Seaway Energy Services Inc.
Condensed Financial Statements
March 31, 2012
(unaudited)

Contents

Notice for National Instrument 51-102

The accompanying unaudited condensed financial statements of Seaway Energy Services Inc. for the three and six month period ended March 31, 2012 have been prepared by Management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed or audited by the Company's external auditors.

Seaway Energy Services Inc.
Statement of Financial Position
(unaudited)

As at	March 31, 2012	September 30, 2011	October 1, 2010
Assets			
Current			
Cash and cash equivalents	**$ 99,014**	$ 237,101	$ 222,473
Accounts receivable	**775,647**	1,228,025	1,117,122
Prepaid expenses	**8,267**	18,692	29,142
	882,928	1,483,818	1,368,737
Property and equipment (Note 4)	**16,747**	19,342	20,601
Future income taxes	**71,400**	17,100	50,400
	$ 971,075	$ 1,520,260	$ 1,439,738
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities	**$ 129,377**	$ 414,932	$ 362,602
Convertible debentures (Note 7)	**200,000**	275,000	275,000
	329,377	689,932	637,602
Share capital (Note 8(b))	**2,712,166**	2,768,518	2,926,431
Contributed surplus	**487,246**	452,024	359,906
Deficit	**(2,557,714)**	(2,390,214)	(2,484,201)
	641,698	830,328	802,136
	$ 971,075	$ 1,520,260	$ 1,439,738

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

Seaway Energy Services Inc.
Statements of Operations, Comprehensive Income
(unaudited)

	For the three months ended March 31, 2012	2011	For the six months ended March 31, 2012	2011
Revenues	**$ 372,929**	$ 711,924	**$ 981,286**	$ 1,588,691
Expenses				
Operating	**232,137**	494,780	**661,152**	1,180,838
General and administrative	**282,626**	209,306	**527,666**	348,340
Interest	**5,544**	6,188	**11,947**	13,101
Amortization of property and equipment	**1,145**	1,366	**2,595**	2,860
	521,452	711,640	**1,203,360**	1,545,139
Income (loss) before other and income taxes	**(148,523)**	284	**(222,074)**	43,552
Other items				
Interest income	**72**	349	**274**	525
Income (loss) before income taxes	**(148,451)**	633	**(221,800)**	44,077
Income taxes				
Current	**-**	-	**-**	-
Future (recovery)	**(36,000)**	200	**(54,300)**	11,100
	(36,000)	200	**(54,300)**	11,100
Net and comprehensive income (loss) for the period	**$ (112,451)**	$ 433	**$ (167,500)**	$ 32,977
Net earnings (loss) per share - basic and diluted	**$ (0.01)**	$ 0.000	**$ (0.01)**	$ 0.001
Weighted average shares outstanding - basic and diluted *(1)*	**28,877,470**	30,988,470	**29,268,245**	30,986,272

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

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

Seaway Energy Services Inc.
Statements of Shareholders Equity
(unaudited)

		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance October 1, 2011	$	2,768,518	$	452,024	$	(2,390,214)	$	830,328
Net loss for the period		-		-		(167,500)		(167,500)
Normal course issuer bid		(56,352)		35,222		-		(21,130)
Balance March 31, 2012	$	2,712,166	$	487,246	$	(2,557,714)	$	641,698

		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance October 1, 2010	$	2,926,431	$	359,906	$	(2,484,201)	$	802,136
Net income for the period		-		-		32,544		32,544
Balance December 31, 2010	$	2,926,431	$	359,906	$	(2,451,657)	$	834,680

		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance October 1, 2010	$	2,926,431	$	359,906	$	(2,484,201)	$	802,136
Net income for the year		-		-		93,987		93,987
Transfer to contributed surplus on warrant expiry		(16,000)		16,000		-		-
Normal course issuer bid		(141,913)		76,118		-		(65,795)
Balance September 30, 2011	$	2,768,518	$	452,024	$	(2,390,214)	$	830,328

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

Seaway Energy Services Inc.
Statements of Cash Flows
(unaudited)

