

SUPERINTENDENT ESTATE NO. 25-2239263 and 25-2239270

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF SEAIR INC. AND SEAIR DIFFUSION SYSTEMS INC.
OF THE CITY OF CALGARY,
IN THE PROVINCE OF ALBERTA**

REPORT OF THE PROPOSAL TRUSTEE ON THE PROPOSAL

April 13, 2017

A. INTRODUCTION

1. On April 10, 2017 (the “**Filing Date**”), Seair Inc. and Seair Diffusion Systems Inc. (“**Seair Diffusion**”) (collectively “**Seair**” or the “**Companies**”) lodged a proposal (the “**Proposal**”) pursuant to Part III, Division I of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended (the “**BIA**”) with FTI Consulting Canada Inc.
2. On the same day, FTI Consulting Canada Inc. filed the Companies’ Proposal with the Superintendent of Bankruptcy. FTI Consulting Canada Inc. was appointed as the Trustee under the Proposal (the “**Proposal Trustee**”). A copy of the Proposal is attached as Appendix A.
3. The reports of the Proposal Trustee and other information in respect of these proceedings are posted on the Proposal Trustee’s website at <http://cfcanada.fticonsulting.com/Seair>.

B. PURPOSE OF THIS REPORT

4. The purpose of this report is to:
 - (a) Provide background information concerning the Companies, their financial situation, the causes of their financial difficulties and the state of the Companies’ business and financial affairs;
 - (b) Outline the terms of the Proposal;
 - (c) Discuss the conditions that must be satisfied subsequent to creditor approval in order for the Proposal to be successfully completed;
 - (d) Provide an overview of the Proposal Trustee’s findings resulting from its preliminary review for transactions that might be considered as preferences or transactions at undervalue as required under the BIA;

- (e) Compare the amounts distributable under the Proposal to the estimated distribution to Debentureholders and Unsecured Creditors in the event the Proposal is not accepted, and the Companies are deemed to have made an assignment in bankruptcy; and
- (f) Recommend acceptance of the Proposal by the creditors.

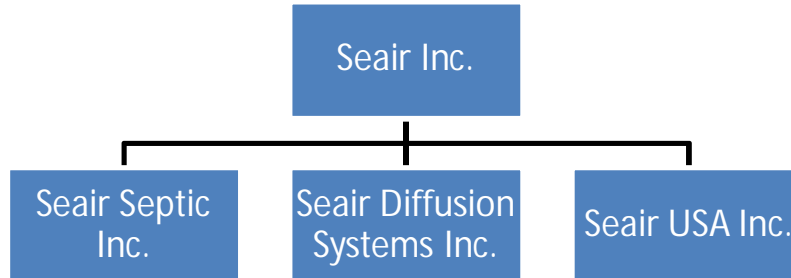
C. TERMS OF REFERENCE

- 5. In preparing this report (the “**Report**”), the Proposal Trustee has relied upon unaudited financial information prepared by the Companies’ management, the Companies’ books and records, other information available to the Proposal Trustee and discussions with various parties (collectively, the “**Information**”).
- 6. Except as described in this Report:
 - (a) The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and
 - (b) The Proposal Trustee has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
- 7. Future oriented financial information reported or relied on in preparing this Report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.

8. The capitalized terms used but not otherwise defined in this Report are defined in the Proposal and this Report should only be read in conjunction with the Proposal. Details of the Proposal are outlined in this Report.
9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

D. BACKGROUND/CAUSES OF FINANCIAL DIFFICULTY

10. See the Organizational Chart for Seair Inc. and its subsidiaries:



11. Seair Inc. was incorporated under the Business Corporations Act of Alberta in April 2001. Seair Inc. is currently publicly listed on the TSX-V.
12. According the attached Statement of Affairs (the “SOA”) of Seair Inc. the main assets of Seair Inc. is the intellectual property relating to Seair Inc.’s proprietary gas diffusion technologies (the “IP”) which has a book value of \$280,000. Seair Inc.’s SOA indicates debt of \$732,250 due to a senior secured bridge lender, \$5,190,377 of secured convertible debentures due to Debentureholders and \$ 1,575,575 due to Unsecured Creditors.
13. Up until 2014 Seair Inc. operated two distinct business units via its subsidiaries, Seair Septic Inc. and Seair Diffusion.

