

# SECURE

energy services

ANNUAL REPORT 2012  
SECURE ENERGY SERVICES INC.  
TSX: SES

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NOTICE OF ANNUAL MEETING

Secure Energy Services Inc. (“Secure” or the “Corporation”) is pleased to invite its shareholders and other interested parties to the Corporation’s Annual General Meeting which will be held at the Bow Valley Room at The Westin Calgary, 320-4th Avenue S.W., Calgary, Alberta T2P 2S6 on May 9th, 2013 at 4:00p.m.



## CORPORATE PROFILE

Secure is a leader in providing specialized services to upstream oil and natural gas companies operating in North America. Our broad suite of services are delivered with a commitment to value, customer focus and providing solutions. The Corporation assists oil and natural gas companies with the handling, treatment and sale of crude oil, drilling fluids, recycling services and various complementary services associated with successful oil and natural gas development and production. Secure focuses on delivering results that exceed expectations from all aspects of its operations.

Focusing on underserved and capacity constrained markets, Secure is constantly striving to help customers in new and innovative ways. The Corporation currently operates two separate divisions focusing on specific areas of service; processing, recovery & disposal ("PRD") and drilling services ("DS").

Secure completed several acquisitions throughout 2012 to enhance service offerings and diversify geographically. On January 25, 2012 the Corporation completed the acquisition of New West Drilling Fluids Inc.'s ("New West") operating assets to strengthen its ability to service the growing steam assisted gravity drainage ("SAGD") market. On August 15, 2012 the Corporation completed the acquisition of all of the operating assets (excluding working capital) of Imperial Drilling Fluids Engineering Inc. ("IDF"). IDF specializes in drilling fluids in Colorado, predominately in the Niobrara and Cordell Shale plays. The acquisition of IDF allows the Corporation, through its DS division, to expand its geographical presence and take advantage of a growing market opportunity in the region.

On July 2, 2012 the Corporation closed an asset purchase agreement with DRD Saltwater Disposal LLC ("DRD") to acquire all operating assets. The Acquisition of DRD allows the Corporation to expand the geographical presence of its PRD services into the United States.

For a complete description of services provided, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's annual information form ("AIF") for the year ended December 31, 2012.





## PROCESSING, RECOVERY & DISPOSAL DIVISION

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Clean oil terminalling | Custom treating of crude oil | Oilfield by-product processing  
Crude oil marketing | Produced and waste water disposal | Landfill disposal | Frac water storage ponds

Several by-products and wastes are generated by oil and gas producers throughout the full cycle of oil and gas exploration, production and final reclamation. These by-products must be addressed in order to mitigate any potential negative impacts to the environment. When managed properly, hydrocarbon recovery is maximized while waste volumes and overall environmental impact is minimized. The processing, recovery and disposal ("PRD") division provides a combination of the above-mentioned services to help oil and gas producers deliver crude oil to market and manage associated by-products. Secure operates three types of facilities; Full Service Terminals ("FST"), Stand Alone Water Disposal ("SWD") and Class I & II landfills.

### FLUID DISPOSAL FACILITIES

SWD's and FST's both connect to deep disposal wells for injection of waste water from new well completions and continuously producing oil wells. The disposal well delivers fluids into a zone between impermeable layers of rock.

In addition to waste water injection, a FST is specially equipped to treat off-spec crude oil. Off-spec crude oil does not meet pipeline specifications due to a high water content. The treatment process separates oil from produced water in order to send the crude oil to market and safely dispose of the residual water.

Currently, five of the Corporation's nine FSTs are connected to an oil pipeline. These terminals also act as pipeline access points for producers with clean oil that does not need treatment prior to being shipped via pipeline.

FSTs are also equipped to process slurries through an advanced separation process. Slurries are any form of liquid with a solids content inseparable through basic filtration. After separation, the solid waste is sent to a Secure landfill. Residual fluids are treated to recover any crude oil content before disposal through deep well injection. A SWD can be converted to a FST by adding equipment for crude oil emulsion treating and oilfield waste processing.

Below is a photograph of the Drayton Valley FST with a drilling fluids blending facility on the left. This 2012 initiative is an example of the synergies within our complementary services.



### OILFIELD LANDFILLS

Disposal of solid waste from oil and gas operations is highly regulated. These wastes are produced from drilling operations through to final site clean-up, and are typically contaminated with chlorides/hydrocarbons.

The Corporation's PRD division currently operates three Class II landfills and one combined Class I & II landfill. A Class II Oilfield landfill provides disposal of contaminated soil associated with oil and natural gas drilling, production and reclamation activities. Class II landfills also dispose of solids that have been separated from liquid waste delivered to Secure's FST facilities.

The Class I landfill is regulated to dispose of hazardous industrial solids and oilfield by-products. Class I landfill cells are constructed to a higher standard and have additional monitoring requirements. Below is an aerial photograph of Secure's Pembina area combined class I & II landfill.



Secure currently operates 19 PRD facilities located throughout the Western Canadian Sedimentary Basin ("WCSB") and North Dakota in the United States.

The PRD facilities are long-lived assets designed to maximize the recovery of hydrocarbons and minimize the volume of waste requiring disposal.

## DRILLING SERVICES DIVISION



Drilling & completion fluids | Solids control equipment | Environmental

The drilling services ("DS") division is committed to offering innovative products and services to enhance the performance and productivity of drilling operations. Oil and gas drilling requires technologically advanced fluids to ensure the integrity of the borehole, remove cuttings, control wellbore pressure and maximize efficiency of the process. Two additional support services are provided by the DS division to maximize the useful life of drilling fluids and safeguard environmental compliance. All three components work in synergy to ensure oil and gas producers have the best chance of success in an increasingly cost competitive and environmentally stringent industry.

The DS division operates under two wholly owned subsidiaries: Marquis Alliance Energy Group in Canada and Marquis Alliance Energy Group USA, LLC in the United States. The DS division runs under the operating trade name XL Fluid Systems in Saskatchewan and Manitoba. Imperial Drilling Fluids operates out of Greeley, Colorado to service the Niobrara oil and gas play. The DS division provides drilling and completion fluids, solids control and environmental services.

### **DRILLING & COMPLETION FLUIDS**

The DS division provides innovative products and drilling fluid systems that are designed for more complex wells. These can be medium to deep wells, horizontal wells and SAGD wells drilled into the oil sands. These services are provided primarily in the WCSB and the United States. The drilling fluid systems are designed to be adaptable to a wide range of complex and varied drilling and completion scenarios. These customized solutions along with the technical expertise and experience of Marquis Alliance, help clients meet operational objectives while maintaining environmental compliance.

All wells drilled, whether gas, oil, bitumen, carbon dioxide injection and/or disposal wells require the use of drilling fluids. Drilling fluids encompass the functions of cleaning debris out of the hole, stabilizing and sometimes strengthening the formation drilled, controlling subsurface pressures, and preventing accretion. All of the above enhance drilling rates and protect potential production zones while conserving the environment in the surrounding surface and subsurface areas.



The drilling and completion fluids service line comprises the majority of revenue for the DS division.

### **SOLIDS CONTROL EQUIPMENT**

The solids control service line provides equipment to support drilling operations in both the WCSB and the United States. Solids control equipment removes unwanted solid particles from used drilling fluid preventing drilling problems, and reducing fluid and waste costs. This equipment includes high speed centrifuges, drying shakers, bead recovery units, tanks and ancillary equipment to support the drilling process. The equipment is offered as a standalone package or part of an integrated package with the drilling fluids and environmental service lines.

To the right, is a photograph of a high speed centrifuge rental on a customer's drilling site.



### **ENVIRONMENTAL**

The environmental service line provides the following services to oil and gas producers active in the WCSB:

- Environmental planning
- Drilling waste management
- Remediation and reclamation
- NORM consulting
- Containerized waste handling
- Project management

The environmental service line determines the appropriate processes for handling, recycling or disposing of drilling wastes and by-products. Reclamation services are also offered to assess and consult on the appropriate and cost effective methods for reclaiming land back to its original pre drilling state.

## MESSAGE TO SHAREHOLDERS

On behalf of the employees and the Board of Directors of Secure Energy Services Inc. ("Secure" or the "Corporation"), I am pleased to report on our Corporation's 2012 financial and operational results. This year has been a milestone year for Secure. It has been five years since the Corporation opened its first operating facility in October of 2007. Secure has exceeded all expectations and goals since it began operations, not only have we grown to a market capitalization of over \$1 billion, been added to the S&P/TSX Composite Index, accumulated assets over \$765 million, grown annual EBITDA to approximately \$100 million and hired over 700 employees, we have built a company that is proud to meet and exceed our customers' needs by providing innovative, efficient and environmentally responsible fluids and solids solutions.

### INCREASING SHAREHOLDER VALUE

Another milestone this year is the record operating and financial results that were achieved. The Corporation grew operations in Canada and the United States in both PRD and DS operating divisions. The largest capital program in the Corporation's history was executed in the year. In the United States, three new PRD facilities were added in the Bakken play of North Dakota while an acquisition of a drilling fluids business in Colorado enhanced DS operations in the Niobrara oil shale play. In Canada, a new SWD, landfill and facility expansions complemented existing PRD operations while the acquisition of New West Drilling Fluids Inc. in the DS division further enhanced our strengths in the heavy oil drilling fluids market. Overall, consolidated revenue of \$392 million (excluding oil purchase/resale) and EBITDA of close to \$100 million were at all-time highs increasing 70% and 61% over 2011 respectively.

In the year, \$171 million was invested in organic growth and expansion capital and \$37 million was paid for four acquisitions that focused on adding to the Secure "cradle to grave" full cycle value strategy. These investments expanded our service capability and geographic coverage thereby improving service offerings to our customers and increasing shareholder value. There were several organic growth initiatives undertaken in the year. New facilities added in Canada included the Wild River SWD and the Fox Creek landfill. Secure's first United States constructed SWD was completed at Crosby, North Dakota. Facility expansions increasing revenue generating ability were completed at Obed, Dawson and Fox Creek FSTs. The expansion at the Dawson FST added oil treating and terminalling equipment and a pipeline connection. In addition, Secure constructed an oil based blending plant at the Drayton Valley FST. The blending plant streamlines logistics for our customers by reducing material handling and transportation times while reducing overall costs. The new blending plant also allows the Corporation to leverage off its existing infrastructure to explore oil based fluid recycling opportunities at the FST. This shared

facility is an example of how both divisions work together to provide innovative customer solutions. Construction of new FSTs at Rocky Mountain House and Judy Creek were initiated in 2012 and are in the final stages of being completed. These facilities are expected to be operational in the second quarter of 2013.

Acquisitions complemented existing services and increased the geographical footprint of the Corporation. Operations in the United States grew through the acquisition of the assets of DRD Saltwater Disposal LLC ("DRD") in North Dakota and Imperial Drilling Fluids ("IDF") in Colorado. DRD provided an entry into the active and under serviced North Dakota market adding two SWD facilities and IDF boosted the Corporation's drilling fluid presence in Colorado. Early in the year the Corporation acquired New West Drilling Fluids Inc. diversifying drilling fluid solutions into the heavy oil and oil sands segment of north eastern Alberta. Combined with existing Marquis Alliance operations, the acquisition provides cost effective drilling fluid solutions in the steam assisted gravity drainage ("SAGD") market.

Management is proud of the significant growth in the divisional results achieved in the year. The PRD division operating margin for 2012 of \$80 million increased 63% over 2011. The PRD division added 120 employees to the group to staff new and expanded facilities ensuring sites are operated in a safe and environmental manner while keeping customer service front and center. There are now 19 facilities in the PRD group compared to 14 last year with another two expected to be operational in early 2013. The added sites expand Secure's service territory meeting demand driven by our customers. PRD US generated 4% of total PRD revenue in 2012 whereas last year there was no presence. The Corporation expects the percentage of US revenue to increase in 2013 as new facilities come on line and as volumes improve at existing facilities as Secure's brand and service is further recognized.

