



**BUCHANAN BARRY LLP**  
CHARTERED ACCOUNTANTS

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**Auditors' Report**

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**To the Shareholders of  
Seaway Energy Services Inc.**

We have audited the balance sheets of Seaway Energy Services Inc. as at September 30, 2011 and 2010 and the statements of operations, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

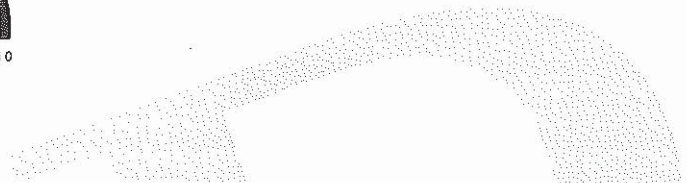
**Chartered Accountants**

Calgary, Canada  
January 19, 2012

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**Seaway Energy Services Inc.  
Balance Sheets**

As at September 30	2011	2010
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 237,101	\$ 222,473
Accounts receivable	1,228,025	1,117,122
Prepaid expenses	18,692	29,142
	<u>1,483,818</u>	<u>1,368,737</u>
Property and equipment (Note 3)	19,342	20,601
Future income taxes (Note 7(b))	17,100	50,400
	<u>\$ 1,520,260</u>	<u>\$ 1,439,738</u>

**Liabilities and Shareholders' Equity**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 414,932	\$ 362,602
Convertible debentures (Note 6)	275,000	275,000
	<u>689,932</u>	<u>637,602</u>
<b>Commitments and Contingencies (Note 10)</b>		
<b>Subsequent event (Note 13)</b>		
Share capital (Note 8(b))	2,768,518	2,926,431
Contributed surplus (Note 8(e))	452,024	359,906
Deficit	<u>(2,390,214)</u>	<u>(2,484,201)</u>
	<u>830,328</u>	<u>802,136</u>
	<u>\$ 1,520,260</u>	<u>\$ 1,439,738</u>

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

"signed Jerry Budziak" Director  
Jerry Budziak

"signed Elias Foscolos" Director  
Elias Foscolos

**Seaway Energy Services Inc.**  
**Statements of Operations, Comprehensive Income and Deficit**

For the years ended September 30	2011	2010
<b>Revenues</b>	<b>\$ 3,117,282</b>	<b>\$ 4,415,145</b>
<b>Expenses</b>		
Operating	2,272,997	3,315,609
General and administrative	680,627	593,224
Interest	31,663	52,876
Financing cost accretion	-	19,393
Amortization of property and equipment	5,761	6,830
Amortization and impairment provision of intangible asset (Note 4)	-	336,879
	<u>2,991,048</u>	<u>4,324,811</u>
<b>Income before other and income taxes</b>	<b>126,234</b>	<b>90,334</b>
<b>Other income</b>		
Interest	1,053	846
<b>Income before income taxes</b>	<b>127,287</b>	<b>91,180</b>
<b>Income taxes (Note 7(a))</b>		
Current	-	-
Future	33,300	29,100
	<u>33,300</u>	<u>29,100</u>
<b>Net and comprehensive income for the year</b>	<b>93,987</b>	<b>62,080</b>
<b>Deficit, beginning of year</b>	<b>(2,484,201)</b>	<b>(2,546,281)</b>
<b>Deficit, end of year</b>	<b>\$ (2,390,214)</b>	<b>\$ (2,484,201)</b>
<b>Net earnings per share</b>		
- basic and diluted	\$ 0.003	\$ 0.002
<b>Weighted average shares outstanding</b>		
- basic and diluted (1)	30,616,043	30,988,470

(1) The options and warrants have been excluded from the diluted per share computation as they are anti-dilutive

The accompanying notes are an integral part of these financial statements.

