

**SEAVIEW ENERGY INC.**  
**MANAGEMENT'S REPORT**

The management of Seaview Energy Inc. is responsible for the financial information and operating data presented in this financial report.

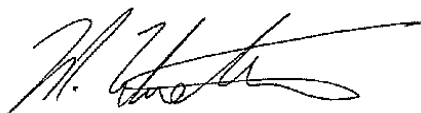
The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this financial report has been prepared on a consistent basis with that in the financial statements.

Seaview Energy Inc. has designed and maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed of non-management Directors, meets regularly with management, as well as the external auditors, to discuss auditing (external and joint venture), internal controls, accounting policy and financial reporting matters. The Committee reviews the annual financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.



**Michael Wuetherick**  
President, Chief Executive Officer and Director



**Stephanie Bunch**  
Vice President, Finance & Chief Financial Officer

Calgary, Canada  
April 23, 2008



KPMG LLP  
Chartered Accountants  
2700-205 5 Avenue SW  
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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Seaview Energy Inc. as at December 31, 2007 and 2006 and the consolidated statements of net loss and comprehensive loss and deficit and cash flows for the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Calgary, Canada  
April 23, 2008

**SEAVIEW ENERGY INC.**  
**CONSOLIDATED BALANCE SHEETS**

As at December 31, 2007 and 2006

	2007	2006
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,776,213	\$ 25
Accounts receivable	1,434,401	-
Prepaid expenses and refundable deposits	233,868	-
<b>Total current assets</b>	<b>12,444,482</b>	<b>25</b>
Property and equipment <i>(Note 3)</i>	16,226,209	-
Goodwill <i>(Note 2)</i>	3,331,351	-
<b>TOTAL ASSETS</b>	<b>\$ 32,002,042</b>	<b>\$ 25</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 4,201,597	\$ -
<b>Total current liabilities</b>	<b>4,201,597</b>	<b>-</b>
Future income taxes <i>(Note 4)</i>	2,570,406	-
Asset retirement obligation <i>(Note 5)</i>	196,963	-
<b>Total liabilities</b>	<b>6,968,966</b>	<b>-</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>(Note 6)</i>	\$ 25,334,705	\$ 25
Contributed surplus <i>(Note 6)</i>	73,446	-
Deficit	(375,075)	-
<b>Total shareholders' equity</b>	<b>25,033,076</b>	<b>25</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$ 32,002,042</b>	<b>\$ 25</b>

Commitments *(Note 7)*

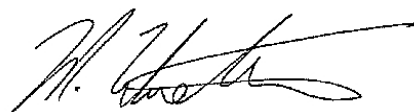
Subsequent events *(Notes 8 and 9)*

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors



Paul Colborne  
 Chairman of the Board



Michael Wuetherick  
 President, Chief Executive Officer and Director

**SEAVIEW ENERGY INC.****CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS AND DEFICIT**

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

	Year ended December 31, 2007	For the period from incorporation on December 13, 2006 to December 31, 2006
<hr/>		
Revenue		
Petroleum and natural gas sales	\$ 566,962	\$ -
Royalties	(131,257)	-
	<b>435,705</b>	-
<hr/>		
Expenses		
Operating expenses	154,699	-
Transportation expense	16,723	-
General and administrative	265,164	-
Interest income	(94,261)	-
Stock option compensation (Note 6)	36,620	-
Depletion, depreciation & accretion	560,479	-
<hr/>		
Loss before taxes	\$ (503,719)	\$ -
<hr/>		
Future income tax reduction (Note 4)	(128,644)	-
<hr/>		
Net loss and comprehensive loss	\$ (375,075)	\$ -
<hr/>		
Deficit, beginning of period	-	-
Deficit, end of period	\$ (375,075)	\$ -
<hr/>		
Loss per share – basic and diluted (Note 6)	\$ (0.07)	\$ -
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See accompanying notes to the consolidated financial statements

