

CVU.A | CVU.B

# SEAVIEW ENERGY INC

FIRST QUARTER 2011 REPORT

# Q1

*For the three months ended  
March 31, 2011*



# 2011

**Seaview Energy Inc. is an innovative Canadian junior oil and gas exploration and production company staffed by highly motivated and experienced petroleum industry professionals. The team is dedicated to delivering growth in reserves, production and cash flow per share with a balanced strategy of acquiring, exploiting and exploring for high quality light oil and natural gas assets in Western Canada.**

**Seaview Energy Inc. Class A and Class B shares trade on the TSX venture exchange under the symbols CVU.A and CVU.B, respectively.**

**June 20, 2011** – Calgary, Alberta – Seaview Energy Inc. (“Seaview” or the “Company”) releases an update on the Company’s financial and operational results for the three months ended March 31, 2011 and an update of recent operations.

## SELECTED INFORMATION

<b>Financial</b> (\$000's except per share amounts)	<b>Q1 2011</b>	<b>Q4 2010</b>	<b>% Change</b>
Petroleum and natural gas sales	\$ 6,382	\$ 6,950	(8%)
Funds flow from operations <sup>(1)</sup>	2,947	3,938	(25%)
Basic and diluted per share <sup>(2)</sup>	0.05	0.06	(17%)
Net loss	(2,778)	(2,895)	4%
Basic and diluted per share <sup>(2)</sup>	(0.04)	(0.04)	-
Capital expenditures <sup>(3)</sup>	12,967	11,517	13%
<b>Shares Outstanding at period end (000's)</b>			
Class A	65,553	65,537	-
Class B	1,054	1,054	-
<b>Operations</b>			
Daily production			
Natural gas (mcf/d)	12,286	14,016	(12%)
Light oil and NGLs (bbl/d)	277	305	(9%)
Total production (boe/d)	2,325	2,641	(12%)
Average realized sales price (net of risk management gains)			
Natural gas (per mcf)	\$ 4.38	\$ 4.48	(2%)
Light oil and NGL (per bbl)	71.78	66.27	8%
Netback per boe <sup>(1)</sup>			
Sales price	\$ 30.50	\$ 28.60	7%
Realized risk management gains	1.20	2.85	(58%)
Sales price (net of realized risk management gains)	31.70	31.45	1%
Royalties	(3.65)	(3.02)	21%
Operating expenses	(8.36)	(5.44)	54%
Transportation	(1.43)	(1.63)	(12%)
Operating netback <sup>(1)</sup>	\$ 18.26	\$ 21.36	(15%)

(1) The Company uses “funds flow from operations” and “funds flow from operations per share” which do not have any standardized meaning prescribed by IFRS. 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 IFRS. 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.

## FINANCIAL AND OPERATIONS OVERVIEW OF FIRST QUARTER 2011

- Funds flow from operations for Q1 2011 was \$2.9 million compared to Q4 2010 funds flow of \$3.9 million. The reduction in funds flow is primarily attributed to the combination of natural production declines and a reduction in hedging gains;
- Average production for Q1 2011 was 2,325 boe per day compared to Q4 2010 volumes of 2,641 boe per day. The decrease in volumes is attributed to natural declines as a result of minimal capital investment on the Peace River Arch natural gas assets and delays in completions at Wapiti due to service equipment constraints and weather related issues;
- During the quarter, the Company successfully completed 2 Wapiti Cardium horizontal wells (1.1 net) utilizing liquid propane gas (“LPG”) fracturing technology; the initial application of this technology. The IP rates from these new wells are more than three times better than that of the previous oil fractures completed by the Company in 2010 (see table below). Advances in the initial production (“IP”) rates in the Cardium zone in the Wapiti area continue to be encouraging;
- New production additions from 4 Cardium horizontal wells (2.4 net) were brought on stream late in Q1 2011 or early Q2 2011. As a result, the production from these wells had minimal impact on the average reported production for Q1 2011;
- During Q1 2011, Seaview completed the following operations:
  - Drilled 1 Wapiti Cardium horizontal well (0.7 net) located at 100/01-17-066-08W6 (“1-17”) which has subsequently been completed and placed on production on March 19<sup>th</sup> with a 30 day IP rate of 361 boe per day (41% crude oil and natural gas liquids);
  - Successfully completed 3 Wapiti Cardium horizontal wells (1.7 net), which were drilled in Q4 2010, utilizing liquid propane gas (“LPG”) fracturing technology. Tie-in of each of these projects was completed late in Q1 2011 and therefore had minimal impact on Q1 2011 production;
  - Initial 30-day production from the recent LPG fraced wells averaged 476 boe per day on a producing day basis and 306 boe per day on a calendar day basis (61% crude oil and natural gas liquids); and
  - Completed installation of additional compression in Boundary Lake to optimize the Company’s 100% operated Kiskatinaw gas property, and also completed the equip and tie-in of 1 natural gas well (1.0 net) adding 145 boe per day of production over Q1 2011.

### **Wapiti Operations Update**

The Company’s strategic focus shifted to light oil and liquids rich natural gas opportunities in 2010. Seaview continues to evaluate its extensive land position in Wapiti through exploration drilling to earn lands through farm-in agreements. Seaview has accumulated a large, contiguous land position with exposure of up to 42.5 sections (22.8 net) of prospective Cardium rights targeting a potential light oil and liquids rich natural gas resource play in the Cardium fairway. The oil is 37-42<sup>o</sup> API and the natural gas has associated liquids (C3+) of 105 bbls/mmcf of sales gas which significantly enhances the economics of the play.

Since Seaview’s initial exploration success at 100/01-09-066-07W6 (The “1-9 well”) in Q1 2010, a variety of completion techniques have been utilized to optimize the production potential and ultimate reserves of the Company’s Wapiti property. Seaview has drilled 8 Cardium horizontal wells (5.0 net) to date and industry activity in Wapiti has increased substantially with a total of 25 horizontal locations targeting the Cardium having been

drilled or licensed. Throughout the initial exploration phase, Seaview and other operators have experimented with various completion designs demonstrating continued improvement in initial production rates.

In Q1 2011, Seaview successfully drilled and completed 1 Cardium horizontal well (0.7 net) and executed 2 Cardium horizontal completions wells (1.1 net) using LPG fracturing technology, the initial application of this completion technology in the Wapiti field. Seaview has significantly improved the initial production rates through the application of this technology. The following information outlines the initial 30 day production performance for the Wapiti Cardium wells placed on production to date by Seaview and other regional operators:

Well	Frac Fluid	IP 30 Production (boe/d)			Start date
		Producing Day <sup>(3)</sup>	Calendar Day <sup>(4)</sup>	% Liquids	
<b>Phase 1 Completions: Early Exploration</b>					
100/06-10-67-8W6 <sup>(5)</sup>	Water	53	52	93	Jun-2010
100/01-09-66-8W6 <sup>(1)</sup>	Oil	179	95	76	Aug-2010
100/04-17-66-7W6 <sup>(1)</sup>	Oil	100	72	94	Nov-2010
100/04-22-66-8W6 <sup>(1)</sup>	Oil	54	48	82	Nov-2010
<b>Phase 1 Average</b>		<b>97</b>	<b>67</b>	<b>86</b>	
<b>Phase 2 Completions: Frac oil and Ball-drop</b>					
100/16-35-66-8W6 <sup>(5)</sup>	Oil	160	84	89	Aug-2010
100/08-19-66-7W6 <sup>(5)</sup>	Oil	136	136	89	Sep-2010
100/12-14-67-9W6 <sup>(1)</sup>	Oil	161	121	54	Mar-2011
100/01-03-66-8W6 <sup>(1)</sup>	Oil/LPG	166	82	63	Apr-2011
<b>Phase 2 Average</b>		<b>156</b>	<b>106</b>	<b>74</b>	
<b>Phase 3 Completions: LPG and Ball-drop</b>					
100/01-17-66-8W6 <sup>(1)</sup>	LPG	414	361	41	Mar-2011
100/14-28-67-8W6 <sup>(2)</sup>	LPG	538	250	81	Apr-2011
<b>Phase 3 Average</b>		<b>476</b>	<b>306</b>	<b>61</b>	

- (1) Denotes wells where Seaview is the operator and has a working interest position.
- (2) Denotes wells where Seaview is not the operator, but is a working interest partner in the well.
- (3) Producing day average is calculated by taking monthly production volumes divided by producing days determined by calculating total monthly hours divided by 24 hours.
- (4) Calendar day average is calculated by taking monthly production volumes divided by total days in the month.
- (5) Denotes wells where Seaview has no working interest, production rates are based on publically available data.

Seaview's two most recent horizontal wells, 100/01-17-066-08-W6 (67% WI) ("the 1-17 well") and 100/14-28-067-08-W6 (37.1% WI) ("the 14-28 well") were the initial wells completed using LPG fracturing technology. Following an initial clean-up period, the 1-17 well flowed an average 361 boe/d on a calendar day basis (41% liquids) over the first 30 days on production. During the first two weeks of June, the well averaged 225 boe/d on a calendar basis. Post initial clean-up period, the 14-28 well flowed an average 250 boe/d on a calendar day basis (81% liquids) over the first 30 days on production. The well has experienced liquid loading issues and will be optimized by the installation of a plunger lift system and modifications to the wellsite compressor.

Seaview is currently planning to execute an LPG based fracture treatment at 100/16-12-066-08W6 (54% working interest) in Q3 2011, subject to surface and equipment access. In addition, Seaview is preparing for additional drilling with the surveying of seven additional locations with 4 of the locations currently licensed. The Company is confident that further cost reductions can also be achieved by pre-building production facilities whenever possible to allow for shorter tie-in cycle times and to allow for LPG recovery.

### Wapiti Exploration Program

Results to date continue to validate the Company's strategy of accumulating a large, contiguous position targeting light oil and liquids rich natural gas in the Wapiti Cardium fairway. Throughout the initial exploration drilling

phase, Seaview has been able to continuously improve initial production rates and plans to continue advancing the completion design based on the LPG fluid platform. Management is encouraged by the exploration results to date and remains confident that the Wapiti Cardium light oil resource play offers a sizeable and repeatable opportunity.

The 8 wells drilled to date have all been earning wells and once the earning phase of the project has been completed, Seaview will be able to high grade drilling in development areas. Through pad based development drilling and refinement of completion techniques, management expects to significantly improve the economics of the play.

Seaview's opportunity base within the prospective Wapiti Cardium light oil resource fairway has the following characteristics:

- Exposure to earn up to 42.5 sections (22.8 net) of prospective Cardium rights;
- An extensive drilling inventory with over 170 horizontal development locations (91 net); and
- Excellent operational focus featuring a large contiguous land position directly offsetting the Company's recent successful Cardium exploration activities.

Seaview believes the Wapiti Cardium light oil resource play contains the essential elements of a profitable resource play including:

- Large areal extent, supported by numerous logs and tests validating the reservoir continuity;
- Contiguous resource potential including an average of 10 m of vertical pay exceeding 6% porosity providing for significant accumulation of light oil, and a high degree of repeatability;
- Ability to improve drilling and completion techniques leading to lower capital costs and higher productivity over time; and
- Scalable project targeting high quality light oil (41 degree API), and natural gas with high liquid recovery NGL's.

## **COMMODITY PRICE RISK MANAGEMENT**

A key component to Seaview's balance sheet management is the Company's commodity price risk program. The price risk management program is intended to reduce price volatility in order to support cash flow, protect acquisition economics and finance ongoing capital expenditures.

Seaview currently has approximately 1,485 boe/d hedged for 2011, as follows:

- 8,140 GJ/d of natural gas hedged in put contracts for calendar 2011 providing for a "net of cost" floor of \$4.18/GJ (\$4.42/mcf), which is an 11% premium to the current calendar AECO 2011 futures strip of \$3.76/GJ, and a 13% premium to the current AECO strip price of \$3.70/GJ;
- 200 bbl/d of crude oil hedged in put contracts for calendar 2011 with a "net of cost" floor of CDN\$75.00/bbl; and
- On a combined basis, Seaview has 8,913 mcf/d, hedged at a "net of cost" floor price of \$5.50/mcfe, which will provide for minimum revenue of \$17.9 million for 2011.

## OUTLOOK

The Company's focused long-life, low cost Peace River Arch assets and available credit capacity provides a stable capital base to support continued capitalization of Seaview's emerging Wapiti Cardium light oil resource play. Management believes that continued improvement on the latest LPG based fracture treatments has significantly enhanced the economic viability of Wapiti.

The drilling program over the remainder of 2011 will be financed through available cash-flow and focus on completing earning on farm-in lands as first priority and drilling development locations offsetting existing Cardium horizontal producers offering the highest potential.

Seaview has the following characteristics:

- Total Proven reserves of 6,578 Mboe (23% light oil and natural gas liquids);
- Total Proven plus Probable reserves of 11,823 Mboe (26% light oil and natural gas liquids), effective December 31, 2010, as evaluated by Sproule Associates Ltd. using National Instrument 51-101 reserve definitions;
- Reserve life index is 13.9 years based on Total Proven plus Probable reserves and Q1 2011 production of 2,325 boe per day;
- 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 targeting a Cardium light oil resource play:
    - Exposure to earn up to 42.5 sections (22.8 net) of prospective Cardium rights;
    - An extensive drilling inventory with over 170 horizontal development locations (91 net);
    - Scalable project targeting high quality light oil (41 degree API), and natural gas with high liquid recovery NGL's; and
    - Excellent operational focus featuring a large contiguous land position directly offsetting the Company's recent successful Cardium exploration activities.
  - In Pouce Coupe, the Company holds interests in 21 sections (4.5 net) of land 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;
- Commodity hedging program providing for downside protection on 8,913 mcf per day for 2011 at a "net of cost" floor price of \$5.50/mcfe, providing minimum 2011 revenue of \$17.9 million; and
- 65.55 million Class A shares and 1.0 million Class B shares outstanding, as at March 31, 2011.