**Seaway Energy Services Inc.**  
**Statements of Cash Flows**

**For the year ended September 30**

**2011**

**2010**

**Cash flows from (used in) operating activities**

Net income for the year	\$ 93,987	\$ 62,080
Items not involving cash:		
Financing cost accretion	-	19,393
Stock-based compensation	-	-
Amortization of property and equipment	5,761	6,830
Amortization and impairment provision of intangible assets	-	336,879
Future income taxes	33,300	29,100
	<u>133,048</u>	<u>454,282</u>

Change in non-cash working capital balances:

Accounts receivable	(110,903)	(88,798)
Prepaid expenses	10,450	(12,463)
Accounts payable and accrued liabilities	52,330	7,257
Income taxes	-	22,695

Cash flow from operating activities

<u>84,925</u>	<u>382,973</u>
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**Cash flows from (used in) financing activities**

Repurchase of common shares	(65,795)	-
Repayment of debentures	-	(175,000)
Repayment of promissory notes	-	(50,000)
Cash flow used in financing activities	<u>(65,795)</u>	<u>(225,000)</u>

**Cash flows from (used in) investing activities**

Expenditures on property and equipment	(4,502)	(574)
Cash flow used in investing activities	<u>(4,502)</u>	<u>(574)</u>

**Increase in cash and cash equivalents**

14,628	157,399
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Cash and cash equivalents, beginning of year

<u>222,473</u>	<u>65,074</u>
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Cash and cash equivalents, end of year

\$ 237,101	\$ 222,473
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**Supplemental information**

Interest paid	\$ 31,740	\$ 63,178
Taxes recovered	\$ -	\$ (22,695)

The accompanying notes are an integral part of these financial statements.

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**Seaway Energy Services Inc.**  
**Notes to Financial Statements**

**September 30, 2011 and 2010**

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**1. Nature of Operations**

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Seaway Energy Services Inc. ("Seaway" or the "Company") was incorporated under the Business Corporations Act (Alberta) on September 4, 1998. The principal activities of Seaway include the provision of environmental consulting services to the petroleum and natural gas industry.

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**2. Significant Accounting Policies**

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The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, bank balances (including temporary bank overdrafts), term deposits and investments with maturities from the date of inception of three months or less.

(b) Financial instruments

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

Cash and cash equivalents were classified as held-for-trading, all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis, and all financial liabilities were classified as other liabilities.

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**September 30, 2011 and 2010**

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**2. Significant Accounting Policies - continued**

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(c) Property and equipment

Property and equipment are recorded at cost and are amortized on a declining balance basis at rates designed to apportion the cost of the assets over their estimated useful lives as follows:

Computer equipment	30%
Computer software	50%
Field equipment	20%
Furniture and fixtures	20%

The carrying value of property and equipment is reviewed periodically for impairment based on estimated future cash flow recoveries that are directly associated with the use of the property and equipment. The amount of the impairment, if any, is recorded against operations in the period of determination.

(d) Intangible assets

Intangible assets with a definitive life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit, determined to be as follows:

Customer list	5 years
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When events or changes in circumstances indicate that the carrying amount of intangible assets may not be recoverable, undiscounted estimated cash flows are projected over their remaining term and compared to the carrying amount. To the extent that such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to the projected future discounted cash flows in the period the determination is made.

(e) Revenue recognition

Revenue from services is recognized as the services are performed. Revenue from extended term contracts is recognized using the completed contract method. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined.

(f) Future income taxes

Income taxes are accounted for using the asset and liability method of income tax allocation. Under this method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(g) Stock-based compensation plan

The Company accounts for stock options granted to employees, directors and consultants using the fair value method of accounting. Under this method, stock-based compensation is recorded as an expense over the vesting terms of the options, with a corresponding increase recorded as contributed surplus. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. When stock options are exercised, the consideration received with the corresponding amounts previously recorded in contributed surplus are credited to share capital. Forfeitures are accounted for as they occur which result in reduction in compensation expense if the options have not vested.