**SEAVIEW ENERGY INC.****CONSOLIDATED STATEMENTS OF NET CASH FLOWS**

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

		<b>Year ended December 31, 2007</b>		For the period from incorporation on December 13, 2006 to December 31, 2006
<b>Operating activities</b>				
Net loss	\$	<b>(375,075)</b>	\$	-
Depletion, depreciation and accretion		<b>560,479</b>		-
Stock option compensation		<b>36,620</b>		-
Future Income tax reduction		<b>(128,644)</b>		-
		<b>93,380</b>		-
Changes in non-cash working capital		<b>(404,780)</b>		-
Cash used in operating activities	\$	<b>(311,400)</b>	\$	-
<b>Financing activities</b>				
Issuance of shares (net of costs)		<b>11,777,594</b>		25
Cash provided by financing activities	\$	<b>11,777,594</b>	\$	25
<b>Investing activities</b>				
Property and equipment additions		<b>(3,636,786)</b>		-
Cash paid on corporate acquisition		<b>(105,505)</b>		-
Changes in non-cash working capital		<b>3,052,285</b>		-
Cash used in investing activities	\$	<b>(690,006)</b>	\$	-
Increase in cash during the period	\$	<b>10,776,188</b>	\$	25
Cash – beginning of period		<b>25</b>		-
Cash – end of period	\$	<b>10,776,213</b>	\$	25

See accompanying notes to the consolidated financial statements

# SEAVIEW ENERGY INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

### 1. Significant accounting policies

#### Nature of business and basis of presentation

Seaview Energy Inc (the "Company" or "Seaview") is incorporated under the Business Corporations Act (Alberta). The Company's principal business activity is the exploration, development and operation of oil and gas properties. The consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, litigation, environmental and asset retirement obligations, income taxes and the determination of proved reserves on an ongoing basis. Changes in facts and circumstances may result in revised estimates, and actual results may differ from these estimates. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

#### Joint interest activities

Substantially all of the Company's petroleum and natural gas activities are conducted jointly with others and accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

#### Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for asset retirement obligations are based on estimates. The cost recovery ceiling test is based on estimates of proved reserves, production rates and petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash held in a commercial bank account, less outstanding cheques, and short term investments with maturity, at the time of purchase, of less than 90 days.

#### Property and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized and charged against earnings as described below. Capitalized costs include lease acquisition costs, the costs of geological and geophysical activities, the costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas equipment, carrying charges of non-producing properties and overhead costs directly related to exploration and development activities.

Petroleum and natural gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the petroleum and natural gas assets. If the carrying value of the petroleum and natural gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied as a reduction of the cost of the remaining assets, except when such a disposition would alter the rate of depletion by more than 20 percent, in which case a gain or loss on disposition would be recorded.

## SEAVIEW ENERGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

#### Depletion and depreciation

Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas on a company interest basis (working interest plus royalty interest) before the deduction of crown or other royalties as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on a relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairments, are excluded from the depletion and depreciation calculation.

#### Goodwill

The Company recognizes goodwill on corporate acquisitions when the total purchase price exceeds the fair value of net identifiable assets and liabilities of the acquired entity. Goodwill is tested annually at year-end for impairment or as events occur that could result in impairment. Impairment is recognized based on the fair value of the reporting entity compared to the book value. If the fair value is less than the book value, impairment is measured by allocating the fair value to the identifiable assets and liabilities as if the Company had been acquired in a business combination for its fair value. The excess of the fair value over the amounts assigned to the identifiable assets and liabilities is the fair value of the goodwill. Any excess of the book value over this implied fair value of goodwill is the impairment amount. Impairment is charged to earnings in the period in which it occurs. Goodwill is stated at costs less impairment and is not amortized.

#### Asset retirement obligation

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related assets known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings. Estimates used are evaluated on a periodic basis and any adjustments are applied prospectively. Actual costs incurred upon settlement of the obligations are charged against the liability. No gains or losses on retirement were realized due to settlements approximating the estimates.

#### Financial instruments

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price and foreign exchange fluctuations. The Company may enter into natural gas and crude oil swap contracts, options or collars to hedge its exposure to petroleum and natural gas prices and may enter into foreign exchange forward contracts to hedge anticipated U.S. dollar denominated petroleum and natural gas sales. The derivative financial instruments are initiated within the guidelines of the Company's Hedging Policy Manual and the Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company has elected not to use hedge accounting. The fair value of any commodity contracts is recognized at each reporting period with the change in the fair value being classified as an unrealized gain or loss on the statement of earnings.

