

## MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")

The following discussion and analysis is provided by the management of Seaview Energy Inc. ("Seaview" or the "Company") as of August 18, 2010 and should be read in conjunction with the unaudited interim consolidated financial statements and selected notes for the periods ended June 30, 2010 and 2009 and the audited consolidated financial statements and notes and MD&A of Seaview for the years ended December 31, 2009 and 2008. This financial data has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is Canadian dollars.

### Description of the Company

Seaview is a Calgary based, natural gas and light crude oil focused, exploration and development company established on December 13, 2006. The Company completed its Initial Public Offering on October 17, 2007. The primary areas of operation are the Peace River Arch area of northwest Alberta and southeast Saskatchewan. The Class A and Class B shares of Seaview trade on the TSX Venture Exchange ("TSX – Venture") under the symbols CVU.A and CVU.B. As Seaview commenced operations in October, 2007, and has since completed several material acquisitions, the financial results may not be indicative of future periods.

### Non-GAAP measures

This MD&A contains the terms "funds flow from operations" and "funds flow from operations per share" which do not have any standardized meaning prescribed by Canadian GAAP. Management uses funds flow from operations and funds flow from operations per share to analyze operating performance and leverage and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities, as determined in accordance with Canadian GAAP, as an indicator of the Company's performance. Therefore, references to funds flow from operations or funds flow from operations per share (basic and diluted) may not be comparable with the calculation of similar measures of other entities. Funds flow from operations per share is calculated using the basic and diluted weighted average number of shares for the period. The reconciliation between funds flow from operations and cash flow from operating activities after changes in working capital for the three and six months ended June 30, 2010 and the three and six months ended June 30, 2009 is as follows:

|   | Three months ended June 30 |          | Six months ended June 30 |          |
|---|----------------------------|----------|--------------------------|----------|
| (\$ thousands except per share amounts)                 | 2010                       | 2009     | 2010                     | 2009     |
| Funds flow from operations                              | \$ 4,374                   | \$ 3,076 | \$ 8,882                 | \$ 5,986 |
| Expenditures on abandonments                            | -                          | (20)     | (21)                     | (20)     |
| Changes in non-cash working capital                     | (576)                      | 149      | 1,996                    | 345      |
| Cash provided by operating activities                   | \$ 3,798                   | \$ 3,205 | \$ 10,857                | \$ 6,311 |
| Funds flow from operations per share (basic)            | \$ 0.07                    | \$ 0.06  | \$ 0.13                  | \$ 0.12  |
| Expenditures on abandonments                            | 0.00                       | 0.00     | 0.00                     | 0.00     |
| Changes in non-cash working capital per share (basic)   | (0.01)                     | 0.00     | 0.03                     | 0.00     |
| Cash provided by operating activities per share (basic) | \$ 0.06                    | \$ 0.06  | \$ 0.16                  | \$ 0.12  |

Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. This benchmark, as presented, does not have any standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures for other entities. Management considers netbacks an important measure as it demonstrates its profitability relative to current commodity prices. The Company uses these measures to help evaluate its performance and in capital allocation decisions.

### Boe presentation

Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet ("mcf") to one barrel ("bbl") is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this report are derived by converting natural gas to oil in the ratio of six mcf of gas to one barrel of oil. A list of other commonly used abbreviations is included at the end of this report.

### Forward-looking information

Certain information regarding the Company set forth in this document, including management's assessment of the Company's future plans and operations, may constitute forward-looking statements under applicable securities law and necessarily involve risks associated with oil and gas exploration, production, marketing, and transportation, such as loss of market, volatility of

commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers and ability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

## SELECTED INFORMATION

| Financial (\$000's except per share amounts) | Q2 2010  | Q2 2009  | % Change | YTD 2010  | YTD 2009  | % Change |
|--|----------|----------|----------|-----------|-----------|----------|
| Petroleum and natural gas sales              | \$ 9,543 | \$ 7,463 | 28%      | \$ 20,316 | \$ 14,463 | 40%      |
| Funds flow from operations <sup>(1)</sup>    | 4,374    | 3,076    | 42%      | 8,882     | 5,986     | 48%      |
| Basic and diluted per share <sup>(2)</sup>   | 0.07     | 0.06     | 17%      | 0.13      | 0.12      | 8%       |
| Net loss                                     | (1,840)  | (3,273)  | 41%      | (1,505)   | (4,334)   | 63%      |
| Basic and diluted per share <sup>(2)</sup>   | (0.03)   | (0.06)   | 50%      | (0.02)    | (0.08)    | 75%      |
| Capital expenditures <sup>(3)</sup>          | 4,812    | 27,969   | (83%)    | 12,896    | 33,883    | (62%)    |
| Property disposition                         | (33,090) | -        | 100%     | (33,090)  | -         | 100%     |
| Net debt to funds flow from operations ratio | 0.63     | 3.02     | (79%)    | 0.63      | 3.02      | (79%)    |

## Shares Outstanding at period end (000's)

|                       |        |        |        |        |        |        |
|-----------------------|--------|--------|--------|--------|--------|--------|
| Class A               | 65,479 | 54,172 | 21%    | 65,479 | 54,172 | 21%    |
| Subscription receipts | -      | 11,246 | (100%) | -      | 11,246 | (100%) |
| Class B               | 1,054  | 1,054  | -      | 1,054  | 1,054  | -      |

## Operations

|   |          |          |       |          |          |       |
|---|----------|----------|-------|----------|----------|-------|
| Daily production  |          |          |       |          |          |       |
| Natural gas (mcf/d)   | 17,084   | 9,976    | 71%   | 16,815   | 9,721    | 73%   |
| Light oil and NGLs (bbl/d)                                  | 374      | 403      | (7%)  | 426      | 396      | 8%    |
| Total production (boe/d)                                    | 3,221    | 2,066    | 56%   | 3,229    | 2,016    | 60%   |
| Average realized sales price (net of risk management gains) |          |          |       |          |          |       |
| Natural gas (per mcf)                                       | \$ 4.59  | \$ 5.79  | (21%) | \$ 4.85  | \$ 6.06  | (20%) |
| Light oil and NGL (per bbl)                                 | 70.87    | 60.20    | 18%   | 72.02    | 53.18    | 35%   |
| Netback per boe <sup>(1)</sup>                              |          |          |       |          |          |       |
| Sales price   | \$ 30.35 | \$ 30.24 | -     | \$ 34.14 | \$ 32.33 | 6%    |
| Realized risk management gains                              | 2.22     | 9.46     | (77%) | 0.62     | 7.31     | (92%) |
| Sales price (net of realized risk management gains)         | 32.57    | 39.70    | (18%) | 34.76    | 39.64    | (12%) |
| Royalties   | 4.83     | 4.57     | 6%    | 5.37     | 6.04     | (11%) |
| Operating expenses  | 8.07     | 12.86    | (37%) | 9.58     | 11.57    | (17%) |
| Transportation  | 1.38     | 1.49     | (7%)  | 1.33     | 1.60     | (17%) |
| Operating netback <sup>(1)</sup>                            | \$ 18.29 | \$ 20.78 | (12%) | \$ 18.48 | \$ 20.43 | (10%) |

(1) The Company uses "funds flow from operations" and "funds flow from operations per share" which do not have any standardized meaning prescribed by Canadian GAAP. The terms are used to analyze operating performance and leverage. The Company uses "Netback per boe" and "Operating Netback" which do not have any standardized meaning prescribed by Canadian GAAP. The terms are used to evaluate performance and in capital allocation decisions.

(2) Weighted average diluted shares outstanding for all periods exclude both the impact of the conversion of the Class B shares and the effect of the granted options as they would have been anti-dilutive.

(3) Capital expenditures include only the cash additions for the period and capitalized G&A expense.