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**September 30, 2011 and 2010**

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**2. Significant Accounting Policies - continued**

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(h) Comprehensive income

Comprehensive income consists of net income and other comprehensive income ("OCI") which includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges.

(i) Per share information

Basic per share amounts are calculated using the total weighted average number of common shares outstanding during the period. Diluted per share calculations reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the date of grant of such securities or the beginning of the period. The Company computes diluted earnings per share using the treasury stock method to determine the dilutive effect of securities or other contracts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase common shares of the Company at their average market price for the period.

(j) Measurement uncertainty

The valuation of accounts receivable is based upon management's best estimate of the future recoverability and timing of collection of the receivables. Some of the accounts receivables may be disputed and any differences in the amounts actually received will be accounted for in the period of settlement.

The valuation of property and equipment and intangible assets are based upon management's best estimate of the future recoverability of these assets. The amounts recorded for amortization of the property and equipment and intangible assets is based upon management's best estimate of the remaining useful life, period of future benefit of the related assets and future profitability. In its determination of the amount and timing of revenue recognized, management relies on estimates supporting its revenue recognition policy. By their nature, these estimates are subject to measurement uncertainty, and the effects on the consolidated financial statements from revised estimates, if any, will be accounted for prospectively.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee's stock options and warrants have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes of estimates in future periods could be significant.

The amounts recorded as future tax assets subject to an expiry date are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes of estimates in future periods could be significant.

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of these matters on the net income or loss cannot be determined at this time, it could be material for any one quarter or year. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results can differ from those estimates.

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**September 30, 2011 and 2010**

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**2. Significant Accounting Policies - continued**

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(k) Change in accounting policies

Effective October 1, 2009, the Company prospectively early adopted CICA Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The adoption of this standard did not have an impact on the financial statements of the Company.

Effective October 1, 2009, the Company prospectively early adopted CICA Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of this standard did not have an impact on the financial statements of the Company.

Effective October 1, 2009, the Company prospectively adopted CICA Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The adoption of this standard resulted in additional disclosures described in Note 11(d).

Effective October 1, 2009, the Company prospectively adopted the amended CICA Section 3855, "Financial Instruments – Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The adoption of the amendments of this standard did not have an impact on the financial statements of the Company.

(l) Accounting pronouncements

In February 2008, the Canadian Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The first reporting period under IFRS will be the three months ended December 31, 2011. Management is currently finalizing its assessment of the impact of the convergence of Canadian GAAP with IFRS on the Company's results of operations, financial position and financial statement disclosures.

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**Seaway Energy Services Inc.**  
**Notes to Financial Statements**

**September 30, 2011 and 2010**

**3. Property and Equipment**

September 30, 2011	Cost	Accumulated amortization	Net book value
Field equipment	\$ 24,183	\$ 19,565	\$ 4,618
Computer equipment	66,727	58,041	8,686
Computer software	70,411	69,583	828
Furniture and fixtures	18,770	13,560	5,210
	<b>\$ 180,091</b>	<b>\$ 160,749</b>	<b>\$ 19,342</b>

September 30, 2010	Cost	Accumulated amortization	Net book value
Field equipment	\$ 23,500	\$ 18,572	\$ 4,928
Computer equipment	63,598	55,037	8,561
Computer software	70,411	68,969	1,442
Furniture and fixtures	18,080	12,410	5,670
	<b>\$ 175,589</b>	<b>\$ 154,988</b>	<b>\$ 20,601</b>

**4. Intangible Asset**

September 30, 2011	Cost	Accumulated amortization	Net book value
Customer list	\$ 531,912	\$ 531,912	\$ -

September 30, 2010	Cost	Accumulated amortization	Net book value
Customer list	\$ 531,912	\$ 531,912	\$ -

In the prior year, the Company recorded an impairment charge of \$230,551 related to the customer list resulting from an acquisition completed in the 2008 fiscal year. The decision to record an impairment charge was made as a result of the customer ceasing its current Canadian operations.