14. Seair Diffusion focuses on rental of diffusion towers which utilize the proprietary diffusion technology of Seair Inc. The diffusion towers are designed to deliver waste water and industrial fluid treatment solutions in the oil and gas, mining and municipal sectors.
15. According to the attached Seair Diffusion SOA Seair Diffusion's assets consist of rental diffusion towers with a book value of \$113,000 and account receivables of \$6,440. Seair Diffusion's SOA indicates debts of \$315,000 due to a senior secured bridge lender, which is cross secured with Seair Inc., and \$ 107,116 due to Unsecured Creditors.
16. The Trustee notes Seair Septic Inc. and Seair USA Inc. are not included in the Proposal and it is the Proposal Trustee's understanding that neither Seair Septic Inc. nor Seair USA Inc. have any assets.
17. Seair Septic Inc. owned and operated a rental fleet of portable wastewater treatment units, which were primarily used to perform sewage treatment at remote campsites throughout Alberta. In 2014 Seair Inc. management decided to focus on Seair Diffusion's business and dispose of Seair Septic Inc.'s equipment rental assets.
18. After fruitless attempts to sell the Seair Septic Inc. business as a going concern, the assets were sold at auction for approximately \$600,000 to raise funds for the Companies' strategy to refocus on the Seair Diffusion business.
19. In December 2013 Seair Inc. raised approximately \$500,000 to fund operations in a private placement of preferred shares to existing shareholders. It is management's belief that it was necessary to raise the funds from existing shareholders as outside investors had expressed doubt that the value of the business was greater than its debt position.

20. In spring 2014 Seair Inc. was in need of additional funding. An additional \$618,000 in convertible debentures was raised which ranked pari passu with the existing debentures of \$4,572,377 which were secured over the assets of Seair Inc.
21. In late 2014 the Companies had numerous customer trials for the diffusion systems but struggled with obtaining customer orders subsequent to the trials. To become cash-flow positive these customer orders were necessary and as such the Companies continued to be very financially stressed with no resources to actively pursue sales growth for the diffusion systems.
22. With the downturn in the Alberta oil and gas sector the Companies' view was that it was unlikely a buyer could be found for the Companies' IP from an Alberta oil and gas service provider.
23. The Companies then took an alternative approach to look for buyers from the new customers outside of the oil and gas sector. The Companies were attempting to build strategic partnerships with their new customers but while the new customers were interested in evaluating the IP they required proven customer successes before proceeding further. Without adequate financial resources and customer acceptance of the IP the Companies had difficulty progressing these discussions with the potential new customers.
24. The Companies then began to look for a joint venture or royalty deal which could result in a royalty stream going back to the Companies. This proved difficult because potential partners were very concerned about the financial position of the Companies and wanted to structure any arrangement as a sale of the IP, which would be unacceptable to the Debentureholders.

25. The Companies engaged an agent, Robert Shoniker (the “**Agent**”), to find a shell company with assets that would be interested in merging with Seair Inc. to provide funding. A potential merger partner (the “**Potential Partner**”) was identified and the Agent worked for many months with them in an attempt to structure a transaction.
26. A royalty deal of 5% of future revenues for a limited period was discussed with the Potential Partner however nothing materialized from these discussions and the talks ended in early 2016.
27. In late 2016, the Seair Inc. board and officers approached several of Seair Inc.’s shareholders to obtain a bridge loan in order to make payroll and keep the Companies solvent. Shareholders turned down that request and the Companies obtained bridge loans from alternative lenders as a last resort.
28. Subsequently, the Companies refocused on generating customer sales as there was minimal bridge funding available going forward. This would generate funding to operate the business until the Companies could conclude an acceptable deal.
29. By this time customers were hesitant to deal with the Companies as the customers were becoming more aware of the Companies’ distressed financial position and the upcoming maturity of the debenture in June 2017.
30. Having exhausted all their options for additional funding or a sale of their business, and given their lack of liquidity, on April 10, 2017 the Companies filed a Proposal pursuant to the BIA.

