

Seaway Energy Services Inc.
Management Discussion and Analysis
For the three month period ended December 31, 2011

The following Management's Discussion and Analysis ("MD&A") of the financial results of Seaway Energy Services Inc. ("Seaway" or "the Company"), should be read in conjunction with the Interim Condensed Financial Statements and comparative information which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted IFRS on October 1, 2011 with a transition date of October 1, 2010. Previously, Seaway prepared its Interim and Annual Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Note 3 and 12 of its December 31, 2011 Interim Condensed Financial Statements. Further information on the IFRS impacts is provided in the Change in Accounting Policies Section of this MD&A. Further information regarding Seaway is available on SEDAR at www.sedar.com. This MD&A is dated March 30, 2012. All currency amounts are expressed in Canadian dollars

Forward-Looking Statements

The Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on certain assumptions made by the Company that may prove to be inaccurate. Forward-looking statements include those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent that they relate to the Company or its management. In particular, forward-looking information and statements include:

- Seaway's future revenue as our business depends significantly on the level of spending by oil and gas companies for exploration, and development and abandonment activities. Sustained increases or decreases in the price of natural gas or oil could materially impact such activities, and thereby materially affect its financial position, results of operations and cash flows. Due to extreme fluctuations in the commodity prices for both oil and natural gas, the oil and gas industry is subject to significant volatility.

All of the aforementioned statements and information can be found in the "Outlook" and "Results of Operations" sections of this MD&A.

These forward-looking statements are not historical facts, but reflect the Company's current expectations and assumptions regarding future results or events. Particularly, these forward-looking statements are based on management's estimate of revenues based on business volumes and commitments at the date hereof. Readers are cautioned, as provided herein, that actual revenue results may vary materially from estimates and, in particular, are subject to risks including delivery, competition and management of growth. Additional assumptions made include customer demand for the Company's services and the Company's ability to maintain and enhance customer relationships. Please also see the "Risk Factors" section for risk factors that may affect the Company.

Outlook

Throughout 2011 drilling activity in the Western Canadian Sedimentary Basin was driven by oil and liquids-rich gas plays. High North American natural gas storage levels and consistent production has kept natural gas prices depressed and the drilling of dry natural gas plays languishing. Industry associations expect oil and gas prices to remain at current levels and are forecasting drilling activity levels for 2012 to be similar to 2011.

Unfortunately Seaway was not able to capitalize on the 2011 activity levels. One active customer was acquired by another operator and the expected work projects were not retained. A few of Seaway's clients also proved to be primarily gas driven and they subsequently reduced activity levels. The reduced activity is further reflected in the FY2012 Q1 numbers. Seaway recognizes that the need to diversify the client base is paramount and has brought on board additional business

development personnel in the quarter. We remain optimistic that we will see positive impacts from this increased marketing effort by mid calendar year 2012.

Go Private Transaction

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.

At the shareholders annual and general meeting on February 2, 2012, the minority shareholders rejected the previously announced management-sponsored going-private transaction by the narrow margin of 50.57 per cent (1,551,000 common shares) voted against and 49.43 per cent (1,516,017 common shares) voted in favour, even though approximately 90 per cent (13,225,017 common shares) of all votes cast at the meeting were in favour of the going-private transaction.

Corporate legislation required the going-private transaction to be approved by at least two-thirds (66-2/3 per cent) of the votes cast by shareholders present in person or represented by proxy at the meeting. For the purposes of TSX Venture Exchange Policy 5.9 and Multilateral Instrument 61-101, the going-private transaction required approval by a majority of the votes cast by the minority shareholders (being those shareholders other than other than Jerry Budziak, president, chief executive officer and a director of the company, David Burroughs and Elias Foscolos, both of whom are directors of the company, and their associates and affiliates, and all persons acting jointly or in concert with them, collectively, the majority shareholders), present in person or represented by proxy at the meeting.

Key Performance Indicators

Seaway evaluates the Company's overall performance and the performance of its business units using key financial indicators, particularly revenues, operating margins, earnings, total assets and total debt.

Results of Operations

Gross revenue from environmental consulting services decreased 30.6% to \$608,357 from \$876,767 for the first quarter of 2012 compared to the comparative 2011. The decrease in revenue is consistent with the steady activity levels associated with the low price of natural gas offset, competitive pricing pressures and a significant customer deciding to perform some of the environmental work in-house. The Company has seen a steady decrease in revenues over the last three years. In order to increase revenue growth the Company hired a business development manager last quarter with the expectation of diversifying its customer base. Management anticipates seeing the benefit of the sales efforts in the fourth quarter.

