

**Seaway Energy Services Inc.**  
**Management's Discussion and Analysis**  
**For the Three Month Period Ended December 31, 2012**

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 for the three months ended December 31, 2012 the audited financial statements for the year ended September 30, 2012. The financial statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all financial measures are expressed in Canadian dollars. Further information regarding Seaway is available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is dated February 28, 2013.

***Forward-Looking Statements***

The Company cautions that the forward-looking statements in the following Management's 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. Natural gas prices have significantly weakened recently resulting in reduced budgeted exploration programs for the junior through to senior exploration companies and oil prices have weakened due to widening differentials due to pipeline capacity restrictions.
- Recently, significant economic uncertainty has also surfaced. The short term effects of this crisis may affect both our and our customers' ability to access capital and hence fund their operations, as well as have a negative impact on overall economic activity and the demand for oil and gas.

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**

Industry associations are now forecasting a reduction in 2013 drilling levels from that achieved in 2012. Gas prices remain depressed at low levels due to a North American gas glut and no improvement in dry natural gas directed drilling is expected in the near term. Drilling activity levels had generally been supported by oil and liquids rich natural gas drilling. Additionally, realized prices for oil have weakened due to pipeline capacity constraints resulting in wider differentials between WTI and prices realized by producers. Lower cash flows, particularly for the small to intermediate sized exploration and production companies, are expected to result in delayed or curtailed development programs for the balance of the calendar year. The lower cash flows have already resulted in reduced expenditures on lease and access road reclamation. Steady activity levels were forecast for the first quarter of the 2013 fiscal year which did not materialize as many of our existing clients have advised that they will be very guarded and selective in their capital expenditures on a go forward basis.

Due to the aforementioned industry and customer forecasts, Seaway's Board of Directors has determined, after extensive and careful consideration of potential alternatives, that it is in the best interests of the Company and its shareholders to liquidate its assets and dissolve the Company. In connection with the liquidation and dissolution, which shareholder approval was received on February 28, 2013, the Company intends to distribute to its shareholders all available cash, except such cash as is required for paying or making reasonable provision for known and potential liabilities and other obligations of the Company. As a result the Board plans to distribute any remaining funds to shareholders, the timing and amounts of such distribution(s) have yet to be determined.

Notwithstanding the receipt of shareholder approval of the dissolution of the Company, the Board retains the discretion not to proceed with the dissolution if it determines that the liquidation and dissolution is no longer in the best interests of the Company and its shareholders. As a result, the Company continues to evaluate other opportunities that have the potential of providing a superior return to its shareholders, taking into account all factors that could affect valuation, including timing and certainty of payment or closing, proposed terms and other factors.

## **Key Performance Indicators**

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

## **Going Concern Assumption**

The December 31, 2012 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's ability to continue as a going concern is dependent upon achieving profitable operations, increasing cash flow from operations which is dependent on revenue generation and prudently managing administrative costs. There is no certainty that incremental revenue will be generated which may cast significant doubt about the Company's ability to continue as going concern. The December 31, 2012, 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 financial statements, then adjustments would be necessary in the carrying value of property and equipment, liabilities, the reported expenses, and the classifications used in the statement of financial position. Such adjustments could be material.

## **Results of Operations**

Gross revenue from environmental consulting services decreased 46% to \$328,473 from \$608,357 for the first quarter of 2013 compared to the comparative 2012 quarter. The overall decrease in revenue is consistent with the activity levels associated with the low price of natural gas coupled with, 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. The Company strengthen its marketing efforts in fiscal 2012 with the anticipation of capitalizing its marketing efforts in the current quarter however to date no material increases in revenue have been recognized or significant new customers retained.

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 50.4% from \$429,015 in three months ended December 31, 2011 to \$213,103 for the three month period ending December 31, 2012. The decreases in operating costs are consistent with the decreases in revenues as the majority of our work is conducted by independent contractors and is subject to the mix of services provided (field operations versus engineering and reclamation work).