E. OVERVIEW OF THE PROPOSAL

31. The Proposal is a joint proposal made to the creditors of Seair Inc. and Seair Diffusion. The intention of the Proposal is to permit the Companies to compromise the indebtedness owed to affected creditors (the “**Creditors**”) of the Companies as at the Filing Date on a fair and equitable basis so as to facilitate the capital restructuring of Seair Inc., including the cancellation of the Existing Shares, the issuance of the New Preference Shares and the conversion of the New Preference Shares to the New Common Shares, the delisting of the Seair Inc. securities and the termination of Seair Inc.’s status as a reporting issuer and a distribution of cash to Unsecured Creditors of the Companies.
32. The Report provides an overview of the terms of the Proposal. The Report is not a substitute for reading the Proposal and creditors are strongly encouraged to review the Proposal in its entirety prior to voting on the Proposal. Creditors are also encouraged to discuss the terms of the Proposal with their legal counsel.
33. The substantive terms of the Proposal are:
 - (a) Crown Claims that are Proven Claims shall be paid in their entirety, without interest, within six months after the granting of the Approval Order;
 - (b) The amounts which employees (past and present) of the Companies would be entitled to receive pursuant to section 136(1)(d) of the BIA if their employer had been declared bankrupt on the Filing Date, as well as wages, salaries, commission or compensation for services rendered from and after the Filing Date up to the date of the granting of the Approval Order, shall be paid in their entirety as soon as reasonably practicable after the granting of the Approval Order;

- (c) Any other claims given priority by subsection 136(1) of the BIA will be paid in full; and
 - (d) Each of the Debentureholders shall be entitled to one New Preference Share for every \$1.00 of their Debenture Claim. Following cancellation of the Existing Shares, the New Preference Shares shall convert to the New Common Shares at a ratio of 1:1.
 - (e) An Unsecured Creditor with a Proven Claim of \$2,000 or less, or who elects on their Proof of Claim form to reduce their Proven Claim to \$2,000 for distribution purposes is considered a Convenience Creditor. Convenience Creditors will be paid the full amount of their Proven Claims (as reduced, if applicable). Convenience Creditors with Proven Claims are deemed to have voted in favour of the Proposal at the Meeting.
 - (f) Unsecured Creditors who are not Convenience Creditors will be paid \$0.10 for every \$1.00 of the Unsecured Creditor's Proven Claim, in full and final satisfaction of the Unsecured Creditors' Unsecured Claims
34. Pursuant to section 147 of the BIA, the distributions by the Proposal Trustee are subject to the levy of 5% payable to the Superintendent of Bankruptcy.
35. The Companies are required to hold a meeting of the Creditors (the "**Meeting**") to consider and vote on the Proposal. The Meeting has been scheduled for April 26, 2017 at 12:00 PM at the office of Fasken Martineau Dumoulin LLP, 350 7th Avenue SW, Suite 3400, Calgary, AB T2P 3N9.
36. In order for the Proposal to be accepted, two-thirds in dollar value and over 50% in number of each class of Creditors present and voting, in person, by proxy or by voting letter at the Meeting, must vote in favour of the Proposal.

37. If each class of Creditors accepts the Proposal, it must also be approved by the Court. Rejection of the Proposal (either by the Creditors or the Court) would result in the Companies being deemed to have made assignments in bankruptcy.
38. Up to five inspectors may be appointed at the Meeting. The inspectors shall have the following powers, but will have no personal liability to Seair or other creditors:
- a) the power to extend the dates of payments provided for under this Proposal;
 - b) the power to waive any default in the performance of any provision of this Proposal;
 - c) the power to approve interim and final statements of receipts and disbursements of the Trustee, including the power to approve proposed dividends and reasonable fees and disbursements of the Trustee;
 - d) the power to advise the Trustee in respect of such matters as may be referred to the Inspectors by the Trustee; and
 - e) the power to advise the Trustee concerning any dispute that may arise as to the validity of a Proof of Claim filed by a Creditor.

F. CREDITOR CLAIMS

39. Pursuant to the provisions of the BIA, creditors are not required to submit Proofs of Claim until after the filing of the Proposal and therefore the claims of creditors have not been received or reviewed by the Proposal Trustee at this time. Note that in order for a creditor to vote at the Meeting they must have filed a Proof of Claim with the Proposal Trustee prior to the commencement of the Meeting.