For the year ended December 31, 2007, the Company has early adopted the disclosures required under section 3862 Financial Instruments – Disclosures which applies to both recognized and unrecognized financial instruments. These disclosures, which include the nature and extent of risks arising from financial instruments, are included in Note 8.

#### Revenue recognition

Revenue associated with sales of crude oil, natural gas and natural gas liquids (“NGLs”) is recognized when title passes to the purchaser, normally at the pipeline delivery point for natural gas and NGLs and at the wellhead for crude oil.

#### Future income taxes

The Company uses the liability method in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rate is recognized in income in the period in which the change occurs. Tax assets will be recognized only when it is more likely than not that they will be realized.

# SEAVIEW ENERGY INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

### Flow-through shares

The Company may, from time to time, issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded equal to the estimated amount of the future income tax liability of the Company as a result of the renunciations, when the renunciation is made.

### Stock based compensation

The Company has a stock option plan, which is described in Note 6.

Awards of stock options to employees and non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option-pricing model. Under the fair value method, the amount to be recognized as expense is determined at the time the options are issued and is deferred and recognized in earnings over the vesting period of the options with a corresponding increase in contributed surplus.

Consideration paid by directors, officers and key employees and consultants on the exercise of stock options is credited to share capital together with the amount previously recognized in contributed surplus.

### Per share amounts

Basic earnings per share will be computed by dividing earnings by the weighted average number of Class A and Class B shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if in the money stock options to purchase Class A shares were exercised and converted to Class A shares. The treasury method of calculating diluted per share amounts will be used whereby any proceeds from the exercise of stock options are assumed to be used to purchase Class A shares of the Company at the average market price during the period.

## 2. Business combination

On October 17, 2007, the Company closed the acquisition of 1276921 Alberta Ltd ("PrivateCo"). The Company issued 0.9076 Seaview Class A shares for each common share of PrivateCo outstanding, for a value of \$1.38 per Seaview Class A share. The purchase has been accounted for as an acquisition of PrivateCo by the Company using the purchase method of accounting. The purchase price allocation is as follows:

Property and equipment	\$	13,052,000
Working capital		114,177
Goodwill		3,331,351
Future income taxes		(2,989,063)
Asset retirement obligation		(151,512)
	\$	13,356,953
Consideration was comprised of:		
9,602,507 Class A shares		13,251,448
Transaction costs		105,505
	\$	13,356,953

## 3. Property and equipment

	2007	2006
Petroleum and natural gas assets	\$ 16,783,763	\$ -
Accumulated depletion and depreciation	(557,554)	-
Property and equipment, net	\$ 16,226,209	\$ -

For the year ended December 31, 2007, the Company capitalized general and administrative expenses directly relating to exploration and development activities in the amount of \$184,133 (\$nil – December 31, 2007) and stock option compensation of \$52,451 (including tax effect of \$15,625) (\$nil – December 31, 2007).

# SEAVIEW ENERGY INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

Unproved property costs amounting to \$498,861 have been excluded from costs subject to depletion at December 31, 2007 (\$nil – December 31, 2006) and future development costs of \$833,000 (\$nil – December 31, 2006) have been included in costs subject to depletion.

The Company performed a ceiling test calculation at December 31, 2007 and determined that no impairment exists in petroleum and natural gas properties as at December 31, 2007. The prices used in the ceiling test evaluation of the Company's oil and gas assets are summarized in the following table:

Year	WTI Cushing <sup>(1)</sup> Oklahoma (\$US/bbl)	Edmonton Par Price 40° API (\$Cdn/bbl)	Alberta AECO-C Spot (\$Cdn/MMBTU)	Henry Hub (\$US/MMBTU)
2008	89.61	88.17	6.51	7.56
2009	86.01	84.54	7.22	8.27
2010	84.65	83.16	7.69	8.74
2011	82.77	81.26	7.70	8.75
2012	82.26	80.73	7.61	8.66
2013 – 2017 <sup>(2)</sup>	86.18	84.58	8.14	9.19
Thereafter <sup>(3)</sup>	2%	2%	2%	2%

(1) 40 degrees API, 0.4% sulphur

(2) Prices shown are the average over the period.

(3) Percentage change of 2.0% represents the change in future prices each year after 2017 to the end of the reserve life.

