

# SEAVIEW ENERGY INC

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

	June 30, 2011 (unaudited)	December 31, 2010
<b>Assets</b>		
Accounts receivables	\$ 6,499	\$ 7,508
Prepaid expenses and deposits	876	1,037
Risk management contracts	863	1,151
Total current assets	8,238	9,696
Property, plant and equipment (Note 8)	142,067	136,364
Exploration and evaluation assets (Note 9)	5,340	4,996
Total non-current assets	147,407	141,360
Total assets	\$ 155,645	\$ 151,056
<b>Liabilities</b>		
Bank debt (Note 12)	\$ 32,483	\$ 16,494
Accounts payable and accrued liabilities	7,550	15,291
Risk management contracts	338	-
Total current liabilities	40,371	31,785
Risk management contracts (Note 4)	3,064	2,193
Convertible Class B share liability (Note 11)	9,754	9,386
Decommissioning liability (Note 13)	2,406	2,273
Deferred tax liabilities	20,354	21,856
Total non-current liabilities	35,578	35,708
Total liabilities	75,949	67,493
<b>Shareholders' equity</b>		
Share capital (Note 10)	90,553	90,519
Contributed surplus	8,677	8,150
Deficit	(19,534)	(15,106)
Total shareholders' equity	79,696	83,563
Total liabilities and shareholders' equity	\$ 155,645	\$ 151,056

Subsequent event (Note 16)

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 and six months ended June 30, 2011, with comparative figures for 2010

(in thousands of Canadian dollars, except per share amounts)

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010 (Note 15)	2011	2010 (Note 15)
Revenue				
Oil and natural gas sales	\$ 8,478	\$ 8,894	\$ 14,860	\$ 19,950
Royalties	(1,223)	(1,414)	(1,987)	(3,139)
	7,255	7,480	12,873	16,811
Risk management gain (loss)				
Realized gain on risk management contracts (Note 4)	273	649	523	366
Unrealized gain (loss) on risk management contracts (Note 4)	(94)	(775)	(1,497)	1,889
	7,434	7,354	11,899	19,066
Operating expenses				
Operating	2,090	2,365	3,839	5,597
Transportation	341	405	641	781
General and administrative	410	751	912	1,416
Pre-license expenditures	13	-	181	-
Gain on sale of property, plant and equipment (Note 7)	-	(16,144)	-	(16,144)
Depletion and depreciation (Note 8)	6,016	5,994	10,942	11,952
Share based compensation (Note 10)	133	179	277	494
	9,003	(6,450)	16,792	4,096
Results from operating activities	(1,569)	13,804	(4,893)	14,970
Finance expenses				
Interest expense	377	288	579	622
Unrealized gain on financial contracts	-	(5)	-	(24)
Accretion on decommissioning obligations	46	39	90	92
Accretion on Convertible Class B share liability	186	172	368	341
Net finance expense (Note 6)	609	494	1,037	1,031
Income (loss) before taxes	(2,178)	13,310	(5,930)	13,939
Deferred income tax expense (reduction):	(528)	3,300	(1,502)	4,164
Net income (loss) and comprehensive income loss	\$ (1,650)	\$ 10,010	\$ (4,428)	\$ 9,775
Net income (loss) per share – basic (Note 10)	\$ (0.03)	\$ 0.15	\$ (0.07)	\$ 0.15
Net income (loss) per share – diluted (Note 10)	\$ (0.03)	\$ 0.13	\$ (0.07)	\$ 0.13

See accompanying notes to the unaudited interim consolidated financial statements

# SEAVIEW ENERGY INC

## Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2011, with comparative figures for 2010

(in thousands of Canadian dollars)  
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>Operating activities</b>				
Net income	\$ (1,650)	\$ 10,010	\$ (4,428)	\$ 9,775
Adjustments for:				
Depletion and depreciation	6,016	5,994	10,942	11,952
Net finance expense <i>(Note 6)</i>	609	494	1,037	1,031
Deferred income tax (reduction) expense	(528)	3,300	(1,502)	4,164
Unrealized risk management loss (gain)	94	775	1,497	(1,889)
Gain on sale of property, plant and equipment <i>(Note 8)</i>	-	(16,144)	-	(16,144)
Share based compensation	133	179	277	494
Net interest paid <i>(Note 6)</i>	(377)	(288)	(579)	(622)
Decommissioning expenditures	-	-	(2)	(21)
	4,297	4,320	7,242	8,740
Change in non-cash working capital <i>(Note 7)</i>	(1,090)	(576)	(820)	1,996
	\$ 3,207	\$ 3,744	\$ 6,422	\$ 10,736
<b>Financing activities</b>				
Increase (decrease) in bank loans	5,961	(26,308)	15,989	(28,352)
Proceeds from issuance of shares	-	13	19	23
	\$ 5,961	\$ (26,295)	\$ 16,008	\$ (28,329)
<b>Investing activities</b>				
Property, plant and equipment additions	(3,712)	(4,758)	(16,679)	(12,775)
Property dispositions	-	33,090	-	33,090
Change in non-cash working capital <i>(Note 7)</i>	(5,456)	(5,781)	(5,751)	(2,722)
	\$ (9,168)	\$ 22,551	\$ (22,430)	\$ 17,593
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)  
(unaudited)