40. A list of the known creditor claims is summarized in the Statements of Affairs (“SOAs”) filed by the Companies with the Proposal Trustee, which is also included in this mailing. The SOAs are an estimate of the creditor claims and can vary materially from the Proven Claims filed with the Proposal Trustee as noted previously.

Secured Creditors

41. The Proposal Trustee is aware of the following secured claims against Seair Inc.
- (a) Bridge Lender - The claim of the Bridge Lender will not be affected by the Proposal. In connection with but not pursuant to the Proposal the Bridge Lender will receive Lender Preference Shares in exchange for its senior secured debt as well as in respect of any amounts paid to the Proposal Trustee to fund the Proposal and / or advanced by way of Court-approved interim financing.
 - (b) Debentureholders – The claims of the Debentureholders relate to CST Debentures (with a principal amount of \$618,000) and BNY Debentures (with a principal amount of \$4,572,377). These secured claims are subordinate to the Bridge Lender.
42. According to the SOA of Seair Diffusion, the only secured claim is that of the Bridge Lender \$315,000. The Bridge Lender is not affected by the Proposal.
43. The Proposal Trustee notes that interim financing will likely be required during the Proposal proceedings which will likely increase the amount owed to secured creditors.

Crown Claims

44. According to the Company, as at the Filing Date, Canada Revenue Agency (“CRA”) was not owed anything. To date CRA has not contacted the Proposal Trustee or filed a proof of claim in support of amounts outstanding.

Employee Priority Claims

45. The Proposal Trustee is not aware of any amounts owing to employees or former employees as at the Filing Date which would result in a priority claim pursuant to the BIA.

Other Priority Claims

46. The Proposal Trustee is not aware of any other claims that may arise pursuant to subsection 136(1) of the BIA.

Unsecured Creditors

47. Unsecured creditors of Seair Inc. have claims totaling \$1,575,575.05, according to the Seair Inc. SOA dated April 10, 2017. Unsecured Creditors of Seair Diffusion have claims totaling \$107,116.20, according to the Seair Diffusion SOA dated April 10, 2017.

G. CONDUCT OF DEBTOR

48. In the event of a bankruptcy, there are certain types of transactions that may be voided by a trustee in bankruptcy, in order to increase the recovery to the creditors. These transactions would include transactions concluded with the intention of preferring one creditor over others, or selling an asset below market value.

49. The Proposal Trustee completed a preliminary review of the Companies’ banking activities for the twelve month period preceding the Filing Date. The Proposal Trustee’s preliminary review did not identify any unusual payments to vendors or others, or unusual transactions.
50. The Proposal Trustee has observed that the Companies have been working diligently and in good faith to formulate the Proposal and provide all relevant information to the Proposal Trustee.

H. ESTIMATED DISTRIBUTION IN THE EVENT OF A BANKRUPTCY

Debentureholders (Seair Inc.)

51. Under the terms of the Proposal, the claims of the Debentureholders with Debenture Claims are to be issued New Preference Shares which will convert to Common Shares upon implementation of the Proposal. It is anticipated that immediately following implementation of this Proposal, the Debentureholders will hold approximately 75.5% of the issued and outstanding share capital of Seair.
52. The calculation of the Estimated Reliable Value (the “ERV”) was based on Seair Inc.’s SOA and the Proposal Trustee’s evaluation of the value of Seair Inc. assets. The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the consolidated balance sheet and expresses no opinion thereon.

	Equity Split based on the Value of IP					
Value of IP	\$ 250,000	\$ 500,000	\$ 750,000	\$ 1,000,000	\$ 2,000,000	\$ 3,000,000
Bridge Lender	100.0%	100.0%	97.6%	73.2%	36.6%	24.4%
Debentureholders	-	-	2.4%	26.8%	63.4%	75.6%

53. The above chart shows that ERV of the IP would have to exceed approximately \$3,000,000 in order for the Debentureholders to be entitled to a greater percentage of equity as provided from in the Proposal.
54. A determination should be made by the Debentureholders as to the ERV they would apply to the IP. Refer below for discussion on the ERV of the IP. Based on the ERV of the IP discussed below the amount that would be available to Debentureholders in the event of a bankruptcy is expected to be nil.