#### 4. Future income taxes

##### a. Income tax provision

	2007	2006
Net loss for the period before taxes	\$ (503,719)	\$ -
Combined tax rate	32.12%	-
Expected income tax reduction	(161,795)	-
Stock option compensation	11,762	-
Current rate reduction	21,389	-
Future income tax reduction	\$ (128,644)	\$ -

##### b. Future income tax liability

The components of the net future income tax liability are as follows:

	2007	2006
Temporary differences related to:		
Property and equipment	\$ (3,253,647)	\$ -
Non-capital losses	354,417	-
Share issue costs	275,073	-
Asset retirement obligations	53,751	-
Net future income tax liability	\$ (2,570,406)	\$ -

The non-capital losses of \$1.3 million expire in the years from 2015 to 2017.

## SEAVIEW ENERGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

#### 5. Asset retirement obligation

The total future asset retirement obligations were estimated by management based on the Company's net working interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements could be significant. The Company estimates the undiscounted cash flows related to the asset retirement obligations, adjusted for inflation, to be incurred over the next 15 years will total approximately \$504,540, with the majority of the expenditures to be incurred between 2017 and 2022. The fair value at December 31, 2007 is \$196,963 using a discount rate of 8 percent per annum and an inflation rate of 2 percent per annum. As at December 31, 2007 no funds have been set aside to settle this obligation.

Balance, beginning of period	\$	-
Liabilities acquired (Note 2)		151,512
Liabilities incurred		42,526
Accretion expense		2,925
Balance, end of period	\$	196,963

#### 6. Share capital

##### Authorized

Unlimited number of voting Class A shares with no par value

Unlimited number of voting Class B shares with no par value

Unlimited number of voting preferred shares with no par value

	Number		Amount
<b>Class A shares</b>			
Balance, beginning of period	100	\$	25
Issued for cash	9,470,400		2,367,600
Issued for corporate acquisition	9,602,507		13,251,448
Share issue costs (net of tax of \$305,638)	-		(819,768)
Balance, end of period	19,073,007	\$	14,799,305
<b>Class B shares</b>			
Balance, beginning of period	-	\$	-
Issued for cash	1,053,540		10,535,400
Balance, end of period	1,053,540	\$	10,535,400
Total share capital, end of period		\$	25,334,705

The Company's Class B shares are convertible (at the option of the Company) at any time after June 1, 2010 and before May 31, 2012, into Class A Shares. The number of Class A shares obtained upon the conversion of each Class B share will be equal to \$10.00 divided by the greater of \$1.00 and the weighted average trading price of the Class A shares during the thirty days prior to the conversion date. If conversion has not occurred by the close of business on May 31, 2012, the Class B shares become convertible (at the option of the holder) into Class A shares on the same basis. Effective June 30, 2012, all remaining Class B shares will automatically convert to Class A shares.

##### Issuance of shares

In June 2007, the Company closed a private placement of 2,708,000 Class A shares at a price of \$0.25 per share for gross proceeds of \$677,000. Four directors and two members of management of the Company participated in the offering, purchasing 1,766,666 Class A shares for \$441,667.

In July 2007, the Company closed a private placement for the issuance of 2,080,000 Class A shares at \$0.25 per share for gross proceeds of \$520,000. Four members of management and one director of the Company participated in the offering, purchasing 1,560,000 Class A shares for \$390,000.

## SEAVIEW ENERGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

On October 17, 2007, the Company closed its Initial Public Offering ("IPO"), issuing 4,682,400 Class A shares and 1,053,540 Class B shares on a flow through basis for gross proceeds of \$1,170,600 and \$10,535,400, respectively (total net proceeds of \$10,669,570). Five members of the management team and four directors participated in the IPO, purchasing 538,000 class A and 121,050 Class B for a total value of \$1,345,000.

On October 17, 2007, the Company closed the acquisition of PrivateCo whereby the Company issued 0.9076 Seaview Class A shares for each common share of PrivateCo, at a value of \$1.38 per Seaview Class A share. The Company issued 9,602,507 Class A shares with a value of \$13,251,460. Five members of the management team and one director were issued 6,262,439 Class A shares with a value of \$7,828,049.

#### Management of capital structure

Since the inception of the Company in December, 2006, \$16.8 million has been incurred in capital expenditures and acquisitions. This has been funded by the issuance of new equity of \$25.3 million (net of costs) and cash flow from operations (before changes in non-cash working capital) of \$93,380. At December 31, 2006, the Company had \$10.8 million of cash remaining from the equity issues to fund the 2008 capital expenditures required under the flow through share obligations (as discussed in Note 7).