	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 (Note 10)		-		277	-	277
Share based compensation capitalized (Note 10)		-		265	-	265
Options exercised (Note 10)	16,250	34		(15)	-	19
Net loss for the period		-		-	(4,428)	(4,428)
Balance at June 30, 2011	65,553,018	\$ 93,045	\$ (2,492)	\$ 8,677	\$ (19,534)	\$ 79,696

	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 (Note 10)		-		494	-	494
Share based compensation capitalized (Note 10)		-		507	-	507
Options exercised (Note 10)	46,168	83		(60)	-	23
Net income (loss) for the period		-		-	9,775	9,775
Balance at June 30, 2010	65,479,350	\$ 92,925	\$ (2,492)	\$ 7,384	\$ (11,377)	\$ 86,440

See accompanying notes to the unaudited interim consolidated financial statements

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 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 and six months ended June 30, 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. These unaudited condensed interim consolidated financial statements are for part of the period covered by the first IFRS annual financial statements and IFRS 1 "First-time Adoption of IFRS" has been applied.

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"). An explanation of how the transition to IFRSs has affected the reported consolidated financial position, financial performance and cash flows of the Company is provided in Note 15. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under previous GAAP to those reported for those periods.

The unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on August 17, 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.

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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(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.

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:

These unaudited interim consolidated financial statements have been prepared in accordance with IFRS following the same accounting policies and methods of computation as the unaudited interim consolidated financial statements for the Company for the period ended March 31, 2011 and should be read in conjunction therewith. The significant accounting policies are described in Note 3 of the March 31, 2011 interim consolidated 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.

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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The carrying amount of accounts receivable represents the maximum credit exposure. As at June 30, 2011 the Company's receivables consisted of \$3.4 million of receivables from oil and natural gas marketers which has substantially been collected subsequent to June 30, 2011 and \$3.1 million from joint venture partners, consisting in part of cash calls, of which \$0.1 million has been subsequently collected. As at June 30, 2011 the Company has \$0.8 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 June 30, 2011 and did not provide for any doubtful accounts during the three or six months ended June 30, 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.

As at June 30, 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	\$ 391	January '10 – December '11
Put	6,140 gj/d	AECO Monthly	\$ 4.00/gj	\$ 472	January '11 – December '11
Call	3,000 gj/d	AECO Monthly	\$ 7.40/gj	\$ (38)	January '13 – December '13
Crude Oil					
Put <sup>(2)</sup>	200 bbl/d	WTI – Nymex CAD	\$ 75.00/bbl	\$ (338)	January '10 – December '11
Call	100 bbl/d	WTI – Nymex CAD	\$ 88.25/bbl	\$ (662)	January '13 – December '13
Call	200 bbl/d	WTI – Nymex	\$ 72.50/bbl	\$ (2,364)	January '13 – December '13
Fair value of commodity price contracts <sup>(3)</sup>				\$ (2,539)	

(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.

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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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 June 30, 2011, the fair market value recorded on the consolidated statement of financial position for these financial instrument contracts was a net liability of \$2.5 million, compared to a net liability of \$1.0 million as at December 31, 2010. The increase in net liability from December 31, 2010 to June 30, 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 had an impact of approximately \$188,000 on net income for the six months ended June 30, 2011 for those financial instrument contracts that were in place as at June 30, 2011. The Company's current oil financial instrument contracts are well below the current price per barrel of oil - WTI, therefore, a change of \$1.00 in price would have had an impact of approximately \$38,000 on net income for the six months ended June 30, 2011 for those financial instrument contracts that were in place as at June 30, 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 six month period ended June 30, 2011 would decrease by \$190,000.

