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**SEAWAY ENERGY SERVICES INC.**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
SEPTEMBER 30, 2019 AND 2018

*(Expressed in Canadian Dollars)*

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**INDEPENDENT AUDITORS' REPORT**

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To the Shareholders of Seaway Energy Services Inc.

**Report on the Audit of the Consolidated Financial Statements****Opinion**

We have audited the consolidated financial statements of Seaway Energy Services Inc. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2019 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Matter**

The financial statements of Seaway Energy Services Inc. as at, and for the year ended September 30, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on January 25, 2019.

**Material Uncertainty Related to Going Concern**

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**Information other than the Consolidated Financial Statements and the Auditor's Report thereon**

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's discussion and analysis report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's discussion and analysis report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statement information of the entities or business activities within the Company to express an opinion on the consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mickey Goldstein.



**SEAWAY ENERGY SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Expressed in Canadian Dollars)*  
AS AT SEPTEMBER 30,

	Notes	2019	2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,651,321	\$ 2,247,370
GST receivable		-	25,475
Prepaid expenses	6	-	3,925
<b>TOTAL ASSETS</b>		<b>\$ 1,651,321</b>	<b>\$ 2,276,770</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	4 & 6	\$ 114,337	\$ 124,203
<b>TOTAL LIABILITIES</b>		<b>114,337</b>	<b>124,203</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	5	6,633,556	6,633,556
Share-based payment reserve	5	947,579	947,579
Deficit		(6,044,151)	(5,428,568)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,536,984</b>	<b>2,152,567</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 1,651,321</b>	<b>\$ 2,276,770</b>

**Nature of Operations and Going Concern** - see Note 1  
**Subsequent Event** – see Note 9

These consolidated financial statements were approved for issue by the Board of Directors on January 24, 2020 and are signed on its behalf by:

/s/ David Sidoo  
David Sidoo  
Director

/s/ Amrik Virk  
Amrik Virk  
Director

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

**SEAWAY ENERGY SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
*(Expressed in Canadian Dollars)*  
FOR THE YEARS ENDED SEPTEMBER 30,

	Notes	2019	2018
<b>Expenses</b>			
Accounting and administrative	6	\$ 112,394	\$ 45,555
Audit		34,117	33,261
Corporate development		-	83,328
Executive management compensation	6	207,713	346,250
Legal		36,741	(13,402)
Office	6	58,867	10,349
Professional fees	6	108,225	110,576
Public relations		-	100,000
Regulatory fees (recovery)		(3,316)	23,685
Rent	6	37,800	10,756
Share-based compensation	6	-	282,000
Shareholder costs		1,187	450
Sponsorship		-	25,000
Transfer agent		6,473	7,232
Travel and related		29,318	346,602
		<u>(629,519)</u>	<u>(1,411,642)</u>
Interest income		42,540	38,514
Foreign exchange		(1,129)	(1,084)
Write-off of GST receivable		(25,475)	-
Write-off of deposit		(2,000)	-
		<u>13,936</u>	<u>37,430</u>
<b>Net and comprehensive loss for the year</b>		<u>\$ (615,583)</u>	<u>\$ (1,374,212)</u>
<b>Loss per share - basic and diluted</b>		<u>\$ (0.02)</u>	<u>\$ (0.06)</u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		27,842,583	24,070,394

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

**SEAWAY ENERGY SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Expressed in Canadian Dollars)*

	Year Ended September 30, 2019					
	Share Capital		Share-based payment reserve	Deficit	Total equity	
	Number of shares	Amount				
<b>Balance at September 30, 2018</b>	27,842,583	\$ 6,633,556	\$ 947,579	\$ (5,428,568)	\$	2,152,567
Net and comprehensive loss for the year	-	-	-	(615,583)		(615,583)
<b>Balance at September 30, 2019</b>	27,842,583	\$ 6,633,556	\$ 947,579	\$ (6,044,151)	\$	1,536,984

