

Seair Inc.**Management Discussion and Analysis ("MD&A")****For the three and six months ended February 28, 2017 and February 29, 2016**

Seair Inc. ("Seair" or "the Company") is a reporting issuer in British Columbia and Alberta and trades on the Toronto Venture Exchange ("TSXV") under the symbol SDS.

It is management's responsibility to ensure that appropriate information systems, procedures and controls are in place to provide complete and reliable financial information. In addition, Seair's board of directors and audit committee play a key oversight role in ensuring the integrity of the financial information.

Management recommends reading this MD&A in conjunction with Seair's annual audited consolidated financial statements and related notes for the year ended August 31, 2016. Unless otherwise stated, all amounts are expressed in Canadian dollars ("CAD").

Management's discussion and analysis is based on information available as of May 15, 2017.

Forward-Looking Statements

This MD&A, or documents incorporated herein, may include certain information, statements and assumptions regarding management's view of future events, expectations, plans, initiatives or prospects that constitute forward-looking information within the meaning of securities laws.

The words "expect", "anticipate", "estimate", "may", "will", "should", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by Seair in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that Seair believes are appropriate in the circumstances. Management's discussion and analysis contains certain forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in the Risk Management section at the end of the discussion, factors which could cause actual results or events to differ could include, but are not limited to: the impact of competition; consumer confidence and spending levels; general economic conditions; interest and currency exchange rates; the cost and availability of capital; and the ability of Seair to attract and retain quality employees. No assurances can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

These factors should be considered carefully, and readers should not place undue reliance on Seair's forward-looking statements. Seair has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Strategy and Key Business Drivers

Seair's strategy is to develop and implement industrial-scale water and wastewater treatment solutions based upon the Company's proprietary diffusion technologies. The essence of Seair's competitive advantage is its patented diffusion system. The Seair diffusion technology is more efficient and effective at achieving high concentrations of gas into water and wastewater and keeping the gas stable in solution for extended periods of time. This, in turn, greatly increases the number, duration and diversity of desired chemical reactions between the diffused gases and the water/wastewater contaminants. Seair is able to economically achieve water and wastewater treatment results that are not possible with conventional gas-based treatment systems.

Particular focus is placed on the oil and gas industry due to the high intensity of water use and the absence of economically and environmentally viable solutions for acceptable treatment of complex oilfield waters for reuse or safe disposal. While the economic situation in Alberta has deteriorated measurably, Seair has also focused on other geographic regions like the US and the Middle East which have lower costs of production and are more willing to spend capital on solutions. Seair has developed and is working on treatment solutions for both conventional and oil sands applications.

Oil Water Separation: Conventional oil and gas production requires significant quantities of water, particularly when enhanced recovery methods such as formation fracturing are employed. When oil and gas is brought to the surface it is combined with water at a ratio of up to approximately 10 barrels (10:1) for each barrel of oil/gas produced. The hydrocarbons are extracted and the residual water, known as produced water, has a number of contaminants (including residual oil) that prevent it from being reused or discharged to the environment. Typically, this means produced water is simply disposed, usually by way of reinjection into disposal wells, at considerable cost. Seair has developed an economically and environmentally viable system that treats produced water so that it can be reused in oil and gas production. This closed-loop water system reduces the cost and environmental impact of contaminated water disposal while reducing the quantity of externally-sourced water for continuing oil and gas production activities. Seair believes it can treat produced water for reuse at a lower cost than competing technologies and at a cost that is competitive with or lower than conventional disposal. In addition, the recovered oil can be resold, which creates a strong economic incentive for producers and handlers of the water to implement a system like the one developed by Seair.

Seair is working to deploy its produced water treatment system in the Western Sedimentary Basin, Middle East and other international locations. Management is assessing a number of alternatives for that eventual deployment. The Seair system is designed to handle a variety of oil field waters in addition to produced water, including frac flowback water, standing, river or sand pit waters.