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital investment program, which includes investing in oil and gas activities which may or may not be successful. Therefore, the Company strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures.

In the management of capital, the Company includes share capital and total debt (defined as the sum of cash and cash equivalents, current assets, current liabilities and bank debt, if any) in the definition of capital.

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flows from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. As the Company had no bank debt at December 31, 2007, this measure is not relevant for the period ending December 31, 2007.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: the current economic conditions; the risk characteristics of the underlying assets; the depth of its investment opportunities; forecasted investment levels; the past efficiencies of its investments; the efficiencies of the forecasted investments and the desired pace of investment; current and forecasted total debt levels; current and forecasted natural gas prices and other factors that influence natural gas prices and cash flow from operating activities (before changes in non-cash working capital), such as foreign exchange and basis differential.

In order to maintain or adjust the capital structure, the Company will consider: its forecasted debt to forecasted cash flows from operating activities (before changes in non-cash working capital) ratio while attempting to finance an acceptable investment program including incremental investment and acquisition opportunities; the current level of bank debt available; the level of bank credit that may be obtainable as a result of natural gas reserve growth; the availability of other sources of debt with different characteristics than the existing available bank debt; the sale of assets; limiting the size of the investment program and new equity issues, if available on favourable terms.

#### Stock option plan

The Company has a stock option plan (the "Plan") pursuant to which options to purchase Class A shares may be granted by the board of directors to directors, officers, employees of, and consultants to, the Company. The Plan has reserved for issuance a number of Class A Shares equal to 10% of the Class A shares issued and outstanding from time to time and no optionee is permitted to hold options entitling such optionee to purchase more than 5% of the issued and outstanding Class A shares. Options granted under the Plan will have an exercise price which is not less than the price allowed by regulatory authorities, will be non-transferable and will be exercisable for a period not to exceed five years.

Options granted under the Plan will terminate upon the date which is 30 days from the termination of an optionee's employment or, from the date such optionee ceased to be a director of the Company, unless the directors of the Company determine otherwise, or, provided the optionee has died and was an employee or director for at least one year following the grant of the options, shall terminate six months following the death of the optionee.

The options will vest as to one-third on each of the first, second and third anniversaries of the date of the grant. At December 31, 2007, the Company has 958,810 options under the Plan with an exercise price of \$0.40. The issued options have a weighted average contractual life of 4.8 years and no options were exercisable.

## SEAVIEW ENERGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

The fair value of the options granted during the year ended December 31, 2007 was estimated on the date of the grants using the Black-Scholes option pricing model with the following assumptions and resulting values:

Assumptions	2007	2006
Risk free interest rate	4.35%	-
Expected life	5.00 years	-
Expected volatility	56.65%	-
Fair value of options granted	\$ 1.10	\$ -

#### Per share amounts

Per share amounts have been calculated using the weighted average number of shares outstanding during the period. The basic weighted average number of shares outstanding for year ended December 31, 2007 was 5,550,784. Options totaling 958,810 were excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive.

The following table reconciles the Company's contributed surplus	2007	2006
Balance, beginning of period	\$ -	\$ -
Stock based compensation expense	36,620	-
Stock based compensation capitalized	36,826	-
Balance, end of period	\$ 73,446	\$ -

## 7. Commitments

As part of the Company's land capture strategy, it will commit to industry partners to drill wells and/or shoot seismic in order to earn positions in contiguous land blocks. As at December 31, 2007, Seaview had commitments to drill 2 wells and to re-enter and complete a series of wells, totaling approximately \$2.5 million (net) in 2008 which will earn lands from area competitors in the Peace River Arch area of northwest Alberta.

The Company issued \$11,706,000 of flow through shares on October 17, 2007 under the IPO. These funds must be spent on qualifying expenditures prior to December 31, 2008. As at December 31, 2007 the Company had a remaining commitment to spend \$10.0 million. Part of this commitment is fulfilled by fulfilling the farm-in obligations noted above.

The Company must pay Crown royalties, surface rentals, mineral taxes and abandonment and reclamation costs with respect to its ongoing ownership of hydrocarbon production rights. The amounts paid with respect to these burdens will depend on the future ownership, production, commodity prices and regulatory environment at the time.