**"Consolidated revenue of \$392 million (excluding oil purchase/resale) and EBITDA of close to \$100 million were at all-time highs increasing 70% and 61% over 2011 respectively."**

This year is the first full year of operation for the DS division since being acquired by the Corporation in June of 2011. The Corporation is pleased with the group's \$63 million operating margin contribution for 2012. Drilling Services was successful in growing its Canadian market share to 29% from 26% in 2011. The DS division also expanded its service offerings by adding \$14 million of equipment in Canada and the United States. The

division is the largest supplier of drilling fluids and related services in the WCSB and continues to expand its service and geographic coverage. The strategic rationale for acquiring the Marquis Alliance Energy Group focused on exploiting the full value chain the new business was able to offer to the energy services market when combined with the service offerings of Secure. A number of initiatives were executed in the year promoting this strategy. Two examples are the construction of the drilling fluid blending facility and the initiation of drilling fluids recycling, both at the Drayton Valley FST. Recycling of drilling fluids lowers producer costs and minimizes waste from the drill site. These initiatives have met management and customer expectations.

#### **FINANCIAL CAPACITY**

Successful growth includes an emphasis on maintaining a strong financial position. A strong balance sheet not only delivers flexibility in financing organic growth, it also provides the wherewithal to seize upon acquisition opportunities as they present themselves. The Corporation strengthened its financial position in 2012 by completing a bought deal equity financing raising \$86 million plus finalizing an amendment to its syndicated credit facility increasing the credit available from \$200 million to \$300 million.

*"The results are a reflection of the efforts of a strong, motivated and entrepreneurial team."*

#### **ENVIRONMENTAL STEWARDSHIP**

It is critical to the Corporation that all facilities, services and products meet environmental requirements, external and internal standards. As part of this commitment, Secure adheres to the policies and procedures as set out in the Canadian Association of Petroleum Producers "Environmental Code of Practice" and has adopted this into our Corporate Environmental Policy. We are proud of our environmental stewardship record to date and we are committed to maintaining the highest standards.

A vital component of our company strategy is to find ways to protect the environment while improving products and services offered to our customers. New techniques create opportunities to recycle, reuse and reduce oil and natural gas by-product waste. Drilling Services has successfully improved drilling fluid products geared to heavy oil drilling, control of well seepage losses and waste minimization on the well site. This division has further invested in its environmental and reclamation services with dedicated environmental scientists and chemists. In the PRD division, we have initiated our testing of oil based fluid recycling and reuse in efforts to reduce the amount of drill site waste plus minimize the volume of product used. In addition,

we are working with our customers to find viable solutions to recycle frac and flowback water. We understand the importance of these initiatives in protecting the environment and reducing the industry's impact on the environment.

#### **HEALTH AND SAFETY**

Secure is committed to using responsible methods that result in protecting the health and safety of our employees. Safety key performance indicators used to keep track of injuries were below industry average in 2012. We are proud to be ahead of industry with a mind to always introduce improvements to better our performance.

#### **TEAM EFFORT**

This year was a tremendous success and capped five years of hard work. The results are a reflection of the efforts of a strong, motivated and entrepreneurial team. Our team is excited about its next five years and beyond and looks forward to providing safe and innovative solutions that create value for our customers and shareholders. Secure had a successful and rewarding year in 2012. The positive operational and financial results for the year are due to the commitment of Secure's employees, consultants and industry partners. Secure is dedicated to providing integrated, innovative solutions for its customers.

We would like to thank all shareholders, customers, vendors and other stakeholders who supported the Corporation over the past five years. Also, thank you to all Secure employees who have made the goals established five years ago more than a reality; Secure would not be where it is today without their hard work and dedication.



Rene Amirault

President & Chief Executive Officer

March 4, 2013





## MANAGEMENT DISCUSSION AND ANALYSIS

**(all tabular amounts are expressed in thousands of CDN dollars, except per share amounts)**

### **Three and Twelve Months ended December 31, 2012 and 2011**

The following management discussion and analysis ("MD&A") of the financial position and results of operations of Secure Energy Services Inc. ("Secure" or the "Corporation") has been prepared by management and reviewed and approved by the Board of Directors of Secure on March 4, 2013. The discussion and analysis is a review of the financial results of the Corporation based upon accounting principles that are generally accepted in Canada (the issuer's "GAAP"), which are based upon International Financial Reporting Standards ("IFRS").

The MD&A's focus is primarily a comparison of the financial performance for the three and twelve months ended December 31, 2012 and 2011 and should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes prepared under IFRS for the years ended December 31, 2012 and 2011. The Corporation's management is responsible for the information disclosed in this MD&A and the accompanying audited consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Corporation's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Corporation. The MD&A has been prepared as of March 4, 2013. Additional information regarding the Corporation is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document constitute "forward-looking statements" and/or "forward-looking information" within the meaning of applicable securities laws (collectively referred to as forward-looking statements). When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "continues", "maintains", "target" and similar expressions, as they relate to Secure, or its management, are intended to identify forward-looking statements. Such statements reflect the current views of Secure with respect to future events and operating performance and speak only as of the date of this MD&A. In particular, this MD&A contains forward-looking statements pertaining to: general market conditions; the oil and natural gas industry; activity levels in the oil and gas sector, including drilling levels; commodity prices for oil, natural gas liquids and natural gas; demand for the Corporation's services and the factors contributing thereto; expansion strategy; the 2013 capital budget, the allocation between the PRD and DS divisions and the factors contributing thereto and the intended use thereof; debt service; capital expenditures; completion of facilities; future capital needs; access to capital; acquisition strategy; the Corporation's capital spending on the Rocky Mountain House and Judy Creek, Alberta full service terminals and the timing of completion thereof; the capital spending on the landfill at Saddle Hills, Alberta and the timing for completion thereof; the capital spending on the stand alone water disposal facilities at Kabob and Edson, Alberta and the timing of the completion thereof; the capital spending on the stand alone water disposal facilities at Keene and Stanley, North Dakota and the timing of the completion thereof; the amount of the Corporation's asset retirement obligations and the timing thereof; and oil purchase and resale revenue.

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity in Canada, the United States, and internationally and growth levels in similar phases of previous economic cycles. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Corporation has relied upon in the past will continue to be available to the Corporation on terms favorable to the Corporation and that future economic and operating conditions will not limit the Corporation's access to debt and equity markets. Forward-looking statements concerning the relative future competitive position of the Corporation is based upon the assumptions that economic and operating conditions, including commodity prices, crude oil and natural gas storage levels, interest rates, the regulatory framework regarding oil and natural gas royalties,



environmental regulatory matters, the ability of the Corporation and its subsidiary to successfully market their PRD (as defined herein) services in the Western Canadian Sedimentary Basin ("WCSB") and North Dakota and their DS division (as defined herein) in the Western Canadian Sedimentary Basin, the Rocky Mountain region (consisting of Colorado, Wyoming, Montana and Utah) and North Dakota will lead to sufficient demand for the Corporation and its subsidiaries' services including demand for oilfield services for drilling and completion of oil and natural gas wells, that the current business environment will remain substantially unchanged, and that present and anticipated programs and expansion plans of other organizations operating in the energy service industry will result in increased demand for the Corporation's services and its subsidiary's services. Forward-looking statements concerning the nature and timing of growth is based on past factors affecting the growth of the Corporation, past sources of growth and expectations relating to future economic and operating conditions. Forward-looking statements in respect of the costs anticipated to be associated with the acquisition and maintenance of equipment and property are based upon assumptions that future acquisition and maintenance costs will not significantly increase from past acquisition and maintenance costs. Many of these factors, expectations and assumptions are based on management's knowledge and experience in the industry and on public disclosure of industry participants and analysts relating to anticipated exploration and development programs of oil and natural gas producers, the effect of changes to regulatory, taxation and royalty regimes, expected industry equipment utilization in the WCSB, the Rocky Mountain region, North Dakota, and other matters. The Corporation believes that the material factors, expectations and assumptions reflected in the forward-looking statements and information are reasonable; however, no assurances can be given that these factors, expectations and assumptions will prove to be correct.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, including, but not limited to factors referred to and under the heading "Business Risks" and under the heading "Risk Factors" in the Corporation's annual information form ("AIF") for the year ended December 31, 2012 and the most recent Information Circular and quarterly reports, material change reports and news releases. The Corporation cannot assure investors that actual results will be consistent with the forward-looking statements and readers are cautioned not to place undue reliance on them.

The Corporation's actual results could differ materially from those anticipated in such forward-looking statements as a result of the risk factors set forth below and elsewhere in this document: general economic conditions in Canada and the United States; changes in the level of capital expenditures made by oil and natural gas producers and the resultant effect on demand for oilfield services during drilling and completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield service generally; risks inherent in the Corporation's ability to generate sufficient cash flow from operations to meet its current and future obligations; increases in debt service charges; the Corporation's ability to access external sources of debt and equity capital; changes in legislation and the regulatory environment, including uncertainties with respect to implementing binding targets for reductions of emissions and the regulation of hydraulic fracturing services; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; competition; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; ability to integrate technological advances and match advances of completion; credit risk to which the Corporation is exposed in the conduct of its business; and changes to the royalty regimes applicable to entities operating in the WCSB, the Rocky Mountain region or North Dakota. Many of these factors are discussed in further detail through this document.

Although forward-looking statements contained in this MD&A are based upon what the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are expressly qualified by this cautionary statement. Unless otherwise required by law, Secure does not intend, or assume any obligation, to update these forward-looking statements.

## **CORPORATE OVERVIEW**

Secure is a TSX publicly traded energy services company that focuses on providing specialized services to upstream oil and natural gas companies operating in the Western Canadian Sedimentary Basin ("WCSB") and in the United States. The services provided by the Corporation assist these companies with the handling, processing and sale of crude oil, waste disposal, drilling fluids, recycling services and various complementary services associated with oil and natural gas development and production.

The Corporation operates two divisions:

### **PROCESSING, RECOVERY AND DISPOSAL DIVISION ("PRD")**

Operating under the corporate name Secure Energy Services Inc., the PRD division provides clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal, and oil purchase/resale service. Secure currently operates sixteen facilities throughout western Canada, and three facilities in North Dakota, providing these services at its full service terminals ("FST"), landfills or stand alone water disposal facilities ("SWD").

### **DRILLING SERVICES DIVISION ("DS")**

Operating under the corporate name Marquis Alliance Energy Group Inc. (together with its wholly owned subsidiaries "Marquis Alliance") and the trade names XL Fluids Systems ("XL Fluids") and Imperial Drilling Fluids Engineering ("IDF"), the DS division provides drilling fluid systems, solids control and environmental services. The drilling fluids service line comprises the majority of the revenue for the division, which includes the design and implementation of drilling fluid systems for producers drilling for oil, bitumen and natural gas. The DS division focuses on providing products and systems that are designed for more complex wells, such as medium to deep wells, horizontal wells and horizontal wells drilled into the oil sands.

For a complete description of services provided in both of the above divisions, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's annual information form ("AIF") for the year ended December 31, 2012.

## **CORPORATE STRATEGY**

Secure's goal is to achieve profitable growth while providing cost effective solutions and delivering exceptional customer service. To achieve this goal, Secure's strategy is to:

- Design, construct and expand facilities in key under-served and capacity constrained markets;
- Complete strategic acquisitions that exploit the full value chain in the energy services market, providing full cycle 'cradle to grave' solutions;
- Reduce waste, recycle and reuse fluids at Secure facilities;
- Conduct operations in a safe and environmentally responsible manner; and
- Enhance environmental stewardship for the Corporation's customers.

## SELECTED FINANCIAL HIGHLIGHTS

Secure's financial performance for 2012 increased significantly over 2011 resulting in a record year. For the year ended December 31, 2012, revenue (excluding oil purchase and resale) increased 70% to \$392.2 million and net earnings improved 48% to \$33.1 million while total assets increased 27% to total \$767.9 million when compared to the year ended December 31, 2011. The Corporation executed on its organic growth and expansion initiatives adding \$167.8 million of new facilities and equipment, and completing \$36.6 million of acquisitions. Secure's results reflect increased demand at existing PRD facilities and increased market share in the DS division despite slower oil and natural gas industry activity in the second half of 2012. The PRD division 2012 operating margin of \$79.6 million increased 63% from 2011 as a result of new facilities and expansions as well as greater demand for the Corporation's services. The Drilling Services division added operating margin of \$63.0 million and increased its year over year market share in the WCSB to 29% from 26%.