Mine Dewatering: In late fiscal 2009 Seair began installing its first high volume groundwater treatment units at a major oil sands operation in Alberta. Removal and/or depressurization of groundwater via wells is essential in many industrial applications, including oil sands surface mining operations. Although the removed water is never part of the actual mining or processing operation, in many cases the water does not meet standards for discharge into the environment. If so, it must be stored in large, purpose built, ponds until the quality meets standards or, alternatively, the water is diverted to the mine's main tailing ponds, at which time it becomes mining water. Seair first deployed units to a new customer in the oil sands in 2014. In addition, other oil sands operators are now looking at Seair's solution to solve basal and ground water issues.

Seair's flow-through surface mining water treatment systems provide high volume on-site processing of groundwater in connection with preparation or operation of surface mines. After treatment using Seair equipment, groundwater meets standards for discharge into the environment. Seair's solution decreases water infrastructure costs by eliminating the need for storage or treatment ponds. As well, treated water does not need to be diverted into tailing ponds. As a result, tailing pond inputs are effectively decreased, reducing the need for physical changes or expansion. The Seair solution generates cost savings for the oil sands producers and lowers costs of production.

Pilot testing is a critical step in commercializing applications as it involves working with potential customers to prove the field capabilities of the proposed solutions and to provide a basis for determining the requirements and cost of eventual commercial-scale systems. Seair has had a number of pilot projects completed in the past two years which should lead to revenue opportunities in the future. The trials were successful in showing strong performance of Seair's technology and we believe have shown their economic viability just as the technology has proven its capability in areas such as corrosion protection and ammonia stripping and management of flue gases. We expect to continue to do trials with new and existing customers in the coming year and to drive the conversion of these trials into commercial success.

pH Neutralization of Water: In the oil & gas, industrial and municipal markets there are numerous applications requiring the neutralization of high pH water. Seair's patented diffusion technology enables a process using carbon dioxide to react with water and lower pH without the addition of expensive acids. This approach provides significant economic benefits and is environmentally friendly assuring an added level of safety; eliminating the storage and handling of strong acids. With the high value generated by this application, several opportunities for strategic partners have emerged.

Municipal and Industrial Wastewater: In the municipal wastewater treatment sector Seair is capable of supplying equipment for wastewater treatment plants for communities not connected to major urban centre facilities.

A core differentiator of Seair's diffusion process is the dramatically improved efficiency relative to conventional coarse and fine bubble diffusion systems. These efficiencies translate directly into substantial energy savings, which should be of particular interest to customers. Alternatively, the Seair system can be used to deliver substantially more usable diffused gas per unit of energy. Either way, the key to Seair's technology is a combination of effectiveness and efficiency unmatched by conventional diffusion methods.

Over the past year, Seair has been focused on building strategic partner relationships to further expand the application of its water treatment technologies. In addition, Seair is working with new global partners for other applications of its technology and we expect to announce these in early 2017 as trials are converted to purchase orders.

Seair has traditionally focused its sales and marketing efforts on Canadian customers and applications. Since Seair's target markets and applications are global in nature, Seair is now exploring international opportunities where its proprietary technology can be utilized to alleviate major water and waste water issues.

Overview

During the first six months of the year, the Company continued to move forward with its business plan by promoting and developing the various applications of its proprietary diffusion technology. The Company continued to pursue several key purchase orders to be fulfilled in the current fiscal year. At the same time, Seair continued with important customer trials in the anticipation of future strategic partnerships and revenue generating agreements.

The prolonged global drop in oil prices has slowed Seair's work in oil/water separation. Interest in our products and technology initially increased as oil and gas companies searched for efficiency gains in the face of falling revenues, however, in places like Alberta where revenues have fallen significantly, this has resulted in a significant slowdown in the timing of customer orders.