## RELEASE OF FIRST QUARTER FINANCIALS

Seaview has filed its financial results for the period ended March 31, 2011 including the unaudited condensed interim consolidated financial statements and related management's discussion and analysis ("MD&A"). These filings will be available in their entirety at [www.seaviewenergy.com](http://www.seaviewenergy.com) and [www.sedar.com](http://www.sedar.com) or by contacting the Company directly.

## ANNUAL GENERAL MEETING

Seaview's Annual General Meeting is scheduled for Wednesday, August 24, 2011 at a time and location to be announced.

For further information please contact:

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Vice President, Finance & CFO

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## 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 June 20, 2011 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and selected notes for the periods ended March 31, 2011 and 2010 and the audited consolidated financial statements and notes and MD&A of Seaview for the years ended December 31, 2010 and 2009. This financial data has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IFRS"). The effective date of transition to IFRS was January 1, 2010. Previously, the Company prepared its interim and annual consolidated annual financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP" or "CGAAP"). The adoption of IFRS has not had an impact on the Company's operations, strategic decisions or operating netbacks. The reporting and the measurement currency is the Canadian dollar.

### 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 area of operation is the Peace River Arch area of northwest Alberta. 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 IFRS. 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 IFRS, 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 months ended March 31, 2011 and 2010 is as follows:

	Three months ended March 31	
(\$ thousands except per share amounts)	2011	2010
Funds flow from operations	\$ 2,947	\$ 4,441
Decommissioning expenditures	(2)	(21)
Changes in non-cash working capital	270	2,572
Cash provided by operating activities	\$ 3,215	\$ 6,992
Funds flow from operations per share (basic)	\$ 0.05	\$ 0.07
Expenditures on abandonments	0.00	0.00
Changes in non-cash working capital per share (basic)	0.00	0.04
Cash provided by operating activities per share (basic)	\$ 0.05	\$ 0.11

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 IFRS 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.

<b>SELECTED INFORMATION</b>			
<b>Financial</b> (\$000's except per share amounts)	<b>Q1 2011</b>	<b>Q4 2010</b>	<b>% Change</b>
Petroleum and natural gas sales	\$ 6,382	\$ 6,950	(8%)
Funds flow from operations <sup>(1)</sup>	2,947	3,938	(25%)
Basic and diluted per share <sup>(2)</sup>	0.05	0.06	(17%)
Net loss	(2,778)	(2,895)	4%
Basic and diluted per share <sup>(2)</sup>	(0.04)	(0.04)	-
Capital expenditures <sup>(3)</sup>	12,967	11,517	13%
<b>Shares Outstanding at period end (000's)</b>			
Class A	65,553	65,537	-
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<b>Operations</b>			
Daily production			
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Total production (boe/d)	2,325	2,641	(12%)
Average realized sales price (net of risk management gains)			
Natural gas (per mcf)	\$ 4.38	\$ 4.48	(2%)
Light oil and NGL (per bbl)	71.78	66.27	8%
Netback per boe <sup>(1)</sup>			
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(6) Capital expenditures include only the cash additions for the period.

## FINANCIAL AND OPERATIONAL OVERVIEW OF FIRST QUARTER 2011

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- During the quarter, the Company successfully completed 2 Wapiti Cardium horizontal wells (1.1 net) utilizing liquid propane gas (“LPG”) fracturing technology; the initial application of this technology. The IP rates from these new wells are more than three times better than that of the previous oil fractures completed by the Company in 2010 (see table below). Advances in the initial production (“IP”) rates in the Cardium zone in the Wapiti area continue to be encouraging;
- New production additions from 4 Cardium horizontal wells (2.4 net) were brought on stream late in Q1 2011 or early Q2 2011. As a result, the production from these wells had minimal impact on the average reported production for Q1 2011;
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  - Initial 30-day production from the recent LPG fraced wells averaged 476 boe per day on a producing day basis and 306 boe per day on a calendar day basis (61% crude oil and natural gas liquids); and
  - Completed installation of additional compression in Boundary Lake to optimize the Company’s 100% operated Kiskatinaw gas property, and also completed the equip and tie-in of 1 natural gas well (1.0 net) adding 145 boe per day of production over Q1 2011.

## RESULTS OF OPERATIONS

### Operations

For the three months ended March 31, 2011, the Company recorded a net loss of \$2.8 million (net loss of \$0.2 million for the three months ended March 31, 2010).

The following table summarizes selected information for the three months ended March 31, 2011 (the “Quarter” or “Q1 2011”), for the three months ended December 31, 2010 (the “Previous Quarter” or “Q4 2010”), as well as the three months ended March 31, 2010 (the “Prior Year Q1” or “Q1 2010”):

	Q1 2011	Q4 2010	Q1 2010
Daily Production			
Natural gas (mcf/d)	12,286	14,016	16,544
Crude oil and NGL's (bbl/d)	277	305	480
Boe/d day @ 6:1	2,325	2,641	3,237
Petroleum and natural gas sales (\$000's)	\$ 6,382	\$ 6,950	\$ 11,056
Funds flow from operations (\$000's)	2,947	3,938	4,441
Per share – basic and diluted	0.05	0.06	0.07
Net loss (\$000's)	(2,778)	(2,895)	(235)
Per share – basic and diluted	(0.04)	(0.04)	0.00

The decrease in volumes is attributed to natural declines as a result of minimal capital investment on the Peace River Arch natural gas assets, delays in completions at Wapiti due to service equipment constraints and weather related issues.

### Commodity prices

Average realized prices	Q1 2011	Q4 2010	Q1 2010
Light crude oil (per bbl)	\$ 84.74	\$ 79.35	\$ 77.28
after realized risk management gains/losses	72.55	69.96	73.80
Natural gas (per mcf)	3.97	3.80	5.23
after realized risk management gains/losses	4.38	4.48	5.12
Natural gas liquids (per bbl)	70.36	57.96	68.47
Total per boe	30.50	28.60	37.95
after realized risk management gains	31.70	31.45	36.98
BENCHMARK PRICES			
WTI oil (US\$ per bbl)	94.13	85.04	78.70
AECO Daily Index (CAD\$ per gj)	3.58	3.43	4.68
Currency (US\$/CAD\$)	0.9860	1.013	1.040

The AECO Daily Index gas price averaged \$3.58 per gj or \$3.78 per mcf for Q1 2011 as compared to \$3.43 per gj or \$3.62 per mcf during the Previous Quarter. The natural gas price received by Seaview, before risk management gains, was \$3.97 per mcf for the Quarter compared to \$3.80 per mcf for Q4 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\$94.13 per bbl during the Quarter compared to US\$85.04 per bbl during Q4 2010. Seaview received a combined average price, including natural gas liquids and before risk management effects, of \$79.72 per bbl during the Quarter compared to \$72.76 during the Previous Quarter.

The Canadian dollar averaged US\$0.9860 during the Quarter as compared to \$1.013 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 may also sell 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 publicly 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 months ended March 31, 2011, realized gains of \$0.3 million were recorded as revenue (three months ended March 31, 2010 – realized losses of \$0.3 million). As at March 31, 2011, the Company recorded a liability related to the unrealized losses on financial contracts of \$2.4 million reflecting the fair value of the crude oil and natural gas contracts outstanding at March 31, 2011 (December 31, 2010 – a liability of \$1.0 million; March 31, 2010 – an asset of \$1.1 million).

As at March 31, 2011, the Company had the following financial contracts:

1. Natural gas	Volume	Pricing Point	Price	Term
Put <sup>(1)</sup>	2,000 gj/d	AECO Monthly	\$ 4.75/gj	January '10 – December '11
Put	6,140 gj/d	AECO Monthly	\$ 4.00/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>(2)</sup>	200 bbl/d	WTI – Nymex CAD	\$ 75.00/bbl	January '10 – December '11
Call	100 bbl/d	WTI – Nymex CAD	\$ 88.25/bbl	January '13 – December '13
Call	200 bbl/d	WTI – Nymex	\$ 72.50/bbl	January '13 – December '13

(1) 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.

(2) 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 terminated the natural gas call for 3,000 gj/d at \$7.04/gj for 2012 and replaced it with a natural gas call for 3,000 gj/d at \$7.40/gj for 2013.

The total volumes hedged for the period of April 2011 to December 2013 are detailed below.

Natural Gas	Q2 '11	Q3 '11	Q4 '11	2013
<b>Puts</b>				
Volumes – gj/d	8,140	8,140	8,140	
Net floor (\$/gj)	\$4.18	\$4.18	\$4.18	
<b>Call</b>				
Volumes – gj/d				3,000
Net ceiling (\$/gj)				\$7.40
<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				300
Net ceiling (CAD\$/bbl)				\$77.75

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, unless otherwise approved by the Board of Directors; 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)	Q1 2011	Q4 2010	Q1 2010
Natural gas	\$ 4,394	\$ 4,906	\$ 7,784
Crude oil and natural gas liquids	1,988	2,044	3,272
Realized risk management gains	250	692	(283)
Petroleum and natural gas sales (net)	\$ 6,632	\$ 7,642	\$ 10,773
\$/boe	\$ 31.70	\$ 31.45	\$ 36.98

Petroleum and natural gas sales for the Quarter, before royalties and transportation costs, were \$6.6 million (\$7.6 million – Previous Quarter; \$10.8 million – Q1 2010). The decrease from Q4 2010 is attributable to a 12% decrease in production during the Quarter offset by somewhat higher realized prices. The Company realized gains of \$0.3 million, net of premiums, on crude oil and natural gas financial contracts during the Quarter (gains of \$0.7 million – Previous Quarter).

### Royalties

(\$000's)	Q1 2011	Q4 2010	Q1 2010
Royalties	\$ 764	\$ 735	\$ 1,725
Percentage of petroleum and natural gas sales (before realized risk management gains)	12.0%	10.6%	15.6%
\$/boe	\$ 3.65	\$ 3.02	\$ 5.92

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, and the Amended Royalty Framework ("ARF") which took effect January 1, 2011, Crown royalties are sensitive to production rates for each well and to 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 charged by the Crown. Additionally, the Province of Alberta introduced a reduced royalty rate of 5% for wells that are brought on production after April 1, 2009. This applies for the first 12 months of production or to a maximum of 500,000 Mcfs for natural gas wells or 50,000 barrels for crude oil wells, amended to 60,000 barrels and 24 months for horizontal oil wells drilled on or after May 1, 2010 and more than 2,500 meters in total length. Seaview has brought on several new wells since April 1, 2009 which qualified for this reduced royalty rate, several of which currently remain at this rate.

Royalties for the Quarter totaled \$0.8 million (\$0.7 million – Previous Quarter; \$1.7 million – Q1 2010). As a percentage of sales, royalties averaged 12.0% or \$3.65 per boe during the Quarter (10.6% and \$3.02 per boe for the Previous Quarter; 15.6% and \$5.92 per boe – Q1 2010). The royalty rate for Q1 2011 is higher than the Previous Quarter due to a higher Crown reference price as well as having several wells reaching their production limits for the above referenced 5% royalty rate during the quarter. The overall royalty rate remains lower than the Prior Year Q1 as the Company still has approximately 27% of its production attracting the 5% royalty rate.

## Operating expenses

(\$000's)	Q1 2011	Q4 2010	Q1 2010
Operating expenses	\$ 1,749	\$ 1,322	\$ 3,232
\$/boe	\$ 8.36	\$ 5.44	\$ 11.10

Operating expenses for the Quarter were \$1.7 million (\$1.3 million – Previous Quarter; \$3.2 million – Q1 2010) and on a unit-of-production basis, operating expenses averaged \$8.36 per boe (\$5.44 per boe – Previous Quarter; \$11.10 per boe – Q1 2010). The operating expenses on a per boe basis for the Quarter have increased over the Previous Quarter as Q4 2010 operating expenses per boe were reduced due to the receipt of 13<sup>th</sup> month recoveries from operators of gas plants the Company has a working interest in. Operating expenses per boe for the Quarter compared to Q1 2010 have decreased as the Prior Year Q1 included the oil producing Southeast Saskatchewan assets that had higher operating costs per boe than the Company's Alberta gas properties.

## Transportation expense

(\$000's)	Q1 2011	Q4 2010	Q1 2010
Transportation expense	\$ 300	\$ 396	\$ 376
\$/boe	\$ 1.43	\$ 1.63	\$ 1.29

For the Quarter, transportation expense totaled \$0.3 million or \$1.43 per boe (\$0.4 million or \$1.63 per boe – Previous Quarter; \$0.4 million or \$1.29 per boe – Q1 2010). 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 lower than the Previous Quarter as the trucking distance to oil terminals was reduced for clean oil production related to the new Wapiti area.