	Year Ended September 30, 2018					
	Share Capital		Share-based payment reserve	Deficit	Total equity	
	Number of shares	Amount				
<b>Balance at September 30, 2017</b>	10,532,583	\$ 3,418,306	\$ 665,579	\$ (4,054,356)	\$	29,529
Common shares issued for:						
Private placement	15,000,000	3,000,000	-	-		3,000,000
Warrants exercised	2,310,000	231,000	-	-		231,000
Share issue costs	-	(15,750)	-	-		(15,750)
Share-based compensation	-	-	282,000	-		282,000
Net and comprehensive loss for the year	-	-	-	(1,374,212)		(1,374,212)
<b>Balance at September 30, 2018</b>	27,842,583	\$ 6,633,556	\$ 947,579	\$ (5,428,568)	\$	2,152,567

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

**SEAWAY ENERGY SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed in Canadian Dollars)*  
FOR THE YEARS ENDED SEPTEMBER 30,

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Net and comprehensive loss for the year	\$ (615,583)	\$ (1,374,212)
Adjustment for:		
Share-based compensation	-	282,000
Write-off of GST receivable	25,475	-
Write-off of prepaid deposit	2,000	-
Change in non-cash operating working capital:		
GST receivable	-	1,846
Prepaid expenses	1,925	(2,625)
Accounts payable and accrued liabilities	(9,866)	61,493
<b>Net cash used in operating activities</b>	<b>(596,049)</b>	<b>(1,031,498)</b>
<b>Cash flows from financing activities</b>		
Private placement	-	3,000,000
Share issuance costs	-	(15,750)
Warrants exercised	-	231,000
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>3,215,250</b>
<b>Change in cash during the year</b>	<b>(596,049)</b>	<b>2,183,752</b>
<b>Cash, beginning of year</b>	<b>2,247,370</b>	<b>63,618</b>
<b>Cash, end of year</b>	<b>\$ 1,651,321</b>	<b>\$ 2,247,370</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ -	\$ -
Interest received	\$ 42,540	\$ 38,514
Income taxes paid	\$ -	\$ -
Income taxes recovered	\$ -	\$ -

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

**SEAWAY ENERGY SERVICES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(Expressed in Canadian Dollars)*

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**1. Nature of Operations and Going Concern**

Seaway Energy Services Inc. (the "Company") is a corporation continued under the laws of British Columbia. The Company is listed and traded on the TSX Venture Exchange ("TSXV") under the symbol "SEW". The Company's head office is located at #789 - 999 West Hasting Street, Vancouver, British Columbia V6C 2W2 Canada.

On March 5, 2019, the Company incorporated a wholly owned subsidiary, 1199900 B.C. Ltd., a corporation incorporated under the laws of British Columbia. As at, and for the year ended September 30, 2019, this subsidiary is inactive.

During the year ended September 30, 2019, the Company entered into an amalgamation agreement (the "Agreement") with Sweet Earth Holdings Corporation ("Sweet Earth"). Under the terms of the Agreement, 1199900 B.C. Ltd., a wholly owned subsidiary of the Company, and Sweet Earth will amalgamate and continue as one corporation ("Amalco"). In conjunction with the amalgamation, Sweet Earth shareholders will receive shares of the Company on a 1:1 proportion of the number of shares of the Company outstanding at the date of closing. Additionally, in conjunction with the amalgamation, the Company will apply to delist from the TSXV and apply to list on the Canadian Stock Exchange ("CSE"). Upon closing, the Company will consolidate its shares on the basis of 1 post-consolidation share for every 2.5 pre-consolidation shares. The completion of this Agreement is subject to regulatory approval.

On January 22, 2018 the Company entered into a letter of intent, superseded by a share exchange agreement, dated April 13, 2018 with X2 Blockchain Games Corp ("X2"), pursuant to which the Company would acquire all of the outstanding shares of X2 in consideration for 81,915,074 common shares of the Company. This agreement was terminated during the year ended September 30, 2018.

During the year ended September 30, 2019, the Company incurred a net and comprehensive loss of \$613,583 (2018 - \$1,374,212) and as at September 30, 2019, had working capital of \$1,536,984 (September 30, 2018 - \$2,152,567) and an accumulated deficit of \$6,044,151 (September 30, 2018 - \$5,428,568). The Company has been actively seeking new business opportunities. Although management considers that the Company has adequate resources to maintain its ongoing levels of operations for the next twelve months, the Company does not have an ongoing revenue stream. While the Company has been successful in securing financings in the past there can be no assurance that it will be able to do so in the future.