Gross profit, which is gross revenue less direct costs, increased to 35.2% in the first quarter of 2013 from 29.5% 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 \$181,057 in the current quarter as compared to \$245,040 in the comparative quarter. Included in general and administrative expenses in the 2011 quarter is approximately \$63,000 of costs related to the unsuccessful go private transaction and the costs associated with hiring the business development manager. 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 \$4,906 in management fees, which is included in general and administrative expenses, to company controlled by an Officer of which \$Nil is included in accounts payable and accrued liabilities at December 31, 2012. All related party transactions occurred in the normal course of operations and have been measured at the agreed to exchange amount.

## **Income taxes**

Presently the Company does not expect to pay taxes in 2013 or 2014 based on existing tax pools and current forecasts of taxable income.

## **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 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 period. The future expense will vary as it is dependent on the number and vesting provisions of future stock option grants.

## Summary of Quarterly Results

	Three months ended December 31, 2012	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012
<i>(\$ thousands, except per share amounts)</i>				
Gross revenue	328	609	589	373
Net income (loss)	(69)	(2)	(7)	(112)
Per share – basic and diluted	(0.003)	(0.000)	(0.000)	(\$0.004)
Working capital	525	592	617	554
Total assets	877	1,210	1,212	971
	Three months ended December 31, 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

The Company's revenues have continued to decrease as a result of the competitive pricing environment and depressed natural gas prices and lower realized oil prices causing companies to scale back expenditures. The net loss in the current quarter is due to reduced revenue with the net loss in the first and second quarters of 2012 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 quarterly results of Seaway are markedly affected by weather patterns throughout its operating area in Western Canada. Historically, the first and fourth quarters of the fiscal years are very active, followed by a much slower second and third quarter. As a result of this, the variation on a quarterly basis, particularly in the second and third quarters, can be dramatic year-over-year independent of other demand factors.

## Liquidity and Capital Resources

At December 31, 2012, the Company has positive working capital of \$524,646 compared to a positive working capital balance of \$592,329 as of September 30, 2012. Included in the Company's working Capital is \$100,000 (\$100,000 – September 30, 2012) of convertible debentures due in April 2013 to a Director and Officer of the Company. The Company incurred \$2,170 of interest on the debentures which is included in accounts payable and accrued liabilities at December 31, 2012. Subsequent to the quarter the debenture has been repaid. The working capital decrease is primarily due to funds utilized in day to day operations due to inadequate revenue generation as previously discussed.

The Company has an undrawn \$600,000 revolving demand loan facility with a chartered bank. The Company as at the date of this MD&A has not drawn on the demand loan facility. 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.

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 of investments in capital assets in during the quarter.

The Company has entered into a lease for its operating premises. The following table discloses Seaway's current contractual obligations exclusive of common costs as of the date of the MD&A:

Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Premise lease	\$ 101,689	67,520	34,169	-	-
Sublet revenue	\$ (40,343)	(36,309)	(4,034)	-	-
Net contractual obligation	61,346	31,211	30,135	-	-

In an effort to reduce general and administrative costs the Company sublet it's downtown core office in December 2012 and moved into a 2,330 sq/ft complex in the Northeast Calgary industrial park. The anticipated annual savings are expected to exceed approximately \$20,000 per annum once common costs are figured into the equation.

In May 2006, Seaway entered into an employment agreement with the Chief Executive Officer. The employment agreement provides for a termination without cause or change in control allowance of six months plus one month for every year of service aseverance for termination without cause and/or change of control of the Company. At December 31, 2012, the Company estimates the obligation to be approximately \$162,500.

## 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, 2012 the total trade accounts receivable with three customers accounted for 48% of the Company's current accounts receivable.