## 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 and 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 June 30, 2011, the Company's ratio of net debt to six month annualized funds flow from operations was 2.3 to 1 (June 30, 2010 - 0.6 to 1) due to increased capital expenditures.

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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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 June 30		Six months ended June 30	
	2011	2010	2011	2010
Finance income:				
Net change in fair value of risk management financial contracts	\$ -	\$ (5)	\$ -	\$ (24)
Finance expense:				
Interest on loans and borrowings	377	288	579	622
Accretion on decommissioning obligations (note 13)	46	39	90	92
Accretion on Convertible Class B share liability (note 11)	186	172	368	341
	609	499	1,037	1,055
Net finance expenses	\$ 609	\$ 494	\$ 1,037	\$ 1,031

The Company's effective interest rate for the period ending June 30, 2011 was approximately 4.1% (June 30, 2010 – 3.2%).

### 7. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

As at June 30,	2011	2010
Source(use) of cash:		
Accounts receivables and accrued assets	\$ 1,009	\$ 301
Prepaid expenses and deposits	161	127
Accounts payables and accrued liabilities	(7,741)	(1,154)
	\$ (6,571)	\$ (726)
Related to operating activities	\$ (820)	\$ 1,996
Related to investing activities	\$ (5,751)	\$ (2,722)

# SEAVIEW ENERGY INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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## 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	21,673	-	21,673
Disposals	(16,645)	(162)	(16,807)
Transfer from intangible exploration assets	7,279	-	7,279
Balance, December 31, 2010	151,211	7,974	159,185
Additions	15,689	-	15,689
Transfer from intangible exploration assets	956	-	956
Balance, June 30, 2011	\$ 167,856	\$ 7,974	\$ 175,830

Accumulated depletion, depreciation and impairment losses			
	Oil & natural gas interests	Other equipment	Total
Balance, January 1, 2010	\$ -	\$ -	\$ -
Depletion and depreciation	22,658	547	23,205
Depletion on disposal	(384)	-	(384)
Balance, December 31, 2010	22,274	547	22,821
Depletion and depreciation	10,685	257	10,942
Balance, June 30, 2011	\$ 32,959	\$ 804	\$ 33,763

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 June 30, 2011	\$ 134,897	\$ 7,170	\$ 142,067

# SEAVIEW ENERGY INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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## 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	1,300
Transfer to property, plant and equipment	(956)
Balance, June 30, 2011	\$ 5,340

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 June 30, 2011 an amount of \$4.4 million (June 30, 2010 – \$2.2 million) remains in intangible exploration assets in respect of the Wapiti project after \$8.2 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 June 30, 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.

### (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.

# SEAVIEW ENERGY INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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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 June 30, 2011</b>	<b>5,589,500</b>	<b>\$1.40</b>
<b>Exercisable as at June 30, 2011</b>	<b>3,298,352</b>	<b>\$1.44</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	1.9	\$ 0.50	1,257,652	\$ 0.48
\$1.00 to \$2.00	3,105,190	3.2	\$ 1.14	1,245,698	\$ 1.09
\$2.01 to \$4.00	997,500	2.0	\$ 3.57	795,002	\$ 3.51
	5,589,500	2.7	\$ 1.40	3,298,352	\$ 1.44

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 \$133,643 and \$277,174 has been recognized in the three and six months ended June 30, 2011, respectively (\$493,486 – six months ended June 30, 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 \$136,497 and \$264,332 in share based compensation has been capitalized in the three and six months ended June 30, 2011, respectively (six months ended June 30, 2010 – \$506,878).

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

### (b) Per share amounts

Per share amounts have been calculated using the weighted average number of shares outstanding during the period. For the three and six months ended June 30, 2011, both the effect of the conversion of the Class B shares and the effect of options have been excluded from the calculation of weighted average diluted shares as they would have been anti-dilutive. For the three and six months ended June 30, 2010, both the impact of the conversion of the Class B shares and the impact of options have been included in the calculation of weighted average diluted shares as they were dilutive.

	Three Months ended June 30		Six Months ended June 30	
	2011	2010	2011	2010
Weighted average number of shares (thousands)				
Basic equivalent shares (Class A shares)	65,553	65,471	65,548	65,455
Class B shares converted to Class A shares <sup>(1)</sup>	-	10,431	-	10,431
In the money stock options	-	4,005	-	4,017
<b>Diluted equivalent shares</b>	<b>65,553</b>	<b>79,907</b>	<b>65,548</b>	<b>79,903</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 a thirty consecutive trading day period 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 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 a thirty consecutive trading day period 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.