## HIGHLIGHTS OF THE SECOND QUARTER 2010 AND SUBSEQUENT EVENTS

- Average production for Q2 2010 was 3,221 boe per day, an increase of 56% relative to Q2 2009 average production of 2,066 boe per day (21% increase per basic weighted average share), essentially flat compared to Q1 2010 average production of 3,237 boe per day despite the sale of 200 boe per day of production from southeast Saskatchewan which impacted Q2 average production;
- Funds flow from operations for Q2 2010 increased 42% to \$4.4 million from \$3.1 million in Q2 2009. Funds flow from operations increased 17% per basic weighted average share despite commodity prices declining 18% per boe over the same period;

- On April 29, 2010, Seaview disposed of its southeast Saskatchewan assets, with production of approximately 200 boe per day, for gross proceeds of \$33 million representing sale metrics of over \$165,000 per flowing barrel of production;
- Proceeds of the sale were used to reduce net debt to \$10.6 million (including unrealized gains on financial contracts) representing trailing debt to annualized Q2 2010 cash flow ratio of 0.60;
- Seaview's credit facility has been confirmed by the lenders at \$52 million with the next interim review set for February 2011 providing for \$41 million of available credit facilities to fund the Company's capital program in the Wapiti Cardium light oil resource play;
- Achieved operating costs of \$8.07 per boe, representing a 37% reduction in operating expenses per boe compared to Q2 2009 due to selling high operating cost Saskatchewan assets combined with high-grading current production base to high deliverability, low operating cost assets in Peace River Arch;
- During Q2 2010, operations focused on equipping and tie-in activities focused in the Peace River Arch and Wapiti core areas. In the Peace River Arch area, the Company brought on 2 gas wells (1.4 net). In Wapiti, the facilities to produce the Company's first horizontal well (0.68 net) were completed with initial production in Wapiti commencing August 2010;
- The Company's first Wapiti exploration well at 100/01-09-066-08W6 was placed on production on August 10, 2010. Over the last 24 hour period, the well produced 170 bbl per day of high quality 41 degree API crude oil plus 197 mcf/d of associated solution gas for a combined 203 boe per day (138 boe per day net);
- Subsequent to the end of the quarter, Seaview successfully drilled and cased 2 additional horizontal wells (1.5 net) targeting the Wapiti Cardium light oil resource play. Completion operations have begun at 100/04-17-066-07W6 (Seaview net working interest of 78.3%). The third Wapiti Cardium horizontal exploration well drilled at 100/04-22-066-08W6 (Seaview net working interest of 76.0%) will be completed in late Q3 2010;
- As a result of the Company's aggressive land strategy in Wapiti, Seaview now has exposure to 18.5 sections (10.5 net) of highly prospective lands within the Cardium light oil resource fairway; and
- With Seaview's early operational success and growing land position, Management believes that the Wapiti Cardium light oil resource play provides Seaview with a long term development asset with over 74 potential horizontal development locations (42 net).

## RESULTS OF OPERATIONS

### Disposition of Assets

On April 29, 2010, the Company closed the disposition of all of the Company's southeast Saskatchewan assets for gross proceeds of \$33 million (excluding the elimination of the asset retirement obligation in the amount of \$756,792 associated with these assets).

### Operations

For the three and six months ended June 30, 2010, the Company recorded a net loss of \$1.8 million and \$1.5 million, respectively, (net loss of \$3.3 million and \$4.3 million for the three and six months ended June 30, 2009, respectively).

The following table summarizes selected information for the three months ended June 30, 2010 (the "Quarter" or "Q2 2010"), the three months ended March 31, 2010 (the "Previous Quarter" or "Q1 2010"), and for the second quarter of 2009 (the "Prior Year Q2" or "Q2 2009"), as well as year to date information for the periods ended June 30, 2010 ("YTD 2010") and June 30, 2009 ("YTD 2009"):

|   | Q2 2010  | Q1 2010   | Q2 2009  | YTD 2010  | YTD 2009  |
|---|----------|-----------|----------|-----------|-----------|
| Daily Production                          |          |           |          |           |           |
| Natural gas (mcf/d)                       | 17,084   | 16,544    | 9,976    | 13,703    | 9,721     |
| Crude oil and NGL's (bbl/d)               | 374      | 480       | 403      | 445       | 696       |
| Boe/d day @ 6:1                           | 3,221    | 3,237     | 2,066    | 2,729     | 2,016     |
| Petroleum and natural gas sales (\$000's) | \$ 9,543 | \$ 10,773 | \$ 7,463 | \$ 20,316 | \$ 14,463 |
| Funds flow from operations (\$000's)      | 4,374    | 4,508     | 3,076    | 8,882     | 5,986     |
| Per share – basic                         | 0.07     | 0.07      | 0.06     | 0.13      | 0.12      |
| Per share – diluted                       | 0.07     | 0.06      | 0.06     | 0.13      | 0.12      |
| Net income (loss) (\$000's)               | (1,840)  | 335       | (3,273)  | (1,505)   | (4,334)   |
| Per share – basic                         | (0.03)   | 0.01      | (0.06)   | (0.02)    | (0.08)    |
| Per share – diluted                       | (0.03)   | 0.00      | (0.06)   | (0.02)    | (0.08)    |

## Commodity prices

| Average realized prices                     | Q2 2010  | Q1 2010  | Q2 2009  | YTD 2010 | YTD 2009 |
|---|----------|----------|----------|----------|----------|
| Light crude oil (per bbl)                   | \$ 74.82 | \$ 77.28 | \$ 65.71 | \$ 76.29 | \$ 55.44 |
| after realized risk management gains/losses | 70.97    | 73.80    | 61.69    | 72.67    | 53.21    |
| Natural gas (per mcf)                       | 4.11     | 5.23     | 3.70     | 4.66     | 4.46     |
| after realized risk management gains/losses | 4.59     | 5.12     | 5.79     | 4.85     | 6.06     |
| Natural gas liquids (per bbl)               | 70.64    | 68.47    | 53.26    | 69.73    | 52.98    |
| Total per boe                               | 30.35    | 37.95    | 30.24    | 34.14    | 32.33    |
| after realized risk management gains        | 32.57    | 36.98    | 39.70    | 34.76    | 39.64    |
| <b>BENCHMARK PRICES</b>                     |          |          |          |          |          |
| WTI oil (US\$ per bbl)                      | 77.85    | 78.70    | 59.54    | 78.27    | 51.70    |
| AECO Daily Index (CAD\$ per gj)             | 3.69     | 4.68     | 3.27     | 4.18     | 3.97     |
| Currency (US\$/CAD\$)                       | 1.027    | 1.040    | 1.166    | 1.034    | 1.206    |

The AECO Daily Index gas price averaged \$3.69 per gj or \$3.89 per mcf for Q2 2010 as compared to \$4.68 per gj or \$4.94 per mcf during the Previous Quarter. During the Quarter, Seaview also sold a portion of its natural gas on the AECO Monthly Index which averaged \$3.66 per gj or \$3.86 per mcf. The natural gas price received by Seaview, before risk management gains, was \$4.11 per mcf for the Quarter compared to \$5.23 per mcf for Q1 2010. Seaview receives a premium to the stated AECO Indexes as the Company produces high heat content natural gas that attracts premium market prices.

The price of West Texas Intermediate ("WTI") crude averaged US\$77.85 per bbl during the Quarter compared to US\$78.70 per bbl during Q1 2010. Seaview received a combined average price, including natural gas liquids and before risk management effects, of \$73.59 per bbl during the Quarter compared to \$75.82 during the Previous Quarter.