Direct operating expenses consist of those expenses directly attributable to the provision of environmental consulting and related services to customers. These include field supervision fees and travel costs, field fees paid on behalf of clients, environmental assessment analyses, the cost of preparing recommendations for site remediation and conformance, site history tracking costs and costs associated with the submission of necessary applications. Direct operating expenses decreased 37.5% from \$686,058 to \$429,015 for the three month period ending December 31, 2011 compared to the comparative 2010 period. The fluctuation in the direct operating costs is due to the mix of services provided (field operations versus engineering and reclamation work).

Gross profit, which is gross revenue less direct costs, increased to 29.5% in the first quarter of 2011 from 21.8% in the comparative quarter. The fluctuations in the margins are due to the mix of services provided (field operations versus engineering and reclamation work).

General and administrative expenses consist of all expenses other than those directly attributable to the provision of environmental consulting services to customers. These include professional liability insurance, advertising and promotion, office salaries and benefits, professional fees, office supplies, training, office costs, rent and public company costs. General and administrative costs were \$245,040 in the current quarter as compared to \$139,034 in the comparative quarter. Included in general and administrative expenses is approximately \$63,000 of costs related to the go private transaction, the costs associated with hiring the business development manager and a increased rent charge due to new office space. With respect to day to day general and administrative expenditures management continues to maintain strict cost controls measures. During the quarter the Company did not encounter any uncollectable accounts.

During the period, the Company incurred approximately \$9,625 in management fees, which is included in general and administrative expenses, to company controlled by a Officer of which \$8,465 is included in accounts payable and accrued liabilities at December 31, 2011. All related party transactions occurred in the normal course of operations and have been measured at the agreed to exchange amount.

Stock-based Compensation

The Company has a stock option plan whereby certain officers, directors, employees, and consultants are granted options to purchase common shares. Options granted under the plan have a maximum term of five years.

Seaway Energy utilizes the fair value method of accounting for stock options granted. In determining the fair value of the stock options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the Company's stock and expected life of the options are made. No options were granted during the three month period ending December 31, 2011. The future expense will vary as it is dependent on the number and vesting provisions of future stock option grants.

Income taxes

Presently the Company does not expect to pay current taxes in 2012 based on existing tax pools and current forecasts of taxable income. However, the current tax horizon will ultimately depend on several factors including natural gas commodity prices which effects the Western Canadian drilling and service activity levels and corporate expenses in future reporting periods.

Liquidity and Capital Resources

At December 31, 2011 the Company has positive working capital of \$700,857 compared to a positive working capital balance of \$773,664 as of September 30, 2011. Included in the Company's working Capital is \$275,000 of convertible debentures due in April 2012 due to a Director and Officer of the Company. The working capital decrease is due to funds utilized in operations as a result of the proposed go private transaction and offset by the shares acquired pursuant to the Normal Course Issuer Bid as discussed below. The Company paid \$6,188 of interest on the debenture. In January 2012, the Company repaid \$75,000 of the debentures.

The Company has a \$600,000 (September 30, 2011 - \$600,000) undrawn revolving demand loan facility with a chartered bank. The loan bears interest at bank prime plus 1.5% with an effective rate of 3.75 percent. 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. The Company is currently not in violation of any financial covenants.

Seaway's requirement for capital assets is generally limited to personal computers, network applications, telephone systems, servers, furniture, and fixtures for leased space. The Company made no investments in capital assets in the current quarter.

The Company has entered into a lease for its operating premises. The following table discloses Seaway's current contractual obligations:

Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Premise lease	\$ 52,308	46,550	7,758	-	-

In February 2011, the Company has filed and received notice that the TSX Venture Exchange has accepted a notice with the intention to make a normal course issuer bid. During the 12-month period commencing February 17, 2011, and ending February 17, 2012, Seaway may purchase on the TSX Venture Exchange up to 3,098,847 common shares. The price which Seaway will pay for any such shares will be the market price at the time of acquisition. The actual number of common shares which may be purchased and the timing of any such purchases will be determined by Seaway.

During the 2011 fiscal year, the Company repurchased 1,511,000 common shares at an average price of \$0.044 per Common share. In October 2011, the Company acquired a further 600,000 Common shares at an average price of \$0.035.

Financial Instruments

Our principal financial instruments are cash and cash equivalents, accounts receivable, accounts payable, accounts payable and accrued liabilities and convertible debentures. We currently do not have any long term debt.

Counterparty Credit Risk Management

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 December 31, 2011 the total trade accounts receivable with four customers accounted for 61% of the Company's current accounts receivable.