The following table summarizes the operating and financial highlights for the year ended December 31, 2012:

(\$000's except share and per share data) <sup>(1)</sup>	Year Ended Dec 31,		
	2012	2011	2010
Revenue (excludes oil purchase and resale)	392,192	231,051	50,752
Oil purchase and resale	637,248	320,148	22,241
Total revenue	1,029,440	551,199	72,993
EBITDA <sup>(2)</sup>	99,624	61,964	24,601
Per share (\$), basic	1.03	0.79	0.42
Per share (\$), diluted	1.00	0.75	0.41
Net earnings	33,052	22,383	5,368
Per share (\$), basic	0.34	0.28	0.09
Per share (\$), diluted	0.33	0.27	0.09
Funds from operations <sup>(2)</sup>	87,796	56,002	25,524
Per share (\$), basic	0.91	0.71	0.44
Per share (\$), diluted	0.88	0.68	0.42
Cash dividends per common share	nil	nil	nil
Capital expenditures <sup>(2)</sup>	201,587	202,053	63,710
Total assets	767,911	603,083	198,464
Long term borrowings	122,810	119,070	-
Common shares - end of period	104,627,002	90,156,688	63,754,348
Weighted average common shares			
basic	96,388,929	78,540,224	58,560,338
diluted	99,362,698	82,944,975	60,464,341

<sup>(1)</sup> Certain amounts were reclassified to conform with current period presentation

<sup>(2)</sup> Refer to "Non GAAP measures and operational definitions" and "Additional GAAP measures" for further information



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**2012 HIGHLIGHTS:**

- **RECORD REVENUE AND EBITDA**
  - Revenue for the year ended December 31, 2012 (excluding oil purchase and resale) increased 70% to \$392.2 million from \$231.1 million for the year ended December 31, 2011. The major contributing factors to increased revenue in the PRD division included the new facilities and expansions completed during the year, higher disposal and processing volumes from existing facilities, and a key acquisition in North Dakota. The DS division revenue increased significantly as a result of twelve months of operations in 2012 versus seven months in 2011, completion of two key acquisitions and through increased demand for its services;
  - Oil purchase and resale revenue in the PRD division for the year ended December 31, 2012 of \$637.2 million increased 99% from the same period in 2011. The significant increase resulted from the Drayton Valley FST being operational for a full year, the addition of the crude oil treating and terminalling at the Dawson FST and overall increased demand; and
  - EBITDA (earnings before interest, taxes, depreciation and amortization) for the year ended December 31, 2012 increased 61% to \$99.6 million from \$62.0 million for the year ended December 31, 2011. EBITDA per diluted share for the year ended December 31, 2012 was \$1.00, a 33% increase from the year ended December 31, 2011. Increases in revenue as discussed above and higher operating margins translated into improved EBITDA for Secure for the year ended December 31, 2012 as compared to the prior year period.
- **DIVERSIFICATION INTO NEW MARKETS AND NEW AREAS**
  - Organic expansion and growth capital totaled \$167.8 million for 2012. Total assets as of December 31, 2012 were \$767.9 million compared to \$603.1 million as of December 31, 2011. New facilities completed, expansion of existing facilities and new projects initiated included:
    - Drayton Valley FST Oil Based Mud ("OBM") blending facility;
    - South Grande Prairie mud storage system;
    - Wild River SWD (permanent facility);
    - Obed, Dawson and Fox Creek FST expansions including the Phase III (oil treating and terminalling) at Dawson;
    - South Grande Prairie and Pembina landfill expansions;
    - Fox Creek landfill (completed in December of 2012);
    - Crosby North Dakota SWD, (completed in December of 2012), Secure's first organic project in the United States;
    - Construction of the new Judy Creek FST (joint venture with Pembina Pipelines Corporation) and the Rocky FST; both expected to be operational in the second quarter of 2013;
    - Construction of the new Edson SWD, temporary facility scheduled to open in the first quarter of 2013 with permanent facility forecasted to be operational the beginning of 2014;
    - New Kabob SWD, initial development complete with construction commencing in the second quarter; and
    - Various long lead equipment purchases for the 2013 capital projects.
  - Strategic acquisition capital totaled \$36.6 million (\$30.8 million cash portion) in 2012, targeting under-served and capacity constrained markets:
    - Asset purchase of DRD Saltwater Disposal LLC in July provided entry into the North Dakota Bakken, expanding PRD operations outside of the WCSB into the United States;

- New West Drilling Fluids acquisition in January expanding the DS division drilling fluid solutions into the heavy oil and oil sands area of north eastern Alberta; and,
  - Purchase of the assets of Imperial Drilling Fluids Engineering. The acquisition provided the Corporation with access to the developing Niobrara area in the U.S. Rockies.
- **SOLID BALANCE SHEET**
    - On November 1, 2012 Secure increased its syndicated credit facility from \$200.0 million to \$300.0 million through an amended and restated extendible credit facility agreement. The credit agreement includes an accordion provision to increase the credit facility by \$50.0 million to \$350.0 million.
    - In August, a bought deal financing was completed raising total proceeds of \$86.3 million. The net proceeds from the financing were used to initially repay the Corporation's credit facility. Funds have been redrawn on the credit facility to fund a portion of the 2012 and 2013 capital expenditure programs.
    - Funds from operations increased 12% in the fourth quarter of 2012 to \$24.8 million from the comparative quarter in 2011 and 57% for the year ended December 31, 2012 compared to the same period in 2011. Increases were used to partially fund the Corporation's 2012 capital expenditure program thereby minimizing draws on the credit facility.
    - Secure's debt to EBITDA ratio was 1.51 as of December 31, 2012 compared to 2.07 as of December 31, 2011.
  - On March 4, 2013, the Corporation's Board of Directors approved the implementation of a dividend of \$0.0125 per share per month, or \$0.15 per share on an annual basis, commencing May 1, 2013.

#### FOURTH QUARTER 2012 HIGHLIGHTS:

(\$000's except share and per share data) <sup>(1)</sup>	Three Months Ended Dec 31,		
	2012	2011	% Change
Revenue (excludes oil purchase and resale)	108,356	101,999	6
Oil purchase and resale	170,501	129,262	32
Total revenue	278,857	231,261	21
EBITDA <sup>(2)</sup>	28,360	24,785	14
Per share (\$), basic	0.27	0.28	(4)
Per share (\$), diluted	0.26	0.26	-
Net earnings	10,634	10,290	3
Per share (\$), basic	0.10	0.12	(17)
Per share (\$), diluted	0.10	0.11	(9)
Funds from operations <sup>(2)</sup>	24,785	22,149	12
Per share (\$), basic	0.24	0.25	(4)
Per share (\$), diluted	0.23	0.24	(4)
Cash dividends per common share	nil	nil	-
Capital expenditures <sup>(2)</sup>	67,604	29,330	130
Total assets	767,911	603,083	27
Long term borrowings	122,810	119,070	3
Common shares - end of period	104,627,002	90,156,688	16
Weighted average common shares			
basic	104,530,375	89,481,219	17
diluted	107,456,318	93,718,121	15

<sup>(1)</sup> Certain amounts were reclassified to conform with current period presentation

<sup>(2)</sup> Refer to "Non GAAP measures and operational definitions" and "Additional GAAP measures" for further information

- Fourth quarter 2012 revenue (excluding oil purchase and resale) increased 6% to \$108.4 million from \$102.0 million in the fourth quarter of 2011. The increase relates to higher demand, the new facilities and expansions completed in 2012 and the three key acquisitions executed during the year, offset by a reduction in 2012 fourth quarter activity levels compared to the fourth quarter of 2011. Oil purchase and resale fourth quarter revenue of \$170.5 million increased 32% from the fourth quarter of 2011 as a result of the addition of Dawson FST crude treating and terminalling in June of 2012.
- Fourth quarter 2012 EBITDA increased 14% to \$28.4 million from \$24.8 million in the fourth quarter of 2011. EBITDA per diluted share in the fourth quarter of 2012 was \$0.26 which was consistent to the fourth quarter of 2011. The key factors contributing to higher EBITDA in the fourth quarter of 2012 compared to the fourth quarter of 2011 relate to improved market share for the DS division of approximately 30%, compared to 25% for the same period of 2011, the EBITDA contribution of the three acquisitions in the year, higher demand in the PRD division and a 1% improvement in operating margins in both divisions despite a 28% decline in the Canadian Association of Oilwell Drilling Contractor's (CAODC) average rig count in the fourth quarter of 2012 compared to the same quarter in 2011.
- Fourth quarter 2012 net earnings increased 3% over the fourth quarter of 2011. Overall net earnings were impacted by slower industry conditions primarily effecting the DS division. As well, depreciation increased over the prior quarter due to capital additions deployed throughout the year. Net earnings generated from new capital assets generally is delayed twelve to eighteen months to gain full market presence. Finally, general and administrative expenses increased in order to support future growth in both the United States and Canada.



- Net earnings per share (basic) of \$0.10 for the fourth quarter of 2012 decreased from \$0.12 in the fourth quarter of 2011. Net earnings per share decreased as the number of shares outstanding increased quarter over quarter and due to lower earnings before income taxes in the fourth quarter of 2012 compared to the fourth quarter of 2011. The number of shares increased during the year as the Corporation completed a bought deal financing and issued shares as consideration in certain acquisitions completed. The Corporation also only saw six months of profit contribution from two of the acquisitions, as well any new facilities added typically require twelve to eighteen months to gain full market presence on a cash flow contribution basis.
- Organic expansion and growth capital program totaled \$66.4 million for the fourth quarter of 2012 compared to \$28.9 million in the same quarter of 2011. Capital expenditures included:
  - Ongoing construction of the new Judy Creek and Rocky FSTs;
  - Obed FST expansion;
  - Fox Creek landfill (completed in December of 2012);
  - Crosby North Dakota SWD (completed in December of 2012);
  - Construction of temporary Edson SWD;
  - Initial development of the Kaybob SWD; and,
  - Various long lead equipment purchases for the 2013 capital program.

## OUTLOOK

Secure had a successful and rewarding year in 2012. The Corporation achieved significant growth while creating value for our shareholders over the past year. Concerns over crude oil differentials, natural gas liquid pricing and natural gas fundamentals in North America are leading to cautious producer spending plans for 2013. There is optimism that producer capital programs will be revised upwards in the latter half of 2013 predicated on continued foreign investment, improved access to capital for producers, stability in crude oil pricing and a narrowing of differentials and further clarity on future liquid natural gas ("LNG") export facility developments. There have been a number of recent positive developments for oilfield activity in the Western Canadian Sedimentary Basin ("WCSB") including the approval of the Nexen/CNOOC and Progress/PETRONAS transactions and the Encana/PetroChina Joint Venture in the Duvernay play. The Canadian Association of Oilwell Drilling Contractors is forecasting a 6% year over year decrease in 2013 well counts and drilling operating days in the WCSB. Despite the flat well count, average well depth is expected to continue to increase and the total of metres drilled in the WCSB is expecting to climb from 2012. In the United States, drilling activity peaked in the first quarter of 2012 and weakened over the course of the year as producers high graded development programs, in general shifting from natural gas drilling to crude oil plays. Expectations are for the U.S. land rig count to trough at some point in early 2013 with improvement in subsequent quarters.

Secure's continued investment in new facilities in Canada and the United States in 2012 provides a basis for continued growth into 2013. Secure recently announced a 2013 capital expenditure program of \$155.0 million. \$15.0 million is carry over capital from 2012 projects related to the Judy Creek and Rocky FSTs. The Rocky FST and the Judy Creek FST are expected to be completed in the second quarter of 2013. \$115.0 million is allocated to PRD growth initiatives which include adding three FSTs, two SWDs and one landfill. The Corporation has started development of new Alberta SWDs at Edson and Kabob in the fourth quarter of 2012 and is in the planning stages of initiating new SWD projects at Keene and Stanley in North Dakota. All of these SWDs will be assessed for conversion to FST facilities pending regulatory approval and customer demand. It is expected that the majority of other PRD capital initiatives for 2013 will not have any material cash flow impact until 2014, which is typical considering the approval and construction timelines for these types of facilities. The DS division's growth initiatives include adding \$15.0 million of solids control equipment allocated evenly between Canada and the United States. Secure's strong balance sheet has sufficient capacity to fund its capital program. The Corporation plans to fund the 2013 capital program through operating cash flow and available credit facilities. In

addition to growth through capital projects, Secure expects market expansion attributed to increased demand for the Corporation's integrated service offerings through all stages of the value chain. Due to tighter regulatory and environmental standards, it is expected that producers will increasingly outsource their waste and water disposal needs as oil and gas by-products continue to increase. Secure's full-suite of services will continue to serve an existing and growing network of customers seeking end-to-end solutions for their waste handling needs.