The Canadian dollar averaged US\$1.027 during the Quarter as compared to \$1.040 during the Previous Quarter. As the price of WTI crude oil and Nymex natural gas is quoted in US dollars, appreciation in the Canadian dollar decreases the average Canadian price received. Seaview mitigates exposure to the impact of exchange rate fluctuations by economically hedging a portion of the production in Canadian dollar denominated puts, swaps and collars.

### Commodity price risk management

The prices received for petroleum and natural gas can fluctuate significantly due to weather patterns, the economic environment or political uncertainty.

Seaview's commodity price risk management program is designed to provide price protection on a portion of the future production in the event of adverse commodity price movement, while retaining the opportunity to participate in favourable price movements. This practice allows the Company to generate stable funds flow for capital development and acquisition activities, and to ensure positive economic returns on those activities. The Company also sells a portion of its natural gas production on the AECO Monthly Index in addition to the AECO Daily Index to mitigate the volatility in price movement.

The Company has elected not to use hedge accounting and consequently will record the fair value of any crude oil and natural gas financial contract at each reporting period, with the change in the fair value being classified as unrealized gains and losses in revenue in the statement of earnings. The fair value of the commodity price risk contracts are estimated based on the mark-to-market method of accounting, using public quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period and are therefore classified as Level 2. For the three and six months ended June 30, 2010, realized gains of \$0.6 million and \$0.4 million, respectively, were recorded as petroleum and natural gas sales (six months ended June 30, 2009 – realized gains of \$2.7 million). As at June 30, 2010, the Company recorded an asset related to the unrealized gains on financial contracts of \$0.3 million reflecting the fair value of the crude oil and natural gas contracts outstanding at June 30, 2010 (June 30, 2009 – an asset of \$2.0 million).

As at June 30, 2010, the Company had the following financial contracts:

| <b>Natural gas</b> | Volume     | Pricing Point   | Price        | Term                        |
|--------------------|------------|-----------------|--------------|-----------------------------|
| Swap               | 1,000 gj/d | AECO Monthly    | \$ 4.58/gj   | April '10 – October '10     |
| Put <sup>(1)</sup> | 2,000 gj/d | AECO Monthly    | \$ 4.15/gj   | July '09 – December '10     |
| Put                | 3,000 gj/d | AECO Monthly    | \$ 5.02/gj   | February '10 – December '10 |
| Put <sup>(2)</sup> | 2,000 gj/d | AECO Monthly    | \$ 4.75/gj   | January '10 – December '11  |
| Call               | 1,500 gj/d | AECO Monthly    | \$ 7.73/gj   | January '11 – December '11  |
| Call               | 3,000 gj/d | AECO Monthly    | \$ 7.04/gj   | January '12 – December '12  |
| <b>Crude Oil</b>   |            |                 |              |                             |
| Put <sup>(3)</sup> | 200 bbl/d  | WTI – Nymex CAD | \$ 75.00/bbl | January '10 – December '11  |
| Call               | 100 bbl/d  | WTI – Nymex CAD | \$ 84.60/bbl | January '11 – December '11  |

(1) The net floor for this contract reflects the deferred cost of \$0.85/gj paid over the course of the contract. The strike price of the put is \$5.00/gj before the deferred cost.

(2) The net floor for this contract reflects the deferred cost of \$1.05/gj paid over the course of the contract. The strike price of the put is \$5.80/gj before the deferred cost.

(3) The net floor for this contract reflects the deferred cost of \$11.00/bbl paid over the course of the contract. The strike price of the put is \$86.00/bbl before the deferred cost.

Subsequent to the end of the quarter, the Company unwound the 2011 natural gas call of 1,500 gj/d at CAD\$7.73/gj for a total cost of \$49,275. At the same time, the 2011 crude oil call of 100 bbl/d at CAD\$84.60/bbl was rolled over at no cost to 2012 for the same volume with a strike price of CAD\$90.00/bbl.

The total volumes economically hedged for the period of July 2010 to December 2012 are detailed below. See Note 10 of the unaudited interim consolidated financial statements for a description of the contracts.

| <b>Natural Gas</b>      | <b>Q3 '10</b> | <b>Q4 '10</b> | <b>2011</b> | <b>2012</b> |
|-------------------------|---------------|---------------|-------------|-------------|
| <b>Swaps</b>            |               |               |             |             |
| Volumes – gj/d          | 1,000         | 337           |             |             |
| Fixed price (\$/gj)     | \$4.58        | \$4.58        |             |             |
| <b>Puts</b>             |               |               |             |             |
| Volumes – gj/d          | 7,000         | 7,000         | 2,000       |             |
| Net floor (\$/gj)       | \$4.69        | \$4.69        | \$4.75      |             |
| <b>Call</b>             |               |               |             |             |
| Volumes – gj/d          |               |               |             | 3,000       |
| Net ceiling (\$/gj)     |               |               |             | \$7.04      |
| <b>Crude Oil</b>        |               |               |             |             |
| <b>Put</b>              |               |               |             |             |
| Volumes – bbl/d         | 200           | 200           | 200         |             |
| Net floor (CAD\$/bbl)   | \$75.00       | \$75.00       | \$75.00     |             |
| <b>Call</b>             |               |               |             |             |
| Volumes – bbl/d         |               |               |             | 100         |
| Net ceiling (CAD\$/bbl) |               |               |             | \$90.00     |

The Company will continue to monitor forecasted volumes and commodity prices and may layer in additional downside protection, generally using puts, in order to allow full exposure to any positive price movements.

The Company's financial derivative trading activities are conducted pursuant to the Company's Hedging Policy Manual approved by the board of directors. The Hedging Policy Manual has the objectives of reducing risk exposure to budgeted annual funds generated from operations resulting from uncertainty or changes in commodity prices; limiting financial contract volumes up to a maximum of 50% of forecasted production; and limiting financial derivative trading activity to counter-parties that provide sufficient collateral in support of payment or have investment grade credit ratings.

## Petroleum and natural gas sales

| (\$000's)                               | Q2 2010 |       | Q1 2010 |        | Q2 2009 |       | YTD 2010 |        | YTD 2009 |        |
|---|---------|-------|---------|--------|---------|-------|----------|--------|----------|--------|
| Natural gas                             | \$      | 6,394 | \$      | 7,784  | \$      | 3,355 | \$       | 14,178 | \$       | 7,853  |
| Crude oil and natural gas liquids       |         | 2,500 |         | 3,272  |         | 2,330 |          | 5,772  |          | 3,944  |
| Realized risk management gains (losses) |         | 649   |         | (283)  |         | 1,778 |          | 366    |          | 2,666  |
| Petroleum and natural gas sales (net)   | \$      | 9,543 | \$      | 10,773 | \$      | 7,463 | \$       | 20,316 | \$       | 14,463 |
| \$/boe                                  | \$      | 32.57 | \$      | 36.98  | \$      | 39.70 | \$       | 34.76  | \$       | 39.64  |

Petroleum and natural gas sales for the Quarter, before royalties and transportation costs, were \$9.5 million (\$10.8 million – Previous Quarter; \$7.5 million – Q2 2009). The decrease from Q1 2010 is attributable to decreased crude oil production during the Quarter due to the disposition of the Saskatchewan assets as well as lower realized prices offset somewhat by new natural gas production added in the Peace River Arch area. The Company realized gains of \$0.6 million, net of premiums, on crude oil and natural gas financial contracts during the Quarter compared to realized losses net of premiums of \$0.3 million in the Previous Quarter.