## General and administrative (“G&A”)

(\$000's)	Q1 2011	Q4 2010	Q1 2010
G&A expenses	\$ 1,023	\$ 1,551	\$ 1,301
Capitalized G&A	(340)	(474)	(519)
Overhead recoveries	(181)	(222)	(117)
Net G&A expenses	502	855	665
\$/boe	\$ 2.40	\$ 3.52	\$ 2.28

During the Quarter, G&A, net of overhead recoveries on operated properties and capitalized expenditures, totaled \$0.5 million (\$0.9 million – Previous Quarter; \$0.7 million – Q1 2010). On a unit-of-production basis, G&A expenses were \$2.40 per boe (\$3.25 per boe – Previous Quarter; \$2.05 per boe – Q1 2010). The G&A per boe for the Quarter was lower than the Previous Quarter due mainly to costs related to yearend activities including the annual financial statement audit and the evaluation of corporate reserves being recognized in Q4 2010.

## Finance expense

(\$000's)	Q1 2011	Q4 2010	Q1 2010
Interest expense	\$ 202	\$ 155	\$ 334
Unrealized gain on financial contracts	-	(5)	(19)
Accretion on decommissioning obligations	44	42	53
Accretion on Convertible Class B share liability	182	179	169
Net finance expense	428	371	537
\$/boe	\$ 2.05	\$ 1.55	\$ 1.84

Interest expense, representing interest paid on drawn amounts of the secured credit facility, standby fees and banking fees, during the Quarter was \$0.2 million or \$0.96 per boe (\$0.2 million or \$0.64 per boe – Previous Quarter; \$0.3 million or \$1.15 per boe – Q1 2010). The average balance of debt drawn during the Quarter was \$21.0 million (\$13.6 million – Previous Quarter; \$37.1 million – Q1 2010), with an average interest rate of 3.4%

per annum paid during the Quarter (3.6% per annum – Previous Quarter; 3.2% per annum – Q1 2010). Included in interest expense are standby fees of 0.4% per annum based on an average unutilized debt capacity of \$31.0 million for the Quarter (\$38.4 million – Previous Quarter; \$14.9 million – Q1 2010).

### **Stock based compensation**

The Company has a stock option plan, which is fully described in Note 10 of the unaudited condensed interim consolidated financial statements. At March 31, 2011, 5,589,500 options were outstanding with an average exercise price of \$1.40 and a weighted average remaining contractual life of 2.9 years (5,453,499 options outstanding at March 31, 2010 at an average exercise price of \$1.50 with a weighted average remaining contractual life of 3.6 years). Of the total number of options outstanding at March 31, 2011, options totaling 3,168,354 are vested and available for exercise at a weighted average exercise price of \$1.37 per option.

For the Quarter, the Company recorded a compensation expense of \$0.1 million (\$0.2 million – Previous Quarter; \$0.3 million – Q1 2010) and capitalized \$0.1 million, (\$0.2 million – Previous Quarter; \$0.3 million – Q1 2010).

On January 5, 2011, the Company granted options to acquire up to 187,500 Class A shares at a price of \$1.19 per share, none of which were granted to officers or directors of the Company.

### **Depletion and depreciation (“D&D”)**

The Quarter provision for D&D totaled \$4.9 million (\$5.7 million – Previous Quarter; \$6.0 million – Q1 2010). On a unit-of-production basis, D&D costs averaged \$23.54 per boe for Q1 2011 (\$23.42 per boe – Previous Quarter; \$20.45 per boe – Q1 2010). D&D per boe for Q1 2011 has remained consistent with Q4 2010. The increase in the depletable base due to capital spending on the new Wapiti wells during the quarter had a corresponding increase in the proven reserve base. In comparing the Quarter to the Prior Year Q1, the D&D per boe has increased due to a significant increase in depletable base due to the capital spending on the new Wapiti wells while there has been no corresponding increase in the proven reserve base.

### **Exploration and evaluation expenditures (“E&E”)**

During the Quarter, the Company expensed \$0.2 million of pre-license exploration costs (\$0.2 million – Previous Quarter; nil – Q1 2010). The expenditures are due to efforts relating to new core areas to the Company and relate mostly to geological and geophysical costs associated with new prospective plays.

### **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 4 of the unaudited condensed 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 March 31, 2011 of commodity contracts outstanding was an unrealized loss or a liability, net of unrealized gains, of \$2.4 million (December 31, 2010 – unrealized loss (liability) of \$1.0 million). During the Quarter, the Company recorded an unrealized loss of \$1.4 million as a result of the change in fair value over the respective periods (\$1.7 million loss – Previous Quarter; \$2.7 million gain – Q1 2010). Forward strip prices for crude oil have increased during Q1 2011 resulting in unrealized losses for the quarter while natural gas prices have decreased only slightly from the year end 2010 prices resulting in offsetting unrealized gains for Q1 2011.

### **Future income taxes**

A future income tax recovery of \$1.0 million has been recorded for the Quarter (a recovery of \$0.9 million – Previous Quarter; an expense of \$0.9 million – Q1 2010). As the Company has recorded a loss before taxes for

the Quarter, 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.

### Net loss and funds flow from operations

Net loss for the Quarter was \$2.8 million (\$2.9 million net loss – Previous Quarter; \$0.2 million net loss – Q1 2010). Basic and diluted net loss per share for the Quarter was \$0.04 (basic and diluted net loss per share of \$0.04 – Previous Quarter; basic and diluted net loss per share of nil – Q1 2010). Funds flow from operations was \$2.9 million for the Quarter (\$3.9 million – Previous Quarter; \$4.4 million – Q1 2010). Basic and diluted funds flow from operations per share for the Quarter was \$0.05 (basic and diluted funds flow from operations per share was \$0.06 – Previous Quarter; basic and diluted funds flow from operations per share was \$0.07 – Q1 2010).

#### Netbacks, Funds Flow from Operations and Net Loss (\$/boe)

	Q1 2011	Q4 2010	Q1 2010
Petroleum and natural gas sales	\$ 31.70	\$ 31.45	\$ 36.98
Less:			
Royalties	3.65	3.02	5.92
Operating expenses	8.36	5.44	11.10
Transportation expense	1.43	1.63	1.29
Net operating income (operating netback)	\$ 18.26	\$ 21.36	\$ 18.67
General and administrative	2.40	3.52	2.28
Finance expense	2.05	1.55	1.84
Funds flow from operations	\$ 13.81	\$ 16.29	\$ 14.55
Depletion and depreciation	23.54	23.42	20.45
Unrealized (gain) loss on financial derivatives	6.71	7.07	(9.14)
Stock option compensation	0.69	0.65	1.08
Pre-license expenditures and other	0.80	0.56	-
Future income tax (reduction) expense	(4.65)	(3.50)	2.97
Net loss (\$/boe)	\$ (13.28)	\$ (11.91)	\$ (0.81)

**SELECTED QUARTERLY INFORMATION**

<b>Financial</b>	<b>Q2 2009</b>	<b>Q3 2009</b>	<b>Q4 2009</b>	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>
<b>(\$000's except per share amounts) <sup>(4)</sup></b>	<b>(CGAAP)</b>	<b>(CGAAP)</b>	<b>(CGAAP)</b>	<b>(restated)</b>	<b>(restated)</b>	<b>(restated)</b>	<b>(restated)</b>	
Petroleum and natural gas sales	\$ 7,463	\$ 8,664	\$ 10,377	\$ 11,056	\$ 8,893	\$ 6,486	\$ 6,950	\$ 6,382
Funds flow from operations <sup>(1)</sup>	3,076	4,110	5,024	4,441	4,321	4,388	3,938	2,947
Basic per share	0.06	0.06	0.08	0.07	0.07	0.07	0.06	0.05
Diluted per share <sup>(2)</sup>	0.06	0.06	0.08	0.07	0.06	0.07	0.06	0.05
Net income (loss)	(3,273)	(2,907)	(2,366)	(235)	9,953	(777)	(2,895)	(2,778)
Basic per share	(0.06)	(0.04)	(0.04)	0.00	0.15	(0.01)	(0.04)	(0.04)
Diluted per share <sup>(2)</sup>	(0.06)	(0.04)	(0.04)	0.00	0.13	(0.01)	(0.04)	(0.04)
Capital expenditures <sup>(3)</sup>	1,354	3,931	5,368	8,017	4,758	5,556	11,517	12,967
Property acquisitions (dispositions)	26,615	-	3,840	-	(16,807)	-	3,315	-
Net debt	36,107	36,131	40,309	43,896	11,230	12,395	23,240	33,244
<b>Shares outstanding at period end (000's)</b>								
Class A	54,172	65,419	65,433	65,454	65,479	65,489	65,537	65,553
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)	9,976	12,486	13,703	16,544	17,084	13,299	14,016	12,286
Light oil and NGLs (bbl/d)	403	432	445	480	374	322	305	277
Total production (boe/d)	2,066	2,513	2,729	3,237	3,221	2,538	2,641	2,325
Netback per boe								
Natural gas (per mcf)	\$ 5.79	\$ 5.43	\$ 6.06	\$ 5.12	\$ 4.59	\$ 4.34	\$ 4.48	\$ 4.38
Light oil and NGL (per bbl)	60.20	61.03	66.92	72.92	70.87	64.46	66.27	71.78
Sales price (net of risk management gains or losses)								
Sales price (net of risk management gains or losses)	\$ 39.70	\$ 37.47	\$ 41.33	\$ 36.98	\$ 32.57	\$ 30.89	\$ 31.45	\$ 31.70
Royalties	4.57	3.50	4.52	5.92	4.83	2.14	3.02	3.65
Operating expenses	12.86	11.34	11.80	11.10	8.07	5.12	5.44	8.36
Transportation	1.49	1.35	1.27	1.29	1.38	1.48	1.63	1.43
Operating netback	\$ 20.78	\$ 21.28	\$ 23.74	\$ 18.67	\$ 18.29	\$ 22.15	\$ 21.36	\$ 18.26

- (1) The Company uses "funds flow from operations" and "funds flow from operations per share" which do not have any standardized meaning prescribed by IFRS. 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 IFRS. The terms are used to evaluate performance and in capital allocation decisions.
- (2) Weighted average diluted shares outstanding for Q2 2010 includes the impact of the conversion of the Class B shares and the effect of the granted options. 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.
- (4) The quarterly table contains both IFRS and CGAAP numbers. Comparatives before 2010 have not been restated to reflect the changes in accounting policies as a result of adopting IFRS.

## SHARE INFORMATION

	Three months ended March 31	
	2011	2010
Weighted average shares outstanding		
Basic and diluted	<b>65,542,004</b>	65,438,024
Outstanding securities at period end		
Class A shares	<b>65,553,018</b>	65,453,933
Convertible Class B shares	<b>1,053,540</b>	1,053,540
Options, Class A shares	<b>5,589,500</b>	5,453,499
Outstanding securities at June 20, 2011		
Class A shares	<b>65,553,018</b>	
Convertible Class B shares	<b>1,053,540</b>	
Options, Class A shares	<b>5,589,500</b>	

Per share amounts have been calculated using the weighted average number of shares outstanding during the year. 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 months ended March 31, 2011 and 2010 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, capital expenditures totaled \$13.1 million (\$15.2 million – Previous Quarter; \$8.4 million – Q1 2010). The table below summarizes the capital expenditures during the Quarter, the Previous Quarter and Q1 2010.

(\$000's)	Q1 2011	Q4 2010	Q1 2010
Geological and geophysical	\$ -	\$ 153	\$ 12
Drilling and Completions (gross)	<b>8,538</b>	13,015	4,508
Alberta Drilling Credits	-	-	(1,559)
Tangible equipment	<b>4,160</b>	3,298	1,661
Development Capital	\$ <b>12,698</b>	\$ 16,466	\$ 4,622
Exploration & evaluation capital (note 9)	<b>399</b>	(1,382)	3,680
Asset retirement obligations	<b>43</b>	102	73
Total capital expenditures	\$ <b>13,140</b>	\$ 15,186	\$ 8,375

For the quarter ending March 31, 2011, the Company drilled one successful horizontal well. This well and a previously drilled well were completed with multi-frac completion techniques. The capital expenditures for the quarter included these drilling and completion costs as well as pipeline and facility costs to bring these wells on production at the end of the quarter or beginning of Q2 2011. As of March 31, 2011, the Company earned a total of \$6.2 million dollars of Alberta Royalty Drilling Credits of which \$2.3 million had been collected and \$0.4 million remains in accounts receivable. Due to the low commodity price environment during this credit program, the Company did not incur sufficient Crown royalty expense to collect the remaining \$3.5 million. As most companies that earned credits during this program also had excess credits over royalty expense, there was no market to sell any of these surplus credits and accordingly, these amounts expired at March 31, 2011.

## CAPITALIZATION AND CAPITAL RESOURCES

The Company's total capitalization was \$130.7 million at March 31, 2011 with the market value of Class A and Class B shares representing 75% of the total capitalization (\$109.9 million at December 31, 2010 with the market value of Class A and Class B shares representing 79%). The market value of the Company's shares at March 31, 2011 was \$97.4 million (\$86.6 million – December 31, 2010).