These consolidated financial statements have been prepared on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has no active ongoing operations and is prudently managing administrative costs and additional capital will be required to facilitate other business opportunities. The current market environment for idle public companies may cast significant doubt about the Company's ability to continue as going concern. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets, liabilities, the reported expenses, and the classifications used in the statement of financial position. Such adjustments could be material.

**2. Basis of Preparation**

***Statement of Compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

***Basis of Measurement***

The Company's consolidated 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. The consolidated financial statements are prepared on an accrual basis except for the statement of cash flows. The consolidated financial statements are presented in Canadian dollars unless otherwise stated, which is the functional currency of the Company and its subsidiary.



**SEAWAY ENERGY SERVICES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(Expressed in Canadian Dollars)*

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**2. Basis of Preparation (continued)**

***Basis of Consolidation***

These consolidated financial statements include the accounts of the Company and its wholly owned, inactive subsidiary, 1199900 B.C. Ltd. All intercompany accounts and transactions have been eliminated on consolidation.

***Comparative Figures***

Certain of the prior period's comparative figures have been reclassified to conform with the current period's presentation.

***Critical Judgments and Sources of Estimation Uncertainty***

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

***Critical Judgments***

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized to the extent of the amount expected to be utilized. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.
- (iii) Management has assessed that the Company is a going concern. The Company currently does not have any active operations and management has been actively seeking new business opportunities. Although management considers that the Company has adequate resources to maintain its ongoing levels of operations and conduct due diligence identifying and evaluating potential business opportunities for the next twelve months, the Company realized that any business acquisitions may require additional financing. While the Company has been successful in securing financing in the past there can be no assurance that it will be able to do so in the future.
- (iv) Management has assessed that the functional currency of the Company, and its wholly owned subsidiary is the Canadian dollar, which is the currency of the principal economic environment in which they operate.

**SEAWAY ENERGY SERVICES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Basis of Preparation (continued)**

*Estimation Uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

**3. Significant Accounting Policies**

*Cash*

Cash includes cash on hand, funds held in trust, and funds held with a major financial institution.

*Receivables*

GST receivables are recognized initially at fair value and are subsequently measured at the carrying value. GST receivables are adjusted at the time when objective evidence is available to establish that the Company will not be able to collect all amounts due.

*Accounts Payable and Accrued Liabilities*

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

*Financial Instruments*

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of October 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for any assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company’s new accounting policy for financial instruments under IFRS 9:

**SEAWAY ENERGY SERVICES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies** (continued)

*Financial Instruments* (continued)

*Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

*Measurement*

*Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

*Financial assets and liabilities at FVTPL*

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise.

*Debt investments at FVOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

*Equity investments at FVOCI*

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

*Impairment of financial assets at amortized cost*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

*Derecognition*

*Financial assets*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

**SEAWAY ENERGY SERVICES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies** (continued)

***Financial Instruments*** (continued)

***Financial liabilities***

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company's financial assets and liabilities are recorded and measured as follows:

<b>Asset or liability</b>	<b>Category</b>
Cash	FVTPL
Accounts payable	Amortized cost

The Company determines the fair value of 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.

Cash has been measured at fair value using Level 1 inputs.

***Share Capital***

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

***Equity Financing***

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate business opportunities. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the closing date. The balance, if any, is allocated to the attached share purchase warrants.

**SEAWAY ENERGY SERVICES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies** (continued)

***Share-Based Payment Transactions***

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted.

At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

***Taxation***

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income and loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In those cases the corresponding income tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

***Current Income Tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***Deferred Income Tax***

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**SEAWAY ENERGY SERVICES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies (continued)**

***Earning (Loss) per Share***

Basic earnings (loss) per share is calculated on the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings (loss) per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. Diluted loss per share presented is the same as basic loss per share, as the effect of outstanding options and warrants in the diluted loss per common share calculation would be anti-dilutive.

***Currency***

The functional currency of the Company and its subsidiary is Canadian dollars and these financial statements are presented in Canadian dollars. Transactions of the Company that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction date. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the statement of financial position date. Exchange gains or losses, if any, arising from the translation of foreign currency denominated monetary assets and liabilities are included in operations.