	December 31, 2011	September 30, 2011
1-30 days	\$ 105,436	\$ 874,027
31-60 days	120,283	149,098
61 + days	<u>875,966</u>	<u>223,656</u>
Total trade receivables	1,101,685	1,246,781
Allowance for doubtful accounts	(18,756)	(18,756)
Total accounts receivable	\$ 1,082,929	\$ 1,228,025

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Currently all the Company's debt subject to interest is fixed rate debt.

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 December 31, 2010, 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.

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.

Outstanding Share Data

The Company has authorized an unlimited number of preferred shares and an unlimited number of voting common shares. At December 31, 2011 and March 29, 2012 there are 28,877,470 common shares outstanding.

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. The Company has no options issued under the plan.

Summary of Quarterly Results

	Three months ended December 30, 2011	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended March 31, 2011
<i>(\$ thousands, except per share amounts)</i>				
Gross revenue	608	1,010	519	712
Net income (loss)	(55)	79	(18)	0
Per share – basic and diluted	(\$0.001)	\$0.001	\$(0.001)	0.000
Working capital	701	794	714	771
Total assets	1,328	1,520	1,329	1,428

	Three months ended December 31, 2010	Three months ended September 30, 2010	Three months ended June 30, 2010	Three months ended March 31, 2010
<i>(\$ thousands, except per share amounts)</i>				
Gross revenue	877	1,117	1,539	911
Net income (loss)	33	(53)	78	10
Per share – basic and diluted	0.001	(.003)	0.003	0.001
Working capital	774	731	535	409
Total assets	1,594	1,440	1,822	2,059

The Company's revenues have continued to decrease as a result of the competitive pricing environment and depressed natural gas prices. The net loss in the current quarter is primarily related to the proposed go private transactions professional costs. The Company's revenues are historically lower in the second and third quarters due to break-up effecting field operations. The net loss in the fourth quarter of 2010 related to the impairment provision of a customer list acquired in fiscal 2008.

Critical Accounting Estimates

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.

Change in Accounting Policies

Adoption of International Financial Reporting Standards

The Condensed Interim Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted IFRS on October 1, 2011. Previously, Seaway prepared its Interim Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Note 3 and 12 of its December 31, 2011 Condensed Interim Financial Statements. Further information on the significant IFRS accounting policy changes are provided in the Change in Accounting Policies Section of this MD&A. The adoption of IFRS did not have a material impact on the Company's statement of financial position, statement of operations, cash flow and capital expenditures.

Accounting Policy Changes

The following discussion illustrates the significant differences between Canadian GAAP and the accounting policies applied by the Company under IFRS. IFRS 1 *First-time adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from retrospective application of certain IFRS. 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.

Accounting Pronouncements 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.

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.

Risks and Uncertainties

Seaway Energy strives to ensure its operations are conducted in an efficient and cost-effective manner and that all applicable environmental regulations and guidelines are adhered to. As oil and gas companies continue to drill wells and develop properties, a greater emphasis is being placed on the environmental consulting services provided by companies such as Seaway to assist them in complying with increasingly stringent regulations. The demand for the services provided by Seaway Energy is dependent on the level of activity in the industry, which in turn is subject to a number of risk factors. The demand, price and terms of our services are dependent on the level of activity in this industry, which in turn depends on several factors, including:

- Crude oil, natural gas and other commodity prices, markets and storage levels;
- Expected rates of production and production declines;
- Discovery of new oil and natural gas reserves;
- Availability of capital and financing;
- Exploration and production costs;
- Pipeline capacity and availability;
- Manufacturing capacity and availability of supplies for rig construction; and
- Government imposed royalties and taxes.

The following is a detailed description of the risk factors that affect the oil and gas industry and in turn the Company:

- **Commodity Pricing** – Both oil and gas prices are unstable and are subject to fluctuation. The prices determine the economic feasibility of exploration and drilling activity in the oil and gas industry, to which the Company provides its services. High commodity prices increase demand for the Company's services, while adverse prices impact the Company's ability to generate revenues.
- **Weather** – The Company provides supervisory services on projects involving the use of heavy equipment, the movement of which requires reasonable weather and road conditions. Adverse weather conditions can significantly delay or bring into question the economic viability of projects. The weather also introduces a seasonality aspect to the Company's business. This is especially true in the spring season, with spring breakup making many secondary roads impassable.
- **Available workforce** – The ability of the Company to provide services is contingent upon qualified and sufficient staff being available. Obtaining and retaining qualified personnel is crucial to the Company being able to provide cost-effective quality service to its clients.
- **Competition** – The Company competes with numerous other participants in the provision of environmental consulting services. The Company needs to continue to provide cost-effective quality service to mitigate the business risk of competition.