Capitalization	March 31, 2011	December 31, 2010
Bank debt (\$000's)	\$ 26,522	\$ 16,494
Working capital deficiency (\$000's) <sup>(1)</sup>	6,721	6,746
Net debt (\$000's)	33,243	23,240
Class A shares outstanding	65,553,018	65,536,768
Class A share price <sup>(2)</sup>	\$ 1.35	\$ 1.19
Class A market capitalization (\$000's)	\$ 88,497	\$ 77,989
Class B shares outstanding	1,053,540	1,053,540
Class B share price <sup>(2)</sup>	\$ 8.46	\$ 8.20
Class B market capitalization (\$000's)	\$ 8,913	\$ 8,639
Total market capitalization (\$000's)	\$ 97,410	\$ 86,628
<b>Total capitalization (\$000's)</b>	<b>\$ 130,653</b>	<b>\$ 109,868</b>
Net debt as a percent of total capitalization	25%	21%
Funds flow from operations (\$000's) <sup>(3)</sup>	\$ 11,792	\$ 17,088
Net debt to funds flow from operations ratio	2.82	1.36

(1) Working Capital excludes the current portion of deferred 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 March 31, 2011 is the Quarter funds flow of \$2.9 million annualized.

### Bank facility

As at March 31, 2011, 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 Company.

At March 31, 2011, the revolving demand credit facility was drawn to \$26.5 million. The Company also had an issued letter of credit in the amount of approximately \$0.1 million.

The next interim review is scheduled for September, 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.

## Investing program funding

(\$000's)	Three months ended March 31	
	2011	2010
Funds flow from operations	\$ 2,947	\$ 4,441
Changes in non-cash working capital	(25)	5,631
Expenditures on abandonments	(2)	(21)
Proceeds from issuance of shares/options (net of costs)	19	10
Proceeds from (repayment of) bank debt	10,028	(2,044)
Change in cash during the period	-	-
Capital expenditures funded by cash during the period	\$ 12,967	\$ 8,017

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 financial contracts) increased to a deficit of \$33.2 million as at March 31, 2011 from a deficit of \$23.2 million as at December 31, 2010 as a result of the capital program during the quarter and decreased from a deficit of \$43.9 million as at March 31, 2010 as a result of the disposition of the Saskatchewan assets in April 2010 for proceeds of \$33.1 million, offset by the capital program during the year.

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 March 31, 2011, 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 March 31, 2011. The total future obligation from these operating leases is described below in the section "Contractual obligations and commitments".

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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 4). The future premiums Seaview is committed to pay are included in the table below.

The Company's future contractual commitments are highlighted below:

	Total	2011	2012
Operating leases	\$ 478	215	263
Financial instrument premiums	\$ 1,183	1,183	-
Total contractual obligations	\$ 1,661	1,398	263

## OUTLOOK

The Company's focused long-life, low cost Peace River Arch assets and available credit capacity provides a stable capital base to support continued capitalization of Seaview's emerging Wapiti Cardium light oil resource play. Management believes that continued improvement on the latest LPG based fracture treatments has significantly enhanced the economic viability of Wapiti.

The drilling program over the remainder of 2011 will be financed through available cash-flow and focus on completing earning on farm-in lands as first priority and drilling development locations offsetting existing Cardium horizontal producers offering the highest potential.

Seaview has the following characteristics:

- Total Proven reserves of 6,578 Mboe (23% light oil and natural gas liquids);
- Total Proven plus Probable reserves of 11,823 Mboe (26% light oil and natural gas liquids), effective December 31, 2010, as evaluated by Sproule Associates Ltd. using National Instrument 51-101 reserve definitions;
- Reserve life index is 13.9 years based on Total Proven plus Probable reserves and Q1 2011 production of 2,325 boe per day;
- 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 targeting a Cardium light oil resource play:
    - Exposure to earn up to 42.5 sections (22.8 net) of prospective Cardium rights;
    - An extensive drilling inventory with over 170 horizontal development locations (91 net);
    - Scalable project targeting high quality light oil (41 degree API), and natural gas with high liquid recovery NGL's; and

- Excellent operational focus featuring a large contiguous land position directly offsetting the Company's recent successful Cardium exploration activities.
  - In Pouce Coupe, the Company holds interests in 21 sections (4.5 net) of land 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;
- Commodity hedging program providing for downside protection on 8,913 mcf per day for 2011 at a "net of cost" floor price of \$5.50/mcfe, providing minimum 2011 revenue of \$17.9 million; and
- 65.55 million Class A shares and 1.0 million Class B shares outstanding, as at March 31, 2011.

## CRITICAL ACCOUNTING ESTIMATES

The reader is advised that the critical accounting estimates, policies and practices as described in the MD&A at December 31, 2010 in conjunction with those discussed in the notes to the unaudited condensed interim consolidated financial statements at March 31, 2011 continue to be critical in determining Seaview's financial results as at March 31, 2011.

## CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

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

On January 1, 2011, the Company transitioned to IFRS, with the date of adoption of January 1, 2010. On the date of adoption, the Company restated the account balances to IFRS and the financial reporting will be in accordance with IFRS hereafter. A full description of the new accounting policies is outlined in Note 3 to the unaudited condensed interim consolidated financial statements. Additionally, transition date information and reconciliations between IFRS and previous GAAP for comparative periods in 2010 are described in Note 15 to the unaudited condensed interim consolidated financial statements. The adoption of IFRS has not led to any changes in the business operations, capital strategies or funds flow of the Company.

Seaview's significant areas of impact include property, plant and equipment, share based payments, depletion, depreciation and accretion and Class B share classification. The following discussion provides an overview of these areas as well as the exemptions available under IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). IFRS 1 provided entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS.

- Property, plant and equipment ("PP&E"): Under previous GAAP, Seaview applied full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of natural gas and crude oil reserves were capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, Seaview has adopted new accounting policies for upstream activities, including pre-exploration costs, exploration and evaluation costs and development costs, as discussed below.

Pre-exploration costs are expenditures incurred prior to obtaining the legal right to explore and must be expensed under IFRS. Under previous GAAP, Seaview capitalized and depleted such costs within the full cost pool. These costs are not anticipated to be significant to the Company.

Exploration and Evaluation costs ("E&E") are expenditures incurred for an area or property for which technical feasibility and commercial viability has not been determined. Upon transition to IFRS, Seaview has re-classified all E&E expenditures that were included in the PP&E balance under previous GAAP on the consolidated balance sheet. This includes the cost for Seaview's undeveloped exploratory land that relates to exploration properties. Seaview will not amortize its E&E assets but will assess them for

impairment when there are indicators for possible impairment, such as allowing the mineral rights lease to expire or a decision to no longer pursue exploration and evaluation of a specific E&E asset, at which time the costs would be expensed. Upon transition to IFRS, approximately \$0.4 million of PP&E was reclassified on the balance sheet to intangible exploration costs representing E&E assets.

Development costs are expenditures incurred for an area or property where technical and commercial feasibility has been determined. Seaview will continue to capitalize these costs. Under previous GAAP, these costs were depleted on a unit-of-production basis at a country cost centre level but under IFRS these costs will be depleted on a unit-of-production basis over an area level (unit of account). Also under IFRS, a company has the option of choosing the reserve base that it will use for its depletion calculation, whether proven reserves, which is consistent with previous GAAP, or proven plus probable reserves. Seaview has determined that it will use proven reserves as the basis over which its depletion will be calculated. Accordingly, depletion costs will be consistent with the amount that would have been calculated under previous GAAP.

Divestitures of an oil and gas property under IFRS will generally result in a gain or loss recognized in earnings. Under previous GAAP, proceeds of divestitures were deducted from the full cost pool without recognition of a gain or loss unless such a deduction resulted in a change to the depletion rate of 20 percent or greater. Seaview has a restatement to the comparative second quarter 2010 financial statements showing a gain on sale regarding the disposition of our Saskatchewan properties in April 2010.

As at the date of transition, being January 1, 2010, for entities using the full cost accounting method, IFRS 1 provided an option to deem the cost of its PP&E assets to equal its previous GAAP net book value. Seaview has applied this option. The IFRS E&E costs will be equal to those that would have been recognized as such under previous GAAP using proved plus probable reserves as a basis for determining technical feasibility and commercial viability. The remaining net book value of the full cost pool on the date of transition following the removal of E&E costs was allocated to the unit of account development cost centres on the basis of Seaview's proved plus probable reserve values.

- Impairment of PP&E assets: Under IFRS, impairment tests of PP&E must be performed at a cash-generating unit level instead of at the country cost centre under previous GAAP using the greater of value in use or fair value less costs to sell. Assets will be assessed for impairment when indicators suggest the possibility of impairment; therefore, there may be more frequent impairments of assets under IFRS. Under IFRS, impairment losses, other than goodwill, are reversed when there is an increase in the recoverable amount. Seaview has grouped its assets into cash-generating units, which were identified on the basis of cash inflows being independent from other assets or groups of assets, and will test them for impairment using the greater of value in use or fair value less costs to sell. Assets were required to be assessed for impairment upon transition to IFRS. A small impairment of oil and gas assets of approximately \$2.5 million was calculated on transition to IFRS, having used the fair value less costs to sell to measure the fair value of its cash-generating units. As well, Seaview has determined an impairment to its Goodwill balance at transition which has been written off from its opening IFRS balance sheet as at January 1, 2010.
- Provisions: Under IFRS, decommissioning obligations, disclosed as asset retirement obligations under previous GAAP, can be calculated using either a risk free discount rate, which differs from previous GAAP, or a credit adjusted risk-free interest rate, which is consistent with previous GAAP, to discount future cash flows. Seaview has used the credit adjusted risk-free rate and therefore charges remain the same as the amount that had been calculated under previous GAAP. Under IFRS, the unwinding of the discount rate is charged as interest expense versus accretion expense under previous Canadian standards.
- Share based compensation: Under IFRS 2 "Share-based Payments", awards that vest in installments must be accounted for as though each installment is a separate award and amortized using a graded vesting model. This results in front loading of share based compensation expense. In addition, under

IFRS, a forfeiture rate must be included in the initial expense calculation, and adjusted prospectively if required, rather than accounting for forfeitures as they occur. IFRS 1 allows for an exemption from IFRS 2 for share based payments which have vested before Seaview's transition to IFRS. As a result of applying IFRS 2, the Company has an increase to contributed surplus of approximately \$1.3 million with a corresponding increase to the January 1, 2010 deficit.

- **Income taxes:** IFRS does not use the terminology of future income taxes; IFRS refers to deferred income taxes. The transition to IFRS requires the Company to re-measure its deferred income taxes for its January 1, 2010 balance sheet. Adjustments to deferred income taxes were made accordingly in conjunction with other transitional IFRS adjustments discussed earlier, with an offsetting adjustment to the January 1, 2010 deficit.

In addition to the adjustments required to deferred income taxes as a result of the January 1, 2010 transitional adjustments, the Company has made adjustments for its comparative periods in 2010 for share issue costs, flow-through shares and the reclassification of the Class B shares as a liability. Under previous GAAP, the accounting treatment of flow-through shares is addressed by EIC 146 – “Flow-Through Shares”. The proceeds received for the flow-through shares are credited to shareholders' capital and the deferred tax liability is recognized when the company files the renouncement documents with the tax authorities to renounce the tax credits associated with the expenditures.

Under IFRS, Seaview has set up a liability for the difference between the proceeds received and the market price of the shares on the date of the transaction (the “premium”). As the qualifying expenditures are incurred, Seaview will record the tax liability associated with the expenditures and renouncements of the tax benefits and reverse the deferred liability originally set up related to those costs incurred in a particular quarter. The difference between the deferred tax liability and the original liability set up will go through profit and loss.

A temporary difference exists for share issue costs under previous GAAP and IFRS. The difference between previous GAAP and IFRS result in a deferred tax liability being recorded. Unlike previous GAAP, changes in the deferred tax liability are recognized where they were originally recognized; therefore, changes in the deferred tax liability related to share issue costs are recorded against share capital as opposed to profit and loss. The Company does not have any transitional adjustments related to share issue costs.

- **Risk-Sharing Arrangements and Dispositions:** Under IFRS, risk-sharing agreements in which Seaview cedes a portion of its working interest to a third party are generally considered to be disposals of property, plant and equipment, potentially resulting in a gain or loss on disposition. Under previous GAAP, no gain or loss was recorded on these or other dispositions where the change in consolidated depletion is less than 20 percent. There is no equivalent exemption in IFRS. As a result, Seaview will record gains or losses on risk-sharing arrangements and other disposition transactions under IFRS. There is no impact on transition to IFRS as a result of this requirement. Subsequent to transition, the significance of these gains or losses will be dependent on the details of specific transactions.
- **Business Combinations:** An exemption under IFRS 1 provides the entity with relief on the restatement of business combinations prior to the transition date. Under IFRS 3 – “Business Combinations”, the determination of the fair value of share consideration differs from the determination under previous Canadian accounting standards. Any difference in the fair value calculation would have a resulting impact on the carrying amount of net assets acquired, non-controlling interest and any goodwill. The Company has made the election under IFRS 1, allowing Seaview to be exempt from restating business combinations prior to the transition date to IFRS.
- **Convertible Class B share liability:** Under previous GAAP, the Company's convertible Class B shares were presented as equity while under IFRS, the Class B shares do not qualify for equity presentation and must be presented as a liability. This is because the number of Class A shares required to be issued on conversion is not known until the Company exercises the conversion. As such, the Company has

retrospectively adjusted the presentation of its \$11.7 million Initial Public Offering (“IPO”) on October 17, 2007, which included the convertible Class B shares.

- Seaview does not expect changes to its financial statements as a result of IFRS to affect any covenants related to bank debt.