## Royalties

| (\$000's)   | Q2 2010 |       | Q1 2010 |       | Q2 2009 |       | YTD 2010 |       | YTD 2009 |       |
|---|---------|-------|---------|-------|---------|-------|----------|-------|----------|-------|
| Royalties   | \$      | 1,414 | \$      | 1,725 | \$      | 860   | \$       | 3,139 | \$       | 2,205 |
| Percentage of petroleum and natural gas sales (before realized risk management gains) |         | 15.9% |         | 15.6% |         | 15.1% |          | 15.7% |          | 18.7% |
| \$/boe  | \$      | 4.83  | \$      | 5.92  | \$      | 4.57  | \$       | 5.37  | \$       | 6.04  |

Royalties are paid to the owners of the mineral rights with whom leases are held, including provincial governments. Overriding royalties are also paid to other parties according to contracts. In Alberta, a Crown royalty is invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances. Gas cost allowance and other incentive schemes serve to reduce the effective royalty rate.

With the introduction of a New Royalty Framework ("NRF") by the Province of Alberta, commencing January 1, 2009, Crown royalties are sensitive to production rates for each well and for changes in the commodity price. In this low commodity price environment, the decrease in the reference price used for the calculation of Crown royalties has had a significant impact on the royalty rates applied by the Crown. Additionally, the Province of Alberta introduced a reduced royalty rate of 5% for a period of 12 months or production of 500,000 Mcfs for wells that are brought on production after April 1, 2009. Seaview has brought on several new wells since April 1, 2009 which qualified for this reduced royalty rate, many of which currently remain at this rate.

Royalties for the Quarter totaled \$1.4 million (\$1.7 million – Previous Quarter; \$0.9 million – Q2 2009). As a percentage of sales, royalties averaged 15.9% or \$4.83 per boe during the Quarter (15.6% and \$5.92 per boe for the Previous Quarter; 15.1% and \$4.57 per boe – Q2 2009). The royalty rate for Q2 2010 has remained consistent with the previous quarter and Q2 2009. This is due to a relatively consistent Crown reference price, having a large portion of production from wells which remain at the reduced 5% royalty rate as well as adjustments for gas cost allowance.

## Operating expenses

| (\$000's)          | Q2 2010 |       | Q1 2010 |       | Q2 2009 |       | YTD 2010 |       | YTD 2009 |       |
|--------------------|---------|-------|---------|-------|---------|-------|----------|-------|----------|-------|
| Operating expenses | \$      | 2,365 | \$      | 3,232 | \$      | 2,418 | \$       | 5,597 | \$       | 4,221 |
| \$/boe             | \$      | 8.07  | \$      | 11.10 | \$      | 12.86 | \$       | 9.58  | \$       | 11.57 |

Operating expenses for the Quarter were \$2.4 million (\$3.2 million – Previous Quarter; \$2.4 million – Q2 2009) and on a unit-of-production basis, operating expenses averaged \$8.07 per boe (\$11.10 per boe – Previous Quarter; \$12.86 per boe – Q2 2009). The operating expenses on a per boe basis during the quarter were reduced in part as a result of the disposition of the Saskatchewan assets in April, 2010. Operating expenses on a per boe basis were higher in Saskatchewan than they typically are in the natural gas producing areas of the Peace River Arch. The Company also added new wells during Q2 2010 that have higher production levels with lower operating expenses on a per boe basis.

## Transportation expense

| (\$000's)              | Q2 2010 |      | Q1 2010 |      | Q2 2009 |      | YTD 2010 |      | YTD 2009 |      |
|------------------------|---------|------|---------|------|---------|------|----------|------|----------|------|
| Transportation expense | \$      | 405  | \$      | 376  | \$      | 280  | \$       | 781  | \$       | 585  |
| \$/boe                 | \$      | 1.38 | \$      | 1.29 | \$      | 1.49 | \$       | 1.34 | \$       | 1.60 |

For the Quarter, transportation expense totaled \$0.4 million or \$1.38 per boe (\$0.4 million or \$1.29 per boe – Previous Quarter; \$0.3 million or \$1.49 per boe – Q2 2009). As Seaview's production is weighted more than 85% to natural gas, the majority of Seaview's transportation expenses relate to natural gas pipeline tariff charges. Transportation expense per boe for the Quarter is consistent with prior periods as is expected.

#### General and administrative (“G&A”)

| (\$000's)           | Q2 2010  | Q1 2010  | Q2 2009  | YTD 2010 | YTD 2009 |
|---------------------|----------|----------|----------|----------|----------|
| G&A expenses        | \$ 1,340 | \$ 1,288 | \$ 1,129 | \$ 2,628 | \$ 1,998 |
| Capitalized G&A     | (495)    | (573)    | (430)    | (1,068)  | (749)    |
| Overhead recoveries | (148)    | (117)    | (127)    | (265)    | (241)    |
| Net G&A expenses    | 697      | 598      | 572      | 1,295    | 1,008    |
| \$/boe              | \$ 2.38  | \$ 2.05  | \$ 3.04  | \$ 2.22  | \$ 2.76  |

During the Quarter, G&A, net of overhead recoveries on operated properties and capitalized expenditures, totaled \$0.7 million (\$0.6 million – Previous Quarter; \$0.6 million – Q2 2009). On a unit-of-production basis, G&A expenses were \$2.38 per boe, (\$2.05 per boe – Previous Quarter; \$3.04 per boe – 2008). The G&A per boe for the Quarter was higher than the Previous Quarter due in part to annual filing and reporting fees. The significant decrease in G&A per boe for the Quarter as compared to Q2 2009 is attributable to the substantial increase in production associated with new wells added plus acquisitions which closed during 2009 offset by a small increase in net G&A costs.

#### Interest expense

| (\$000's)        | Q2 2010 | Q1 2010 | Q2 2009 | YTD 2010 | YTD 2009 |
|------------------|---------|---------|---------|----------|----------|
| Interest expense | \$ 288  | \$ 334  | \$ 257  | \$ 622   | \$ 458   |
| \$/boe           | \$ 0.98 | \$ 1.15 | \$ 1.37 | \$ 1.06  | \$ 1.26  |

Interest expense, representing interest paid on drawn amounts of the secured credit facility, standby fees and banking fees, during the Quarter was \$0.3 million or \$0.98 per boe (\$0.3 million or \$1.15 per boe – Previous Quarter; \$0.3 million or \$1.37 per boe – Q2 2009). The average balance drawn during the Quarter was \$22.6 million (\$37.1 million – Previous Quarter; \$25.3 million – Q2 2009), with an average of 3.2% per annum paid during the Quarter (3.4% per annum – Previous Quarter; 2.7% per annum – Q2 2009).

The Company entered into fixed interest rate swap agreements on \$5 million for a term of one year which terminated on February 28, 2010 at a fixed rate of 1.15% plus stamping fees and on \$10 million for a term of one year terminating on April 30, 2010 at a fixed rate of 0.97% plus stamping fees. For the three and six months ended June 30, 2010, realized gains on these agreements of \$4,350 and \$24,278, respectively, were recorded as interest expense (six months ended June 30, 2009 – \$19,107). As at June 30, 2010, all contracts had expired and therefore there was no liability representing the fair value of the contract remaining at period end (June 30, 2009 – loss of \$72,915).

#### Stock option compensation

The Company has a stock option plan, which is fully described in Note 7 of the unaudited interim consolidated financial statements. At June 30, 2010, 5,233,750 options were outstanding with an average exercise price of \$1.51 and a weighted average remaining contractual life of 3.4 years (4,700,000 options outstanding at June 30, 2009 at an average exercise price of \$2.11 with a weighted average remaining contractual life of 4.0 years). Of the total number of options outstanding at June 30, 2010, options totaling 1,828,366 are vested and available for exercise at a weighted average exercise price of \$1.54 per option.