The Corporation's focus on organic growth opportunities is complemented by strategic acquisitions as a way to expedite market presence in key areas. The IDF and DRD acquisitions in the third quarter of 2012 demonstrate how the Corporation capitalized on opportunities to gain an immediate presence in new market areas in the United States. The Corporation's primary goal is to exceed customer expectations by providing innovative, efficient and environmentally responsible fluid and solid solutions. In 2013, the Corporation will continue to look to expand through accretive acquisition opportunities that align with Corporation's value chain.

The organic growth and expansion capital budget detailed above will enhance our competitive positioning and expands our service offering in both Canada and the US. The diversity of Secure's asset base lessens the impact of drilling related revenue streams in favour of production related services. Secure has a focused strategy of constructing and expanding facilities and services in key under-served and capacity constrained markets. A solid balance sheet provides the leverage and flexibility to execute this strategy.

## **NON-GAAP MEASURES AND OPERATIONAL DEFINITIONS**

Certain supplementary measures in this MD&A do not have any standardized meaning as prescribed under IFRS and, therefore, are considered non-GAAP measures. These measures are described and presented in order to provide information regarding the Corporation's financial results, liquidity and its ability to generate funds to finance its operations. These measures are identified and presented, where appropriate, together with reconciliations to the equivalent IFRS measure. However, they should not be used as an alternative to IFRS measures because they may not be consistent with calculations of other companies. These non-GAAP measures, and certain operational definitions used by the Corporation, are further explained below.

### ***Operating margin***

Operating margin is calculated as revenue less operating expenses which includes direct product costs for drilling services but excludes depreciation, depletion and amortization, general and administrative expenses, and oil purchase/resale services. Management analyzes operating margin as a key indicator of cost control and operating efficiency.

### ***Operating days***

Operating days are calculated by multiplying the average number of active rigs where the DS division provides drilling fluids services by the number of days in the period.

### ***Canadian Market Share***

Canadian market share is calculated by comparing active rigs where the DS division operates to total active rigs in Western Canada. The Canadian Association of Oilwell Drilling Contractors ("CAODC") publishes total active rigs in Western Canada on a semi-weekly basis.

### ***EBITDA***

EBITDA is calculated as profit excluding depreciation, depletion, amortization and accretion, non-cash share-based payments expense, interest, and taxes. EBITDA is not a recognized measure under IFRS. Management believes that in addition to profit, EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how those activities are financed or how the results are taxed.

(\$000's)	Three Months Ended Dec 31,			Year Ended Dec 31,		
	2012	2011	% Change	2012	2011	% Change
<b>Net earnings</b>	<b>10,634</b>	10,290	3	<b>33,052</b>	22,383	48
<b>Add:</b>						
Depreciation, depletion and amortization	12,236	8,915	37	42,283	25,230	68
Non-cash share-based payments	1,407	1,007	40	5,383	3,029	78
Current tax expense	2,239	1,776	26	7,286	4,491	62
Deferred income tax expense	(77)	1,730	(104)	5,855	5,042	16
Interest, accretion and finance costs	1,921	1,067	80	5,765	1,789	222
<b>EBITDA</b>	<b>28,360</b>	24,785	14	<b>99,624</b>	61,964	61

### **Capital Expenditures**

Expansion, growth and or acquisition capital are capital expenditures with the intent to expand or restructure operations, enter into new locations or emerging markets, or complete a business acquisition. Sustaining capital refers to capital expenditures in respect of capital asset additions, replacements or improvements required to maintain ongoing business operations. The determination of what constitutes sustaining capital expenditures versus expansion capital involves judgement by management.

### **ADDITIONAL GAAP MEASURES**

#### **Funds from operations**

Funds from operations refer to cash flow from operations before changes in non-cash working capital. Secure's management views cash flow from operating activities before changes in non-cash working capital balances as a measure of liquidity and believes that funds from operations is a metric used by many investors to assess the financial performance of the Corporation. Any use of cash from an increase in working capital in a particular period will be financed by existing cash or by the credit facility.

(\$000's)	Three Months Ended Dec 31,			Year Ended Dec 31,		
	2012	2011	% Change	2012	2011	% Change
Cash from (used in) operating activities	47,426	(12,828)	(470)	99,266	7,761	1,179
<b>Add (deduct):</b>						
Non-cash working capital changes	(22,641)	34,977	(165)	(11,470)	48,241	(124)
<b>Funds from operations</b>	<b>24,785</b>	22,149	12	<b>87,796</b>	56,002	57



## RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012

Secure's operations are carried out in two divisions; the PRD division and the DS division. The PRD division operates under the trade name of Secure. The DS division operates under the trade names of Marquis Alliance Energy Group, XL Fluid Systems and Imperial Drilling Fluids. Both divisions conduct business in Canada and the United States. The following table shows the consolidated results for both divisions for the year ended December 31, 2012:

(\$000's except per share data)	Year Ended Dec 31,		
	2012	2011	% Change
Revenue	1,029,440	551,199	87
Operating expenses	929,048	489,878	90
General and administrative	46,406	25,452	82
Business development	2,028	2,014	1
Interest, accretion and finance costs	5,765	1,939	197
<b>Earnings before income taxes</b>	<b>46,193</b>	<b>31,916</b>	<b>45</b>
Current income tax expense	7,286	4,491	62
Deferred income tax expense	5,855	5,042	16
	<b>13,141</b>	<b>9,533</b>	<b>38</b>
<b>Net earnings</b>	<b>33,052</b>	<b>22,383</b>	<b>48</b>
Other comprehensive income			
Foreign currency translation adjustment	(1,322)	231	(672)
<b>Total comprehensive income</b>	<b>31,730</b>	<b>22,614</b>	<b>40</b>
Earnings per share			
Basic	0.34	0.28	21
Diluted	0.33	0.27	22

## PRD DIVISION OPERATIONS - YEAR ENDED DECEMBER 31, 2012

For further clarity, the Corporation's PRD division's revenue has been split into two separate service lines: processing, recovery and disposal services; and oil purchase/resale services.

### Processing, recovery and disposal services:

Processing services are primarily performed at FSTs and include waste processing and crude oil emulsion treating. Secure's FSTs that are connected to oil pipelines provide customers with an access point to process and/or treat their crude oil for shipment to market. The crude oil or oilfield waste is delivered by customers to Secure by tanker truck or by a vacuum truck. The FST will process oilfield waste to separate out solids, water and crude oil. Crude oil that does not meet pipeline specifications is processed through a crude oil emulsion treater. Recovery services include revenue from the sale of oil recovered through waste processing, crude oil handling, terminalling and marketing. Clean crude oil and treated crude oil are stored on site temporarily until the volumes are ready to be shipped through gathering or transmission pipelines. Disposal services include produced and waste water disposal services through a network of class 1B disposal wells and disposal of oilfield solid wastes at the Corporation's landfills.

### Oil purchase/resale service:

The purpose of providing this service is to enhance the service offering associated with Secure's business of produced water disposal, crude oil emulsion treating, terminalling and marketing. By offering this service, Secure's customers gain efficiencies in transportation and handling of their crude oil to the pipeline. At Secure FSTs, crude oil volumes are metered and crude oil is purchased directly from its customers. The Corporation will then process, transport to a pipeline connected FST if necessary and handle the shipment of crude oil down the pipeline.

(\$000's) <sup>(1)</sup>	Year Ended Dec 31,		
	2012	2011	% Change
<b>Revenue</b>			
Processing, recovery and disposal services (a)	129,893	83,345	56
Oil purchase and resale service	637,248	320,148	99
<b>Total PRD division revenue</b>	<b>767,141</b>	<b>403,493</b>	<b>90</b>
<b>Operating Expenses</b>			
Processing, recovery and disposal services (b)	50,246	34,581	45
Oil purchase and resale service	637,248	320,148	99
Depreciation, depletion, and amortization	29,356	19,153	53
<b>Total operating expenses</b>	<b>716,850</b>	<b>373,882</b>	<b>92</b>
<b>General and administrative</b>	<b>14,281</b>	<b>10,041</b>	<b>42</b>
<b>Total PRD division expenses</b>	<b>731,131</b>	<b>383,923</b>	<b>90</b>
<b>Operating Margin</b> <sup>(2)</sup> (a-b)	<b>79,647</b>	<b>48,764</b>	<b>63</b>
<b>Operating Margin</b> <sup>(2)</sup> as a % of revenue (a)	<b>61%</b>	<b>59%</b>	<b>3</b>

<sup>(1)</sup> Certain amounts were reclassified to conform with current period presentation (see note below)

<sup>(2)</sup> Refer to "Non GAAP measures and operational definitions" for further information

**Note:** In the prior year, the Corporation completed the acquisition of Marquis Alliance and XL Fluids creating the DS division. In 2012, Secure has reclassified certain costs previously included in the PRD division, including segregating out costs associated with Corporate overhead. Accordingly, any reclassifications in 2012 were adjusted in the prior year to conform to current period presentation.

### **Revenue (PRD division)**

Revenue from processing, recovery and disposal for the year ended December 31, 2012 increased 56% to \$129.9 million from \$83.3 million for the year ended December 31, 2011. Revenue increased as year over year processing volumes increased by 110%. Volumes increased from:

- New facility additions and expansions in late 2011 and throughout 2012 which include the new Drayton Valley FST in the fourth quarter of 2011; the acquisition of the Silverdale FST in October 2011; the new Wild River SWD permanent facility in the second quarter of 2012; the expansions of Obed, Fox Creek and Dawson FSTs; the acquisition of DRD in July 2012; the new Crosby SWD in North Dakota in December 2012; and the new Fox Creek Landfill in December of 2012 (the “new facilities and expansions”);
- Increased demand as year over year processing volumes from existing facilities that were in operation at the same time in 2012 and 2011 continued to see growth.

Recovery revenue from the sale of oil recovered through waste processing, crude oil handling, marketing and terminalling increased by 49% for the year ended December 31, 2012 compared to the same period in 2011. The amount of recovery revenue increased with the addition of new facilities and expansions during the year, with higher processing volumes and due to the Corporation’s ability to capitalize on crude oil marketing opportunities at its FSTs. Crude oil marketing revenue increased by 112% for the year ended December 31, 2012 compared to the same period of 2011 as a result of the Dawson FST, a full year of Drayton Valley and Silverdale FSTs and the Corporation’s ability to capitalize on market spread differential opportunities throughout the year. For the years ended December 31, 2012 and 2011, \$8.8 million and \$8.0 million respectively in revenue and expenses relating to natural gas liquids purchased and sold were reclassified to the oil purchase and resale service line. There is no absolute dollar change in the operating margin relating to this reclassification.

Disposal volumes increased by 37% year over year from the addition of new facilities and expansions and the acquisition of DRD. Disposal volumes in existing facilities also improved on a year over year basis.

Revenue from oil purchase and resale service for the year ended December 31, 2012 increased 99% to \$637.2 million from \$320.1 million for the year ended December 31, 2011. Secure became a single shipper at the Dawson FST on June 1, 2012, the Drayton Valley FST in January 2012 and at the La Glace FST at the start of the fourth quarter of 2011. Adding single shipper status at these facilities increases the amount of oil purchased and sold at the facility. Increases in Secure’s oil purchase/resale service helps drive demand for Secure’s other service offerings. The revenue and corresponding expense of this service will fluctuate period over period, depending upon the volume of crude oil received, combined to the price of crude oil. As shown above, oil purchase/resale revenue is deducted to calculate the operating margin of processing, recovery and disposal services. See the “**Business Risks**” section in this MD&A for further discussion.

### **Operating Expenses (PRD division)**

Operating expenses from PRD services for the year ended December 31, 2012 increased 45% to \$50.2 million from \$34.6 million for the comparative period of 2011. The increase in operating expenses relates to the new facilities and expansions added organically, the Silverdale and DRD acquisitions and due to an increase in processing volumes from existing facilities. Operating expenses have a fixed and variable component. The most significant fixed operating expense at facilities is salaries and wages. Therefore, when new facilities are added the costs to train and staff the facilities are typically higher in the first few months of operations. For existing facilities, these expenses should remain relatively constant. Variable operating expenses include items such as trucking, utilities, equipment charges, and facility repairs and maintenance. Revenue for the year ended December 31, 2012 increased 56% which is consistent with the 45% increase in operating expenses over the comparable period of 2011.