Seaview is determining which additional changes to internal controls over financial reporting will be required to deal with the changes in accounting policies. This will be ongoing throughout the balance of 2011 to ensure all changes in accounting policies include appropriate additional controls and procedures for future IFRS reporting requirements. Seaview does not expect any material changes to internal controls.

## **NEW AND PENDING ACCOUNTING STANDARDS**

### *IFRS 9 – Financial Instruments.*

In November 2009, the IASB published IFRS 9 “Financial Instruments” which covers the classification and measurement of financial assets as part of its project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity managed its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In October 2010, additional requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through profit and loss. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit and loss and recognize the change in other comprehensive income.

IFRS 9 will become effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. The implementation of this issued standard is not expected to have a significant impact on the Company’s financial position or results.

### *IAS 12 – Income Taxes*

IAS 12 “Income Taxes” was amended on December 21, 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of this amendment to its financial statements.

## **RISK ASSESSMENT**

The reader is advised that the risk assessment for the Company is fully described in the MD&A at December 31, 2010 and is relevant to the readers’ understanding of the Company’s financial results as at March 31, 2011.

## **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).

# SEAVIEW ENERGY INC

Consolidated Statements of Financial Position  
(in thousands of Canadian dollars)

		March 31, 2011	December 31, 2010	January 1, 2010
	Note		(Note 15)	(Note 15)
<b>Assets</b>				
Accounts receivables		\$ 7,232	\$ 7,508	\$ 7,739
Prepaid expenses and deposits		945	1,037	1,027
Risk management contracts		862	1,151	-
Total current assets		9,039	9,696	8,766
Property, plant and equipment	8	144,179	136,364	147,040
Exploration and evaluation assets	9	5,395	4,996	433
Total non-current assets		149,574	141,360	147,473
Total assets		\$ 158,613	\$ 151,056	\$ 156,239
<b>Liabilities</b>				
Bank debt	12	\$ 26,522	\$ 16,494	\$ 38,044
Accounts payable and accrued liabilities		14,898	15,291	11,031
Risk management contracts		-	-	497
Total current liabilities		41,420	31,785	49,572
Risk management contracts	4	3,307	2,193	1,088
Flow through premium liability		-	-	288
Convertible Class B share liability	11	9,568	9,386	8,691
Decommissioning liability	13	2,360	2,273	2,638
Deferred tax liabilities		20,882	21,856	18,321
Total non-current liabilities		36,117	35,708	31,026
Total liabilities		77,537	67,493	80,598
<b>Shareholders' equity</b>				
Share capital	10	90,553	90,519	90,350
Contributed surplus		8,407	8,150	6,443
Deficit		(17,884)	(15,106)	(21,152)
Total shareholders' equity		81,076	83,563	75,641
Total liabilities and shareholders' equity		\$ 158,613	\$ 151,056	\$ 156,239

Subsequent event (Note 4)

Commitments (Note 14)

See accompanying notes to the unaudited interim consolidated financial statements

# SEAVIEW ENERGY INC

Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)  
For the three months ended March 31, 2011, with comparative figures for 2010  
(in thousands of Canadian dollars, except per share amounts)

	Note	2011	2010 (Note 15)
<b>Revenue</b>			
Oil and natural gas sales		\$ 6,382	\$ 11,056
Royalties		(764)	(1,725)
		5,618	9,331
<b>Risk management gain (loss)</b>			
Realized gain (loss) on risk management contracts	4	250	(283)
Unrealized gain (loss) on risk management contracts	4	(1,403)	2,664
		4,465	11,712
<b>Operating expenses</b>			
Operating		1,749	3,232
Transportation		300	376
General and administrative		502	665
Pre-license expenditures		168	-
Depletion and depreciation	8	4,926	5,958
Share based compensation	10	144	315
		7,789	10,546
Results from operating activities		(3,324)	1,166
<b>Finance expenses</b>			
Interest expense		202	334
Unrealized gain on financial contracts		-	(19)
Accretion on decommissioning obligations		44	53
Accretion on Convertible Class B share liability		182	169
Net finance expense	6	428	537
Income (loss) before taxes		(3,752)	629
Deferred income tax expense (reduction):		(974)	864
Net loss and comprehensive loss		\$ (2,778)	\$ (235)
Net loss per share – basic and diluted	10	\$ (0.04)	\$ 0.00

See accompanying notes to the unaudited interim consolidated financial statements

# SEAVIEW ENERGY INC

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2011, with comparative figures for 2010

(in thousands of Canadian dollars)

	Note	2011	2010
<b>Operating activities:</b>			
Net income		\$ (2,778)	\$ (235)
Adjustments for:			
Depletion and depreciation		4,926	5,958
Net finance expense	6	428	537
Deferred income tax (recovery) expense		(974)	864
Unrealized risk management loss (gain)		1,403	(2,664)
Share based compensation		144	315
Net interest paid	6	(202)	(334)
Decommissioning expenditures		(2)	(21)
		2,945	4,420
Change in non-cash working capital	7	270	2,572
		\$ 3,215	\$ 6,992
<b>Financing activities</b>			
Increase (decrease) in bank loans		10,028	(2,044)
Proceeds from issuance of shares		19	10
		\$ 10,047	\$ (2,034)
<b>Investing activities</b>			
Property, plant and equipment additions		(12,967)	(8,017)
Change in non-cash working capital	7	(295)	3,059
		\$ (13,262)	\$ (4,958)
Change in cash during the period		\$ -	\$ -
Cash – beginning of the period		-	-
Cash – end of the period		\$ -	\$ -

See accompanying notes to the unaudited interim consolidated financial statements

# SEAVIEW ENERGY INC

Consolidated Statements of Changes in Shareholders' Equity  
(in thousands of Canadian dollars)

	Note	Number of Class A shares	Class A share capital	Equity component of Class B share	Contributed surplus	Retained earnings (Deficit)	Total equity
Balance at January 1, 2011		65,536,768	\$ 93,011	\$ (2,492)	\$ 8,150	\$ (15,106)	\$ 83,563
Share based compensation expensed	10		-		144	-	144
Share based compensation capitalized	10		-		128	-	128
Options exercised	10	16,250	34		(15)	-	19
Net loss for the period			-		-	(2,778)	(2,778)
Balance at March 31, 2011		65,553,018	\$ 93,045	\$ (2,492)	\$ 8,407	\$ (17,884)	\$ 81,076

	Note	Number of Class A shares	Class A share capital	Equity component of Class B share	Contributed surplus	Retained earnings (Deficit)	Total equity
Balance at January 1, 2010		65,433,182	\$ 92,842	\$ (2,492)	\$ 6,443	\$ (21,152)	\$ 75,641
Share based compensation expensed	10		-		315	-	315
Share based compensation capitalized	10		-		264	-	264
Options exercised	10	20,751	47		(37)	-	10
Net loss for the period			-		-	(235)	(235)
Balance at March 31, 2010		65,453,933	\$ 92,889	\$ (2,492)	\$ 6,985	\$ (21,387)	\$ 75,995

See accompanying notes to the unaudited interim consolidated financial statements

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

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### 1. Structure of Seaview Energy Inc:

Seaview Energy Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta). The consolidated financial statements of the Company as at and for the three months ended March 31, 2011 and 2010 comprise the Company and its wholly owned subsidiaries. The Company is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others; these financial statements reflect only the Company's proportionate interest in such activities.

### 2. Basis of preparation:

#### (a) Statement of compliance:

The unaudited condensed interim consolidated financial statements have been prepared in compliance with IAS 34 "Interim Financial Reporting" and accordingly do not contain all of the disclosures that are required in the preparation of Seaview's annual audited consolidated financial statements. As these are the Company's first unaudited condensed interim consolidated financial statements under IFRS, the guidelines under IFRS 1 "First time Adoption of IFRS" have been applied as discussed in Note 15. Prior to 2011, Seaview prepared its unaudited interim consolidated financial statements and audited annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on June 20, 2011.

#### (b) Basis of measurement:

The unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for the following:

- (i) risk management financial instruments are measured at fair value; and
- (ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

All tabular amounts are in thousands of Canadian dollars, except numbers of shares, per share amounts, percentages and other figures as noted.

#### (c) Functional and presentation currency:

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

#### (d) Use of estimates and judgements:

The preparation of unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

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In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS consolidated financial statements.

- Note 4 – valuation of financial instruments
- Note 8 – valuation of property, plant and equipment
- Note 9 – valuation of intangible exploration assets
- Note 10 – measurement of share based payments
- Note 13 – decommissioning obligations

Reserve estimates impact a number of the areas referred to above and in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation.

### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

Certain comparative amounts have been reclassified to conform with the current year's presentation as noted in Note 15.

#### (a) Basis of consolidation:

##### (i) Business Combinations:

###### *Acquisition on or after January 1, 2010*

For all acquisitions on or after January 1, 2010, the Company measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interests in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

###### *Acquisition prior to January 1, 2010*

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010.

##### (ii) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

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into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iv) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable and accruals, accounts payable and accruals, compound instruments and bank loans. Non-derivative financial instruments are recognized initially at fair value, plus, for instruments not classified as "fair value through profit or loss", any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

*Compound Instruments*

Compound instruments are separated into their liability and equity components using the effective interest method. The liability component accretes up to the principal balance at maturity. The equity component will be reclassified to share capital upon conversion.

*Other*

Other non-derivative financial instruments, comprising accounts receivable and accruals, accounts payable and accruals and bank loans, are measured at amortized cost using the effective interest method, less any impairment losses. The Company nets all transaction costs incurred in relation to the acquisition of a financial asset or liability, against the related financial asset or liability. Bank loans are recorded net of issue costs and are presented net of deferred interest payments, with interest recognized in earnings on an effective interest basis.

ii) Derivative financial instruments:

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

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contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodities contracts to be economic hedges. Derivatives are recognized initially at fair value and are attributable. Transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in profit or loss.

The Company has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the balance sheet. Settlements on these physical sales contracts are recognized in oil and natural gas revenues.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in the consolidated statement of income.

iii) Share capital:

Class A shares are classified as equity. Convertible Class B shares are classified as compound instruments (See non-derivative financial instruments section above). Incremental costs directly attributable to the issue of Class A shares and share options are recognized as a deduction from equity, net of any tax effects.

(c) Exploration and evaluation assets ("E&E")

(i) Recognition and measurement

E&E assets are initially measured at cost. Items included in E&E primarily relate to exploratory drilling, geological & geophysical activities, acquisition of mineral rights and technical studies. Capital expenditures are classified as E&E assets when the technical feasibility and commercial viability of extracting oil and gas assets have yet to be determined.

(ii) Transfer to PP&E

E&E costs are transferred to PP&E when proved reserves have been assigned to the asset. If proved plus probable reserves will not be established through the completion of the E&E activities and there are no future plans for development activity in that field, then the E&E assets are determined to be impaired and the amounts are charged to income as E&E expense.

(iii) Pre-license costs

Pre-license expenditures incurred before the Company has obtained the legal rights to explore for hydrocarbons in a specific area are expensed.

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

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(iv) Impairment

E&E assets are tested for impairment when facts and circumstances indicate that a possible impairment may exist and prior to their reclassification to PP&E.

(d) Property, plant and equipment assets ("PP&E"):

(i) Recognition and measurement:

Capital expenditures are recognized in PP&E when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. PP&E includes capital expenditures incurred in the development phase, costs transferred from E&E and additions to the decommissioning liability.

Oil and gas properties are included in PP&E at cost, less accumulated depletion and depreciation and any impairment losses. The costs include transfers from E&E, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future decommissioning ; geological and geophysical costs; and directly attributable overheads.

(ii) Depletion and depreciation

Except for components with a useful life shorter than the reserve life of the associated property, resource properties are depleted using the unit-of-production method based on production volumes before royalties in relation to total proved reserves. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining the depletion base, the Company includes estimated future costs to develop and decommission total proved reserves and excludes estimated equipment salvage values and the costs of E&E assets. Changes in reserve estimates are included in the depletion calculation prospectively.

Components, including significant plant turnaround costs not depleted using the unit-of-production method, are depreciated on a straight-line basis over their useful life.

(iii) Derecognition

The carrying amount of an item of PP&E is derecognized when no future economic benefits are expected from its use or upon sale to a third party. The gain or loss arising from derecognition is included in income and is measured as the difference between the net proceeds, if any, and the carrying amount of the asset.

(iv) Major maintenance and repairs

Ongoing costs to maintain properties are generally expensed as incurred. These costs include the cost of labour, consumables and small parts. The costs of material replacement parts, turnarounds and major inspections are capitalized provided it is probable that future economic benefits in excess of costs will be realized and such benefits are expected to extend beyond the current operating period. The carrying amount of a replaced part is derecognized in accordance with our derecognition policies.

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(e) Impairment:

(i) Non-derivative financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market

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participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Any goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(f) Share based compensation:

Long-term incentives are granted to officers, directors, employees and certain consultants in accordance with the Company's stock option plan.

The fair value of the equity-settled stock options is assessed on the grant date using the Black-Scholes option pricing model. The fair value is subsequently recognized as share based compensation expense over the vesting period with a corresponding increase in contributed surplus. Upon exercise of the options, consideration paid by the stock option holders and the value in contributed surplus pertaining to the exercised options are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(g) Lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

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(i) Decommissioning liabilities:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

(j) Revenues:

Revenues from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(k) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on decommissioning obligations, accretion on the convertible Class B shares liability and impairment losses recognized on financial assets.

Finance income is recognized as it accrues in profit or loss, using the effective interest method.