Due primarily to continued delays in the receipt of anticipated customer orders, on February 21, 2017, the Company defaulted on its Secured Demand Loan. Under the terms of the various security agreements in place, this default triggered a cross-default on an aggregate principal amount of \$4.6 million of the Company's \$5.2 million Secured Convertible Debentures.

The implications of the above-noted default triggered various events that occurred subsequent to the Company's quarter end. These events are described in detail in note 24 of the Company's interim condensed consolidated financial statements as well as the *Outlook* section at the end of this document.

As of the date of this report, the Company has 80.1 million common shares outstanding, 2.5 million preferred shares outstanding, and \$5.2 million in face value of convertible debt. Other than the 2.5 million preferred shares, which are convertible on a 1:1 basis into common shares, none of the outstanding common shares are convertible into, or exercisable, or exchangeable for, other voting or other equity securities of the Company. Seair has 6.1 million stock options and 18.6 million warrants outstanding as of the same date.

Results of Continuing Operations

Seair's six month consolidated sales and financial performance from continuing operations for the three and six months ended February 28, 2017 and February 29, 2016 is summarized as follows:

	Three months Feb 28/17	Three months Feb 29/16	Change	Six months Feb 28/17	Six months Feb 29/16	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	143,000	-	-	149,000	19,000	688F
Gross profit	133,000	-	-	139,000	14,000	922F
Net loss from continuing operations	(1,034,000)	(320,000)	223U	(1,710,000)	(1,174,000)	46U
Basic loss per share	(0.01)	(0.01)		(0.02)	(0.02)	
Total assets	495,000	431,000		495,000	431,000	
Total liabilities	10,301,000	7,958,000		10,301,000	7,958,000	

F=Favourable

U=Unfavourable

Revenue

Revenue in the second quarter of this year was \$143,000 compared to the prior year's second quarter revenue of \$nil. Similarly, revenue for the six months ended February 28, 2017 was \$149,000 compared to \$19,000 for the same period in the prior year. The current quarter's revenue related to the initial stages of a potentially larger project which management anticipates securing in the near future.

Additional revenue opportunities continue to be delayed primarily due to continued resource limitations and delays in the receipt of orders from cash constrained energy sector customers. The customer trial process has taken longer than expected to convert the Company's successful trials to customer orders as the bulk of our Alberta-based customers deal with substantially reduced revenues and cash flow. Over time, the Company expects this time to shorten and virtually be eliminated as the Company's now proven proprietary technology becomes more familiar to its customers and the relevant industries as a whole and their understanding of the immediate benefits of the technology increases.

Gross Profit

Gross profit for the three months ended February 29, 2017 was \$137,000 compared to \$nil, in the prior year quarter. Gross profit was \$139,000 for the six months ended February 29, 2017 compared to \$14,000 for the same period in the prior year.

The gross margin percentage for the current quarter and six months ended February 28, 2017 was 93% compared to 72% for the prior year's quarter. The higher the usual gross profit was the result of the type of work undertaken in the current quarter. This project provided higher than average margins due to its significant technical components as opposed to material components.

General and administrative

To total general and administrative costs increased to \$774,000 in the second quarter of 2017 from \$359,000 in the same quarter in the prior period. Likewise, total general and administrative costs increased to \$1,055,000 for the six months ended February 28, 2017 from \$746,000 for the same period in the prior year. These increases resulted from an agreement reached in the current quarter related to commissions owing to one of the Company's employees.

Share-based payments

The 3.14 million options granted late in the fourth quarter of 2015 generated a share-based payment expense of \$90,000 and \$180,000 in the prior year second quarter and six months ended February 29, 2016 compared to \$nil in the current year second quarter and six months ended February 28, 2017 due to the timing of the grant. By the end of the last fiscal year, the share-based payments expense related to the 2015 grant had been fully recognized.