Operating margin as a percentage of revenue from PRD services was 61% for the year ended December 31, 2012 compared to 59% for the same period of 2011. The two percentage point increase in the operating margin in 2012 compared to 2011 was a result of improvements in operating efficiencies at the facilities and improved weather conditions experienced during the year. The Corporation did not experience the same weather conditions in 2012 as it did in 2011. Weather conditions in 2011 added approximately \$2.0 million to operating expenses as a result of increased road

maintenance, site and equipment, and leachate disposal expenses due to heavy rains. As discussed in the PRD revenue analysis, certain revenue and expenses in 2012 and 2011 were reclassified to the oil purchase and resale service line. As a result of this reclassification, there is no absolute dollar change to the operating margin.

***Depreciation, Depletion and Amortization (PRD division)***

Depreciation, depletion and amortization expense for the year ended December 31, 2012 increased to \$29.4 million from \$19.2 million in the comparable period of 2011. Depreciation, depletion and amortization expense has increased significantly due to the addition of new facilities and expansions, and the increase in disposal volumes at PRD division landfills. Landfill cell costs are depleted on a unit basis, therefore as disposal volumes increase there is a corresponding increase to the amount of depletion expensed.

***General and Administrative (PRD division)***

General and administrative ("G&A") expenses for the year ended December 31, 2012 increased to \$14.3 million from \$10.0 million in the comparative period of 2011. Wages and Salaries increased 54% as new employees were hired to support growth in the PRD division in Canada and the United States. Information system expenses increased 73% as a result of improvements in system infrastructure and added licensing fees to support increased volumes from existing and new facilities. G&A expenses also increased with the establishment of the PRD divisional office in Denver, Colorado. G&A expenses include non-cash share based payments from the granting of options to new employees upon commencing employment and to existing employees annually. Shared based payment expense is higher for 2012 due to increased number of employees for the reasons mentioned above. The increase in G&A is in line with management expectations. For the years ended December 31, 2012 and 2011, G&A as a percentage of revenue (excluding oil purchase/resale), improved to 11% from 12%, respectively. In 2012, the Corporation has reclassified certain G&A expenses from the PRD division to Corporate. The PRD division's G&A expenses exclude all public company costs, salaries, share based payments and office costs relating to corporate employees.

## DS DIVISION OPERATIONS - YEAR ENDED DECEMBER 31, 2012

The Corporation's DS division commenced operations on June 1, 2011 with the acquisition of Marquis Alliance. The division has continued to expand with the subsequent acquisitions of XL Fluids on July 1, 2011, New West on January 25, 2012, and most recently Imperial Drilling Fluids on August 15, 2012. Comparative results for 2011 are limited to the seven months beginning June 1, 2011 for which this division was a wholly owned subsidiary of the Corporation. The DS division's main geographic area of operations remains the WCSB, however activity levels continue to increase in the United States with the acquisition of IDF as well as through increases in capital spending on solids control equipment. WCSB operations are coordinated from the Calgary, Alberta office, while U.S. operations are coordinated through the Denver, Colorado office.

### Drilling services:

Three main service lines drive revenue for the DS division: drilling fluids, environmental, and solids control. The drilling fluids service line operates in the WCSB and the U.S. and is the foundation for DS division operations. Drilling fluids products are designed to optimize the efficiency of customer drilling operations through engineered solutions that improve drilling performance and penetration, while reducing non-productive time. Experienced technical personnel design adaptable drilling programs to meet the needs of increasingly complex horizontal and directional drilling. These programs offer customers significant savings in time and money by anticipating the drilling challenges they may encounter. The environmental service line serves the WCSB by offering remediation, reclamation, special project management, professional services, and drilling waste management to customers. Services include pre-drilling assessments, remediation of former wellsites, facilities, commercial, and industrial properties from initial assessment through to reclamation certification. The solids control service line focuses on providing equipment to ensure that the quality of drilling fluids used throughout the drilling cycle is maintained by continually processing and recycling the drilling fluids as they return to the surface. The solids control service line operates in concert with the drilling fluids service line in the WCSB and in the U.S. Solids control equipment ensures the continual removal of drilling cuttings and solids from the drilling fluid. This results in higher penetration rates with less wasted fluid, and an overall reduction in drilling costs. The current solids control fleet of high speed centrifuges, drying shakers, bead recovery units, tanks, and ancillary equipment are offered as a standalone package or as part of an integrated drilling fluids and solids control package.

(\$000's) <sup>(1)</sup>	Year Ended Dec 31,		
	2012	2011	% Change
<b>Revenue</b>			
Drilling services (a)	262,299	147,706	78
<b>Operating expenses</b>			
Drilling services (b)	199,270	109,919	81
Depreciation and amortization	12,412	5,777	115
<b>Total DS division operating expenses</b>	<b>211,682</b>	115,696	83
<b>General and administrative</b>	<b>26,867</b>	12,036	123
<b>Total DS division expenses</b>	<b>238,549</b>	127,732	87
<b>Operating Margin</b> <sup>(2) (a-b)</sup>	<b>63,029</b>	37,787	67
<b>Operating Margin %</b> <sup>(2)</sup>	<b>24%</b>	26%	(8)

<sup>(1)</sup> Includes DS division from its acquisition on June 1, 2011.

<sup>(2)</sup> Refer to "Non GAAP measures and operational definitions" for further information



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**Revenue (DS division)**

For the year ended, December 31, 2012, revenue from the DS division increased 78% to \$262.3 million versus \$147.7 million for the seven months ended December 31, 2011. The year over year increase in revenue is mostly attributable to a full year of activities in 2012 versus the seven months of 2011 and the increase in the Canadian market share. DS division revenue in 2012 is driven by the drilling fluids service line representing \$225.2 million or 86% of the division's revenue respectively; this compares to \$129.1 million and 87% for the seven months ended December 31, 2011. The remainder of the revenue is attributable to the environmental and solids control service lines representing \$37.1 million for the year ended December 31, 2012 and \$18.6 million for the year ended December 31, 2011.

Canadian market share for the drilling fluids service line for the year ended December 31, 2012 was approximately 29%, up from 26% in 2011. The market share increased as a result of the successful integration of the XL and New West acquisitions, offering a broader product line adding SAGD and completion fluid products and the introduction of new technology such as well bore strengthening and lost circulation additives for oil based mud drilling and new products for the drilling of horizontal wells in the oil sands. Market share calculations are based on the CAODC's average monthly rig count for Western Canada of 351 rigs over the twelve months of 2012; and for 2011 were based on the seven months of operation since inception of the DS division.

Revenue per operating day for 2012 for the Canadian drilling fluids service line was \$5,449 compared to \$4,995 for the seven months ended December 31, 2011. Revenue per operating day increased over 2011 due to an increased volume of oil based muds compared to the same period in 2011. Oil based muds have a higher selling price and lower margin than water based muds. Oil based mud demand has increased due to more horizontal and directional drilling; the product is typically better suited for these types of applications. Also, exclusion of the first quarter of 2011 which typically has more activity decreases the revenue per operating day number. Overall, revenue per operating day has continued to increase in the oil and gas industry as operators expand the length and depth of their wells, while continuing to reduce the days drilling. The effect of this trend keeps pressure on service companies to provide solutions to meet these increasing demands and hence increasing the complexity of the types of fluids and additives which, in turn, require higher cost drilling fluids and products.

**Operating Expenses (DS division)**

Operating margin represents the profit earned on revenue after deducting operating expenses; this includes the direct cost of products, logistics, personnel, and equipment associated with the DS division. Variations in product mix, well type, geographic area, and nature of activity (i.e. drilling fluids, environmental, and or solids control) drives changes in DS division operating margins. The DS division incurred operating expenses for the year ended December 31, 2012 of \$199.3 million (or 76% of revenue) compared to \$109.9 million (or 74% of revenue) for the seven months ended December 31, 2011. The year over year increase in absolute dollars is the direct result of twelve months of operations in 2012 versus the seven months of operation in 2011 (since inception of the division). On a percentage of revenue basis, operating margins of 24% decreased two percentage points due to a higher proportion of oil based drilling fluids use which has a lower margin than water based drilling fluids.

**Depreciation and Amortization (DS division)**

Depreciation and amortization for the year ended December 31, 2012 was \$12.4 million compared to \$5.8 million for the seven months ended December 31, 2011. Depreciation and amortization increased significantly in 2012 versus 2011 as a result of two factors – a full year of activity in 2012 versus seven months of activity in 2011; and a fixed asset base that continues to grow as the division purchases assets to support growth across the various business lines.

**General and Administrative (DS division)**

The DS division G&A expenses for the year ended December 31, 2012 were \$26.9 million compared to \$12.0 million for the seven months ended December 31, 2011. The year over year increase is the result of a full twelve months of operations in 2012 versus seven months of operation in 2011 and an increase in headcount and associated costs to manage the growth in U.S. operations. G&A expense as a percentage of revenue was therefore 10% for 2012 versus 8% in

2011. In 2012, the Corporation reclassified G&A expenses in the DS division to exclude all salaries, share based payments, and office costs relating to corporate employees. The most significant accounts within G&A expense include: salaries and benefits for office staff, professional fees, office leases, insurance, utilities, and communications. The increase in G&A is in line with management's expectations. As a percentage of revenue, G&A expenses have remained relatively consistent throughout the year.

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012

In order to discuss the factors that have caused period to period variations in operating activities, the Corporation has divided the business into two reportable operating segments; the PRD division and the DS division. The following table shows the consolidated results for the three months ended December 31, 2012:

(\$000's except per share data)	Three Months Ended Dec 31,		
	2012	2011	% Change
Revenue	278,857	231,261	21
Operating expenses	250,542	206,022	22
General and administrative	13,036	10,117	29
Business development	562	202	178
Interest, accretion and finance costs	1,921	1,124	71
<b>Earnings before income taxes</b>	<b>12,796</b>	<b>13,796</b>	<b>(7)</b>
Current income tax expense	2,239	1,776	26
Deferred income tax expense	(77)	1,730	(104)
	<b>2,162</b>	<b>3,506</b>	<b>(38)</b>
<b>Net earnings</b>	<b>10,634</b>	<b>10,290</b>	<b>3</b>
Other comprehensive income			
Foreign currency translation adjustment	712	229	211
<b>Total comprehensive income</b>	<b>11,346</b>	<b>10,519</b>	<b>8</b>
Earnings per share			
Basic	0.10	0.12	(17)
Diluted	0.10	0.11	(9)

## PRD DIVISION OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2012

(\$000's) <sup>(1)</sup>	Three Months Ended Dec 31,		
	2012	2011	% Change
<b>Revenue</b>			
Processing, recovery and disposal services (a)	36,558	27,324	34
Oil purchase and resale service	170,502	129,262	32
<b>Total PRD division revenue</b>	<b>207,060</b>	<b>156,586</b>	<b>32</b>
<b>Operating Expenses</b>			
Processing, recovery and disposal services (b)	13,904	10,756	29
Oil purchase and resale service	170,502	129,262	32
Depreciation, depletion, and amortization	9,057	6,193	46
<b>Total operating expenses</b>	<b>193,463</b>	<b>146,211</b>	<b>32</b>
<b>General and administrative</b>	<b>4,483</b>	<b>3,305</b>	<b>36</b>
<b>Total PRD division expenses</b>	<b>197,946</b>	<b>149,516</b>	<b>32</b>
<b>Operating Margin</b> <sup>(2)</sup> (a-b)	<b>22,654</b>	<b>16,568</b>	<b>37</b>
<b>Operating Margin</b> <sup>(2)</sup> as a % of revenue (a)	<b>62%</b>	<b>61%</b>	<b>2</b>

<sup>(1)</sup> Certain amounts were reclassified to conform with current period presentation (see note below)

<sup>(2)</sup> Refer to "Non GAAP measures and operational definitions" for further information

**Note:** In the prior year, the Corporation completed the acquisition of Marquis Alliance and XL Fluids creating the DS division. In 2012, Secure has reclassified certain costs previously included in the PRD division, including segregating out costs associated with Corporate overhead. Accordingly, any reclassifications in 2012 were adjusted in the prior year to conform to current period presentation.