Unsecured Creditors

55. The analysis of the Unsecured Creditors' estimated distribution in the event of a bankruptcy has been split between the assets of Seair Inc. and Seair Diffusion as there are varying encumbrances relating to the Companies' assets.
56. Under the terms of the Proposal, the claims of the Unsecured Creditors with a Proven Claim of \$2,000 or less, or who elect on their Proof of Claim forms to reduce their Proven Claims to \$2,000 for distribution purposes, will be paid the full amount of their Proven Claims (as reduced, if applicable). All other Unsecured Creditors will be paid \$0.10 for every \$1.00 of the Unsecured Creditor's Proven Claim.

D) Seair Inc.

Estimated Net Realizable Value in Bankruptcy		
	Book Value as at April 10, 2017	Notes
Assets		
Intellectual Property	280,000	1
Total	280,000	
Amount due to Secured Creditors	5,922,602	
Deficiency to Secured Creditors	(5,642,602)	
Amounts available to Unsecured Creditors	-	

(1) The Trustee notes that per the annual consolidated audited financial statement obtained from Sedar.com Seair Inc. has consistently had negative operating cash-flow and has increased its accumulated deficit by approximately \$14,500,000 from August 31, 2013 to August 31, 2016. The Trustee has included the ERV of the IP above at the book value reported by Seair Inc. which is the cost to produce the IP. The Trustee notes that the Companies were never able to produce an operating profit from the IP, as such this is the basis for the ERV above.

II) Seair Diffusion Systems Inc.

Estimated Net Realizable Value in Bankruptcy				
	Estimated Book Value as at April 10, 2017	Notes	Estimated Realizable Value	
			Low	High
Assets				
Accounts Receivable	6,400		-	2,240
Inventory	113,000	1	-	113,000
Total	119,400		-	115,240
Amount due to Secured Creditors			315,000	315,000
Deficiency to Secured Creditors			(315,000)	(199,760)
Amounts available to Unsecured Creditors			-	-

(1) Per discussion with the Companies' management, a significant portion of the Seair Diffusion inventory noted above is old and outdated. However some of the inventory has been rented and used recently. Additionally there was a \$50,000 diffusion tower purchased in 2015 which would be considered relatively new. Based on these factors, the high end of the inventory ERV is the book value as reported in the Seair Diffusion SOA. The low end of the ERV is based on the fact that, in the event of a bankruptcy there would be costs associated with asset realization, trustee fees, and a limited market for the inventory which may lead to a low liquidation price. As such the low ERV has been set at nil.

53. Accordingly, the amount that would be available to unsecured creditors in the event of a bankruptcy is expected to be nil as all the assets of the Companies appear to be fully encumbered by claims of secured creditors.
54. The Trustee notes that no formal security review has been performed on the validity of the secured creditors.

III) SUMMARY COMMENTS

55. As indicated in the Report and the Proposal, if the Proposal is accepted by both classes of Creditors and approved by the Court, Affected Creditors will receive the following:

- (a) Convenience Creditors will be paid the full amount of their Proven Claims up to a maximum of \$2,000, and the other Unsecured Creditors will receive \$0.10 for each dollar of their Proven Claim or \$2,000; and
- (b) Debentureholders will receive New Preference Shares in Seair Inc. which will convert to New Common Shares which, immediately following implementation of the Proposal will represent approximately 75.5% of the issued and outstanding share capital of Seair Inc.

56. Based on the analysis in Section H of the Report, if the Companies were bankrupt, the amount available to Unsecured Creditors from the Companies' assets would be nil and the value of the IP would have to exceed \$732,250 before there would be any recovery for Debentureholders. This would provide a recovery significantly less than under the terms of the Proposal.

57. Accordingly the Proposal Trustee recommends that the Creditors accept the Companies Proposal.

58. All of which is respectfully submitted this 13th day of April, 2017.

Yours truly,

FTI Consulting Canada Inc.

In its capacity as Proposal Trustee of
Seair Inc and Seair Diffusion Systems Inc.
and not in its personal capacity



Per: _____

Deryck Helkaa – Sr. Managing Director