(l) Flow through shares:

Resource expenditures for income tax purposes related to exploration and development activities funded by flow through share arrangements are renounced to investors in accordance with income tax legislation. A deferred liability is recognized for the premium on the flow through shares and is subsequently reversed as the Company incurs qualifying expenditures. Any difference between the deferred liability set up for the premium on the flow through shares and the tax effect on the renounced expenditures is recognized in profit and loss.

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### (m) Income tax:

Income tax expense comprises current and deferred tax. Income and deferred tax is recognized in the consolidated income statement except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable income before taxes;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (n) Per share information:

Basic per share information is calculated on the basis of the weighted average number of Class A shares outstanding during the period. Diluted per share information reflects the potential dilution effect of options and convertible Class B shares. The number of Class A shares obtained upon 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 period end.

### (o) New standards and interpretations not yet adopted:

The Company is currently reviewing the following new and revised accounting pronouncements that have been issued but are not yet effective to determine if they may have an impact on the Company:

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### *IFRS 9 – Financial Instruments.*

In November 2009, the IASB published IFRS 9 “Financial Instruments” which covers the classification and measurement of financial assets as part of its project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In October 2010, additional requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through profit and loss. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit and loss and recognize the change in other comprehensive income.

IFRS 9 will become effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. The implementation of this issued standard is not expected to have a significant impact on the Company’s financial position or results.

### *IAS 12 – Income Taxes*

IAS 12 “Income Taxes” was amended on December 21, 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of this amendment to its financial statements.

## **4. Financial risk management:**

The Company has exposure to credit and market risks from its use of financial instruments. This note provides information about the Company’s exposure to each of these risks, the Company’s objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

### a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation and arises, primarily from joint venture partners, marketers and financial intermediaries.

The Company’s accounts receivable are with customers and joint venture partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to numerous purchasers under normal industry sale and payment terms. The Company routinely assesses the financial strength of its customers.

The Company may be exposed to certain losses in the events of non-performance by counterparties to financial instrument contracts. The Company mitigates this risk by entering into transactions with highly rated financial institutions.

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The carrying amount of accounts receivable represents the maximum credit exposure. As at March 31, 2011 the Company's receivables consisted of \$2.6 million of receivables from oil and natural gas marketers which has substantially been collected, subsequent to March 31, 2011, \$1.5 million from joint venture partners of which \$0.5 million has been subsequently collected. As at March 31, 2011 the Company has \$0.6 million in accounts receivable that is considered to be past due. Although these amounts have been outstanding for greater than 90 days, they are still deemed to be collectible. As the operator of properties, the Company has the ability to withhold production to joint venture partners, who are in default of amounts owing. The Company does not have an allowance for doubtful accounts as at March 31, 2011 and did not provide for any doubtful accounts during the three months ended March 31, 2011.

b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable and accrued liabilities, financial instruments contracts and bank debt. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities, capital expenditures, and distributions payable. The Company processes invoices within a normal payment period.

Accounts payable and accrued liabilities have contractual maturities of less than one year. Risk management contracts have contractual maturities of less than two years. The Company maintains a demand credit facility, as outlined in note 12, which is reviewed periodically with the lender. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating, investing and capital expenditures.

c) Commodity price risk:

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by global economic events that dictate the levels of supply and demand but also by the relationship between the Canadian and United States dollar. The Company has attempted to mitigate a portion of the commodity price risk through the use of various risk management financial contracts. The Company's policy is to enter into commodity price contracts when considered appropriate to a maximum of 50% of forecasted production volumes, unless otherwise approved by the Board of Directors.

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As at March 31, 2011, the Company had the following contracts:

Natural gas	Volume	Pricing Point	Price	Fair Value	Term
Put <sup>(1)</sup>	2,000 gj/d	AECO Monthly	\$ 4.75/gj	\$ 572	January '10 – December '11
Put	6,140 gj/d	AECO Monthly	\$ 4.00/gj	\$ 805	January '11 – December '11
Call	3,000 gj/d	AECO Monthly	\$ 7.04/gj	\$ (21)	January '12 – December '12
Crude Oil					
Put <sup>(2)</sup>	200 bbl/d	WTI – Nymex CAD	\$ 75.00/bbl	\$ (515)	January '10 – December '11
Call	100 bbl/d	WTI – Nymex CAD	\$ 88.25/bbl	\$ (790)	January '13 – December '13
Call	200 bbl/d	WTI – Nymex	\$ 72.50/bbl	\$ (2,496)	January '13 – December '13
Fair value of commodity price contracts <sup>(3)</sup>				\$ (2,445)	

(1) 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.

(2) 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.

(3) Amount represents the net of the long-term liability of \$3.3 million offset by the current asset of \$0.9 million as shown on the consolidated balance sheet.

Subsequent to the end of the quarter, the Company terminated the natural gas call for 3,000 gj/d at \$7.04/gj for 2012 and replaced it with a natural gas call for 3,000 gj/d at \$7.40/gj for 2013.

Risk management financial contracts are recorded on the consolidated balance sheet at fair value at each reporting period with the change in fair value being recognized as an unrealized gain or loss on the consolidated statements of income. As at March 31, 2011, the fair market value recorded on the consolidated statement of financial position for these financial instrument contracts was a net liability of \$2.4 million, compared to a net liability of \$1.0 million as at December 31, 2010 and a net liability of \$1.6 million at January 1, 2010. The increase in net liability from December 31, 2010 to March 31, 2011 has been recorded as an unrealized loss on risk management contracts during the period.

The Company mitigates its risk associated with fluctuations in commodity prices by utilizing financial instrument contracts. A \$0.25 change in the price per thousand cubic feet of natural gas - AECO would have an impact of approximately \$193,000 on net income for those financial instrument contracts that were in place as at March 31, 2011. A \$1.00 increase in the price per barrel of oil – WTI would have increased net income by approximately \$18,000 for those financial instrument contracts that were in place as at March 31, 2011.

#### d) Foreign exchange 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. The Company’s other financial assets and liabilities are not affected by a change in currency rates.

#### e) Interest rate risk:

The Company is exposed to interest rate risk on its outstanding bank debt, as it has a floating interest rate and consequently changes to interest rates would impact the Company’s future cash flows. If interest rates applicable to the variable rate debt increased by 1% it is estimated that the Company’s net income for the period ended March 31, 2011 would decrease by \$157,000.

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### 5. Capital management:

The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through strategic acquisitions and expenditures on exploration and development activities while maintaining a strong financial position which balances the interests of equity and debt holders.

The Company considers its capital structure to include working capital (excluding associated assets and liabilities from financial instrument contracts and their related tax impact), bank debt, Convertible Class B share liability and shareholders' equity. The Company monitors capital based on the ratio of net debt to annualized funds from operations. The ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus net working capital, divided by funds from operations for the most recent calendar quarter, annualized (multiplied by four). The Company's strategy is to maintain a ratio of less than 2.0 to 1. This ratio may increase at certain times as a result of acquisitions, timing of capital expenditures, or low commodity prices. As at March 31, 2011, the Company's ratio of net debt to first quarter annualized funds from operations was 2.8 to 1 (March 31, 2010 – 2.5 to 1) due to increased capital expenditures in the first quarter.

In order to facilitate the management of this ratio, the Company prepares annual funds from operations and capital expenditure budgets, which are updated as necessary, and are reviewed and periodically approved by the Company's Board of Directors. 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 Company's oil and natural gas assets; the depth of its investment opportunities; current and forecasted net debt levels; current and forecasted commodity prices; and other factors that influence commodity prices and funds from operations, such as quality and basis differentials, royalties, operating costs and transportation costs. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The credit facilities are subject to a semi-annual review of the borrowing base which is directly impacted by the value of the oil and natural gas reserves.

### 6. Finance income and expenses:

	Three months ended March 31,	
	2011	2010
Finance income:		
Net change in fair value of risk management financial contracts	\$ -	\$ (19)
Finance expense:		
Interest on loans and borrowings	202	334
Accretion on decommissioning obligations (note 13)	44	53
Accretion on Convertible Class B share liability (note 11)	182	169
	<u>428</u>	<u>556</u>
Net finance expenses	\$ 428	\$ 537

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The Company's effective interest rate for the period ending March 31, 2011 was approximately 3.8%  
(March 31, 2010 – 3.4%)

### 7. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

As at March 31,	2011	2010
Source(use) of cash:		
Accounts receivables and accrued assets	\$ 276	\$ 19
Prepaid expenses and deposits	92	84
Accounts payables and accrued liabilities	(393)	5,528
	\$ (25)	\$ 5,631
Related to operating activities	\$ 270	\$ 2,572
Related to investing activities	\$ (295)	\$ 3,059

### 8. Property, plant and equipment:

Cost or deemed cost

	Oil & natural gas interests	Other equipment	Total
Balance, January 1, 2010	\$ 138,904	\$ 8,136	\$ 147,040
Additions	5,028	-	5,028
Disposals	-	(162)	(162)
Transfer from intangible exploration assets	7,279	-	7,279
Balance, December 31, 2010	151,211	7,974	159,185
Additions	12,741	-	12,741
Balance, March 31, 2011	\$ 163,952	\$ 7,974	\$ 171,926

Accumulated depletion, depreciation and impairment losses

	Oil & natural gas interests	Other equipment	Total
Balance, January 1, 2010	\$ -	\$ -	\$ -
Depletion and depreciation	22,274	547	22,821
Balance, December 31, 2010	22,274	547	22,821
Depletion and depreciation	4,797	129	4,926
Balance, March 31, 2011	\$ 27,071	\$ 676	\$ 27,747

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Net Book Value	Oil & natural gas interests	Other equipment	Total
At January 1, 2010	\$ 138,904	\$ 8,136	\$ 147,040
At December 31, 2010	\$ 128,937	\$ 7,427	\$ 136,364
At March 31, 2011	\$ 136,881	\$ 7,298	\$ 144,179

(a) Security:

At March 31, 2011 and 2010 all of the Company's properties are pledged as security for the bank loans.

(b) Contingencies:

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

### 9. Exploration and evaluation assets (E&E):

	Total Cost
Balance, January 1, 2010	\$ 433
Acquisitions	2,668
Additions	9,174
Transfer to property, plant and equipment	(7,279)
Balance, December 31, 2010	4,996
Additions	399
Balance, March 31, 2011	\$ 5,395

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proved reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. As at March 31, 2011 an amount of \$4.5 million (March 31, 2010 – \$3.2 million) remains in intangible exploration assets in respect of the Wapiti project after \$7.3 million was transferred to property, plant, and equipment following the successful initial phase of the appraisal program in the Wapiti area.

### 10. Share capital:

At March 31, 2011 and 2010, the Company was authorized to issue an unlimited number of Class A and preferred shares, all with no par value.

The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share.

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## Notes to Consolidated Financial Statements

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(a) Share based payments:

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 90 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.

Outstanding stock options	Number of Options	Weighted Average Exercise Price
Outstanding December 31, 2010	5,463,332	\$1.41
Granted	187,500	\$1.19
Exercised	(16,250)	\$1.19
Forfeited	(45,082)	\$1.08
<b>Outstanding as at March 31, 2011</b>	<b>5,589,500</b>	<b>\$1.40</b>
<b>Exercisable as at March 31, 2011</b>	<b>3,168,354</b>	<b>\$1.37</b>

On January 5, 2011, the Company granted options to acquire up to 187,500 Class A shares at a price of \$1.19 per share, none of which were granted to officers or directors of the Company.

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.00 to \$0.99	1,486,810	2.2	\$ 0.50	1,257,652	\$ 0.48
\$1.00 to \$2.00	3,105,190	3.4	\$ 1.14	1,245,698	\$ 1.09
\$2.01 to \$4.00	997,500	2.3	\$ 3.57	665,004	\$ 3.57
	5,589,500	2.9	\$ 1.40	3,168,354	\$ 1.37

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All granted options have an estimated weighted average fair value determined using the Black-Scholes model using the following assumptions:

Grant date	Grant Price	Risk free interest rate	Volatility %	Dividend Yield	Fair Value per option
October, 2007	\$0.40	4.35 %	56.65 %	-	\$1.10
March, 2008	\$1.00	2.91 %	72.62 %	-	\$0.61
June, 2008	\$3.20	3.18 %	88.44 %	-	\$2.25
August, 2008	\$3.80	3.21 %	94.53 %	-	\$2.78
March 2, 2009	\$0.62	1.91 %	117.14 %	-	\$0.51
October, 2009	\$1.19	2.77 %	102.97%	-	\$0.91
September, 2010	\$1.14	2.19 %	90.51 %	-	\$0.80
January, 2011	\$1.19	2.56 %	86.27 %	-	\$0.82

Total compensation expense is amortized over the vesting period of the option. Compensation expense of \$143,531 has been recognized in the three months ended March 31, 2011 (\$314,685 – March 31, 2010) based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for share based compensation. An additional \$127,835 in share based compensation has been capitalized in the three months ended March 31, 2011 (March 31, 2010 – \$264,123).

### (b) Per share amounts

Per share amounts have been calculated using the weighted average number of shares outstanding during the period. For the three months ended March 31, 2011 and 2010, both the effect of the conversion of the Class B shares and the effect of options have been excluded in the calculation of weighted average diluted shares as they would have been anti-dilutive.