For the six months ended March 31,	2012	2011
Cash flows from (used in) operating activities		
Net income (loss) for the period	**$ (167,500)**	$ 32,977
Items not involving cash:		
Amortization of property and equipment	**2,595**	2,860
Future income taxes (recovery)	**(54,300)**	11,100
	(219,205)	46,937
Change in non-cash working capital balances:		
Accounts receivable	**452,378**	183,271
Prepaid expenses	**10,425**	(9,946)
Accounts payable and accrued liabilities	**(285,555)**	(39,037)
Cash flow from (used in) operating activities	**(41,957)**	181,225
Cash flows from (used in) financing activities		
Repayment of debentures	**(75,000)**	-
Repurchase of common shares	**(21,130)**	(4,930)
Cash flow used in financing activities	**(96,130)**	(4,930)
Cash flows from (used in) investing activities		
Expenditures on property and equipment	**-**	(2,410)
Cash flow from investing activities	**-**	(2,410)
Decrease in cash and cash equivalents	**(138,087)**	173,885
Cash and cash equivalents, beginning of period	**237,101**	222,473
Cash and cash equivalents, end of period	**$ 99,014**	$ 396,358
Supplemental information		
Interest paid	**$ 11,731**	$ 13,101
Taxes paid	**$ -**	$ -

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

1. Corporate Information

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. The Company's common shares trade on the TSX Venture exchange under the symbol SEW.

The head office of the Company is located at Suite 1250, 700 - 4th Avenue SW, Calgary, Alberta, T2P 3J4 and the registered office is located at Suite 1000, 250 2nd Street SW, Calgary, Alberta, T2P 0C1.

2. Basis of Presentation

In conjunction with the Company's annual audited Financial Statements to be issued under International Financial Reporting Standards ("IFRS") for the year ending September 30, 2012, these interim condensed financial statements present Seaway's results of operations and financial position under IFRS and for the three month period ended December 31, 2011, including 2011 comparative period. They have been prepared in accordance with IFRS 1, "First time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim condensed financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The preparation of these condensed financial statements resulted in changes to Seaway's accounting policies as compared to those disclosed in the Company's annual audited consolidated financial statements for the year ended September 30, 2011 issued under previous GAAP. A summary of the accounting policies is disclosed in Note 3 along with reconciliations (Note 12) presenting the impact of the transition to IFRS for the comparative periods as at October 1, 2010, for the three and six months ended March 31, 2012, and for the twelve months ended September 30, 2011. These policies have been applied retrospectively and consistently except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 12.

These condensed consolidated financial statements were approved and authorised for issuance by the Board of Directors on May 29, 2012.

Basis of Measurement

The condensed financial statements have been prepared on the historical cost basis, which is based on the fair value of the consideration at the time of the transaction, except for certain financial instruments which are accounted for at fair value.

Functional and Presentation Currency

The condensed financial statements are presented in Canadian dollars, which is the functional currency of Seaway.

2. Basis of Presentation - continued

Use of Estimates, Judgments and Assumptions
The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are as follows:

Property and equipment – estimates are used in determining useful economic lives of property and equipment for the purpose of calculating depreciation.

Revenue recognition – environmental consulting services revenue earned from certain consulting contracts is recognized by the stage of completion of the transaction determined using the percentage-of-completion method. Judgment is used in determining progress of each contract at period end. In assessing revenue recognition, judgment is also used in determining the ability to collect the corresponding account receivable.

Stock-based compensation – assumptions and estimates are used in determining the inputs used in the Black-Scholes option pricing model, including assumptions regarding volatility, dividend yield, risk-free interest rates, forfeiture estimates and expected option lives.

Deferred income taxes – assumptions and estimates are made regarding the amount and timing of realization and/or settlement of the temporary differences between the accounting carrying value of the Company’s assets versus the tax basis of those assets, and the tax rates at which the differences will be recovered or settled in the future.

Operations - The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of the matters noted above on the profit 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.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements and in preparing the opening IFRS statement of financial position at October 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated. The accounting policies have been applied consistently by the Company’s entities.

Financial instruments
Non-derivative financial instruments:
Non-derivative financial instruments are comprised of cash and cash equivalents, trade and other accounts receivables, trade and other accounts payable, and obligations under finance lease. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs except for non-derivative instruments classified as “fair value through earnings”.

3. Summary of Significant Accounting Policies - continued

Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Financial assets at fair value through profit and loss:
An instrument is classified at fair value through earnings if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through earnings if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, directly attributable transaction costs are deducted against proceeds. Financial instruments at fair value through earnings are measured at fair value, and changes therein are recognized in earnings.

Other:
Other non-derivative financial instruments, such as trade and other accounts receivable, trade and other accounts payable and obligations under finance lease are measured at amortized cost using the effective interest method.

Derivative financial instruments:
The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in foreign currency rates or interest rates. These instruments are not used for trading or speculative purposes. The Company does not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all contracts to be economic hedges. As a result, all financial derivative contracts when entered into will be classified as fair value through earnings and are recorded on the statement of financial position at fair value. Transaction costs are recognized in earnings when incurred.