### Revenue (PRD division)

Revenue from processing, recovery and disposal for the three months ended December 31, 2012 increased 34% to \$36.6 million from \$27.3 million for the three months ended December 31, 2011. In general, quarter over quarter revenue increases are from higher processing and disposal volumes and from added facilities and expansion. Processing volumes for the three months ended December 31, 2012 increased by 35% compared to volumes for the same period of 2011 despite a slowdown in drilling activity. The increase relates to Secure's new facilities and expansions as described in the results for the year ended December 31, 2012 in this MD&A, increased demand for the PRD division's services from existing facilities and from the DRD acquisition completed in July of 2012. During November, Secure also commissioned the waste expansion at the Obed FST. The facility had reduced levels of processing during the quarter therefore mitigating some of the overall increase in processing volumes.

Recovery revenue from the sale of oil recovered through waste processing, crude oil handling, marketing and terminalling for the three months ended December 31, 2012 increased by 21% from the same period of 2011. Higher processing and terminalling volumes from new facilities and expansions increased the amounts of oil recovered during processing and therefore increased the amount of revenue associated with marketing of oil volumes. Crude oil marketing revenue increased by 77% for the three months ended December 31, 2012 compared to the same period of 2011 as a result of the Dawson FST, Drayton Valley and Silverdale FSTs at increased capacity and the Corporation's ability to capitalize on market spread differential opportunities throughout the quarter. For the three months ended December 31, 2012, \$3.1 million in revenue and expenses relating to natural gas liquids purchased and sold were reclassified to the oil purchase and resale service line (\$2.3 million for the three months ended December 31, 2011). There is no absolute dollar change in the operating margin relating to this reclassification. Disposal volumes increased by 29% for the three months ended December 31, 2012 compared to the same period in 2011. The acquisition of DRD in July of 2012, the new Crosby SWD

and the Fox Creek landfill added to volumes. Also, the Drayton Valley FST and Silverdale FST were in start-up phases in 2011 whereas they were fully operational in the fourth quarter of 2012. Disposal volumes in central Alberta facilities were marginally impacted by freezing rain in early November causing issues for trucking of solids and water on certain roads and leases thereby mitigating the increase in the quarterly volume.

Secure's oil purchase/resale service revenue for the three months ended December 31, 2012 increased 32% to \$170.5 million from \$129.3 million for the respective period in 2011. Secure became a single shipper at the Dawson FST on June 1, 2012 and at the Drayton Valley FST in January 2012 which increased the purchase and sale of oil at these facilities. Increases in Secure's oil purchase/resale service helps drive demand for Secure's other service offerings. The revenue and corresponding expense of this service will fluctuate period over period, depending upon the volume of crude oil received, combined with the price of crude oil. As shown above, oil purchase/resale revenue is deducted to calculate the operating margin of processing, recovery and disposal services. See the "**Business Risks**" section in this MD&A for further discussion.

#### ***Operating Expenses (PRD division)***

Operating expenses from PRD services for the three months ended December 31, 2012 increased 29% to \$13.9 million from \$10.8 million for the comparative period of 2011. The majority of the increase is due to operating expenses for Secure's new facilities and expansions added organically and via acquisition throughout 2012. Specifically, the Corporation incurred start-up costs for the Fox Creek landfill and Crosby SWD which were both added in December of 2012. General facility repairs and maintenance, wages and salaries, trucking and utilities expenses increased for the three months ended December 31, 2012 mostly as a result of Secure's new and expanded facilities. A portion of the operating expenses are variable and will correspond to changes in revenue, as described in the results for the year ended December 31, 2012 of this MD&A. Revenue for the year ended December 31, 2012 increased by 34% which contributed to the 29% increase in operating expenses over the comparable period of 2011.

Operating margin as a percentage of revenue from PRD services for the three months ended December 31, 2012 was 62%, consistent with the 61% operating margin for the three months ended December 31, 2011. Operating costs and margins for the three months ended December 31, 2012 were marginally impacted by freezing rain in early November increasing road and site costs. Startup costs related to the new facilities opened in December also contributed to higher operating costs. Overall the operating margins are in line with management's expectations. As discussed in the PRD revenue analysis, certain revenue and expenses in the comparative quarter of 2011 were reclassified to the oil purchase and resale service line. As a result of this reclassification, there is no absolute dollar change on the operating margin.

#### ***Depreciation, Depletion and Amortization (PRD division)***

Depreciation, depletion and amortization expense for the three months ended December 31, 2012 increased to \$4.5 million from \$3.3 million in the comparable period of 2011. Depreciation, depletion and amortization expense has increased significantly due to the addition of new facilities and expansions and the increase in disposal volumes at PRD division landfills. Landfill cell costs are depleted on a unit basis, therefore as disposal volumes increase there is a corresponding increase to the amount of depletion expensed.

#### ***General and Administrative (PRD division)***

General and administrative expenses for the three months ended December 31, 2012 increased 36% to \$4.5 million from \$3.3 million in the comparative period of 2011. Wages and benefits increased 37% as new employees were hired to support growth in the PRD division in Canada and the United States. Information system expenses increased 65% as a result of higher licensing fees to support increased volumes from existing and new facilities. G&A expenses also increased from the establishment of the PRD divisional office in Denver, Colorado. For both the three months ended December 31, 2012 and 2011, G&A expenses as a percentage of revenue (excluding oil purchase/resale) was 12%. As described in the results for the year ended December 31, 2012, G&A expenses also include non-cash share based payments. The increase in G&A is in line with management expectations. In 2012, the Corporation has reclassified certain G&A expenses from the PRD division to Corporate. The PRD division's G&A expenses exclude all public company costs, salaries, share based payments and office costs relating to corporate employees.

## DS DIVISION OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2012

(\$000's) <sup>(1)</sup>	Three Months Ended Dec 31,		
	2012	2011	% Change
<b>Revenue</b>			
Drilling services (a)	71,797	74,675	(4)
<b>Operating expenses</b>			
Drilling services (b)	53,899	57,087	(6)
Depreciation and amortization	2,995	2,643	13
<b>Total DS division operating expenses</b>	56,894	59,730	(5)
<b>General and administrative</b>	7,199	5,620	28
<b>Total DS division expenses</b>	64,093	65,350	(2)
<b>Operating Margin</b> <sup>(2) (a-b)</sup>	17,898	17,588	2
<b>Operating Margin %</b> <sup>(2)</sup>	25%	24%	4

<sup>(1)</sup> Includes DS division from its acquisition on June 1, 2011.

<sup>(2)</sup> Refer to "Non GAAP measures and operational definitions" for further information

### Revenue (DS division)

DS divisional revenue for the fourth quarter of 2012 was \$71.8 million compared to \$74.7 million for the comparative period of 2011. Revenue decreased 4% from the previous year's quarter due to reduced drilling activity which led to lower demand for drilling fluids. In the fourth quarter of 2012, the CAODC's average rig count was 351 rigs, down 28% from the 489 average rigs working during the comparative period of 2011. Fourth quarter 2012 operating days for the Canadian DS division decreased as a result of a lower rig count; operating days were 9,616 or 14% below the fourth quarter of 2011.

Fourth quarter 2012 drilling fluid revenue decreased 2% from the fourth quarter of 2011. The drilling fluids service line contributed \$63.3 million or 88% of total revenue during the fourth quarter of 2012. This compares to \$64.4 million or 86% of total revenue in 2011. Revenue decreased as activity in the WCSB declined from the prior year's quarter due to slowdowns in producer spending caused by macro-economic factors such as low commodity prices and higher supplies of oil and natural gas. DS revenue decreased 4% compared to industry operating day decreases of 14%. DS revenue did not decrease to the same extent as industry due to the division's ability to increase its market share over the same quarter of 2011.

Despite the slower industry conditions, the DS division increased its market share. Market share for the drilling fluid services line for the fourth quarter of 2012 was approximately 30%, compared to 25% for the same period of 2011. The CAODC's average monthly rig count for Western Canada provides the basis for market share calculations. Fourth quarter revenue per operating day in Canada increased to \$5,642 compared to \$5,563 in 2011; this helped to offset the aforementioned reduction in operating days. Higher revenue per operating day is due to increased volume of oil based muds compared to the fourth quarter of 2011. Oil based muds have a higher selling price than water based muds. Oil based mud demand has increased due to an increase in horizontal and directional drilling.

Revenue per operating day can fluctuate significantly due to changes in product mix, the type of well that is being drilled, and the timing of specific drilling events such as the loss of well bore control either due to pressure or lost circulation. Environment and solid control revenue for the three months ended December 31, 2012 was consistent with the prior year period. The combined service lines of environmental and solids control contributed \$8.5 million in 2012 compared to \$10.3 million in the fourth quarter of 2011. Results were impacted due to the slowdown in activity; nevertheless the combined services lines performance was better than the fourth quarter of 2011 as a result of increased market share.



### **Operating Expenses (DS division)**

Operating expenses for the fourth quarter of 2012 were \$53.9 million compared to \$57.1 million in 2011. Operating expenses decreased the same relative percentage as quarter over quarter revenue. Operating margins for the fourth quarter of 2012 were \$17.9 million or 25% of revenue compared to \$17.6 million or 24% in 2011. A contributing factor in the one percentage point margin increase is logistical savings associated with the Drayton Valley blending plant and increased sales from higher margin proprietary products. This small margin fluctuation is also expected from quarter to quarter due to changes in the mix and types of wells being drilled and associated changes in the product mix. Margin increases were moderated by the added IDF earn out expense which amounted to approximately \$0.7 million in the quarter.

### **Depreciation and Amortization (DS division)**

Depreciation and amortization for the three months ended December 31, 2012 was \$3.0 million compared to \$2.6 million for the comparative period of 2011. Depreciation and amortization increased by 13% compared to the prior year's quarter as a result of a larger fixed asset base associated with acquisitions and ongoing asset purchases to support growth across the various business lines.

### **General and Administrative (DS division)**

G&A expenses for the fourth quarter ended December 31, 2012 were \$7.2 million compared to \$5.6 million for the three months ended December 31, 2011. The 28% increase is attributable to a higher headcount plus associated costs to improve infrastructure and manage the growing business in the US. G&A expense as a percentage of revenue was therefore 10 % for the three months ended December 31, 2012, versus 8% for the same period of 2011. In 2012, the Corporation reclassified certain G&A expenses in the DS division to exclude all salaries, share based payments, and office costs relating to corporate employees. The most significant accounts within G&A expense include: salaries and benefits for office staff, professional fees, office leases, insurance, utilities, and communications. The increase in G&A is in line with management expectations. As a percentage of revenue G&A expenses have remained relatively consistent throughout the year.

## **OTHER INCOME AND EXPENSES**

### **CORPORATE EXPENSES**

(\$000's) <sup>(1)</sup>	Three Months Ended Dec 31,			Year Ended Dec 31,		
	2012	2011	% Change	2012	2011	% Change
General and administrative	1,353	1,192	14	5,258	3,375	56

<sup>(1)</sup> Certain amounts were reclassified to conform with current period presentation

In the prior year, the Corporation completed the acquisition of Marquis Alliance and XL Fluids creating the DS division. In 2012, Secure has reclassified certain costs within both the PRD and DS divisions, including segregating out costs associated with Corporate overhead. Accordingly, any reclassifications in 2012 were adjusted in the prior year to conform to the current period presentation. The above G&A expenses for 2011 were previously recorded in the operating results of the PRD division.

G&A expenses for Corporate overhead for the three and twelve months ended December 31, 2012 increased to \$1.4 million and \$5.3 million from \$1.2 million and \$3.4 million in the comparative periods of 2011, respectively. The increase in G&A expenses generally relates to increased corporate costs associated with acquiring Marquis Alliance and its subsidiaries, including additional salaries and associated expenses, professional services fees and share based payments compensation. A full year of related Marquis Alliance expenses were included in 2012 whereas seven months of expenses were included in 2011. Share based payment compensation has increased in 2012 due to the new deferred share unit

("DSU") plan introduced in the year and annual option grants. The increase in G&A is in line with management expectations. G&A corporate expenses include all public company costs, salaries, share based payments and office costs relating to corporate employees.