**5. Bank Loan**

The Company has a \$600,000 (2010 - \$600,000) revolving demand loan facility with a chartered bank. As at September 30, 2011 or 2010, the facility has not been drawn on. The loan bears interest at bank prime plus 1½ percent, with an effective rate of 3.75% at September 30, 2011 (2010 – 3.75%). A general assignment of book debts, and a first floating charge debenture over all the assets of the Company has been pledged as collateral. The availability under the facility is subject to periodic review with the next review due in February 2012.

**Seaway Energy Services Inc.**  
**Notes to Financial Statements**

**September 30, 2011 and 2010**

**6. Convertible Debentures**

In 2008, the Company completed a \$450,000 unsecured debenture financing bearing interest at 12% per annum until April 4, 2010, convertible into common shares at \$0.15 per share. As this loan is considered to be a compound financial instrument, the liability component and the equity component must be presented separately, as determined at initial recognition. A reconciliation of the Company's convertible debentures is as follows:

	<u>2011</u>	<u>2010</u>
Debenture balance, beginning of year	\$ 275,000	\$ 430,607
Advances	-	-
Financing cost accretion	-	19,393
Repayments	-	(175,000)
Debenture balance, end of year	<u>\$ 275,000</u>	<u>\$ 275,000</u>

In the prior year, the Company repaid \$175,000 of the debentures and received an extension from a Director and Officer holding \$275,000. The convertible debenture is subordinated to the bank loan (Note 5) and matured on April 4, 2011 with an extension granted until April 4, 2012. In the prior year, the interest rate on the debentures was also reduced to 9 percent per annum from 12 percent, with all other terms remaining the same. The equity component of the extended debentures was determined not material to be material using the Black-Scholes model.

**7. Income Taxes**

- (a) The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to income before income taxes. The major components of these differences are explained as follows:

	<u>2011</u>	<u>2010</u>
Income before taxes	\$ 127,288	\$ 91,180
Corporate income tax rate	26.5%	28.0%
Computed expected tax provision	\$ 33,731	\$ 25,530
Increase in income taxes resulting from:		
Rate and other adjustments	(2,000)	(3,374)
Other permanent differences	1,569	6,944
Income tax expense	<u>\$ 33,300</u>	<u>\$ 29,100</u>

- (b) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

<b>Nature of temporary differences</b>	<u>2011</u>	<u>2010</u>
Property, equipment and intangibles	\$ (60)	\$ 35
Non-capital losses	16,424	45,300
Share issue costs and finance fees	736	5,065
<b>Future income tax asset</b>	<u>\$ 17,100</u>	<u>\$ 50,400</u>

**Seaway Energy Services Inc.**  
**Notes to Financial Statements**

**September 30, 2011 and 2010**

**7. Income Taxes - continued**

- (c) The Company has non-capital losses of approximately \$65,700 (2010 - \$181,200), which are available to reduce taxable income in future periods. If unutilized, these losses will expire in 2028. The future tax benefit of the non-capital losses being carried forward has been recognized in these financial statements.

**8. Share Capital**

- (a) Authorized  
 Unlimited number of preferred shares  
 Unlimited number of common voting shares without nominal or par value  
 Unlimited number of share purchase warrants

- (b) Issued and outstanding

	September 30, 2011		September 30, 2010	
	Shares	Amounts	Shares	Amounts
<b>Common shares</b>				
Balance, beginning of period	30,988,470	\$ 2,910,431	30,988,470	\$ 2,910,431
Normal course issuer bid <sup>(1)</sup>	(1,511,000)	(141,913)	-	-
Balance, end of period	29,477,470	\$ 2,768,518	30,988,470	\$ 2,910,431
<b>Warrants</b>				
Balance, beginning of period	5,000,000	\$ 16,000	5,000,000	\$ 16,000
Expired <sup>(2)</sup>	(5,000,000)	(16,000)	-	-
Balance, end of period	-	\$ -	5,000,000	\$ 16,000
		<b>\$ 2,768,518</b>		<b>\$ 2,926,431</b>

(1) Pursuant to a Normal Course Issuer Bid ("NCIB") approved on February 17, 2011 through the facilities of the TSX Venture Exchange, the Company may acquire over a 12 month period, Seaway can purchase up to 3,098,847 common shares. During the year, the Company repurchased 1,511,000 Common Shares at an average price of \$0.044 for a total cost of \$65,795. Subsequent to September 30, 2011, the Company acquired a further 600,000 Common shares at an average price of \$0.035.