	Three Months ended March 31	
	2011	2010
Weighted average number of shares (thousands)		
Basic equivalent shares (Class A shares)	65,542	65,438
Class B shares converted to Class A shares <sup>(1)</sup>	-	-
In the money stock options	-	-
<b>Diluted equivalent shares</b>	<b>65,542</b>	<b>65,438</b>

<sup>(1)</sup> The number of Class A shares obtained upon the conversion of each Class B shares 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.

### 11. Convertible Class B Shares:

On October 17, 2007, the Company issued 1,053,540 convertible Class B shares (the “Class B shares”) on a flow through basis at a price of \$10.00 per share. The 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 upon five days prior notice to holders of Class B shares. The number of Class A shares obtained upon conversion of

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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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 (the "conversion formula"). If the Company fails to exercise the conversion option by the close of business on May 31, 2012, then the Class B shares shall be convertible at the option of the shareholder, at any time after June 1, 2012 and before June 30, 2012, into Class A shares pursuant to the conversion formula described above. Any Class B shares not converted by the close of business on June 30, 2012 will be automatically converted into Class A shares pursuant to the conversion formula. The Class B shares are listed and posted for trading on the TSX Venture exchange under the symbol "CVU.B".

The Class B shares were determined to be compound instruments. As the Class B shares are convertible into Class A common shares, based on the conversion formula above, the number of Class A shares is unknown, and therefore presented as a liability. The Class B share liability is accreted using the effective interest rate method over the term of the Class B shares, such that the carrying amount of the financial liability will be equal to the principal balance of \$10.5 million at maturity.

	Three months ended March 31, 2011	Year ended December 31, 2010
Balance, beginning of the period	\$ 9,386	\$ 8,691
Accretion on Convertible Class B share liability	182	695
Balance, end of the period	\$ 9,568	\$ 9,386

## 12. Bank Debt

As at March 31, 2011, 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 Company.

At March 31, 2011, the revolving demand credit facility was drawn to \$26.5 million. The Company also had an issued letter of credit in the amount of approximately \$0.1 million.

The next interim review is scheduled for September, 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.

## 13. Decommissioning obligations:

### (a) Decommissioning obligations:

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The Company estimates the total undiscounted amount of expenditures required to settle its decommissioning liability is approximately \$5.6 million (December 31, 2010 – \$5.5 million) which will be incurred over the next 20 years, with the majority of these costs incurred between 2018 and 2028. A credit adjusted risk-free rate of 8% was used to discount this amount. As at March 31, 2011, no funds have been set aside to fund this obligation.

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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	March 31 2011	December 31 2010
Asset retirement obligation, beginning of period	\$ 2,273	\$ 2,638
Liabilities eliminated on disposition	-	(757)
Liabilities incurred	45	218
Accretion expense	44	174
Actual abandonment expenditures incurred	(2)	-
Asset retirement obligation, end of period	\$ 2,360	\$ 2,273

#### 14. Commitments:

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 4). The future premiums Seaview is committed to pay are included in the table below.

The Company's future contractual commitments are highlighted below:

	Total	2011	2012
Operating leases	\$ 478	215	263
Financial instrument premiums	\$ 1,183	1,183	-
Total contractual obligations	\$ 1,661	1,398	263

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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### 15. Transition to IFRS:

The Company's accounting policies under IFRS differ from those followed under previous GAAP as described in Note 3. These accounting policies have been applied for the three months ended March 31, 2011, as well as the to the opening consolidated balance sheets on the transition date, January 1, 2010, the comparative information for the three months ended March 31, 2010 and the comparative information for the year ended December 31, 2010.

The adjustments arising from the application of IFRS to amounts on the consolidated balance sheets on the transition date and on the transactions prior to that date, were recognized as an adjustment to the Company's opening deficit category on the consolidated balance sheet when appropriate.

On transition to IFRS on January 1, 2010, the Company used certain exemptions allowed under IFRS 1 "First Time Adoption of International Financial Reporting Standards". The exemptions used were:

*Full Cost Accounting* – IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption to IFRS, to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. The Company has used reserve volumes as of January 1, 2010 to allocate the cost of development and production assets to CGU's.

*Business Combinations* – IFRS 1 allows an entity to use the IFRS rules for business combinations on a prospective basis rather than restating all business combinations. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Company's previous GAAP.

*Share based compensation* – IFRS 1 allows an entity an exemption on IFRS 2, "Share Based Payments" to equity instruments which vested before the Company's transition date to IFRS.

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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### Statement of financial position at the date of IFRS transition – January 1, 2010:

(in thousands of dollars)	Effect of transition to IFRS						IFRS
	Canadian GAAP	Impairment (note 15b)	E&E assets (note 15a)	Share based payments (note 15e)	Share capital adjustments (note 15f)	Deferred taxes (note 15g)	
<b>ASSETS</b>							
Current assets:							
Accounts receivables	\$ 7,739	\$	\$	\$	\$	\$	\$ 7,739
Prepaid expenses and deposits	1,027						1,027
Deferred tax assets	139					(139)	-
Total current assets	8,905					(139)	8,766
Property, plant and equipment	149,942	(2,469)	(433)				147,040
Exploration and evaluation assets	-		433				433
Goodwill	7,563	(7,563)					-
Total non-current assets	157,505	(10,032)	-				147,473
Total assets	\$ 166,410	\$ (10,032)	\$ -	\$ -	\$ -	\$ (139)	\$ 156,239
<b>LIABILITIES AND EQUITY</b>							
Current liabilities:							
Bank debt	\$ 38,044	\$	\$	\$	\$	\$	\$ 38,044
Accounts payables and accrued liabilities	11,031						11,031
Risk management contracts	497						497
Total current liabilities	49,572						49,572
Risk management contracts	1,088						1,088
Flow through premium liability	-				288		288
Convertible Class B share liability	-				8,691		8,691
Decommissioning obligations	2,638						2,638
Deferred tax liabilities	18,236				849	(764)	18,321
Total non-current liabilities	21,962				9,828	(764)	31,026
Total liabilities	71,534				9,828	(764)	80,598
Shareholders' Equity:							
Share capital	97,374				(7,024)		90,350
Contributed surplus	5,188			1,255			6,443
Deficit	(7,686)	(10,032)		(1,255)	(2,804)	625	(21,152)
Total shareholders' equity	94,876	(10,032)		-	(9,828)	625	75,641
Total liabilities and shareholders' equity	\$ 166,410	\$ (10,032)	\$ -	\$ -	\$ -	\$ (139)	\$ 156,239

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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### Statement of financial position at March 31, 2010:

(in thousands of dollars)	Effect of transition to IFRS								IFRS
	Canadian GAAP	Impairment (note 15b)	E&E assets (note 15a)	Depletion and Deprec (note 15c)	Other PP&E adjs (note 15c)	Share based payments (note 15e)	Share capital adjs (note 15f)	Deferred taxes (note 15g)	
<b>ASSETS</b>									
Current assets:									
Accounts receivables	\$ 7,720	\$	\$	\$	\$	\$	\$	\$	\$ 7,720
Prepaid expenses and deposits	943								943
Risk management contracts	1,611								1,611
Total current assets	10,274								10,274
Property, plant and equipment	152,184	(2,469)	(4,113)	300	(151)	26			145,777
Exploration and evaluation assets	-		4,113						4,113
Goodwill	7,563	(7,563)							-
Total non-current assets	159,747	(10,032)	-	300	(151)	26			149,890
Total assets	\$ 170,021	\$ (10,032)	\$ -	\$ 300	\$ (151)	\$ 26	\$	\$	\$ 160,164
<b>LIABILITIES AND EQUITY</b>									
Current liabilities:									
Bank debt	\$ 36,000	\$	\$	\$	\$	\$	\$	\$	\$ 36,000
Accounts payables and accrued liabilities	16,559								16,559
Deferred tax liabilities	451							(451)	-
Total current liabilities	53,010							(451)	52,559
Risk management contracts	513								513
Flow through premium liability	-								-
Convertible Class B share liability	-						8,860		8,860
Decommissioning obligations	2,764								2,764
Deferred tax liabilities	19,237				(84)		412	(92)	19,473
Total non-current liabilities	22,514				(84)		9,272	(92)	31,610
Total liabilities	75,524				(84)		9,272	(543)	84,169
Shareholders' Equity:									
Share capital	96,163						(5,766)		90,397
Contributed surplus	5,685					1,300			6,985
Deficit	(7,351)	(10,032)		300	(67)	(1,274)	(3,506)	543	(21,387)
Total shareholders' equity	94,497	(10,032)		300	(67)	26	(9,272)	543	75,995
Total liabilities and shareholders' equity	\$ 170,021	\$ (10,032)	\$	\$ 300	\$ (151)	\$ 26	\$ -	\$ -	\$ 160,164

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

### Statement of financial position at the end of the last reporting year - December 31, 2010:

(in thousands of dollars)	Effect of transition to IFRS								IFRS
	Canadian GAAP	Impairment (note 15b)	E&E assets (note 15a)	Depletion and Deprec (note 15c)	Other PP&E adjs (note 15c)	Share based payments (note 15e)	Share capital adjs (note 15f)	Deferred taxes (note 15g)	
<b>ASSETS</b>									
Current assets:									
Accounts receivables	\$ 10,488	\$	\$	\$	\$ (2,980)	\$	\$	\$	\$ 7,508
Prepaid expenses and deposits	1,037								1,037
Risk management contracts	1,151								1,151
Total current assets	12,676								9,696
Property, plant and equipment	125,764	(2,469)	(4,996)	(261)	18,436	(109)			136,365
Exploration and evaluation assets	-		4,996						4,996
Goodwill	7,563	(7,563)							-
Total non-current assets	133,327	(10,032)	-	(261)	15,456	(109)			141,361
Total assets	\$ 146,003	\$ (10,032)	\$ -	\$ (261)	\$ 15,456	\$ (109)	\$	\$	\$ 151,057
<b>LIABILITIES AND EQUITY</b>									
Current liabilities:									
Bank debt	\$ 16,494	\$	\$	\$	\$	\$	\$	\$	\$ 16,494
Accounts payables and accrued liabilities	15,291								15,291
Deferred tax liabilities	322							(322)	-
Total current liabilities	32,107								31,785
Risk management contracts	2,193								2,193
Convertible Class B share liability	-						9,386		9,386
Decommissioning obligations	2,273								2,273
Deferred tax liabilities	18,314				(338)		280	3,601	21,857
Total non-current liabilities	22,780				(338)		9,666	3,601	35,709
Total liabilities	54,887				(338)		9,666	3,279	67,494
Shareholders' Equity:									
Share capital	96,285						(5,766)		90,519
Contributed surplus	7,218					932			8,150
Deficit	(12,387)	(10,032)		(261)	15,794	(1,041)	(3,900)	(3,279)	(15,106)
Total shareholders' equity	91,116	(10,032)		(261)	15,794	(109)	(9,666)	(3,279)	83,563
Total liabilities and shareholders' equity	\$ 146,003	\$ (10,032)	\$ -	\$ (261)	\$ 15,456	\$ (109)	\$ -	\$ -	\$ 151,057

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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### Reconciliation of consolidated statement of operations and comprehensive income for the three months ended March 31, 2010:

(in thousands of dollars)	Effect of transition to IFRS						IFRS
	Canadian GAAP	Depletion and Depreciation (note 15c)	Other PP&E adjustments (note 15c)	Share based payments (note 15e)	Share capital adjustments (note 15f)	Deferred taxes (note 15g)	
<b>REVENUES</b>							
Petroleum and natural gas sales	\$ 11,056	\$	\$	\$	\$	\$	\$ 11,056
Royalties	(1,725)						(1,725)
Realized loss on financial contracts	(283)						(283)
Unrealized gains on financial contracts	2,664						2,664
	11,712	-			-	-	11,712
<b>EXPENSES</b>							
Operating expenses	\$ 3,232	\$	\$	\$	\$	\$	\$ 3,232
Transportation expense	376						376
General and administrative	598		67				665
Depletion and depreciation	6,258	(300)					5,958
Share based compensation	296			19			315
	10,760	(300)	67	19			10,546
Results from operating activities	952	300	(67)	(19)			1,166
Finance expenses							
Interest expense	334						334
Unrealized gain on financial contracts	(19)						(19)
Accretion on decommissioning obligations	53						53
Accretion on Convertible Class B share liability	-				169		169
Net finance expenses	368				169		537
Income (loss) before taxes	584	300	(67)	(19)	(169)		629
Deferred income tax expense	249				533	82	864
Income (loss) and comprehensive income (loss) for the period	\$ 335	\$ 300	\$ (67)	\$ (19)	\$ (702)	\$ (82)	\$ (235)

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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### Reconciliation of consolidated statement of operations and comprehensive income for the year ended December 31, 2010:

(in thousands of dollars)	Effect of transition to IFRS						IFRS
	Canadian GAAP	Depletion and Depreciation (note 15c)	Other PP&E adjustments (note 15c)	Share based payments (note 15e)	Share capital adjustments (note 15f)	Deferred taxes (note 15g)	
<b>REVENUES</b>							
Petroleum and natural gas sales	\$ 33,386	\$	\$	\$	\$	\$	\$ 33,386
Royalties	(4,373)						(4,373)
Realized gain on financial contracts	1,785						1,785
Unrealized gains on financial contracts	519						519
	31,317	-	-	-	-	-	31,317
<b>EXPENSES</b>							
Operating expenses	\$ 8,115	\$	\$	\$	\$	\$	\$ 8,115
Transportation expense	1,522						1,522
General and administrative	2,649		248				2,897
Pre-license expenditures	-		241				241
Gain on sale of property, plant and equipment	-		(16,283)				(16,283)
Depletion and depreciation	22,560	261					22,821
Share based compensation	1,144			(214)			930
	35,990	261	(15,794)	(214)			20,243
Results from operating activities	(4,673)	(261)	15,794	214			11,074
Finance expenses							
Interest expense	935						935
Unrealized gain on financial contracts	(24)						(24)
Accretion on decommissioning obligation	174						174
Accretion on Convertible Class B share liability					695		695
Net finance expenses	1,085				695		1,780
Income (loss) before taxes	(5,758)	(261)	15,794	214	(695)		9,294
Deferred income tax expense (reduction)	(1,057)				401	3,904	3,248
Income (loss) and comprehensive income (loss) for the period	\$ (4,701)	\$ (261)	\$ 15,794	\$ 214	\$ (1,096)	\$ (3,904)	\$ 6,046

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## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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### Notes to reconciliations

#### (a) IFRS 1 election for full cost oil and gas entities

The Company elected an IFRS 1 exemption whereby the previous GAAP full cost pool was measured upon transition to IFRS as follows:

- (i) exploration and evaluation assets were reclassified from the full cost pool to intangible exploration assets at the amount that was recorded under previous GAAP; and
- (ii) the remaining full cost pool was allocated to the producing/development assets and components pro rata using proved plus probable reserve volumes.