#### **BUSINESS DEVELOPMENT EXPENSES**

(\$000's)	Three Months Ended Dec 31,			Year Ended Dec 31,		
	2012	2011	% Change	2012	2011	% Change
<b>Business development</b>	<b>562</b>	202	178	<b>2,028</b>	2,014	1

As part of the reclassification of G&A expenses, business development costs are no longer segregated within each division. The business development expenses related to recycling fluids, drilling fluid blending plants, efficient drilling waste handling, and other initiatives, contain benefits for both divisions. Accordingly, business development expenses are disclosed in aggregate given the significant overlap and integration between both divisions.

Business development expenses for the three and twelve months ended December 31, 2012 were \$0.6 million and \$2.0 million compared to \$0.2 million and \$2.0 million in the comparative periods of 2011. Business development expenses for 2012 relate to costs associated with the three acquisitions completed in the year, prospects costs related to organic and acquisition opportunities in Canada and the United States and drilling fluids research and development costs. In 2011, expenses included acquisition costs related to Marquis Alliance, XL Fluids and Emerge Oil and Gas processing facility ("Silverdale").

#### **INTEREST, ACCRETION AND FINANCING COSTS**

(\$000's)	Three Months Ended Dec 31,			Year Ended Dec 31,		
	2012	2011	% Change	2012	2011	% Change
<b>Interest, accretion and finance costs</b>	<b>1,921</b>	1,124	71	<b>5,765</b>	1,939	197

Interest, accretion and financing costs for the three and twelve months ended December 31, 2012 were \$1.9 million and \$5.8 million versus \$1.1 million and \$1.9 million for the respective periods in 2011. The amount included above for the year ended December 31, 2012 as interest expense is net of \$0.6 million of interest capitalized on projects with substantial time to completion. The Corporation funds the majority of its capital program and increases in working capital through its credit facility and available cash flow from operations. The amount drawn on the credit facility for the year ended December 31, 2012 was \$123.5 million compared to \$120.0 million on December 31, 2011. The average drawn balance on the credit facility for the twelve months ended December 31, 2012 was \$113.8 million whereas in 2011 there was no significant draw on the facility until September. The average debt drawn for the last quarter of 2011 was \$103.3 million. Other expenses recorded in interest, accretion and finance costs include standby fees associated with the undrawn portion of the revolving credit facility, charges relating to the letters of credit and accretion associated with the Corporation's asset retirement obligations and transaction costs expensed relating to the previous credit facility.

## FOREIGN CURRENCY TRANSLATION ADJUSTMENT

(\$000's)	Three Months Ended Dec 31,			Year Ended Dec 31,		
	2012	2011	% Change	2012	2011	% Change
Foreign currency translation adjustment	712	229	211	(1,322)	231	(672)

Translation adjustments relating to the conversion of U.S. operating subsidiary financials for the three and twelve months ended December 31, 2012 were \$0.7 million and (\$1.3) million versus \$0.2 million and \$0.2 million for the respective periods in 2011. The amount is a function of converting the DS and PRD division United States business operations functional U.S. dollar currency to the Corporations reporting currency in Canadian dollars. The Canadian dollar has decreased by 2.0% against the U.S. dollar over the past year (\$1 CAD =1.0051 \$US at December 31, 2012 compared to \$1 CAD =0.9833\$US at December 31, 2011). The foreign currency translation adjustment included in the consolidated statements of comprehensive income does not impact net earnings for the year.

## INCOME TAXES

(\$000's)	Three Months Ended Dec 31,			Year Ended Dec 31,		
	2012	2011	% Change	2012	2011	% Change
Income taxes						
Current income tax expense	2,239	1,776	26	7,286	4,491	62
Deferred income tax expense	(77)	1,730	(104)	5,855	5,042	16
	2,162	3,506	(38)	13,141	9,533	38

### Current Taxes

Current income tax expense for the three months ended December 31, 2012 increased to \$2.2 million from a current income tax expense of \$1.8 million for the three months ended December 31, 2011. Current income tax expense for the year ended December 31, 2012 increased to \$7.3 million from a current income tax expense of \$4.5 million for the year ended December 31, 2011. The increase in current tax expense for both the three months and year ended December 31, 2012 compared to the prior year is due to the utilization of prior year tax losses in 2012, thereby exposing more of the corporation's earnings to cash taxation.

### Deferred Taxes

The Corporation follows the liability method of accounting for income taxes. The deferred tax expense for the three months ended December 31, 2012 decreased to (\$0.1) million and for the twelve months ended December 31, 2012 increased to \$5.9 million from \$1.7 million and \$5.0 million for the three months and year ended December 31, 2011. The deferred income tax expense increase for the year ended December 31, 2012 is a result of timing differences associated with higher cash tax deductions on assets in the current year verses allowable depreciation for accounting purposes. Therefore, the higher deduction reduces cash taxes in the current year but will have the effect of increasing cash taxes in future years. In the quarter, an adjustment of \$2.3 million was recorded as an increase to the deferred income tax liability upon finalizing the Marquis Alliance tax filings related to operations prior to its acquisition.

## SIGNIFICANT PROJECTS

Secure's 2012 capital expenditure program included a number of significant projects. For a discussion of the Corporation's 2012 capital expenditure program, see "**Liquidity and Capital Resources**" in this MD&A.

## GEOGRAPHICAL FINANCIAL INFORMATION

(\$000's)	Canada		International		Total	
	2012	2011	2012	2011	2012	2011
<b>Three months ended Dec 31</b>						
Revenue	266,345	225,820	12,512	5,441	278,857	231,261
<b>Year ended Dec 31</b>						
Revenue	986,801	541,881	42,639	9,318	1,029,440	551,199
<b>As at Dec 31,</b>						
Total non-current assets	517,892	397,800	70,892	11,701	588,784	409,501

The table on geographical financial information breaks out revenue and non-current assets for the three and twelve months ended December 31, 2012 and 2011 respectively.

## SUMMARY OF QUARTERLY RESULTS

### Seasonality

Seasonality impacts the Corporation's operations. In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. As warm weather returns in the spring, the winter's frost comes out of the ground (commonly referred to as "spring break-up"), rendering many secondary roads incapable of supporting heavy loads and as a result road bans are implemented prohibiting heavy loads from being transported in certain areas. The movement of the heavy equipment required for drilling and well servicing activities may be restricted, and the level of activity of the Corporation's customers may be consequently reduced. In the areas in which the Corporation operates, the second quarter has generally been the slowest quarter as a result of spring break-up. Historically, the Corporation's first, third and fourth quarters represent higher activity levels and operations. These seasonal trends typically lead to quarterly fluctuations in operating results and working capital requirements, which should be considered in any quarter over quarter analysis of performance. The Corporation's expansion into the United States helps to decrease seasonal impacts although U.S. operations are currently not significant enough to impact results.

The table below summarizes unaudited quarterly information for each of the eight most recently completed fiscal quarters.

(\$000s except share and per share data)	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue (excluding oil purchase and resale)	108,356	99,503	68,906	115,426	101,999	84,088	24,541	20,423
Oil purchase and resale	170,501	149,705	154,756	162,286	129,262	74,108	69,203	47,575
<b>Total Revenue</b>	<b>278,857</b>	249,208	223,662	277,712	231,261	158,196	93,744	67,998
Net earnings	10,634	6,354	1,087	14,977	10,290	7,853	10	4,230
Earnings per share - basic	0.10	0.06	0.01	0.17	0.12	0.09	0.00	0.07
Earnings per share - diluted	0.10	0.06	0.01	0.16	0.11	0.08	0.00	0.06
Weighted average shares - basic	104,530,375	98,724,604	91,527,556	90,658,046	89,481,219	89,242,506	71,207,964	63,829,714
Weighted average shares - diluted	107,456,318	101,492,349	94,210,135	94,179,644	93,718,121	93,949,868	75,851,337	67,855,436
EBITDA <sup>(1)</sup>	28,360	24,915	13,789	32,559	24,785	20,653	5,824	10,702

<sup>(1)</sup> Refer to "Non GAAP measures and operational definitions " for further information

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**Quarterly Review Summary**

As illustrated above, quarterly performance is affected by seasonal variation. However, with Secure's significant growth and recent acquisitions during 2011 and 2012, variations in quarterly results extend beyond seasonal factors. The most significant impact in the second and third quarter of 2011 relates to the Corporation acquiring Marquis Alliance and XL Fluids, which have formed the Corporation's DS division. In the fourth quarter of 2011, the Corporation also acquired the Silverdale facility which had an impact in the fourth quarter along with the opening of the Drayton Valley FST. In the first quarter of 2012, the Corporation acquired the operating assets (excluding working capital) of New West, a Canadian based drilling fluids company. New West was integrated into the DS division in the first quarter of 2012. In the second quarter of 2012, the Corporation commenced operations of the permanent Wild River SWD and commenced crude oil treating and terminalling (Phase III) at the Dawson FST. In the third quarter of 2012, the Corporation acquired DRD in North Dakota, which is included in the PRD division operating results. The Corporation also acquired IDF in Colorado, which is included in the DS division results. Near the end of the fourth quarter of 2012, the Corporation opened the Crosby SWD in North Dakota and the Fox Creek landfill. In addition, the Corporation's oil purchase/resale service revenue has increased significantly quarter over quarter. By offering this service, Secure's customers gain efficiencies in transportation and handling of their crude oil to the pipeline. The significant revenue increases started in the fourth quarter of 2011 and are a result of Secure becoming a single shipper at Dawson FST, Drayton Valley FST and La Glace FST. See the "Business Risks" section in this MD&A for further discussion on this service.

Finally, each quarter was impacted by the date at which any one of the constructed or acquired FSTs, SWDs or landfills commenced operations. For a complete description of Secure's business assets and operations, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's AIF for the year ended December 31, 2012. In addition to when the facility commenced operating activities or was acquired, the quarters were also impacted by the length of time required for several oil and natural gas producers to conduct their own individual audits of the facilities to ensure Secure met all required internal specifications for disposal of oilfield wastes. This process is conducted at all landfills, FSTs and SWDs before the producer will begin sending waste. Depending on the producer, this process can take several months.

**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. The Corporation manages its liquidity risk through cash and debt management. Management's assessment of the Corporation's liquidity reflects estimates, assumptions and judgements relating to current market conditions. The Corporation has historically funded its operations and capital program primarily with equity financing, cash flow from operations and its credit facility. The Corporation's objective in capital program management is to ensure adequate sources of capital are available to carry out its capital plan, while maintaining operational growth and increased cash flow so as to sustain future development of the business.



## Sources of Cash

### a) Funds from operations

(\$000's)	Year Ended Dec 31,		
	2012	2011	% Change
Funds from operations <sup>(1)</sup>	87,796	56,002	57

<sup>(1)</sup> Refer to "Additional GAAP measures" for further information

Funds from operations improved for the year ended December 31, 2012 to \$87.8 million from \$56.0 million for the year ended December 31, 2011. The significant increase over 2011 relates to the DS division operating for an entire year, the acquisitions of New West, IDF and DRD and the new facilities and expansions added in the PRD division. The DS division was operational for seven months in 2011. In addition to the acquisitions, expansions and new facilities added in 2011 and 2012, the Corporation also had continued growth in the DS division and demand for PRD services, including higher disposal volumes and higher processing volumes for the year ended December 31, 2012 compared to the prior year. Management is pleased with DS performance given the lower industry activity in both Canada and the US in 2012 compared to 2011.

### b) Issue of common shares

(\$000's)	Year Ended Dec 31,		
	2012	2011	% Change
Issue of common shares, net of issue costs	85,562	83,015	3

For the year ended December 31, 2012, issuance of common shares increased to \$85.6 million from \$83.0 million for the year ended December 31, 2011. The issuance of common shares for the year ended December 31, 2012 relates to the bought deal financing completed in the third quarter of 2012. On July 24, 2012, the Corporation entered into an agreement on a bought deal basis with a syndicate of underwriters, pursuant to which the underwriters agreed to purchase for resale to the public 10,987,262 common shares (including overallotment) of the Corporation at a price of \$7.85 per common shares for gross proceeds of \$86.3 million. In connection with the offering, the Corporation incurred approximately \$4.8 million in transaction costs which included \$4.3 million in agent fees. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2012.