The convertible debenture, which incorporates an embedded derivative, is not separated from the host and the combined instrument is measured at fair value through profit and loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in earnings. The Company does not hold embedded derivatives

Available for sale financial assets:
Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified within loans and receivables or financial assets at fair value through profit or loss. The Company's investments in equity securities are classified as available for sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net income for the period.

Share capital:
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

3. Summary of Significant Accounting Policies

Property and Equipment
Property and equipment is recorded at cost and net of accumulated depreciation and accumulated impairment losses. Property and equipment is 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%
Furniture and equipment	20%
Leasehold improvements	over the term of the lease

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and if applicable, adjusted prospectively.

Revenue
Revenue from environmental consulting and construction services is recognized as the services are performed.

Share based compensation
The Company has established a share based compensation plan (the "Plan") comprised of a Stock Option Plan (note 8(c)). The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options granted are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of option or units that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to shareholders' equity.

Income tax
Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statements of operations and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted substantively at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

3. Summary of Significant Accounting Policies

Earnings per share
Basic earnings per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of the in the money stock options and warrants would be used to purchase common shares at the average market price for the period.

Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax “risk-free” rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. There were no material provisions requiring recognition for the period ended December 31, 2011 and the year ended September 30, 2011.

4. New Standards and Interpretations Not Yet Adopted

As of January 1, 2013, Seaway will be required to adopt the following standards and amendments as issued by the IASB. The adoption of the following standards is not expected to have a material impact on Seaway’s consolidated financial statements:

IFRS 9 “Financial Instruments”
IFRS 9 is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

On August 4, 2011, the IASB issued an exposure draft proposing a change in the required adoption date of IFRS 9 to January 1, 2015. Seaway will adopt this standard when required under IFRS and is currently assessing the impact of the standard.

IFRS 10 “Consolidated Financial Statements”
IFRS 10 replaces Standing Interpretations Committee 12, “Consolidation - Special Purpose Entities” and the consolidation requirements of IAS 27 “Consolidated and Separate Financial Statements”. The new standard replaces the existing risk and reward based approaches and establishes control as the determining factor when deciding whether an interest in another entity should be included in the consolidated financial statements. Seaway does not anticipate a material impact as a result of the amendment.

IFRS 12 “Disclosure of Interests in Other Entities”
IFRS 12 provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosures require information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements. Seaway does not anticipate a material impact as a result of the amendment.

4. New Standards and Interpretations Not Yet Adopted

IAS 19 "Post Employment Benefits"
IAS 19 amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans. Seaway is currently assessing the impact of the adoption of the following standards on the consolidated financial statements. Seaway does not anticipate a material impact as a result of the amendment.

IFRS 11 "Joint Arrangements"
IFRS 11 replaces IAS 31 "Interests in Joint Ventures". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Seaway does not anticipate a material impact as a result of the amendment.

IFRS 13 "Fair Value Measurement"
IFRS 13 provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when another IFRS requires or permits the item to be measured at fair value, with limited exceptions.

Additionally, as of October 1, 2012, Seaway will be required to adopt amendments to IAS 1 "Presentation of Financial Statements" which will require companies to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement (commonly referred to as "recycling"). Seaway does not anticipate a material impact as a result of the amendment.

5. Property and Equipment

		Corporate
Balance, October 1, 2010	$	175,589
Additions		4,502
Balance, September 30, 2011		180,091
Additions		-
Balance, March 31, 2012	$	180,091
Balance, October 1, 2010	$	(154,988)
Depreciation		(5,761)
Balance, September 30, 2011		(160,749)
Depreciation		(2,595)
Balance, March 31, 2012	$	(163,344)
Net book value October 1, 2010	$	20,601
Net book value September 30, 2011	$	19,342
Net book value March 31, 2012	$	16,747

6. Bank Loan

The Company has a $600,000 (2011 - $600,000) revolving demand loan facility with a chartered bank. As at December 31, 2011 and September 30, 2011, 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 December 31, 2011. A general assignment of book debts, and a first floating charge debenture over all the assets of the Company has been pledged as collateral.

7. Convertible Debentures

The convertible debentures are due to a Director and Officer of the Company, bear interest at 9% per annum, convertible into common shares of the Company at $0.15 per share and mature on April 4, 2012. The convertible debenture is subordinated to the bank loan (Note 6). Subsequent to the period end, the Company repaid $75,000 of the debentures.