Finance expenses

Finance expenses increased significantly in the three and six months ending February 28, 2017 over same periods in the prior year. The majority of this increase was the result of a change in the maturity date of the Company's convertible debentures completed in the prior year. This change in date which was accounted for as a change in estimate caused a reversal of the non-cash components of amortization and accretion to be recorded in the prior year. In addition, the increased interest rate on the Company's convertible debentures from 8% to 12% related to the change in maturity date and the additional interest accrued on the demand loan balance also contributed to this increase.

Net Loss from Continuing Operations

Results for the second quarter ending February 28, 2017 saw the Company's net loss from continuing operations increase to \$1,034,000 compared to a net loss of \$320,000 for the same quarter in the prior year. Likewise, the net loss for the six months ended February 28, 2017 increased to \$1,710,000 from \$1,174,000 for the same period in the prior year. The increase in net loss was the direct result of an agreement reached in the quarter with respect to commissions owed to one of the Company's employees and non-cash finance expenses related to the Company's convertible debentures, offset by the absence of any share-based payments expense in the current periods.

Selected Quarterly Financial information

A summary of results for the last eight quarters follows (in '000, except per share amounts):

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Revenue	\$61	\$131	\$19	\$0	\$221	\$237	\$6	\$143
Gross profit	\$37	\$134	\$14	\$0	\$148	\$133	\$6	\$133
Net loss	(\$697)	(\$750)	(\$854)	(\$320)	(\$653)	(\$667)	(\$676)	(\$1,034)
Net loss per share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

Quarterly revenue often varies due to the timing of the receipt of orders from customers. Changes in the maturity date of the Company's convertible debentures can also give rise to significant fluctuations in non-cash financing expenses thereby impacting Seair's net loss. An agreement reached in the current quarter related to commissions owing to one of the Company's employees caused a jump in the Company's general and administrative costs thereby negatively impacting the net loss for the quarter.

Financial Condition, Liquidity and Capital Structure

Working capital at February 28, 2017 was negative \$10.0 million compared to a negative position of \$8.6 million at August 31, 2016 due largely to the build-up of payables as the Company continued to work on arranging additional financing to facilitate the roll out of its business plan including the execution of on-going important technology trials with potential partners and customers.

As part of that process, it was necessary for the Company to rely on bridge financing in the form of demand loans. As at February 28, 2017, a total of \$1,109,440 in bridge financing in the form of demand loans had been received to date.

In addition, on November 21, 2016, the Company closed a Secured Demand Loan in the amount of \$215,125. Net proceeds after related financing and legal costs amounted to approximately \$200,000. The loan has an interest rate of 17% per annum compounded monthly in arrears from the date of the loan until the date of maturity and 22% per annum compounded monthly in arrears from the day after the maturity date until the loan and all interest thereon have been repaid in full.

The Secured Demand Loan matured on February 21, 2017. As the Company was unable to repay this loan and the accrued interest on this date, the Company defaulted on the terms of this loan. Under the terms of the various security agreements in place, this default triggered a cross-default on an aggregate principal amount of \$4.6 million of the Company's \$5.2 million Secured Convertible Debentures.

The implications of the above-noted default triggered various events that occurred subsequent to the quarter end. These events described in detail in note 24 to the Company's interim condensed consolidated financial statements as well as the *Outlook* section at the end of this document.

Trade and other receivables at February 28, 2017 increased to \$150,290 from \$4,340 at August 31, 2016 as the Company began work the initial stage of a potentially larger customer project. As at February 28, 2017, all receivables are current and none of the accounts receivable balance was older than 90 days. Further, all amounts owing at February 28, 2017 were collected subsequent to the quarter end.

Inventory increased to \$112,652 at February 28, 2017 up from \$104,641 at August 31, 2016 as a new SA75 diffusion tower was commissioned and placed on trial with a potential new customer. Seair's finished goods inventory consists solely of a range of sizes of diffusion towers to support the Company's diffusion operations. The Company anticipates utilizing the existing inventory in future customer orders or trial rentals.