This resulted in a transfer of \$0.4 million to exploration and evaluation assets with a corresponding decrease in property, plant and equipment. As at March 31, 2010, the transfer was \$4.1 million and as at December 31, 2010, the transfer was \$ 5.0 million, which included undeveloped land acquired in 2010 net of expiries.

#### (b) IAS 36 Adjustments – Impairment of property, plant and equipment (“PP&E”)

In accordance with IFRS, impairment tests of PP&E must be performed at the cash generating unit (“CGU”) level as opposed to the entire PP&E balance which was required under the previous GAAP through the full cost ceiling test. An impairment is recognized if the carrying value exceeds the recoverable amount (greater of value in use or fair value less costs to sell) for a CGU. For Seaview, the recoverable amount is determined using fair value less cost to sell based on discounted future cash flows on proved plus probable reserves using forecast prices and costs. As a result of this impairment testing at the CGU level, the Company recognized an impairment of \$2.5 million at January 1, 2010 with a corresponding increase to the deficit on the consolidated balance sheet. For the three months ended March 31, 2010 and the year ended December 31, 2010, the Company’s carrying value exceeded the recoverable amount for each CGU, therefore no further impairment was required. PP&E impairments can be reversed in the future if the recoverable amount increases.

In accordance with the standard, goodwill has been allocated to the specific CGU’s that are expected to benefit from the acquisitions for the purpose of impairment testing. As a result, the impairment test for goodwill is now performed on a smaller portion of the Company’s assets than under the previous GAAP. The impact of the impairment test under IAS 36 on January 1, 2010 resulted in a write-down of goodwill of \$7.6 million with a corresponding increase to the deficit on the consolidated balance sheet.

#### (c) IAS 16 Adjustments – Property, Plant and Equipment

##### *Depletion and Depreciation.*

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved reserves which is consistent with the depletion policy under previous GAAP. However, under the previous GAAP, depletion was done on the Canadian cost centre under previous GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (ie. fields or combinations thereof).

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as discussed above.

For the three months ended March 31, 2010, depleting the oil and gas interests at the individual component level as opposed to the Canadian cost centre level resulted in a decrease to the depletion and depreciation of \$0.3 million. For the year ended December 31, 2010, depletion and depreciation was increased by \$0.3 million as a result of changes to the depletion calculation.

For exploration and evaluation assets, the cost of developed land that expires during the period is charged as additional depletion and depreciation expense.

### *Other adjustments to PP&E*

Under previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater, in which case a gain or loss was recorded. Under IFRS, gains and losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed. For the year ended December 31, 2010, Seaview recognized a \$16.3 million net gain on divestitures under IFRS compared to nil under the previous GAAP with an increase in PP&E where the proceeds were originally recorded under previous GAAP.

IFRS also requires that the capitalization of general and administrative costs be limited to directly attributable costs. Under previous GAAP, a reasonable allocation of general and administrative costs to PP&E was acceptable. As a result of the change in capitalization criteria, the Company increased its general and administrative expense by \$0.1 million during the three months ended March 31, 2010 and \$0.2 million for the year ended December 31, 2010 with a corresponding decrease in PP&E.

Under previous GAAP, a deferred tax adjustment was recorded related to share based compensation costs capitalized. No such adjustment is made under IFRS. As a result of this change, PP&E was reduced by \$0.1 million at March 31, 2010 and \$0.3 million at December 31, 2010 with a corresponding decrease to the deferred tax liability.

Under IFRS, costs incurred prior to obtaining the legal right to explore must be expensed. Under previous GAAP, these costs were capitalized and depleted within the full cost pool. For the three months ended March 31, 2010, the Company did not incur any such costs therefore no adjustment was required for this period. For the year ended December 31, 2010, the Company recorded \$0.2 million of pre-license expenditures with a corresponding decrease in PP&E.

An adjustment of \$3.0 million to PP&E was made at December 31, 2010 to account for Alberta Drilling Credits that will expire without recovery or sale with a corresponding decrease to accounts receivable.

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

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(d) IAS 37 adjustments – Provisions, Contingent Liabilities and Contingent Assets

Consistent with IFRS, decommissioning obligations (asset retirement obligations under previous GAAP) were measured under previous GAAP based on the estimated cost of decommissioning, discounted to their net present value upon initial recognition. Under previous GAAP, asset retirement obligations were discounted at a credit adjusted risk free rate of eight to ten percent. Under IFRS, decommissioning obligations can be calculated using either a risk free rate, which differs from previous GAAP, or a credit adjusted risk free rate consistent with previous GAAP. Seaview chose to use the credit adjusted risk free interest rate and therefore no adjustment was required upon transition to IFRS. Under IFRS, the unwinding of the discount rate is charged as interest expense versus accretion expense under previous GAAP.

(e) IFRS 2 Adjustments – Share based compensation:

Under the previous GAAP, the Company recognized an expense related to their share based compensation on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate at the date of grant and update it throughout the vesting period. The impact on transition was an increase to contributed surplus of \$1.3 million with an offsetting increase to the opening deficit. For the three months ended March 31, 2010, the Company increased the amount of share based compensation expense by \$19,000 and for the year ended December 31, 2010, share based compensation expense was reduced by \$214,000, with corresponding adjustments in retained earnings.

(f) Share Capital adjustments

Under previous GAAP, the Company's convertible Class B shares were presented as equity. Under IFRS, the Class B shares do not qualify for equity presentation and must be presented as a liability, due to the number of Class A shares issued on conversion, based on the conversion formula (note 11), not being certain until the Company exercises conversion. As such, the Company has retrospectively adjusted the presentation of its \$11.71 million Initial Public Offering ("IPO") on October 17, 2007, which included the convertible Class B shares. The value of Class A shares on issuance was determined to be \$1.17 million (\$0.25 per Class A share). It was also determined that the face value of convertible Class B shares is \$10.54 million (\$10.00 per Class B share). Using an 8 percent discount rate and a term of 4.75 years, the Company calculated a present value of the Class B shares of \$6.81 million on issuance, which will accrete to the \$10.54 million face value on May 31, 2012, the expiration date of the Company's conversion option. A deferred tax liability of \$0.80 million was recognized on issuance relating to the difference between the face value and present value of the Class B shares, tax effected at 25 percent. The deferred tax liability is reversed proportionately to the accretion expense on the convertible Class B share liability. Flow through share premiums of \$0.22 million and \$1.97 million were recognized for the Class A and Class B shares, respectively. The Class A flow through share premium reduced share capital while the Class B flow through share premium was recorded to the equity component of Class B shares, along with a put option premium of \$0.52 million, recognizing the value of the Company's lower limit of \$1.00 per Class A share in the Class B to Class A conversion formula.

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## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
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The following table is a reconciliation of the Company's IPO from previous GAAP to IFRS at January 1, 2010:

(\$000s)	Previous GAAP	Adjustments	IFRS
Class A share capital	872	3,002	3,874
Convertible Class B share capital	7,847	(7,847)	-
Convertible Class B share liability	-	8,691	8,691
Equity component of Class B shares	-	(2,492)	(2,492)
Deficit	-	(1,816)	(1,816)
Deferred income taxes	2,987	462	3,449
Gross proceeds from IPO	11,706	-	11,706

Under previous GAAP, the Company recorded the deferred tax impact on renouncement of flow through shares against share capital. Under IFRS, the Company is required to record a premium liability when the flow through shares are issued, which is relieved as the Company incurs qualifying expenditures, with the difference going to deferred tax expense. As a result of this change in the treatment of deferred taxes, at transition, the Company recorded an additional \$1.1 million to share capital, a premium liability of \$0.3 million, an additional deferred tax liability of \$0.4 million and a reduction of \$1.8 million in retained earnings for flow through shares that had been previously issued and partially renounced at transition. As at March 31, 2010, the issued shares were fully renounced with the premium liability being fully relieved, the recognition of a further \$0.6 million of deferred tax expense and an increase of \$0.9 million to deferred tax liability, representing the renouncement of the remaining expenditures to the holders. These amounts were further adjusted by the reversal of the renouncement recorded under previous GAAP, which then increased share capital by a further \$1.3 million with a corresponding decrease to deferred tax liability. There was no further effect at December 31, 2010, as the obligation to incur qualifying expenditures was fully satisfied by March 31, 2010.

(g) IAS 12 Adjustments – Income taxes:

The aforementioned changes increased (decreased) the net deferred tax liability as follows based on a tax rate of 25 percent:

	December 31, 2010	March 31, 2010	January 1, 2010
Impairment of PP&E on transition (note 15b)	\$ (625)	\$ (625)	\$ (625)
Flow through share issue renouncement (note 15f)	(8)	(8)	387
Convertible Class B share liability (note 15f)	288	420	462
Depletion and depreciation (note 15c)	(65)	75	-
Stock based compensation spiral (note 15c)	(338)	(84)	-
Other PP&E adjustments (note 15c)	3,969	7	-
Increase (decrease) in deferred tax liabilities	\$ 3,221	\$ (215)	\$ (224)

# SEAVIEW ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

Under IFRS, there is no requirement to separate the portion of deferred income taxes related to current assets or liabilities. The amounts previously classified as current have been reclassified to long-term.

Adjustments to deferred income taxes have been made in regards to the adjustments noted above that resulted in a change to the temporary differences between tax and accounting values.

### (h) Finance expenses

Under IFRS, a separate line item is required in the income statement for finance expense. The items under the previous GAAP that were reclassified to finance expenses were interest and financing expense, the accretion on the decommissioning obligations, and the unrealized gain on risk management financial contracts regarding interest rate swaps.

### (i) Major turnaround and overhaul expenditures

Under IFRS, the Company capitalizes the cost of major plant turnarounds and overhauls and depreciates these costs over their useful life. Previously, these costs were depreciated on a unit-of-production basis. The result of the change is an acceleration of depreciation charges on these items which is included in the adjustments discussed under depletion and depreciation above.

### (j) Opening Retained Earnings Adjustments

The aforementioned changes increased (decreased) retained earnings as follows:

	December 31, 2010	March 31, 2010	January 1, 2010
Impairment of PP&E on transition (note 15b)	\$ (2,469)	\$ (2,469)	\$ (2,469)
Impairment of Goodwill on transition (note 15b)	(7,563)	(7,563)	(7,563)
Flow through share issue renouncement (note 15f)	(2,361)	(2,361)	(1,786)
Convertible Class B share liability accretion (note 15f)	(1,539)	(1,145)	(1,018)
Share based compensation (note 15e)	(1,041)	(1,274)	(1,255)
Depletion and depreciation (note 15c)	(261)	300	-
Other PP&E adjustments (note 15c)	15,794	(67)	-
Deferred income taxes (note 15g)	(3,279)	543	625
Increase (decrease) in retained earnings	\$ (2,719)	\$ (14,036)	\$ (13,466)

Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet (mcf) of natural gas to one barrel (bbl) of oil is based on an energy conversion method primarily applicable at the burner tip and is not intended to 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 thousand cubic feet of natural gas to one barrel of oil. Certain financial amounts are presented on a per boe basis, such measurements may not be consistent with those used by other companies.

Estimated values contained in this report do not represent fair market value.

This report may contain forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, anticipations, expectations, opinions, forecasts, projections, guidance or other similar statements that are not statements of fact. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. These risks include, but are not limited to: the risks associated with the oil and gas industry (e.g. operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses and health, safety and environmental risks), commodity price and exchange rate fluctuation and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. The forward-looking statements contained in this report are made as of the date hereof and the Company undertakes no obligations to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as the term is defined in the Policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this report.

## 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

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**E-mail: [info@seaviewenergy.com](mailto:info@seaviewenergy.com)**

# **SEAVIEW ENERGY INC**

The logo for Seaview Energy Inc features the company name in a bold, black, sans-serif font. The word "SEAVIEW" is on the top line and "ENERGY INC" is on the bottom line. A stylized orange and blue wave graphic is positioned behind the text, with the orange part on the left and the blue part on the right, creating a sense of movement and energy.

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