In addition, subsequent to December 31, 2007, the Company assumed the derivative financial instruments of 1332915 Alberta Ltd ("133") on April 1, 2008, as part of the corporate acquisition. The terms and conditions of these contracts are disclosed in Note 8. The future premiums Seaview is committed to pay are included in the table below.

The Company's future contractual commitments are highlighted below:

	Total	2008	2009	2010	2011	2012
Operating leases	\$ 1,412,637	287,316	287,316	287,316	287,316	263,373
Farm-in and flow through share drilling	\$ 10,776,656	10,776,656	-	-	-	-
Financial instrument premiums	\$ 299,300	225,500	73,800	-	-	-
Total contractual obligations	\$ 12,488,593	11,289,472	361,116	287,316	287,316	263,373

## 8. Financial instruments

#### Fair value of financial assets

The Company's financial instruments recognized on the balance sheet as at December 31, 2007 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to the short terms to maturity of these instruments. From time to time, the Company enters into derivative natural gas contracts ("financial instruments"), however, there were none outstanding as at December 31, 2007.

## SEAVIEW ENERGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

#### Credit risk

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms by a reputable petroleum and natural gas marketing agency. The Company monitors the financial condition of this marketer as well as the ultimate purchaser of its product. At year end, \$231,153 was owed to the Company in regards to its petroleum and natural gas sales, all of which was received subsequent to year end. All other accounts receivable are with customers and joint venture partners in the petroleum and natural gas business under normal industry sale and payment terms and are subject to normal credit risk. The Company routinely assesses the financial strength of its customers and partners.

At December 31, 2007, financial assets on the balance sheet are comprised of cash and cash equivalents and accounts receivable. There were no natural gas derivative contracts outstanding at December 31, 2007. The Company invests surplus cash in short term Bankers Acceptances with a Canadian chartered bank, having maturities of less than 90 days from the date of investment. The maximum credit exposure at December 31, 2007 is the carrying value of the Bankers Acceptances of \$9.5 million and accounts receivable of \$1.4 million.

The Bankers Acceptances all matured on the respective maturities dates subsequent to year end. As is common in the petroleum and natural gas industry in western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25<sup>th</sup> day of the following month. Production is sold to customers with investment grade credit ratings, if available in the area of production, or parental guarantees or letters of credit are sought. Of the \$1.4 million accounts receivable outstanding, \$231,153 related to the sale of petroleum and natural gas and was received January 25, 2008. Of the remaining balance, \$130,638 was due from the federal government relating to GST refunds and \$1.073 million was due from joint venture partners, relating to the recovery of the partners' interests in operating costs and capital spent. The largest amount owing from one partner was \$339,976. As the operator of the properties, Seaview has the ability to not allocate production to joint venture partners who are in default of amounts owing. At December 31, 2007 there was no allowance for the impairment of accounts receivable.

#### Currency risk

The Company does not sell or transact in any foreign currency, however, the United States ("U.S.") dollar influences the price of petroleum and natural gas sold in Canada. Price fluctuations, as a result, can affect the fair value and future cash flows of derivative natural gas contracts, however, given it is an indirect influence, the impact of the changing exchange rates cannot be accurately quantified. There were no derivative natural gas contracts outstanding at December 31, 2007. The Company's other financial assets and liabilities are not affected by a change in currency rates

#### Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its balance sheet consist of accounts payable. The Company has a revolving credit facility in the amount of \$2.0 million, which had no amounts drawn at December 31, 2007, in order to meet the obligations associated with financial liabilities. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows and available credit facility (for other information, refer to "Management of Capital Structure" in Note 6). The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

#### Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. Currency risk has no impact on the value of the financial assets and liabilities on the balance sheet at December 31, 2007. Changes to the U.S. to Canadian exchange rate, however, could influence future petroleum and natural gas prices which could impact the future cash flows from the sale of petroleum and natural gas products, however this indirect influence cannot be accurately quantified. As the Company has no bank debt outstanding at December 31, 2007, the Company is not exposed to interest rate risk. In regards to commodity prices, a \$0.25 change to the price per thousand cubic feet of natural gas would have impacted net earnings by \$11,000 and a \$1.00 change in the price per barrel of crude would have impacted net earnings by \$500.