Trade and other payables from continuing operations increased to \$2.4 million at February 28, 2017 from \$1.5 million at August 31, 2016. This increase was the largely the result of the continued build-up of payables. The Company still holds trade and other payable liabilities of \$1.5 million relating to its former septic business unit and hopes to settle the majority of this amount in the future.

Commitments

Contractual obligations	Total	Payment Due by Period			
		Less than 1 year	1 – 3 Years	4 – 5 Years	After 5 years
	(\$)	(\$)	(\$)	(\$)	(\$)
Demand loans	1,109,000	1,109,000	-	-	-
Secured demand loan	215,000	215,000	-	-	-
Convertible debenture	5,190,000	5,190,000	-	-	-

The Company has obligations under a lease for its new office premises in Tofield, Alberta which may be terminated at any time by providing 90 days' notice to the landlord. These obligations are not considered material due to the monthly amount payable under the lease and the short notice period for termination.

Seair has no other contractual obligations for convertible debt and finance or operating leases and is currently in compliance with all debt covenants. The working capital deficit, excluding that portion attributable to the convertible debenture, is expected to continue until additional revenue is recorded from anticipated sources, including continued cash flow from continued sales from the Company's diffusion business segment. The failure of such revenue sources to materialize would force the Company to seek other sources of working capital, including additional debt and/or equity financing.

Capital Expenditures

The Company incurred \$30,945 (2016 - \$30,337) in important patent related expenditures related to its proprietary diffusion technology during the first six months of the year. These expenditures were necessary to meet upcoming filing deadlines in numerous jurisdictions. Seair continues to build its patent portfolio and much of this expense is related to fees for new patent filings in jurisdictions around the world. The patents are related to improvements in the Company's core technology along with new applications for the technology. Maintaining a strong patent portfolio is critical to the Company's ongoing licensing and partnership efforts.

There were no capital expenditures incurred during the first six months of the current or prior year.

During the first six months, the Company's discontinued business segment disposed of its three remaining service vehicles and recorded a combined loss of \$525 on the disposal. During the same period of the prior year, the Company disposed of a piece of equipment for \$57,143 that had been previously written off as fully impaired and was recorded as a gain on disposal. As of February 28, 2017, the Company's discontinued business segment has no assets remaining.

The Company has no off-balance sheet arrangements that have, or are likely to have, a current or future effect on the results of operations or financial condition of the Company.

Transactions with Related Parties

As at February 28, 2017, a corporation wholly-owned by a director of the Company is owed a total of approximately \$225,125 in principal plus accrued interest related to a secured demand loan. The individual was not a director at the time the loan was initially made to the Company.

Subsequent to the quarter end, an additional amount of \$100,000 was loaned to the Company by the same corporation. An additional credit facility of \$650,000 was also made available to the Company as described in note 24 of the Company's interim condensed consolidated financial statements as well as the *Outlook* section at the end of this document.

Risk Management

Seair is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance.

Technology Risk

Seair's core asset is its patented diffusion technology. Although Seair has completed its core research and development work and has market ready products, the technology and resulting products require continual refinement. Moreover, the versatility of Seair's products leads to use in many industries and many differing end applications. In many cases Seair must customize the integration of its equipment into these varying end applications. Failure to properly integrate and operate the equipment can lead to reduced performance or even failure. Seair intends to improve and document its equipment installation and operation process. Investment in trained technical personnel will ensure proper installation. Improved customer support is required to ensure customers optimize the results from Seair equipment without requiring frequent field visits by Seair personnel. Seair has protected its proprietary technologies

through patents and patent applications. Maintenance and enforcement of these patents is essential for Seair to maintain its technological advantages.

Industry Risk

At present, most of Seair's revenue comes from the direct sales of diffusion towers to the western Canadian oil and gas sector. Prolonged weak oil prices, along with economic uncertainty and customers' limited access to credit have led to decreased capital spending budgets and may lead to reduced oil field operations which, in turn, may impact Seair's sales levels.

