# BENEV CAPITAL INC.

## Management's Discussion and Analysis

May 14, 2013

*The following is management's discussion in respect of the results of operations of BENEV Capital Inc. ("BENEV" or the "Company") for the quarter ended March 31, 2013 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2013 and 2012 and the Company's audited consolidated financial statements and management's discussion and analysis ("MD&A") for the years ended December 31, 2012 and 2011. The financial statements of the Company are presented in Canadian dollars and are in accordance with International Financial Reporting Standards ("IFRS"). The following MD&A is dated May 14, 2013. Additional information related to the Company, including its Annual Information Form, Management Information Circular and Proxy form is available on SEDAR at* www.sedar.com.

### SALE OF SAINT AMBROISE, QUEBEC WASTE TREATMENT PLANT

On March 7, 2013, the Company entered into a binding purchase and sale agreement to sell its Saint Ambroise, Quebec waste treatment plant and related assets and liabilities to 8439117 Canada Inc., a company controlled by the plant's current manager, Mr. Jean-Francois Landry. Consideration is composed of $8 million in cash at closing plus an earn out which could be as high as $2 million or more, contingent on a specific potential new contract being entered into within three years from the date of signing of the purchase agreement. The receipt of the potential new contract cannot be assured. In addition, the purchase price will be adjusted for working capital at closing, and for certain other new soil contracts received between signing and closing. Canaccord Genuity Corp. has provided an opinion to the effect that the consideration to be received by BENEV under the purchase agreement is fair from a financial point of view to the Company. The transaction was approved by shareholders at the Company's Annual General and Special Meeting held on May 3, 2013 and closing is expected to occur in the second quarter of 2013.

The purchaser has arranged debt financing commitments for the purchase price from a number of Quebec-based lending institutions, but they are conditional and remain subject to finalization. The remaining closing conditions to be satisfied are the receipt of financing by the purchaser and the entry into a new collective agreement with the plant's union.

BENEV shall be entitled to terminate the agreement to accept a superior proposal, on the terms set out in the definitive agreement, and in such circumstances would be liable to pay the purchaser's reasonable expenses, up to a maximum of $500,000.

Effective March 7, 2013, the date of the purchase and sale agreement, the waste treatment plant and related assets and liabilities were reclassified as assets held for sale and liabilities related to assets held for sale. The assets held for sale were measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the Company's consolidated statement of financial position. The Company had previously recorded an impairment loss and a reduction in the carrying value of the long-term plant assets, both in the amount of $1.2 million as at December 31, 2012. Once non-current assets are classified as assets held for sale, they are no longer amortized.

Due to its significant tax loss carry forwards and other tax attributes, BENEV is not expected to incur income tax as a result of the consideration anticipated at closing. The tax effects of any additional consideration which may be received in future periods will vary depending upon the amount of tax attributes available at that time, if any, to offset such consideration.

The Saint Ambroise treatment plant is the Company's sole operating facility and has been responsible for all of the Company's sales and a substantial portion of its operating expenses for the past four years. Upon the completion of the sale transaction, all of the sales and operating costs and substantially all of the amortization and some administrative and business development costs will not be recurring going forward. The Company intends to continue operations as a merchant bank. In this regard, the Company's President and CEO, Lawrence Haber, as well as certain members of the Corporation's board, are experienced mergers and acquisition ("M&A") professionals. Consistent with the strategy articulated since the installation of a new Board in June, 2011, the sale transaction is designed to transform the Company and to enable it to create meaningful value for shareholders. The sale of the plant is the first step in this direction, which is expected to increase the range of available options and provide enhanced flexibility on a go forward basis. As a merchant bank, in addition to managing its substantial cash position, the Company will continue to seek to source, structure and complete a transformative transaction or series of transactions to enhance value for all shareholders, with a focus on attractive equity investments in businesses with cash flow as a first priority. A return of capital, special dividend and/or the dissolution of the Company may also be considered.

The balance of this MD&A discusses the Company as a whole including the Saint Ambroise facility.

## OVERVIEW

The Company has historically generated its revenues by treating contaminated soils pursuant to contracts obtained in a competitive bidding process. The Company's customer base is composed mainly of government agencies, utilities, environmental services companies and industry. The number and size of the contracts obtained each year will vary depending on the funding of the projects and the timing of the processing of contaminated materials from customers.