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

	Six months ended June 30, 2011	Year ended December 31, 2010
Balance, beginning of the period	\$ 9,386	\$ 8,691
Accretion on Convertible Class B share liability	368	695
Balance, end of the period	\$ 9,754	\$ 9,386

### 12. Bank Debt

As at June 30, 2011, the Company had a revolving demand credit facility with an authorized borrowing amount of \$44 million, with interest and other fees charged at the bank's prime rate plus a rate as determined by a pricing grid. The Company also has a development line in the amount of \$8 million that can be accessed for development projects, subject to lender review. 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 June 30, 2011, the revolving demand credit facility was drawn to \$32.5 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 June 30, 2011, no funds have been set aside to fund this obligation.

	June 30 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	90	174
Actual abandonment expenditures incurred	(2)	-
Asset retirement obligation, end of period	\$ 2,406	\$ 2,273

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

### 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	\$ 407	144	263
Financial instrument premiums	\$ 791	791	-
Total contractual obligations	\$ 1,198	935	263

### 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 and six months ended June 30, 2011, and the comparative information for the three and six months ended June 30, 2010. The application of these policies for January 1, 2010, March 31, 2010 and December 31, 2010 can be found in Note 15 of the unaudited interim consolidated financial statements for the Company for the period ended March 31, 2011.

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 the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 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 June 30, 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	\$ 7,438	\$	\$	\$	\$	\$	\$	\$	\$ 7,438
Prepaid expenses and deposits	900								900
Risk management contracts	833								833
Total current assets	9,171								9,171
Property, plant and equipment	117,607	(2,469)	(3,050)	183	15,855	17			128,143
Exploration and evaluation assets	-		3,050						3,050
Goodwill	7,563	(7,563)							-
Total non-current assets	125,170	(10,032)	-	183	15,855	17			131,193
Total assets	\$ 134,341	\$ (10,032)	\$ -	\$ 183	\$ 15,855	\$ 17	\$	\$	\$ 140,364
<b>LIABILITIES AND EQUITY</b>									
Current liabilities:									
Bank debt	\$ 9,692	\$	\$	\$	\$	\$	\$	\$	\$ 9,692
Accounts payables and accrued liabilities	9,876								9,876
Deferred tax liabilities	233							(233)	-
Total current liabilities	19,801								19,568
Risk management contracts	506								506
Convertible Class B share liability	-						9,032		9,032
Decommissioning obligations	2,046								2,046
Deferred tax liabilities	18,872				(168)		369	3,700	22,773
Total non-current liabilities	21,424				(168)		9,401	3,700	34,357
Total liabilities	41,225				(168)		9,401	3,467	53,925
Shareholders' Equity:									
Share capital	96,198						(5,766)		90,432
Contributed surplus	6,109					1,275			7,384
Deficit	(9,191)	(10,032)		183	16,023	(1,258)	(3,635)	(3,467)	(11,377)
Total shareholders' equity	93,116	(10,032)		183	16,023	17	(9,401)	(3,467)	86,439
Total liabilities and shareholders' equity	\$ 134,341	\$ (10,032)	\$ -	\$ 183	\$ 15,855	\$ 17	\$ -	\$ -	\$ 140,364

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

### Reconciliation of consolidated statement of operations and comprehensive income for the three months ended June 30, 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	\$ 8,894	\$	\$	\$	\$	\$	\$ 8,894
Royalties	(1,414)						(1,414)
Realized loss on financial contracts	649						649
Unrealized gains on financial contracts	(775)						(775)
	<u>7,354</u>						<u>7,354</u>
<b>EXPENSES</b>							
Operating expenses	\$ 2,365	\$	\$	\$	\$	\$	\$ 2,365
Transportation expense	405						405
General and administrative	697		54				751
Gain on sale of property, plant and equipment	-		(16,144)				(16,144)
Depletion and depreciation	5,877	117					5,994
Share based compensation	195			(16)			179
	<u>9,539</u>	<u>117</u>	<u>(16,090)</u>	<u>(16)</u>			<u>(6,450)</u>
Results from operating activities	(2,185)	(117)	16,090	16			13,804
Finance expenses							
Interest expense	288						288
Unrealized gain on financial contracts	(5)						(5)
Accretion on decommissioning obligations	39						39
Accretion on Convertible Class B share liability	-				172		172
Net finance expenses	<u>322</u>				<u>172</u>		<u>494</u>
Income (loss) before taxes	584	(117)	16,090	16	(172)		13,310
Deferred income tax expense (reduction)	(667)				(43)	4,010	3,300
Income (loss) and comprehensive income (loss) for the period	\$ (1,840)	\$ (117)	\$ 16,090	\$ 16	\$ (129)	\$ (4,010)	\$ 10,010

