in 2005 and 47.9% in 2004.

Volumes and Prices

The Company s net production quantities and average price realizations per unit for the indicated years are set forth below. Price realizations are net of any hedging gains or losses.

Product	**2006 Volume**	**Price**	**2005 Volume**	**Price**	**2004 Volume**	**Price**
Gas (Mmcf)	1,606.2	$ 5.88	693.5	$ 6.08	17.3	$ 6.01

Average production costs, including production taxes, per equivalent Mcf of were $3.34, $4.70, and $2.49 per Mcf in 2006, 2005, and 2004, respectively.

Total Acreage

Storm Cat Energy Corporation Acreage as of December 31, 2006