The Company's soil treatment facility located in Saint Ambroise, Quebec is an ISO 14001(2004) certified facility. It treats soils contaminated with organics and its Certificate of Authorization was expanded in 2005 to include dioxins and furans. The facility has an annual processing capacity of up to 100,000 metric tonnes depending on the nature of material being processed.

The facility can only be run efficiently when operating continuously for extended periods. The sporadic level of demand for the Company's services is such that this facility is rarely operated continuously for extended periods. In order to maximize operating efficiency the Company has adopted a campaign approach which involves periods of shutdown during which inventories are stockpiled followed by periods of operation where the Company processes the accumulated inventories and the entire process is then repeated.

The Company commenced a new campaign to process soil on May 2, 2012 and operated continuously, with the exception of maintenance shutdowns, until December 4, 2012 when the current operating campaign at its Saint Ambroise facility ended and the facility was shut down. As at March 31, 2013 the Company held approximately 415 tonnes of untreated soil at its Saint Ambroise facility.

## SUMMARY OF QUARTERLY RESULTS

The following table discloses certain unaudited financial data for the eight most recently completed quarters, expressed in millions of Canadian dollars (except per share data – basic and diluted which is in dollars).

| | **2013** | **2012** | | | | **2011** | | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** |
| Net sales | - | 7.83 | 12.23 | 8.23 | - | - | - | - |
| Net income (loss) | (0.90) | 0.61 | 6.55 | 3.37 | (1.22) | (1.57) | (1.67) | (4.29) |
| Earnings (loss) per common share* | | | | | | | | |
| Basic | (0.02) | 0.02 | 0.17 | 0.09 | (0.03) | (0.04) | (0.04) | (0.11) |
| Diluted | (0.02) | 0.02 | 0.17 | 0.09 | (0.03) | (0.04) | (0.04) | (0.11) |

*The sum of the quarterly earnings per share values in 2012 does not equal the total on the financial statements for the year ended December 31, 2012 due to rounding.

Variations in revenue over the last eight quarters are due to the volumes of material processed in each quarter. The net income in the third quarter of 2012 is significantly higher than the second and fourth quarters of 2012. This is due to differences in: volumes processed; the amount of transportation included in revenue; and income taxes. While there is no revenue in the current period and in four of the last eight quarters, the loss in the second quarter of 2011 is significantly higher due to costs incurred in connection with the proxy contest occurring prior to the 2011 Annual and Special Meeting.

## Operating Results For The Three Months Ended March 31, 2013

### Sales

Sales for the first quarter of 2013 were nil compared to nil in the same period a year earlier. The Saint Ambroise facility was shut down during the first quarter of both years.

### Operating Costs

Operating costs consist mainly of transportation costs, fuel, processing supplies, maintenance costs, and labour. Some of these costs fluctuate based on the number of tonnes processed; however, there are some costs which are fixed in nature.

Operating costs for the first quarter of 2013 were $0.3 million compared to $0.5 million in 2012. The decrease in operating costs compared to the prior year is primarily due to decreased labour and equipment costs incurred in the current quarter. Additional labour costs and equipment costs were incurred to receive large amounts of soil during the first quarter of 2012.

## Other Income Statement Items

### Administration and Business Development Costs

Administration and business development costs were $0.7 million in the first quarter of 2013, compared with $1.2 million in the same quarter of 2012. The decrease is due to lower: non-cash share-based compensation expense; directors' fees; and professional fees.

Prior to the end of the first quarter of 2013, the Company reached the end of the relevant vesting period for directors' stock options. At that point in time the Company had fully amortized the cost of the options and will not record any further compensation expense with regard to these options on a go forward basis. This expense was further reduced during the first quarter of 2013 by the reversal of previously recorded compensation expense which occurred as a result of the expiration of options following the resignation of a director.

Directors' fees are lower because there are now three non-executive directors serving on the Board as compared to five non-executive directors during the first quarter of 2012.