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

### Reconciliation of consolidated statement of operations and comprehensive income for the six months ended June 30, 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	\$ 19,950	\$	\$	\$	\$	\$	\$ 19,950
Royalties	(3,139)						(3,139)
Realized gain on financial contracts	366						366
Unrealized gains on financial contracts	1,889						1,889
	19,066	-	-	-	-	-	19,066
<b>EXPENSES</b>							
Operating expenses	\$ 5,597	\$	\$	\$	\$	\$	\$ 5,597
Transportation expense	781						781
General and administrative	1,295		121				1,416
Gain on sale of property, plant and equipment	-		(16,144)				(16,144)
Depletion and depreciation	12,135	(183)					11,952
Share based compensation	491			3			494
	20,299	(183)	(16,023)	3			4,096
Results from operating activities	(1,233)	183	16,023	(3)			14,970
Finance expenses							
Interest expense	622						622
Unrealized gain on financial contracts	(24)						(24)
Accretion on decommissioning obligation	92						92
Accretion on Convertible Class B share liability					341		341
Net finance expenses	690				341		1,031
Income (loss) before taxes	(1,923)	183	16,023	(3)	(341)		13,939
Deferred income tax expense (reduction)	(418)				490	4,092	4,164
Income (loss) and comprehensive income (loss) for the period	\$ (1,505)	\$ 183	\$ 16,023	\$ (3)	\$ (831)	\$ (4,092)	\$ 9,775

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
(tabular amounts are in thousands of Canadian dollars except share and per share information)

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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 at January 1, 2010. As at June 30, 2010, the transfer was \$3.1 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 six months ended June 30, 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 calculated 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. IFRS requires depletion and depreciation to be calculated based on individual components (ie. fields or combinations thereof).

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 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 June 30, 2010, depleting the oil and gas interests at the individual component level as opposed to the Canadian cost centre level resulted in an increase to the depletion and depreciation of \$0.1 million. For the six months ended June 30, 2010, depletion and depreciation was decreased by \$0.2 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 three and six months ended June 30, 2010, the Company recognized a \$16.1 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 both the three and six months ended June 30, 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 \$0.2 million at June 30, 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 and six months ended June 30, 2010, the Company did not incur any such costs therefore no adjustment was required for these periods. For the year ended December 31, 2010, the Company recorded \$0.2 million of pre-license expenditures with a corresponding decrease in PP&E.

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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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 June 30, 2010, the Company decreased the amount of share based compensation expense by \$16,000 and for the six months ended June 30, 2010, share based compensation expense was increased by \$3,000, 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 \$7.33 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. To June 30, 2010, a total of \$1.70 million had been accreted, with a corresponding reversal of \$0.42 million of deferred tax liability, to arrive at a Convertible Class B share liability of \$9.03 million.

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 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 \$0.3 million to share capital, a premium liability of \$0.3 million, an additional deferred tax liability of \$0.4 million and a reduction of \$1.0 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:

	June 30, 2010
Impairment of PP&E on transition (note 15b)	\$ (625)
Flow through share issue renouncement (note 15f)	(8)
Convertible Class B share liability (note 15f)	377
Depletion and depreciation (note 15c)	46
Stock based compensation spiral (note 15c)	(168)
Other PP&E adjustments (note 15c)	4,046
Increase (decrease) in deferred tax liabilities	\$ 3,668

# SEAVIEW ENERGY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011, with comparative figures for 2010  
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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:

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	June 30, 2010
Impairment of PP&E on transition (note 15b)	\$ (2,469)
Impairment of Goodwill on transition (note 15b)	(7,563)
Flow through share issue renouncement (note 15f)	(2,361)
Convertible Class B share liability accretion (note 15f)	(1,274)
Share based compensation (note 15e)	(1,258)
Depletion and depreciation (note 15c)	183
Other PP&E adjustments (note 15c)	16,023
Deferred income taxes (note 15g)	(3,467)
Increase (decrease) in retained earnings	\$ (2,186)

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## 16. Subsequent Event

On August 3, 2011, the Company sold a minor producing natural gas asset in the Peace River Arch area of northwest Alberta for net proceeds of \$4.3 million dollars resulting in a loss of approximately \$2.3 million. Proceeds have been used to pay down bank debt and may be redirected towards the Company's capital program.

## 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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# **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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