Potential customers in certain industries, such as pulp and paper, may readily benefit from the economic savings stemming from Seair's efficient aeration solutions but may not have access to capital funding to finance equipment purchases. Seair is also developing a partnership strategy to bring its diffusion towers to market, however this strategy is still in the early stages and its success is uncertain.

Financial Risk

Apart from technology, Seair also faces considerable financial risk. Despite the receipt of additional bridge financing in the form of demand loans and the extension of the maturity date on the convertible debentures achieved in late December of the prior fiscal year, the Company will still require additional funds, to which there is no certainty of successfully raising, to continue to roll out and execute its business plan. It has been necessary for the Company to continue to rely on bridge financing in the form of demand loans to which there is no guarantee that such financing will continue to be available. The retention of key employees is also contingent on the Company's ability to raise funds and generate sufficient working capital.

Due primarily to continued delays in the receipt of anticipated customer orders, on February 21, 2017, the Company defaulted on its senior secured debt. Under the terms of the various security agreements in place, this default triggered a cross-default on an aggregate principal amount of \$4.6 million of the Company's secured, subordinate, convertible, redeemable debentures ("secured debentures").

The implications of the above-noted default triggered various events that occurred subsequent to the quarter end and are accordingly described in detail in note 24 of the Company's interim condensed consolidated financial statements as well as the *Outlook* section at the end of this document.

International Risk

At present Seair derives most of its revenue in Canada. However, as Seair begins to expand its oilfield water treatment presence to the United States or internationally an increasing amount of Seair's revenue is likely to come from foreign countries. Considerable risk, including financial, political and intellectual property protection risk, exists with international business. As Seair's international plans expand and become more concrete, this new risk will increase substantially from prior years when international business was minimal.

Market Risk

At present, most Seair revenue is billed and collected in the reporting currency (Canadian dollars). Accordingly, there is minimal foreign exchange market risk associated with the revenue streams. However, a significant amount of Seair's purchases of components used to build systems for sale or rent are sourced from U.S. suppliers and transactions are denominated in U.S. dollars. Changes or fluctuations in the relative Canadian/U.S. currency exchange rates can impact the reported cost of purchases. However, these purchases are sporadic and there is generally a relatively brief time span between order placement and payment by Seair. Hence, at this time Seair has elected not to hedge foreign exchange exposure on its U.S. denominated purchases.

Seair records stock-based compensation expense in connection with incentive stock options issued. Changes in Seair's stock price result in increased volatility, which in turn increases the amount of expense, calculated using the Black-Scholes model.

Seair has no material interest bearing indebtedness other than the convertible debentures and demand loans. The debentures and demand loans have a fixed interest rate and, as a result, the direct impact of any changes in prevailing interest rates is negligible.

Regulatory Risk

While a participant in the wastewater treatment business Seair was required to comply with various regulatory and environmental standards. These regulations and standards varied by jurisdiction and project size and are subject to change at any time. As Seair no longer operates its septic business and has sold the bulk of the assets of its septic division, issues regarding permits and variances which applied in previous years are no longer currently applicable.

Critical accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the results of operations and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and are based on historical experience, trends in the industry and information available from outside sources. Management reviews these estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material effect, positive or negative, on Seair's financial position and results of operations. Actual results could differ from those reported.

Recoverable amounts for equipment

The carrying value of equipment is periodically reviewed for impairment or when events or changes in circumstances indicate their carrying amounts may not be recoverable. This requires Seair to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Amortization

Accounting estimates related to amortization incorporates estimates of useful lives and residual values of Seair's capital assets. These estimates may change as market conditions change.

Share-based payments expense

Compensation expense associated with options to purchase common shares at their grant date is an estimate based on various assumptions such as volatility, risk-free interest and expected life using the Black-Scholes methodology to produce an estimate of the fair value of such compensation.