For the Quarter and YTD 2010, the Company recorded a compensation expense of \$0.2 million and \$0.5 million, respectively, (\$0.3 million – Previous Quarter; \$0.3 million and \$0.6 million, respectively – Q2 2009 and YTD 2009) and capitalized \$0.3 million and \$0.7 million, respectively (including tax effect of \$0.08 million and \$0.2 million, respectively), (\$0.3 million (including tax effect of \$0.08 million) – Previous Quarter; \$0.4 million and \$0.8 million, respectively (including tax effect of \$0.1 million and \$0.2 million, respectively) – Q2 2009 and YTD 2009).

#### Depletion, depreciation and accretion (“DD&A”)

The Quarter and YTD 2010 provision for DD&A totaled \$5.9 million and \$12.2 million, respectively (\$6.3 million – Previous Quarter; \$5.0 million and \$9.9 million, respectively – Q2 2009 and YTD 2009). On a unit-of-production basis, DD&A costs averaged \$20.19 and \$20.92 per boe, respectively, for Q2 2010 and YTD 2010 (\$21.66 per boe – Previous Quarter; \$26.79 and \$27.10 per boe, respectively – Q2 2009 and YTD 2009). DD&A per boe has decreased in the Quarter as a result of the disposition of the Saskatchewan assets in April 2010. On a proportionate basis, the reduction to the depletable base was greater than the reduction to the reserve base as a result of the disposition while production remained consistent quarter over quarter.

## Unrealized gains (losses) on financial contracts

The Company has elected not to use hedge accounting and accordingly, the fair value of the financial contracts (as discussed in Note 10 of the unaudited interim consolidated financial statements) is recorded at each period end. The fair value may change substantially from period to period based on the period ending commodity forward strip prices for the financial contracts outstanding at the balance sheet date. The change in fair value from period end to period end is reflected in the earnings for that period. As a result, earnings may fluctuate considerably based on the period ending commodity forward strip prices.

The fair value at June 30, 2010 of commodity contracts outstanding was an unrealized gain or an asset, net of unrealized losses, of \$0.3 million (June 30, 2009 – unrealized gain (asset) of \$2.0 million). During the Quarter, the Company recorded an unrealized loss of \$0.8 million and YTD 2010 recorded an unrealized gain of \$1.9 million as a result of the change in fair value over the respective periods (\$2.7 million gain – Previous Quarter; \$1.5 million and \$1.0 million loss, respectively – Q2 2009 and YTD 2009). While near term forward strip prices have increased from the Previous Quarter prices resulting in unrealized losses for Q2 2010, the back end of the forward strip for natural gas has continued to decrease from the year end prices resulting in unrealized gains at June 30, 2010.

## Future income taxes

A future income tax recovery of \$0.7 million and \$0.4 million has been recorded for the Quarter and YTD 2010, respectively (an expense of \$0.3 million – Previous Quarter; a recovery of \$0.5 million and \$1.2 million, respectively – Q2 2009 and YTD 2009). As the Company has recorded a loss before taxes, a recovery for future income taxes is expected. No current tax expense has been recorded as Seaview is not subject to capital taxes and has no current income tax liability.

The effective tax rate decreased on January 1, 2010 due to the reduction in the federal corporate tax rate from 19% to 18%. Accordingly, a rate reduction has been adjusted through the future income tax expense.

## Net income (loss) and funds flow from operations

Net loss for the Quarter and YTD 2010 was \$1.8 million and \$1.5 million, respectively (\$0.3 million net income – Previous Quarter; \$3.2 million and \$4.3 million net loss, respectively – Q2 2009 and YTD 2009). Basic and diluted net loss per share for the Quarter and YTD 2010 was \$0.03 and \$0.02, respectively (basic net income per share of \$0.01 and diluted net income per share of nil – Previous Quarter; basic and diluted net loss per share of \$0.06 and \$0.08, respectively – Q2 2009 and YTD 2009). Funds flow from operations was \$4.4 million and \$8.9 million for the Quarter and YTD 2010, respectively (\$4.5 million – Previous Quarter; \$3.1 million and \$6.0 million, respectively – Q2 2009 and YTD 2009). Basic and diluted funds flow from operations per share for the Quarter and YTD 2010 was \$0.07 and \$0.13, respectively (basic funds flow from operations per share was \$0.07 and diluted funds flow from operations per share was \$0.06 – Previous Quarter; basic and diluted funds flow from operations per share was \$0.06 and \$0.12, respectively – Q2 2009 and YTD 2009).

| <b>Netbacks, Funds Flow from Operations and Net Income (Loss) (\$/boe)</b> | <b>Q2 2010</b> | <b>Q1 2010</b> | <b>Q2 2009</b> | <b>YTD 2010</b> | <b>YTD 2009</b> |
|--|----------------|----------------|----------------|-----------------|-----------------|
| Petroleum and natural gas sales  | \$ 32.57       | \$ 36.98       | \$ 39.70       | \$ 34.76        | \$ 39.64        |
| Less:  |                |                |                |                 |                 |
| Royalties  | 4.83           | 5.92           | 4.57           | 5.37            | 6.04            |
| Operating expenses   | 8.07           | 11.10          | 12.86          | 9.58            | 11.57           |
| Transportation expense   | 1.38           | 1.29           | 1.49           | 1.33            | 1.60            |
| Net operating income (operating netback)                                   | \$ 18.29       | \$ 18.67       | \$ 20.78       | \$ 18.48        | \$ 20.43        |
| General and administrative   | 2.38           | 2.05           | 3.04           | 2.22            | 2.76            |
| Interest expense   | 0.98           | 1.15           | 1.37           | 1.06            | 1.26            |
| Funds flow from operations   | \$ 14.93       | \$ 15.47       | \$ 16.37       | \$ 15.20        | \$ 16.41        |
| Depletion, depreciation and accretion                                      | 20.19          | 21.66          | 26.79          | 20.92           | 27.10           |
| Unrealized (gain) loss on financial derivatives                            | 2.63           | (9.21)         | 8.01           | (3.27)          | 2.87            |
| Stock option compensation  | 0.67           | 1.01           | 1.76           | 0.84            | 1.71            |
| Future income tax (recovery) expense                                       | (2.28)         | 0.25           | (2.78)         | (0.72)          | (3.39)          |
| Net income (loss) (\$/boe)   | \$ (6.28)      | \$ 1.76        | \$ (17.41)     | \$ (2.57)       | \$ (11.88)      |