As compared to the first quarter of 2012, legal fees are reduced in most categories. In addition, the Company incurred legal fees of $0.13 million during the first quarter of 2013 which were related to the sale of the Saint Ambroise facility. These fees and other disposal fees were considered by the Company when estimating the net recoverable amount of the facility as at December 31, 2012, which resulted in an impairment charge of $1.2 million. Accordingly, no further expense has been recorded.

### Amortization

Amortization expense was $0.1 million in the first quarter of 2013 compared with $0.2 million in the same quarter of 2012. The decrease is due primarily to substantially all of the assets in property, plant and equipment and all of the assets under finance lease have been classified as

assets held for sale as of March 7, 2013, pursuant to the Company entering into a binding purchase and sale agreement to sell the Saint Ambroise waste treatment plant as discussed on pages one and two, herein and as noted in note 5 of the 2013 Q1 interim condensed consolidated financial statements. Assets held for sale are recorded at the estimated net recoverable amount and are not amortized.

### Finance Income/Costs

Finance income earned in the first quarter of 2013 decreased by $0.3 million over the comparable quarter in 2012. The decrease was due to a large interest refund received in Q1 2012, in connection with an income tax reassessment of a return filed in a prior period.

Finance costs in the first quarter of 2013 decreased by $0.05 million over the comparable quarter in 2012. The decrease was primarily due to a reduction in the foreign exchange loss incurred in Q1 2013 over the comparative quarter in 2012.

### Income Taxes

The Company recorded an income tax recovery of nil in the first quarter of 2013 and an income tax recovery of $0.2 million in the first quarter of 2012. The income tax recovery in the first quarter of 2012 was due to an adjustment to income tax accruals recorded in prior periods.

### Net Loss

The net loss for the first quarter of 2013 was $0.9 million or a basic and diluted loss per share of $0.02 compared to a net loss of $1.2 million or basic and diluted loss per share of $0.03 for the first quarter of 2012. The net loss for the first quarter of both years was the result of no processing at the Saint Ambroise facility throughout the period.

## LIQUIDITY AND CAPITAL RESOURCES

### LIQUIDITY

At March 31, 2013 the Company had cash and equivalents of $63.4 million and working capital (including cash) of $70.6 million compared to cash and equivalents of $63.9 million and working capital (including cash) of $58.7 million on December 31, 2012.

### Cash from Operating Activities

For the first quarter of 2013, cash used by operations amounted to approximately $0.4 million as compared to the first quarter of 2012 when cash used by operations amounted to $1.0 million. The loss during the first quarter of both years was primarily responsible for the use of cash by operations. In the first quarter of 2013, amounts receivable decreased by approximately $1.5 million, prepaid expenses and other decreased by approximately $0.2 million and deferred revenue increased by approximately $0.1 million. This was offset by a decrease of accounts payable and accrued liabilities of approximately $1.5 million. In the first quarter of 2012, deferred costs grew by approximately $2.4 million. Deferred costs, such as freight-in, are costs

incurred in advance of processing soil and are recorded as current assets provided they are recoverable under the terms of the Company's contracts with its customers. The impact of the growth in deferred costs on the Company's cash position was offset by an increase in deferred revenue and accounts payable. Deferred revenue consists of cash received from customers before the soil is processed.

**Cash from Investing Activities and Capital Expenditures**

Cash used in investing activities during the first quarter of both years was $0.02 million and pertained to minor capital additions to property, plant and equipment at the Saint Ambroise facility.

**Cash from Financing Activities**

Cash used in financing activities was $0.02 million in the first quarter of 2013 versus cash used in financing activities of $0.05 million in the same period of the prior year. The use of cash in both periods was due to the repayment of the finance lease obligations.

**Contractual Obligations**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| Millions of Canadian dollars | Carrying amount | Contractual cash flow | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|---|---|---|
| Tenure agreement | $ 0.72 | $ 0.77 | $ 0.06 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.39 |
| Liabilities related to assets held for sale | 0.36 | 0.36 | 0.36 | - | - | - | - | - |
| Accounts payable and accrued liabilities | 0.40 | 0.40 | 0.40 | - | - | - | - | - |
| Total contractual obligations | $ 1.48 | $ 1.53 | $ 0.82 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.39 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

## FINANCIAL AND OTHER INSTRUMENTS

On occasion short-term foreign exchange forward contracts are used to reduce foreign exchange risk. The Company marks these contracts to market, and records the corresponding gain or loss in income.