#### Financial derivatives contracts

The Company enters into derivative natural gas financial instruments for the purpose of protecting its cash flow from operations (before changes in non-cash working capital) from the volatility of natural gas prices. For 2007, the Company did not enter into any natural gas financial instruments and had no such contracts in place at December 31, 2007.

## SEAVIEW ENERGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007 and for the period from incorporation on December 13, 2006 to December 31, 2006

Contracts entered into subsequent to December 31, 2007 (or assumed on the closing of the acquisition described in Note 9) are as follows:

Natural gas	Volume	Pricing Point	Strike Price	Cost/Premium	Term
Fixed price swap	500 gj/d	AECO Daily	\$ 7.83/gj	\$ -	April 1, 2008 – March 31, 2009
Put <sup>(1)</sup>	1,000 gj/d	AECO Monthly	\$ 7.57/gj	\$ 0.82/gj	April 1, 2008 – March 31, 2009

<sup>(1)</sup> assumed on the acquisition described in Note 9

#### 9. Subsequent event

On April 1, 2008, the Company acquired all of the outstanding common shares of 133 with the issuance of 8,049,250 Class A shares with an ascribed value of \$1.00. The Company also assumed all of 133's outstanding obligations and financial derivatives contracts. Concurrently, the Company increased the available credit under a secured lending agreement with a Canadian Chartered Bank from \$2.0 million to \$13.5 million. The acquisition will be accounted for using the purchase method of accounting where the Company is the acquirer. One member of the Board of Directors and one member of management acquired 958,260 of the Seaview Class A shares issued in conjunction with the acquisition.

The purchase price allocation is estimated as at December 31, 2007 as follows and is subject to change once the final values are known:

Current assets	\$	2,046,624
Property, plant and equipment		27,664,000
Bank debt		(18,407,664)
Accounts payable and accrued liabilities		(2,426,613)
Unrealized loss on derivative contract		(178,663)
Goodwill		6,610,913
Future income taxes		(6,546,561)
Asset retirement obligations		(462,786)
	\$	8,299,250
Consideration will be comprised of:		
Issuance of 8,049,250 Class A shares		8,049,250
Estimated transaction costs		250,000
	\$	8,299,250

## CORPORATE INFORMATION

### OFFICERS AND SENIOR MANAGEMENT

Michael J.J. Wuetherick, P.Eng  
President and Chief Executive Officer

Stephanie A. Bunch, CA  
Vice President, Finance and Chief Financial Officer

H. Scott Oldale  
Vice President, Exploration and Chief Operating Officer

Davin Chandler, P.Eng  
Vice President, Engineering

Timothy L. Campbell  
Vice President, Land

### DIRECTORS

Paul Colborne <sup>(1),(3)</sup> *Calgary, Alberta*  
Chairman

Michael J.J. Wuetherick, *P.Eng, Calgary, Alberta*  
President, Chief Executive Officer and Director

H. Scott Oldale, *Calgary, Alberta*  
Vice President, Exploration, Chief Operating Officer and Director

Gregory Turnbull, <sup>(2),(3)</sup> *LLB, Calgary, Alberta*  
Corporate Governance Committee Chair

James Howe, <sup>(4)</sup> *CA, Calgary, Alberta*  
Audit Committee Chair

Daryl Gilbert, <sup>(4)</sup> *P.Eng, Calgary, Alberta*  
Reserves and Environment Committee Chair

Steven VanSickle, <sup>(1),(2)</sup> *Calgary, Alberta*  
Compensation Committee Chair

Sanjib Gill, *LLB, Calgary, Alberta*  
Corporate Secretary

<sup>(1)</sup> *Member of the Audit Committee*

<sup>(2)</sup> *Member of the Reserves and Environment Committee*

<sup>(3)</sup> *Member of the Compensation Committee*

<sup>(4)</sup> *Member of the Corporate Governance Committee*

### BANKERS

National Bank of Canada

### PETROLEUM CONSULTANTS

Sproule Associates Limited  
Calgary, Alberta

### LEGAL COUNSEL

McCarthy Tetrault LLP  
Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

Olympia Trust Company  
Calgary, Alberta

### STOCK EXCHANGE LISTING

TSX - Venture: CVU.A & CVU.B

### AUDITORS

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