## SELECTED QUARTERLY INFORMATION

| <b>Financial</b><br>(\$000's except per share amounts) | <b>Q3 2008</b> | <b>Q4 2008</b> | <b>Q1 2009</b> | <b>Q2 2009</b> | <b>Q3 2009</b> | <b>Q4 2009</b> | <b>Q1 2010</b> | <b>Q2 2010</b> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Petroleum and natural gas sales                        | \$ 8,491       | \$ 8,226       | \$ 7,000       | \$ 7,463       | \$ 8,664       | \$ 10,377      | \$ 10,773      | \$ 9,543       |
| Funds flow from operations <sup>(1)</sup>              | 4,319          | 3,556          | 2,910          | 3,076          | 4,110          | 5,024          | 4,508          | 4,374          |
| Basic per share  | 0.09           | 0.07           | 0.06           | 0.06           | 0.06           | 0.08           | 0.07           | 0.07           |
| Diluted per share <sup>(2)</sup>                       | 0.09           | 0.06           | 0.06           | 0.06           | 0.06           | 0.08           | 0.06           | 0.07           |
| Net income (loss)                                      | 2,874          | 375            | (1,061)        | (3,273)        | (2,907)        | (2,366)        | 335            | (1,840)        |
| Basic per share <sup>(2)</sup>                         | 0.06           | 0.01           | (0.02)         | (0.06)         | (0.04)         | (0.04)         | 0.01           | (0.03)         |
| Diluted per share <sup>(2)</sup>                       | 0.06           | 0.01           | (0.02)         | (0.06)         | (0.04)         | (0.04)         | 0.00           | (0.03)         |
| Capital expenditures <sup>(3)</sup>                    | 13,597         | 6,669          | 5,914          | 27,969         | 3,931          | 9,208          | 8,084          | 4,812          |
| Property disposition                                   | -              | -              | -              | -              | -              | -              | -              | (33,090)       |
| Corporate acquisitions <sup>(4)</sup>                  | 36,929         | -              | -              | -              | -              | -              | -              | -              |
| Net debt   | 24,383         | 22,494         | 25,507         | 36,107         | 36,131         | 40,309         | 43,896         | 11,230         |
| <b>Shares outstanding at period end (000's)</b>        |                |                |                |                |                |                |                |                |
| Class A  | 47,005         | 50,005         | 50,005         | 54,172         | 65,419         | 65,433         | 65,454         | 65,479         |
| Subscription receipts                                  | -              | -              | -              | 11,246         | -              | -              | -              | -              |
| Class B  | 1,054          | 1,054          | 1,054          | 1,054          | 1,054          | 1,054          | 1,054          | 1,054          |
| <b>Operations</b>                                      |                |                |                |                |                |                |                |                |
| Daily production                                       |                |                |                |                |                |                |                |                |
| Natural gas (mcf/d)                                    | 6,602          | 8,330          | 9,464          | 9,976          | 12,486         | 13,703         | 16,544         | 17,084         |
| Light oil and NGLs (bbl/d)                             | 322            | 406            | 388            | 403            | 432            | 445            | 480            | 374            |
| Total production (boe/d)                               | 1,422          | 1,794          | 1,965          | 2,066          | 2,513          | 2,729          | 3,237          | 3,221          |
| Natural gas (per mcf)                                  | \$ 8.18        | \$ 7.68        | \$ 6.34        | \$ 5.79        | \$ 5.43        | \$ 6.06        | \$ 5.12        | \$ 4.59        |
| Light oil and NGL (per bbl)                            | 119.10         | 62.82          | 45.80          | 60.20          | 61.03          | 66.92          | 72.92          | 70.87          |
| Netback per boe  |                |                |                |                |                |                |                |                |
| Sales price (net of risk management gains or losses)   | \$ 64.92       | \$ 49.84       | \$ 39.58       | \$ 39.70       | \$ 37.47       | \$ 41.33       | \$ 36.98       | \$ 32.57       |
| Royalties  | 16.85          | 8.77           | 7.60           | 4.57           | 3.50           | 4.52           | 5.92           | 4.83           |
| Operating expenses                                     | 7.78           | 11.34          | 10.19          | 12.86          | 11.34          | 11.80          | 11.10          | 8.07           |
| Transportation   | 1.32           | 1.14           | 1.73           | 1.49           | 1.35           | 1.27           | 1.29           | 1.38           |
| Operating netback                                      | \$ 38.97       | \$ 28.59       | \$ 20.06       | \$ 20.78       | \$ 21.28       | \$ 23.74       | \$ 18.67       | \$ 18.29       |

(1) The Company uses "funds flow from operations" and "funds flow from operations per share" which do not have any standardized meaning prescribed by Canadian GAAP. The terms are used to analyze operating performance and leverage. The Company uses "Netback per boe" and "Operating Netback" which do not have any standardized meaning prescribed by Canadian GAAP. The terms are used to evaluate performance and in capital allocation decisions.

(2) Weighted average diluted shares outstanding for Q3 and Q4 2008 and Q1 2010 include the impact of the conversion of the Class B shares. The granted options have been excluded for Q3 and Q4 2008 as these would have been anti-dilutive however for Q1 2010, the granted options have been included as dilutive. All other quarters exclude both the conversion of the Class B shares and the effect of the granted options as they would have been anti-dilutive.

(3) Capital expenditures include the cash additions for the period and capitalized G&A expense.

(4) Corporate acquisitions include total consideration adjusted for net debt assumed.

## SHARE INFORMATION

|   | Three months ended June 30 |            | Six months ended June 30 |            |
|---|----------------------------|------------|--------------------------|------------|
|   | 2010                       | 2009       | 2010                     | 2009       |
| Weighted average shares outstanding       |                            |            |                          |            |
| Basic and diluted                         | <b>66,524,415</b>          | 51,699,799 | <b>66,508,080</b>        | 51,381,031 |
| Outstanding securities at period end      |                            |            |                          |            |
| Class A shares                            |                            |            | <b>65,479,350</b>        | 54,172,182 |
| Subscription receipts                     |                            |            | -                        | 11,246,500 |
| Class B shares                            |                            |            | <b>1,053,540</b>         | 1,053,540  |
| Options, Class A shares                   |                            |            | <b>5,233,750</b>         | 4,700,000  |
| Outstanding securities at August 18, 2010 |                            |            |                          |            |
| Class A shares                            |                            |            | <b>65,479,350</b>        |            |
| Class B shares                            |                            |            | <b>1,053,540</b>         |            |
| Options, Class A shares                   |                            |            | <b>5,233,750</b>         |            |

Per share amounts have been calculated using the weighted average number of shares outstanding during the period. The effect of the conversion of the Class B shares and the effect of options granted have both been excluded in the diluted share calculation for the three and six months ended June 30, 2010 and 2009 as they would have been anti-dilutive.

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.

## CAPITAL EXPENDITURES

For the Quarter and YTD 2010, capital expenditures totaled \$4.4 million and \$12.9 million, respectively (\$8.5 million – Previous Quarter; \$2.1 million and \$8.4 million, respectively – Q2 2009 and YTD 2009). The Quarter and YTD 2010 includes the disposition of the Saskatchewan assets in April 2010 for proceeds of \$33.1 million resulting in an overall reduction to capital of \$28.7 million and \$20.2 million, respectively (total expenditures of \$28.7 million and \$35.0 million, respectively – Q2 2009 and YTD 2009). The table below summarizes the capital expenditures during the Quarter, the Previous Quarter and Q2 2009 as well as YTD 2010 and YTD 2009.

| (\$000's)                                   | Q2 2010 |                 | Q1 2010 |         | Q2 2009 |        | YTD 2010 |                 | YTD 2009 |        |
|---|---------|-----------------|---------|---------|---------|--------|----------|-----------------|----------|--------|
| Land purchases                              | \$      | <b>1,785</b>    | \$      | 10      | \$      | 20     | \$       | <b>1,795</b>    | \$       | 123    |
| Geological and geophysical                  |         | -               |         | 512     |         | 100    |          | <b>512</b>      |          | (19)   |
| Drilling and Completions (gross)            |         | <b>2,778</b>    |         | 7,790   |         | 1,346  |          | <b>10,568</b>   |          | 7,290  |
| Alberta Drilling Credits                    |         | -               |         | (1,559) |         | -      |          | <b>(1,559)</b>  |          | -      |
| Tangible equipment                          |         | <b>584</b>      |         | 1,661   |         | 332    |          | <b>2,245</b>    |          | 671    |
| Development Capital                         | \$      | <b>5,147</b>    | \$      | 8,414   | \$      | 1,798  | \$       | <b>13,561</b>   | \$       | 8,065  |
| Asset retirement obligations (eliminations) |         | <b>(757)</b>    |         | 73      |         | 249    |          | <b>(684)</b>    |          | 272    |
| Office furniture & fixtures                 |         | -               |         | 13      |         | 19     |          | <b>13</b>       |          | 60     |
| Total capital expenditures                  | \$      | <b>4,390</b>    | \$      | 8,500   | \$      | 2,066  | \$       | <b>12,890</b>   | \$       | 8,397  |
| Property acquisitions (dispositions)        |         | <b>(33,090)</b> |         | -       |         | 26,615 |          | <b>(33,090)</b> |          | 26,615 |
| Total capital expenditures and acquisitions | \$      | <b>(28,700)</b> | \$      | 8,500   | \$      | 28,681 | \$       | <b>(20,200)</b> | \$       | 35,012 |

During the six months ended June 30, 2010, the Company drilled five wells (4.0 net) with an 80% success rate, and earned \$1.6 million in Alberta Drilling Credits from the Alberta Government for wells drilled during the period. The capital expenditures for Q2 2010 included completion and equip & tie-in costs for 2 natural gas wells in the Boundary Lake area and 2 wells (one natural gas and one crude oil) in the Wapiti area plus approximately 85% of the drilling costs for a Wapiti crude oil well which was rig released in July, 2010. For the year ended December 31, 2009, the Company had earned \$1.9 million in credits for total credits earned to June 30, 2010 of \$3.5 million. As of June 30, 2010, the Company had collected a total of \$1.4 million of these credits with a remaining \$2.1 million collectible.