As at March 31, 2013 the Company had no foreign exchange contracts outstanding. As at December 31, 2012, the Company held a foreign exchange contract to sell $230,000 U.S. with an insignificant fair value on that date.

## CONTINGENCIES AND PROVISIONS

Developments subsequent to year end are as follows:

There were no changes to the provisions and contingencies as described in notes 12 and 30 to the Company's 2012 financial statements except for a foreign exchange adjustment to provisions as described in note 8 to the accompanying financial statements for the first quarter of 2013.

## TRANSACTIONS WITH RELATED PARTIES

Except as noted in note 5 of the 2013 Q1 interim condensed consolidated financial statements, there are no other related party transactions.

## SHARE CAPITAL

The number of common shares outstanding at May 14, 2013 was 38,685,562. There were 1,477,460 stock options outstanding as at May 14, 2013 exercisable at prices from $0.24 to $2.12 per share.

## CRITICAL ACCOUNTING ESTIMATES

There are no changes in the Company's critical accounting estimates as described in the Company's annual MD&A dated March 22, 2013 which can be found on SEDAR at www.sedar.com.

## CHANGES IN ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting principles and policies as the annual financial statements for the year ended December 31, 2012 except for the adoption of new IFRS accounting standards as outlined below.

*Amendments to IFRS 7 - Offsetting Financial Assets and Financial Liabilities:*

In December 2011, the International Accounting Standards Board ("IASB") amended IFRS 7, Financial Instruments: Disclosures and added additional disclosure requirements for offsetting financial assets and financial liabilities in accordance with IAS 32 Financial Instruments: Presentation. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of the amendments to IFRS 7 did not have a material impact on the financial statements.

*IFRS 10 – Consolidation of Financial Statements and Interest in Other Entities:*

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and Standing Interpretations Committee ("SIC") Interpretation 12 Consolidation - Special Purpose Entities. IFRS 10 defines the principle of control, establishes control as the basis for determining when entities are to be consolidated, and provides guidance on how to apply the principle of control to identify whether an

investor controls an investee. Adoption of IFRS 10 did not have a material impact on the financial statements.

*IFRS 13 Fair Value Measurement:*

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. Fair values of financial instruments are determined by valuation methods depending on hierarchy levels as outlined below:

Level 1 – Quoted market price in active markets for identical assets or liabilities.

Level 2 – Inputs, other than quoted market prices, that are observable either directly (i.e. observed prices) or indirectly (i.e. derived from prices or markets).

Level 3 – Inputs for the assets or liabilities are not based on observable market data.

The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any changes to the valuation techniques used by the Company to measure fair value or any measurement adjustments as at January 1, 2013. The additional disclosures required by IFRS 13 are included in note 13.

*Amendments to IAS 19 - Employee Benefits:*

The IASB published an amended version of IAS 19 Employee Benefits in June 2011. The amendments will require that past service costs be recognized in full immediately in profit or loss. The amendments impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, Provisions, and when the entity can no longer withdraw the offer of the termination benefits. Adoption of the amendments to IAS 19 did not have a material impact on the financial statements.

## RISK FACTORS

Information on "Risk Factors" can be found in the Company's Annual Information Form dated March 22, 2013 for the fiscal year ended December 31, 2012.

## CONTROLS AND PROCEDURES

In compliance with the requirements of National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, our Certifying Officers have reviewed and certified the interim Condensed Consolidated Financial Statements for the period ended March 31, 2013, together with other financial information included in our quarterly securities filings. Our Certifying Officers have also certified that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to our Company is made known within our Company. Further, our Certifying Officers have also certified that internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of interim Condensed Consolidated Financial Statements. There have not been any material changes in internal controls over financial reporting or disclosure controls and procedures since the last year end.

## Forward Looking Statements

Certain statements contained in this MD&A, or incorporated herein by reference, may constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The use of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "confident", "plan" and "intends" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in international, national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of the Company. The foregoing list of factors is not exhaustive. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as expressly required by law.