Changes in Accounting Policies

There were no changes in accounting policies adopted in the first or second quarter of the current year.

During the prior year first quarter, a change to the expiry of some of the Company's outstanding warrants and a change in maturity date of the Company's convertible debentures prompted a change in estimate as described below.

In October 2015, the Company received approval from the TSXV to extend the expiry date on 18,619,106 of the Company's warrants for an additional two years from the previously revised expiry date of October 31, 2015 to October 31, 2017. When determining the revised fair value, this change was accounted for as a change in estimate of the term of these warrants from three to five years. All other assumptions used in the original determination of fair value remained unchanged. As a result, an additional \$931,000 in fair value was assigned to the warrants and recorded during the prior year.

On December 21, 2015, the Company received approval from its debenture holders to extend the maturity date of its convertible debentures from December 31, 2015 to June 30, 2017. As part of this process the interest rate on the debentures increased from 8% to 12%. The Company accounted for these maturity date extensions as a change in estimate of the maturity date of the convertible debentures which has been accounted for prospectively. Accordingly, the value of the convertible debentures was adjusted based on the revised maturity dates and interest rate with all other assumptions remaining unchanged other than an additional \$45,000 in new financing costs which were incurred to effect the change in maturity date.

As a result of the change in maturity date from December 31, 2015 to June 30, 2017, an additional \$486,000 was allocated to equity, representing the additional value ascribed to the holder's option to convert the principal balances into common shares. In addition, \$111,000 in additional interest was accrued, and \$389,000 less related to amortized financing costs and the accretion on the convertible debentures was charged to finance expenses in the second quarter of the prior year than would have been if the debentures had matured on December 31, 2015 pursuant to the terms of the previously amended convertible debenture agreement.

The \$389,000 less charged to financing expenses noted above, relates to a "temporary" recovery of financing costs that were previously expensed by the Company. Given the previous 38 month maturity date of the convertible debentures, the majority of these financing costs had already been expensed as only one month remained before the convertible debentures were scheduled to mature. As a result of the further extension to 56 months, effective December 21, 2015, the total financing costs will now be expensed over a longer period of time resulting in a "temporary" recovery of amounts previously expensed over what was initially a shorter period of time.

All expenses incurred in the third and fourth quarters of the prior year related to the convertible debentures would not have been incurred if the convertible debentures had matured in the second quarter as initially planned.

Recent Pronouncements Issued

The following pronouncements from the International Accounting Standards Board (“IASB”) have not yet become effective and have not been early adopted by the Company. The Company intends to adopt these standards when they become effective.

IFRS 9, *Financial Instruments*, as issued reflects the IASB’s work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*, outlines how and when a company will recognize revenue as well as requiring such entities to provide increased disclosure regarding revenue in the financial statements. The new standard is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 16, *Leases*, brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of this standard on its consolidated financial statements.

Business Risks and Uncertainties

A number of risks and uncertainties affect Seair’s operations. Although Seair can take actions to mitigate some of these risks, many are beyond the Company’s control. The risks discussed in this section are not an exhaustive list of all possible risks. As an early stage business, Seair is subject to all risks inherent in such companies. Such risks include market acceptance of Seair’s leading-edge technology and its application to various industries, the ability to generate or raise sufficient cash to fund operations or current losses, the dependence on key senior management and the potential for the entrance of competitors in the industry. Seair accounts for and reports all activities in Canadian dollars. As a portion of Seair’s operations and contracts are denominated in United States dollars whose rates of exchange to Canadian dollars fluctuate, this foreign exchange risk may create gains and losses which could have an effect on Seair’s financial results.

Outlook

On February 21, 2017, the Company defaulted on its Secured Demand Loan. Under the terms of the various security agreements in place, this default triggered a cross-default on an aggregate principal amount of \$4.6 million of the Company's \$5.2 million Secured Convertible Debentures.