## CAPITALIZATION AND CAPITAL RESOURCES

The Company's total capitalization was \$87.6 million at June 30, 2010 with the market value of Class A and Class B shares representing 87% of the total capitalization (\$117.7 million at December 31, 2009 with the market value of Class A and Class B shares representing 66%). The market value of the Company's shares at June 30, 2010 was \$76.4 million (\$77.4 million – December 31, 2009).

| Capitalization                                      | June 30, 2010    | December 31, 2009 |
|---|------------------|-------------------|
| Bank debt (\$000's)                                 | \$ 9,692         | \$ 38,044         |
| Working capital deficiency (\$000's) <sup>(1)</sup> | 1,538            | 2,265             |
| Net debt (\$000's)                                  | 11,230           | 40,309            |
| Class A shares outstanding                          | 65,479,350       | 65,433,182        |
| Class A share price <sup>(2)</sup>                  | \$ 1.06          | \$ 1.10           |
| Class A market capitalization (\$000's)             | \$ 69,408        | \$ 71,976         |
| Class B shares outstanding                          | 1,053,540        | 1,053,540         |
| Class B share price <sup>(2)</sup>                  | \$ 6.65          | \$ 5.11           |
| Class B market capitalization (\$000's)             | \$ 7,006         | \$ 5,384          |
| Total market capitalization (\$000's)               | \$ 76,414        | \$ 77,360         |
| <b>Total capitalization (\$000's)</b>               | <b>\$ 87,644</b> | <b>\$ 117,669</b> |
| Net debt as a percent of total capitalization       | 13%              | 34%               |
| Funds flow from operations (\$000's) <sup>(3)</sup> | \$ 17,764        | \$ 15,120         |
| Net debt to funds flow from operations ratio        | 0.63             | 2.67              |

(1) Working Capital excludes the current portion of future income taxes and financial contracts.

(2) Represents the closing price on the TSX Venture Exchange at period end.

(3) Funds flow from operations is calculated as cash flow from operations before the change in non-cash operating working capital and expenditures on abandonments. Funds flow from operations at June 30, 2010 is the six months funds flow of \$8.9 million annualized.

### Bank facility

As at June 30, 2010, the Company had a revolving demand credit facility with an authorized borrowing amount of \$52 million, with interest and other fees charged at the bank's prime rate plus a rate as determined by a pricing grid. Collateral for the facility consists of a general security agreement, providing a security interest over all present and after acquired personal property and a floating charge on all present and after acquired land interests of the Corporation.

At June 30, 2010, the revolving demand credit facility was drawn to \$9.7 million. The Company also had an issued letter of credit in the amount of approximately \$0.1 million.

Subsequent to quarter end, the revolving demand credit facility was confirmed by the lender at \$52 million with the next interim review scheduled for February 1, 2011. These reviews are based primarily on reserves and using commodity prices estimated by the lender, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility available upon the next scheduled review which may require a repayment to the bank over the following 12 month period.

### Investing program funding

| (\$000's)   | Three months ended June 30 |           | Six months ended June 30 |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | 2010                       | 2009      | 2010                     | 2009      |
| Funds flow from operations                            | \$ 4,374                   | \$ 3,076  | \$ 8,882                 | \$ 5,986  |
| Changes in non-cash working capital                   | (6,357)                    | (2,618)   | (726)                    | (4,417)   |
| Expenditures on abandonments                          | -                          | (20)      | (21)                     | (20)      |
| Proceeds from issuance of shares (net of costs)       | 13                         | 14,405    | 23                       | 14,396    |
| Proceeds from (repayment of) bank debt                | (26,308)                   | 13,126    | (28,352)                 | 17,938    |
| Change in cash during the period                      | -                          | -         | -                        | -         |
| Capital expenditures funded by cash during the period | \$ (28,278)                | \$ 27,969 | \$ (20,194)              | \$ 33,883 |

The Company's capital investment program during the relevant periods was funded by the issuance of equity, draws or repayments on credit facilities and cash flows.

## Working capital

The capital intensive nature of the Company's activities may create a negative working capital position in periods with high levels of capital investment. The working capital (excluding the current portion of future income taxes and financial contracts) decreased from a deficit of \$43.9 million as at March 31, 2010 and a deficit of \$40.3 million as at December 31, 2009 to a deficit of \$11.2 million as at June 30, 2010 as a result of the disposition of the Saskatchewan assets in April 2010 for proceeds of \$33.1 million, offset somewhat by the capital program during the quarter.

Substantially all of the Company's petroleum and natural gas production is marketed to purchasers with investment grade credit ratings. The industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25<sup>th</sup> day following the month of sale. As a result, the Company's production revenues are collected in a timely fashion. The Company monitors its revenue counterparty credit positions to mitigate any potential credit losses. To the extent the Company has joint interest partners in its activities it must collect, on a monthly basis, all of its partners' share of capital and operating expenses. These are subject to normal collection risk. The Company normally collects significant amounts related to partners' share of capital amounts in advance of expenditures taking place, in accordance with standard industry operating procedures. Accounts payable consist of amounts payable to suppliers on field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period. At June 30, 2010, the Company had no material accounts receivable that it deemed uncollectible.

The Company actively manages its capital structure. The Company's objectives when managing capital are to maintain a flexible capital structure to allow it to execute on its capital investment program, which includes investing in oil and gas activities that may or may not be successful. The Company will strive 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.

## GUARANTEES/OFF-BALANCE SHEET ARRANGEMENTS

The Company has no guarantees or off-balance sheet arrangements, except for certain lease agreements. Seaview has certain lease agreements that are entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or G&A expense depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as at June 30, 2010. The total future obligation from these operating leases is described below in the section "Contractual obligations and commitments".

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

On June 16, 2009, the Company issued \$5.0 million of flow through shares. As at June 30, 2010, these funds had been fully expended on qualifying expenditures, well ahead of the December 31, 2010 requirement. The flow through share benefits were renounced to subscribers effective December 31, 2009.

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.

The Company enters into natural gas and crude oil financial contracts from time to time, some of which may have premiums attached to them (see Note 10). The future premiums Seaview is committed to pay are included in the table below.

The Company's future contractual commitments are highlighted below:

|                               | Total    | 2010  | 2011  | 2012 |
|-------------------------------|----------|-------|-------|------|
| Operating leases              | \$ 694   | 144   | 287   | 263  |
| Financial instrument premiums | \$ 2,674 | 1,104 | 1,570 | -    |
| Total contractual obligations | \$ 3,368 | 1,248 | 1,857 | 263  |

## OUTLOOK; 2010 GUIDANCE

Including the impact of the recent Wapiti oil success, Seaview is well positioned to continue its growth strategy for 2010. Seaview's Peace River Arch core area featuring high quality, long-life reserves, combined with the emerging Cardium light oil resource play, provide the Company with a significant drilling inventory.