***New Standards and Interpretations Not Yet Adopted***

**IFRS 16 Leases**

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost and is then depreciated similarly to property and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income (loss).
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of the standard and expects little impact to the consolidated financial statements.

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**4. Account payable and Accrued Liabilities**

	<b>2019</b>	<b>2018</b>
Trade payables (Note 6)	\$ 87,223	\$ 19,703
Accrued liabilities (Note 6)	27,114	104,500
	<b>\$ 114,337</b>	<b>\$ 124,203</b>

**5. Share Capital**

(a) *Authorized Share Capital*

The Company's authorized share capital consists of an unlimited number of common shares without par value and unlimited preferred shares without par value. All issued common shares are fully paid.

(b) *Equity Financing*

During the year ended September 30, 2019, there were no equity financings conducted by the Company.

During the year ended September 30, 2018 the Company:

- i) completed a non-brokered private placement financing of 15,000,000 units at a price of \$0.20 per unit for gross proceeds of \$3,000,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of \$0.40 for a period of two years after closing. Directors of the Company purchased 1,725,000 units of this private placement. The Company paid \$15,750 filing costs associated with the private placement.
- ii) issued 2,310,000 common shares upon exercise of warrants for gross proceeds of \$231,000.

(c) *Warrants*

A summary of change in warrants is as follows:

	<b>Year Ended September 30, 2019</b>		<b>Year Ended September 30, 2018</b>	
	<b>Number of Warrants Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Warrants Outstanding</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of year	15,000,000	\$0.40	2,310,000	\$0.10
Issued	-	-	15,000,000	0.40
Exercised	-	-	(2,310,000)	0.10
Balance, end of year	<u>15,000,000</u>	\$0.40	<u>15,000,000</u>	\$0.40

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at September 30, 2019:

<b>Number</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Weighted average remaining life (years)</b>
7,813,000	\$0.40	December 5, 2019	0.18
7,187,000	\$0.40	December 12, 2019	0.20
<u>15,000,000</u>	<u>\$0.40</u>		<u>0.19</u>

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**5. Share Capital (continued)**

(d) *Stock Option Plan*

The Company has established a rolling stock option plan (the “Plan”), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. Pursuant to the 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 TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years.

During the year ended September 30, 2019, the Company granted stock options to purchase Nil (2018 – 360,000) common shares and recorded compensation expense of \$Nil (2018 - \$282,000).

	<b>Year Ended September 30, 2019</b>	<b>Year Ended September 30, 2018</b>
Risk-free interest rate	-	1.59%
Estimated annual volatility	-	253%
Expected life	-	4 years
Expected dividend yield	-	0%
Expected forfeiture rate	-	0%

The weighted average fair value of all share options granted and vested, using the Black-Scholes option pricing model, during the year ended September 30, 2019 was \$Nil (2018 - \$0.78) per option.

Option-pricing models require the use of estimates and assumptions including the expected annual volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the Company’s stock options.

A summary of changes in stock options is as follows:

	<b>Year Ended September 30, 2019</b>		<b>Year Ended September 30, 2018</b>	
	<b>Number of Options Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options Outstanding</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of year	1,250,000	\$0.37	890,000	\$0.20
Granted	-	-	360,000	0.79
Expired	<u>(500,000)</u>	0.39	<u>-</u>	-
Balance, end of year	<u>750,000</u>	\$0.36	<u>1,250,000</u>	\$0.37

The following table summarizes information about the share options outstanding and exercisable at September 30, 2019:

<b>Number of Options Outstanding and Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Weighted average remaining life (years)</b>
160,000	\$0.35	October 18, 2021	2.05
490,000	0.20	October 20, 2021	2.06
100,000	1.14	December 27, 2021	2.24
<u>750,000</u>	<u>\$0.36</u>		<u>2.08</u>



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**6. Related Party Transactions**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and executive officers.