On March 2, 2017, the Company entered into an agreement with 1979927 Alberta Ltd. (the "Lender") pursuant to which the Lender agreed to loan the Company the aggregate principal amount of \$100,000 (the "Loan") to be used for working capital purposes. The Loan is an extension of the Secured Demand Loan described in note 10(b) of the Company's interim condensed consolidated financial statements with substantially the same terms. The maturity of that loan remains unchanged and the new Loan does not change the default status of that loan.

On April 10, 2017, the Company and one of its wholly-owned subsidiaries, Seair Diffusion Systems Inc., filed a joint proposal to their creditors (the "Proposal") for restructuring purposes under the Bankruptcy and Insolvency Act (the "BIA").

The Proposal contemplates the following occurring subject to approval of the Proposal by the Company's creditors and the Court of Queen's Bench of Alberta (the "Court"):

- Pursuant to an order of the Court (the "Approval Order"), all debt claims of the holders of the Secured Demand Loan and the holders of the Secured Convertible Debentures will be converted to shares of a new series of preferred shares of the Company.
- Pursuant to the Approval Order, all existing equity of the Company, including the Company's existing common and preferred shares (note 14(b)) of the Company's interim condensed consolidated financial statements, will be cancelled for no consideration with the result that the current holders of the Secured Demand Loan and the holders of the Secured Convertible Debentures will then own all issued and outstanding shares of the Company.
- The Company will apply to be delisted from the TSX Venture Exchange; and
- Pursuant to the Approval Order, the new series of preferred shares will be converted to common shares.

At a meeting on April 26, 2017, the Proposal was approved by the requisite numbers of creditors of the Company at a meeting convened to consider and vote on the Proposal.

The Company has made an application before the Court, at which time the Company will seek an Approval Order approving the Proposal and authorizing and directing the Company to implement the Proposal.

On May 5, 2017, the Company obtained an Order from the Court authorizing the Company to obtain and borrow up to \$650,000 under a credit facility made available by the Lender pursuant to an interim loan agreement dated as of April 28, 2017. Under this agreement, interest accrues on the outstanding principal of all advances at the rate of 12% per annum until an event of default, after which interest accrues at the rate of 17% per annum. The repayment date in respect of all obligations under this agreement is the earlier

of (i) September 30, 2017; (ii) the date on which the Company's proposal under the BIA is not approved by the Court; and (iii) the date of demand by the Lender.

The Company anticipates using the funds borrowed under this credit facility to fund its ongoing operations and its costs in relation to its ongoing proposal process under the BIA.

As of the date of this report, the Company has 80.1 million common shares outstanding, 2.5 million preferred shares outstanding, and \$5.2 million in face value of convertible debt. Other than the 2.5 million preferred shares, which are convertible on a 1:1 basis into common shares, none of the outstanding common shares are convertible into, or exercisable, or exchangeable for, other voting or other equity securities of the Company. Seair has 6.1 million stock options and 18.6 million warrants outstanding as of the same date.

During this restructuring process, the Company continues to pursue several key purchase orders, that if successful, it anticipates fulfilling over the balance of the current fiscal year. At the same time, Seair continues with important customer trials in the anticipation of future strategic partnerships and revenue generating agreements.

The current environment of low global oil prices is driving the industry to improve efficiency which fits very well with Seair's technology and value offering. To take advantage of the current positive, global market environment, Seair continues to work to bring on multiple strategic/channel partners to expand its customer base beyond Western Canada. Seair continues to make progress to move the successful field trials to purchase orders and anticipates continued further announcements in the upcoming quarters on these items. Conversely, low oil prices have also delayed projects due to customers' inability to staff properly for new technology evaluations and pilot programs. The recent stabilization around \$50 per barrel should be a positive influence on our potential customer's willingness to place orders.

Calgary, AB

Additional Information

Additional information relating to Seair Inc. is available on SEDAR at www.sedar.com. To obtain copies of published corporate information, visit our website at www.seairinc.com.