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

	March 31, 2012			September 30, 2011		
Common shares	**Shares**		**Amounts**	Shares		Amounts
Balance, beginning of period	**29,477,470**	**$**	**2,768,518**	30,988,470	$	2,910,431
Normal course issuer bid*(1)*	**(600,000)**		**(56,352)**	(1,511,000)		(141,913)
Balance, end of period	**28,877,470**	**$**	**2,712,166**	29,477,470	$	2,768,518
Warrants						
Balance, beginning of period	**-**	**$**	**-**	5,000,000	$	16,000
Expired *(2)*	**-**		**-**	(5,000,000)		(16,000)
Balance, end of period	**-**	**$**	**-**	-	$	-
		$	**2,712,166**		$	2,768,518

(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 2011 fiscal year, the Company repurchased 1,511,000 Common Shares at an average price of $0.044 for a total cost of $65,795. In October 2011, the Company purchased 600,000 Common Shares with an average price of $0.035.

(2) During the 2011 fiscal 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 March 31, 2012 and September 30, 2011 and changes during the periods ending on those dates are presented below.

8. Share Capital - continued

Stock Options	March 31, 2012 Number of options	Weighted average Exercise price	September 30, 2011 Number of options	Weighted average exercise price
Beginning of period	**540,000**	**$0.24**	945,000	$0.18
Granted	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Expired	**(540,000)**	**$0.24**	(405,000)	$0.10
End of period	**-**	**-**	540,000	$0.24
Exercisable, end of period	**-**	**-**	540,000	$0.24

9. Related Party Transactions

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

(a) During the period, the Company incurred approximately $24,025 in management fees, which is included in general and administrative expenses, to company controlled by a Officer of which $5,315 is included in accounts payable and accrued liabilities at March 31, 2012.

(b) Included in interest expense is $11,731 related to interest on the debentures (Note 7).

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.

10. 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
Current portion of convertible debentures	Other financial liabilities

10. Financial Instruments - continued

(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 March 31, 2012 the total trade accounts receivable with four customers accounted for 61% of the Company's current accounts receivable.

		March 31, 2012		September 30, 2011
1-30 days	**$**	**311,247**	$	874,027
31-60 days		**168,487**		149,098
61 + days		**314,669**		223,656
Total trade receivables		**794,403**		1,246,781
Allowance for doubtful accounts		**(18,756)**		(18,756)
Total accounts receivable	**$**	**775,647**	$	1,228,025

(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. The Company is exposed to interest rate fluctuations as the promissory notes bear interest at a floating rate. As at March 31, 2012, a difference in the interest rate of one percent would change net earnings by approximately $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 March 31, 2012, 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.

10. Financial Instruments - continued

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 either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. 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 period ended December 31, 2011.

11. Capital Risk Management

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.

12. Transition to IFRS

IFRS 1, *First time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retroactively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings or if appropriate another category of equity unless certain exemptions are applied. The date of transition to IFRS from Canadian GAAP is October 1, 2010.

The Company's IFRS accounting policies are presented in note 3 and have applied in preparing the financial statements for the period ended March 31, 2012, the comparative information and the opening statement of financial position.

12. Transition to IFRS

First time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Company has applied the mandatory exemptions and certain optional exemptions. The exemptions adopted by the Company are set out below:

Mandatory exemptions:

(a) Financial Assets and Liabilities
Financial assets and liabilities that had been de-recognized before October 1, 2010 under the previous GAAP have not been recognized under IFRS.

(b) Use of Estimates
The Company has used estimates under IFRS that are consistent with those applied under the previous GAAP (with adjustment for account policy differences) unless there is objective evidence those estimates were in error.

Optional exemptions applied:

(c) Business Combinations
IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business Combinations* retrospectively to business combinations before the date of transition to IFRS. The Company has chosen to use this election and will apply IFRS 3 to business combinations that may occur after October 1, 2010. As a result of this election, business combinations which occurred prior to October 1, 2010 have a deemed cost equal to the carrying value in accordance with the previous GAAP.

(d) Property and Equipment
IFRS 1 allows first time adopters to October 1, 2010 to elect the deemed cost equal to the carrying value of property, plant and equipment in accordance with the previous GAAP.

(e) Share-Based Payments
IFRS 1 allows first time adopters not to elect IFRS 2, *Share-Based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected the IFRS 1 exemption, and consequently, as a first time adopter will only have to apply the provisions of IFRS 2 to all outstanding equity instruments that are unvested prior to the date of transition to IFRS.

(f) Deferred Tax Asset/Liability
Under IFRS all deferred tax assets and liabilities are classified as non-current compared to Canadian GAAP under which deferred tax assets and liabilities were classified as current or non-current.

Impact of the transition to IFRS
The transition from Canadian GAAP to IFRS had no significant impact on the statement of position, statement of operations, statement of changes in shareholders equity and cash flows generated by the Company as a result of the transition exemptions applied.