	December 31, 2012	September 30, 2012
1-30 days	\$ 296,305	\$ 503,740
31-60 days	53,930	65,586
61 + days	133,107	352,391
Total trade receivables	483,342	921,717
Allowance for doubtful accounts	(8,036)	(8,036)
Total accounts receivable	\$ 475,306	\$ 913,681

### Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2012, the Company only had 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, 2012, the Company has fixed interest rates on approximately 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 February 28, 2013 there are 28,877,470 common shares outstanding and nil stock options outstanding.

### Statement of Net Assets

Seaway anticipates the wind-up will be substantially completed by the end of the third quarter of 2013. The winding up process consists of the satisfaction of all remaining liabilities and obligations of the Company, the distribution of remaining cash to shareholders, compliance with reporting obligations under applicable laws and regulations until the dissolution of the Company is completed, and such other activities as are ancillary to the winding up and final liquidation of the Company.

Set out below is an analysis of Seaway's balance sheet presented in the form of a statement of net assets at December 31, 2012. The only difference between the unaudited consolidated interim balance sheet and the statement of net assets is the inclusion of estimated future net costs to wind-up and liquidate the Company of \$150,000 until December 31, 2013.

Statement of Net Assets (in thousands of Canadian dollars)	December 31, 2012
<b>Assets</b>	
Cash and cash equivalents	\$ 357,594
Trade and other receivables	475,306
Total Assets	<u>832,900</u>
<b>Liabilities</b>	
Trade and other payables	\$ 237,691
Convertible debentures	100,000
Total Liabilities	<u>337,691</u>
Net assets as at December 31, 2012	\$ 495,209
Estimated severance costs for the wind-up	(180,400)
Estimated net costs for the wind-up to December 31, 2013	<u>(150,000)</u>
Estimated future net assets as at December 31, 2013	<u>\$ 164,809</u>
Number of common shares	28,877,470
Estimated Distributable Cash Per Share	\$ 0.005

Seaway estimates that \$0.165 million (\$0.005 per share) will be available for distribution to shareholders in one or more installments. It is anticipated that a final distribution of remaining cash, if any, will be made during the second half of 2013, subject to satisfaction of all remaining liabilities of the Company and receipt by the Company of tax clearance certificates from the federal and certain provincial taxation authorities in Canada.

Estimated future net assets of December 31, 2013 of \$164,809 includes Seaway's net assets as at December 31, 2012 of \$495,209 less the estimate severance costs of \$180,400, net professional service costs of wind-up of \$45,000, \$105,000 of rent and administrative costs and assumes no unforeseen claims are asserted against the Company.

### **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.

### **Accounting Pronouncements Not Yet Adopted**

As of October 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 financial statements:

In November 2009, the IASB published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company for annual periods beginning on or after January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively. The Company has not determined the impact

of the new standard on the consolidated financial statements and will not be an early adopter of the standard.

IFRS 10 *Consolidated Financial Statements* provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning on or after January 1, 2013. The Company has determined the standard will not have an impact on the Company.

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation would be removed, equity accounting would be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements and will not be an early adopter of the standard.

IFRS 12 *Disclosure of Interests in Other Entities* aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning on or after January 1, 2013. The Company has determined the standard will not have an impact on the Company.

IFRS 13 *Fair Value Measurement* provides comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for annual periods beginning on or after January 1, 2013. The Company has not determined the impact of the new standard on the financial statements and will not be an early adopter of the standard.

IFRS 28 In May 2011, the IASB issued amendments to IAS 28, *“Investments in Associates and Joint Ventures”*, to establish the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures. The standard is required to be adopted for annual periods beginning on or after January 1, 2013. The Company has determined the standard will not have an impact on the Company.

#### ***Amendments to IAS 1 Presentation of Financial Statements***

The Company intends to adopt the amendments in its financial statements for the annual period beginning on or after January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

#### ***Amendments to IAS 19 Employee Benefits***

The Company intends to adopt the amendments in its financial statements for the annual period beginning on or after January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

#### ***Amendments to IAS 32 and IFRS 7, Offsetting Financial Assets and Liabilities***

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on or after January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning on or after January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.



## ***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.