(2) During the year, 5,000,000 warrants with an exercise price of \$0.10 expired unexercised.

- (c) Stock options

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. Options granted under the plan have varying vesting periods as determined by the Board at the grant date. Options can be exercisable for a maximum of five years from the effective date. The options are non-transferable if not exercised. Pursuant to the Stock Option Plan, the exercise price of options will be set by the Board at the time options are granted and cannot be less than the discounted market price, except as permitted by the Exchange. A summary of the status of the Company's stock option plan as at September 30, 2011 and 2010 and changes during the periods ending on those dates are presented below.

**Seaway Energy Services Inc.  
Notes to Financial Statements**

September 30, 2011 and 2010

**8. Share Capital - continued**

Stock Options	September 30, 2011		September 30, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of period	945,000	\$0.18	945,000	\$0.18
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(405,000)	\$0.10	-	-
End of period	540,000	\$0.24	945,000	\$0.18
Exercisable, end of year	540,000	\$0.24	945,000	\$0.18

The following table summarizes the stock options outstanding and exercisable at September 30, 2011:

Options outstanding	Option price	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options currently exercisable	Weighted average exercise price of options currently exercisable
540,000	\$0.24	\$0.24	0.05	540,000	\$0.24

Subsequent to the year ended, the 540,000 options exercisable at \$0.24 expired unexercised.

(e) Contributed surplus

	September 30, 2011	September 30, 2010
Balance, beginning of year	\$ 359,906	\$ 290,881
Transfer on the expiry of warrants	16,000	-
Transfer on the expiry of the debentures	-	69,025
Discount on the redemption of shares	76,118	-
Balance, end of year	\$ 452,024	\$ 359,906

**9. Related Party Transactions**

Except as disclosed elsewhere in these consolidated financial statements the Company had the following related party transactions:

- (a) During the year, the Company incurred \$23,539 (2010 - \$22,102) in management fees, which is included in general and administrative expenses, to a company controlled by an Officer, of which \$Nil is included in accounts payable and accrued liabilities at September 30, 2011 (2010 - \$Nil).
- (b) Included in interest expense is \$24,750 (2010 - \$41,625) related to interest on the debentures (Note 6) of which \$Nil is included in accounts payable and accrued liabilities at September 30, 2011 (2010 - \$6,188).

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

**Seaway Energy Services Inc.**  
**Notes to Financial Statements**

**September 30, 2011 and 2010**

**10. Commitments and Contingencies**

- (a) The Company's office lease rental arrangement expires on November 30, 2013. The future minimum lease payments are 2012 - \$46,550 and 2013 - \$7,758 exclusive of common costs.
- (b) From time to time, the Company may be involved in litigation or has claims sought against it in the normal course of business operations. Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The Company has no outstanding claims having a potentially material adverse effect on the Company as a whole.

**11. Financial Instruments**

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate and foreign currency, liquidity, and fair value risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. These risks are outlined more fully below.

Financial instrument:	Category:
Cash and cash equivalents	Held for trading
Accounts receivable	Loans receivable
Accounts payable and accrued liabilities	Other financial liabilities
Convertible debentures	Other financial liabilities

(a) Credit risk

The Company is subject to a concentration of credit risk in its accounts receivable as all of the Company's customers are in the oil and gas sector. Management is of the opinion that any risk of loss is reduced due to the financial strength of its customers. Concentration of credit risk is mitigated by having concentrations with credit worthy clients and broadening the Company's customer base. As at September 30, 2011 the total trade accounts receivable with four customers accounted for 61% (2010 - four customers accounted for 57%) of the Company's current accounts receivable. Of the revenue earned, two companies represented greater than 10% (2010 - two companies represented greater than 10%) of the revenue.