- (i) During the years ended September 30, 2019 and 2018 the following amounts were incurred with respect to current and former key management personnel:

	<b>2019</b>	<b>2018</b>
Accounting and administrative <sup>(i)</sup>	\$ 94,500	\$ 8,000
Executive management compensation	207,713	346,250
Professional fees <sup>(i)</sup>	30,975	-
Office <sup>(i)</sup>	46,356	-
Rent <sup>(i)</sup>	37,800	10,756
Share-based compensation	-	282,000
	<u>\$ 417,344</u>	<u>\$ 628,250</u>

- <sup>(i)</sup> These fees have been paid or accrued to a company owned by a Director of the Company

As at September 30, 2019, \$40,277 remained unpaid and has been included in accounts payable. As at September 30, 2018, \$75,500 remained unpaid, of which \$8,000 was included in accounts payable and \$67,500 was included in accrued liabilities.

As at September 30, 2019, \$Nil (2018 - \$3,925) was advanced to companies controlled by a director of the Company, and included in prepaid expenses.

- (ii) During the year ended September 30, 2019, the Company incurred a total of \$Nil (2018 - \$38,805) with Chase Management Ltd. ("Chase"), a private corporation owned by the former CFO of the Company, for accounting and administrative services provided by Chase personnel, excluding the CFO. As at September 30, 2019, \$Nil (2018 - \$320) remained unpaid and has included in accounts payable.

**7. Financial Instruments and Risk Management**

***Categories of Financial Assets and Financial Liabilities***

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

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 value 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 market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for accounts payable approximate their fair value due to their short-term nature. Cash is classified as FVTPL and is held at its market value based on Level 1 of the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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**7. Financial Instruments and Risk Management** (continued)

*Credit Risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash. Management believes that the credit risk concentration with respect to financial instruments included in cash is remote as it is primarily held at a reputable financial institution.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

**Contractual Maturity Analysis at September 30, 2019**

	<b>Less than 3 Months</b>	<b>3 - 12 Months</b>	<b>1 - 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Cash	\$ 1,651,321	\$ -	\$ -	\$ -	\$ 1,651,321
Accounts payable and accrued liabilities	\$ (114,337)	\$ -	\$ -	\$ -	\$ (114,337)

*Market Risk*

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates commodity and equity prices and foreign exchange rate.

a) *Interest Rate Risk*

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash is not considered significant.

b) *Commodity and Equity Price Risk*

The Company is not exposed to price risk, as it has no investments in publicly traded securities.

c) *Foreign Exchange Risk*

The Company is exposed to foreign currency risk on fluctuations related to cash, accounts payable and accrued liabilities that are denominated in a foreign currency. As at September 30, 2019 the Company had approximately \$15,000 of cash denominated in U.S. dollars. A 10% change in the exchange rate between the U.S. dollar and the Canadian dollars would affect net loss by approximately \$1,500.

*Capital Management*

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to identify and evaluate potential business acquisitions and to negotiate acquisitions or participation agreements. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as net equity. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements. There were no charges in the Company's approach to capital management during the year.

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**8. Income Taxes**

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>2019</u>	<u>2018</u>
Loss before taxes	\$ (615,583)	\$(1,374,212)
Combined federal and provincial income tax rate	26.75%	26.75%
Expected income tax recovery	(164,668)	(367,602)
Non-deductible expenditures	1,537	78,278
Impact of future income tax rates and other	5,476	(15,873)
Share issue costs	-	(4,213)
Change in unrecognized deductible temporary difference	157,655	309,410
	<u>\$ -</u>	<u>\$ -</u>

Deferred 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 deferred income tax assets and liabilities are as follows:

	<u>2019</u>	<u>2018</u>
Capital losses	\$ 15,248	\$ 15,390
Non-capital losses	822,061	664,076
Share issue costs and finance fees	2,688	2,876
Deferred income tax asset	<u>\$ 839,997</u>	<u>\$ 682,342</u>

Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefit.

As at September 30, 2019, the Company has non-capital losses of approximately \$3,073,000 (2018 - \$2,459,500), which are available to reduce taxable income in future years that expire between 2028 and 2039 and share issuance costs of \$10,050 (2018 - \$13,800), which are available to reduce taxable income in future years and expire between 2040 – 2042. In addition, the Company has \$114,000 (2018 - \$114,000) of capital losses available to reduce future capital gains.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

**9. Subsequent Events**

Subsequent to September 30, 2019, the Company advanced management fees of \$225,000 to an officer of the Company. This amount was backed by a promissory note with no fixed terms of repayment.