As a result of the recent corporate success, Seaview provides the following guidance for 2010:

- Forecast 2010 average daily production estimate of more than 3,100 boe per day compared to 2009 annual average production of 2,321 boe per day resulting in an estimated forecast production growth of 34% per share (based on 65.48 million Class A shares outstanding);
- 2010 estimated exit production of more than 3,450 boe per day including over 450 bbl per day of crude oil and natural gas liquids;
- Forecasted 2010 capital budget of \$22.2 million;
- Seaview's credit facility has been confirmed by the lenders at \$52 million. The next interim review is set for February, 2011. As at quarter end, Seaview had approximately \$41 million of available credit capacity to pursue strategic opportunities;
- Seaview has established significant positions in resource plays providing for longer-term growth potential in a diverse portfolio of assets targeting both light oil and natural gas plays, including:
  - In Wapiti, the Company has assembled a sizable land position with exposure to 18.5 sections of land (10.5 net) targeting a Cardium light oil resource play. Seaview plans to spend \$10 million total in 2010 to drill a total of 4 horizontal multi-frac wells (2.9 net) to delineate the resource potential of the Company's land position;
  - In Pouce Coupe, the Company holds interests in 21 sections of land (4.5 net) targeting a Doig-Montney natural gas resource play. Seaview's land position is on trend with successful industry development activities further reducing the risk of full development when economics are more viable; and
  - In Harlech, Seaview holds a 25% working interest in 9 contiguous sections of land (2.25 net) targeting multi-zone Cretaceous and Nordegg gas resource potential. The Harlech area offers exposure to liquids rich natural gas reservoirs.
- Strong commodity hedging program providing for downside protection on 45% of 2010 forecasted average production generating a minimum \$9.4 million gross revenue for the second half of 2010; and
- 65.48 million Class A shares and 1.0 million Class B shares outstanding.

## **CRITICAL ACCOUNTING ESTIMATES**

The reader is advised that the critical accounting estimates, policies and practices as described in the MD&A at December 31, 2009 continue to be critical in determining Seaview's financial results as at June 30, 2010.

## **CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS**

### **Pending Accounting Pronouncements**

#### *International Financial Reporting Standards ("IFRS")*

In 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking and the impacts on the Company's consolidated financial statements are unknown at this time.

In September 2008, the International Accounting Standards Board (IASB) issued an exposure draft to amend IFRS 1 in respect of property, plant and equipment as at the date of initial transition to IFRS. That exposure draft permits issuers currently using the full cost method of accounting to allocate the balance of property plant and equipment (as determined under Canadian GAAP) to the IFRS categories of exploration and evaluation assets and development and producing properties without significant adjustment arising from the retroactive adoption of IFRS, provided that an impairment test, under IFRS standards, be conducted at the transition date. The IASB announced the approval of this amendment in July 2009. Seaview intends to use the exemption provided therein.

The Company has established a project team that is led by finance management and includes representatives from various areas of the organization to plan for and achieve a smooth transition to IFRS. The audit committee of the Board of Directors regularly receives progress reporting on the status of the IFRS implementation project.

The implementation project consists of three primary phases: the scoping and diagnostic phase (high-level impact assessment to identify key areas); the impact analysis, evaluation and design phase (project team develops policy alternatives, drafts financial statement content and determines changes to existing accounting policies, information systems and business processes); and the implementation and review phase (implement and approve changes to accounting policies, information systems, business processes, training programs, develop IFRS-compliant financial statements and obtain audit committee approval). The Company completed the scoping and diagnostic phase in the fourth quarter of 2009 and is now in either the impact analysis, evaluation and design phase or the implementation and review phase, depending on the area of IFRS. At this point, the Company has determined that it will have three cash generating units, that the net book value of the property, plant and equipment will not be significantly different as the Company intends to adopt the IFRS 1 election and that asset retirement obligations and stock based compensation expenses will likely increase due to different discount rates and accelerated expense recognition.

#### *Business Combinations*

Canadian accounting standards related to business combinations have been amended to require changes to the way companies account for business combinations. The amended standards require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. Adopting this standard is expected to have a material effect on the way the Company accounts for future business combinations including requiring transaction costs to be expensed as incurred as well as requiring valuing all assets and liabilities and measuring consideration paid at the closing date. The new Canadian standards are required for all business combinations occurring on or after January 1, 2011 although early adoption is allowed.

## **RISK ASSESSMENT**

The reader is advised that the risk assessment for the Company is fully described in the MD&A at December 31, 2009 and is relevant to the readers' understanding of the Company's financial results as at June 30, 2010.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at Seaview Energy Inc. 1500, 444 - 5th Avenue S.W., Calgary, Alberta, Canada T2P 2T8 or by email at [info@Seaviewenergy.com](mailto:info@Seaviewenergy.com). Information is also accessible on the Company's web site at [www.Seaviewenergy.com](http://www.Seaviewenergy.com).

## COMMONLY USED ABBREVIATIONS

|        |  |
|--------|--|
| boe    | Barrel of oil equivalent                   |
| boe/d  | Barrel of oil equivalent per day           |
| gj     | Gigajoule                                  |
| gj/d   | Gigajoule per day                          |
| mboe   | Thousand barrels of oil equivalent         |
| mcf    | Thousand cubic feet                        |
| mcf/d  | Thousand cubic feet per day                |
| mmcf   | Million cubic feet                         |
| mmcf/d | Million cubic feet per day                 |
| bbl    | Barrel                                     |
| bbl/d  | Barrels per day                            |
| MMBTU  | Million British Thermal Units              |
| 6:1    | Boe conversion ratio of six mcf to one bbl |

# CORPORATE INFORMATION

## OFFICERS AND SENIOR MANAGEMENT

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

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

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

**Davin Chandler**, P.Eng  
Vice President, Engineering

**Timothy L. Campbell**  
Vice President, Land

## DIRECTORS

**Daryl Gilbert**, P.Eng, Calgary, Alberta  
Chairman  
Reserves Committee Chair and Health, Safety & Environment  
Committee Chair

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

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

**Steven VanSickle**, <sup>(1),(2),(5)</sup> Calgary, Alberta  
Compensation Committee Chair

**Robert Peters**, <sup>(3),(4)</sup> Calgary, Alberta  
Director

**Michael Culbert**, <sup>(1)</sup> Calgary, Alberta  
Director

**Bruce Francis**, <sup>(2),(5)</sup> P.Eng, Calgary, Alberta  
Director

**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

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

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

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

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

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

<sup>(5)</sup> Member of the Health, Safety and Environment Committee

## BANKERS

National Bank of Canada

## PETROLEUM CONSULTANTS

Sproule Associates Limited  
Calgary, Alberta

## LEGAL COUNSEL

McCarthy Tétrault LLP  
Calgary, Alberta

## AUDITORS

KPMG LLP  
Calgary, Alberta

## REGISTRAR AND TRANSFER AGENT

Olympia Trust Company  
Calgary, Alberta

## STOCK EXCHANGE LISTING

TSX - Venture: CVU.A & CVU.B

## INVESTOR RELATIONS

Telephone: (403) 450-3713  
Investor Toll Free: 1-877-242-0222  
E-mail: [info@seaviewenergy.com](mailto:info@seaviewenergy.com)

# **SEAVIEW ENERGY INC**



1500, 444-5th Avenue SW  
Calgary, Alberta  
Canada T2P 2T8

Telephone: (403) 450-3713  
Toll Free: 1-877-242-0222  
Facsimile: (403) 668-9177

Email: [info@seaviewenergy.com](mailto:info@seaviewenergy.com)  
Website: [www.seaviewenergy.com](http://www.seaviewenergy.com)