	September 30, 2011	September 30, 2010
1-30 days	\$ 874,027	\$ 989,785
31-60 days	149,098	72,950
61 + days	223,656	75,448
Total trade receivables	<u>1,246,781</u>	1,138,183
Allowance for doubtful accounts	<u>(18,756)</u>	(21,061)
Total accounts receivable	\$ 1,228,025	\$ 1,117,122

**September 30, 2011 and 2010**

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**11. Financial Instruments - continued**

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(b) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at September 30, 2011, a difference in the interest rate of one percent would change net earnings by approximately \$Nil (2010 - \$Nil) assuming all other variables are constant.

Fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. As at September 30, 2011, the Company has fixed interest rates on 100% of its interest bearing obligations. As the interest rates approximate the prevailing market rates, the fair value of these debt instruments approximate its carrying values.

(c) Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

Seaway expects that cash flows from operations commencing, together with its credit facilities, will be more than sufficient to fund its requirements for investments in working capital, capital expenditures and scheduled debt repayment. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain additional debt financing.

(d) Fair value of financial instruments

The Company has determined that the fair values of the financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and convertible debentures are not materially different from the carrying values of such instruments reported on the balance sheet due to their short-term nature.

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

All financial assets (except for cash and cash equivalents which are classified as held for trading), are classified as loans receivable and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. All financial instruments are classified as Level 1. There are no financial assets on the balance sheet that have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the year ended September 30, 2011.

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**September 30, 2011 and 2010**

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**12. Capital Risk Management**

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The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. Managed capital consists of the Company's current working capital (current assets less current liabilities). The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements other than maximum credit facility which is based on 75% of the Company's accounts receivable under 90 days.

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**13. Subsequent Event**

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On January 6, 2012, Seaway entered into a support agreement in respect of a management-sponsored going-private transaction, pursuant to which the company proposes to redeem all of its common shares held by the shareholders of the company, other than those common shares held by Jerry J. Budziak, president, chief executive officer and a director of the Company, David A. Burroughs, a director of the Company, and Elias Foscolos, a director of the Company, and their associates, affiliates and joint actors (two other shareholders), who, in aggregate, control, directly or indirectly, approximately 40.5% of the total issued and outstanding common shares of the company. Upon completion of the redemption of the common shares of the company, the majority shareholders will be the only shareholders of the company.

Pursuant to the transaction, minority shareholders will be entitled to receive a cash payment of \$0.04 (four cents) for each common share redeemed. The cash payment for each redeemed common share represents a premium of approximately 20 per cent over the 30-day volume-weighted average trading price of the common shares on the TSX Venture Exchange on the last trading day prior to this announcement of the transaction. Upon completion of the transaction, the company will proceed to apply to delist its common shares from the TSX Venture Exchange and apply to cease to be a reporting issuer in those jurisdictions in which it currently holds such status.

The board of directors of the company established a special committee composed of Michael Windle, the sole independent director for the purposes of the transaction, which retained an independent financial adviser to obtain both a formal valuation and a fairness opinion in respect of the transaction. Following its deliberations, including its review of the formal valuation and the fairness opinion and the receipt of advice from independent financial and legal advisers, the special committee determined that the transaction was in the best interest of the company and that the consideration to be received by the minority shareholders pursuant to the transaction is fair, from a financial point of view, to the minority shareholders and unanimously recommended that the board approve the transaction and recommend to the shareholders that they vote in favour of a special resolution to approve an amendment to the articles of the company to add the redemption feature to the attributes of the common shares. All directors of the company entitled to vote unanimously recommend that shareholders of the company vote in favour of the redemption resolution.

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