In addition, the increase also relates to the exercising of options and warrants in accordance with the Corporation's share-based payment plan (the "Plan"). Under the Plan, the Corporation may grant share options to its employees, directors, and consultants for up to 10% of the issued and outstanding common shares of the Corporation calculated on a non-diluted basis at the time of grant. Options issued under the Plan have a term of five years to expiry and vest over a three year period starting one year from the date of the grant. As at December 31, 2012, Secure had a total of 104,627,002 common shares and 7,230,522 employee stock options outstanding. The \$83.0 million that was raised for the year ended December 31, 2011 primarily relates to the closing of a public offering, on a bought deal basis, on May 19, 2011 through the issuance of 12,969,900 common shares for net proceeds of \$81.5 million.

### c) *Revolving Credit Facility*

(\$000's)	Year Ended Dec 31,		
	2012	2011	% Change
Net draw s on revolving credit facility	3,500	-	100
Financing costs	(932)	-	100
Total draw s	2,568	-	100

As at December 31, 2012, the Corporation has drawn \$123.5 million on its new credit facility compared to \$120.0 million in the same period of 2011.

On August 4, 2011, the Corporation entered into a new \$150.0 million revolving credit facility with a syndicate of six financial institutions and Canadian chartered banks (the "revolving credit facility"). The facility consisted of a \$140.0 million extendible revolving term credit facility and a \$10.0 million revolving operating facility that replaced the Corporation's \$55.0 million non-syndicated revolving term facility. In the first quarter of 2012, Secure expanded the facility to \$200.0 million through the exercise of a \$50.0 million accordion feature.

On November 5, 2012, the Corporation and the lenders amended the revolving credit facility to add an additional lender and to increase the facility from \$200.0 million to \$300.0 million; the facility also includes an accordion feature which, if exercised, would increase the credit facility by an additional \$50.0 million. The revolving credit facility now consists of a \$290.0 million extendible revolving term credit facility and a \$10.0 million revolving operating facility.

The maturity date of the facility is July 31, 2015 and includes an option for Secure to extend the maturity date (once per annum) to a maximum of three years from the extension request date, subject to the approval of the lenders. Repayment of any amounts drawn on the facility would therefore be required on the maturity date if the revolving credit facility was not extended.

The facility is secured by substantially all of the Corporation's assets and includes customary terms, conditions and covenants, including that the consolidated debt to EBITDA ratio does not exceed 3.00 to 1.00, the consolidated debt to capitalization ratio does not exceed 0.40 to 1.00 and the consolidated fixed charge coverage ratio is not less than 1.00 to 1.00.

Under the revolving credit facility, the Corporation can borrow by way of Canadian dollar advances through Canadian Prime Rate Loans or Bankers Acceptances or United States dollar advances through U.S. Base Rate Loans or Libor or letters of credit denominated in Canadian or U.S. dollars, and bears interest ranging from 0.75% to 1.75% above the prime rate or Bankers Acceptances ranging from 1.75% to 2.75% above the Bankers' Acceptance rate depending on the Corporation's prevailing funded debt to EBITDA ratio, with any unused amounts subject to standby fees ranging from 0.40% to 0.62%. Funded debt includes all outstanding debt, including capital leases, and any outstanding letters of credit. There are currently no United States dollar based advances.

The key changes in the new credit facility are as follows:

- An increase to the amount available from \$200.0 million to \$300.0 million, with an accordion feature which would provide an additional \$50.0 million if exercised;
- Interest rates for the previous credit facility ranged from 1.0% to 2.0% above the prime rate or Bankers Acceptances which ranged from 2.0% to 3.0% above the Bankers Acceptance compared to rates ranging from 0.75% to 1.75% above the prime rate or Bankers Acceptances ranging from 1.75% to 2.75% above the Bankers Acceptance for the amended agreement. The range is determined by the Corporation's prevailing funded debt to EBITDA ratio;

- Standby fees for the previous credit facility ranged from 50 to 75 basis points and are now fees of 40 to 62 basis points for the amended agreement. The range is determined by the Corporation's prevailing funded debt to EBITDA ratio; and
- The previous agreement required fixed charge registrations over all titles and leases where the amended agreement allows for a floating charge for all acquired property subsequent to executing the agreement.

In conjunction with obtaining the credit facility, the Corporation incurred transaction costs in the amount of \$0.7 million, of which the unamortized amount will be offset against the outstanding principle balance of the debt. Prior unamortized transaction costs of \$0.8 million relating to the previous revolving credit facility were expensed in the fourth quarter of 2012.

(\$000's)	Year Ended Dec 31, 2012
Revolving credit facility	300,000
Amount drawn on revolving credit facility	(123,500)
Letters of credit	(19,552)
Available amount	156,948

As at December 31, 2012, the Corporation had \$156.9 million available under its credit facility. The Corporation is well positioned based on the available amount on its credit facility and expected funds from operations to execute on its 2013 capital program.

At December 31, 2012, the Corporation had issued approximately \$19.6 million in letters of credit to various environmental regulatory authorities in Alberta and British Columbia. The Energy Resource and Conservation Board ("ERCB") implemented the Oilfield Waste Liability ("OWL") program to replace the previous fully funded liability management program for oilfield waste facilities. The OWL program is a facility specific asset to liability risk based assessment plan. The amount of letters of credit issued will fluctuate based on the growth of the Corporation and future refunds under the OWL program, which are undeterminable at this time.

As at December 31, 2012, the Corporation was in compliance with all of its debt covenants. The following is a list of key financial covenants determined as of the end of each of the Corporation's fiscal quarters, including, without limitation:

- Senior Debt to EBITDA (see Non-GAAP measures) Ratio: the Funded Debt to EBITDA Ratio shall not exceed 3.00:1; where EBITDA is adjusted for acquisitions on a pro-forma trailing twelve month basis;
- Senior Debt to Capitalization Ratio: the ratio of Senior Debt to Senior Debt plus Equity shall not be greater than 40%; and
- Fixed Charge Coverage Ratio: the Fixed Charge Coverage Ratio shall not be less 1.00:1.

There is no change to the above covenants under the new credit facility.

## Uses of Cash

### • Capital Expenditures

(\$000's)	Year Ended Dec 31,		
	2012	2011	% Change
<b>Capital expenditures <sup>(1)</sup></b>			
Expansion and growth capital expenditures	167,808	96,546	74
Acquisitions	30,788	104,445	(71)
Sustaining capital expenditures	2,991	1,062	182
Total capital expenditures	201,587	202,053	-

<sup>(1)</sup> Refer to "Non GAAP measures and operational definitions" for further information

The Corporation's expansion and growth capital expenditures for the year ended December 31, 2012 increased to \$167.8 million from \$96.5 million for the same period in 2011. For the year ended December 31, 2012, \$110.5 million of expenditures were incurred for growth capital and \$20.7 million for expansion capital. The remainder was used to purchase rental equipment, software and long leads items. Expenditures on growth capital include Rocky and Judy Creek FSTs, build out of a temporary Edson SWD, construction of a new Kabob SWD, and completion of the Fox Creek landfill and Crosby SWD. Expansion capital relates to the waste expansion at the Obed and Fox Creek FSTs and new cells at the Pembina and South Grande Prairie landfills.

The projects for growth and expansion for 2012 are summarized as follows:

- Drayton Valley FST OBM blending facility;
- South Grande Prairie mud storage system;
- Wild River SWD (permanent facility);
- Obed, Dawson and Fox Creek FST expansions including the Phase III (oil treating and terminalling) at Dawson;
- South Grande Prairie and Pembina landfill expansions;
- Fox Creek landfill (completed in December of 2012);
- Crosby SWD in North Dakota (completed in December of 2012), Secure's first organic project in the United States;
- Construction of the new Judy Creek FST (joint venture with Pembina Pipelines Corporation) and the Rocky FST; both expected to be operational in the second quarter of 2013;
- Construction of the new Edson SWD, a temporary facility is scheduled to be open in the first quarter of 2013 with a permanent facility forecasted to be operational the beginning of 2014;
- New Kabob SWD, initial development complete with construction commencing in the second quarter of 2013; and
- Rental equipment & long leads (centrifuges, tanks, treaters, frac ponds).

The Corporation intends to fund its capital program primarily with existing cash, cash flow from operations and its expanded credit facility.

Other capital expenditures include \$1.9 million for the installation of a new DS division accounting software completed in the quarter. The software brings consistency across all operating divisions, automates manual procedures and provides for processing efficiencies in office and field locations. The second phase of the implementation is to upgrade the PRD

division to the current version of the software. The remaining amount of capital in the year was used to purchase rental equipment such as centrifuges, tanks, treaters, and frac ponds and other long lead equipment items.

For the year ended December 31, 2012 acquisitions totaled \$30.8 million compared to \$104.4 million for year ended December 31, 2011. In January 2012, the Corporation completed the acquisition of the operating assets (excluding working capital) of New West for an aggregate cash purchase price of \$3.4 million. New West was a Canadian based drilling fluids company specializing in providing drilling fluid systems and products for heavy oil drilling. On July 2, 2012, the Corporation closed an asset purchase agreement with DRD to acquire the operating assets of DRD for total cash and share consideration of \$26.3 million. On August 15, 2012, the board of directors approved an asset purchase agreement to acquire the operating assets of IDF for \$6.9 million and a series of earn out payments that, in aggregate, range from U.S. \$2.7 million to U.S. \$8.0 million for total maximum consideration of U.S. \$15.0 million. The earn out payments are considered to be compensation for accounting treatment purposes and will be expensed on the consolidated statements of comprehensive income. IDF is a private drilling fluids company operating in Greeley, Colorado. IDF specializes in drilling fluids in Colorado, predominately in the Niobrara and Cordell Shale plays. These two United States acquisitions demonstrate how the Corporation capitalized on opportunities to gain immediate presence in new market areas. The prior year acquisition relates to acquiring all of the issued and outstanding shares of Marquis Alliance and the acquisition of the operating assets of XL Fluids.

Sustaining capital or maintenance capital refers to capital expenditures in respect of capital asset additions, replacements or improvements required to maintain ongoing business operations. The determination of what constitutes sustaining capital expenditures versus expansion and growth capital involves judgement by management. For the year ended December 31, 2012, sustaining capital was \$3.0 million compared \$1.1 million for the year ended December 31, 2011. Sustaining capital is typically minimal in the first two years of operation of a facility because each facility is constructed with new equipment or refurbished equipment. Sustaining capital typically relates to pump and riser replacements or upgrades. As a facility matures, the amount of sustaining capital required will increase.

#### • **Contractual Obligations**

The Corporation has a total of \$51.0 million in commitments, excluding the above commitment relating to the credit facility. The \$51.0 million includes commitments for finance and operating lease agreements primarily for heavy equipment, vehicles, land leases and office space, and capital commitments relating to purchases for use in the Corporation's current and future capital projects. This also includes inventory purchases relating to a specialized product used in drilling fluids systems. Overall, the Corporation has sufficient funds from operations and availability through the credit facility to meet upcoming commitments.

(\$000's)	Payments due by period				
	Total	1 year or less	1-3 years	4-5 years	5 years and thereafter
Total Commitments	50,955	34,612	13,808	1,647	888

The Corporation's asset retirement obligations were estimated by management based on the Corporation's estimated costs to remediate, reclaim, and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at December 31, 2012 to be \$24.3 million (December 31, 2011 - \$15.0 million) based on a total future liability of \$32.3 million as at December 31, 2012 (December 31, 2011 - \$21.4 million). These costs are expected to be incurred over the next 25 years. The Corporation used its risk-free interest rates of 1.14% to 2.36% and an inflation rate of 3.00% to calculate the net present value of its asset retirement obligations. Commitments also include future earn out obligations related to the IDF acquisition.



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## **PROPOSED TRANSACTIONS**

There is no proposed asset or business acquisition or disposition expected to have a material effect on the financial condition, results of operations or cash flows of Secure.

## **BUSINESS RISKS**

The following information describes certain significant risks and uncertainties inherent in the Corporation's business. This section does not describe all risks applicable to the Corporation, its industry or its business, and it is intended only as a summary of certain material risks. If any of such risks or uncertainties actually occurs, the Corporation's business, financial condition or operating results could be harmed substantially and could differ materially from the plans and other forward-looking statements discussed in this MD&A.

### **Oil and Natural Gas prices**

The demand, pricing and terms for oilfield waste disposal services in the Corporation's existing or future service areas largely depend upon the level of exploration, development and production activity for both crude oil and natural gas in the WCSB, and the United States. Oil and natural gas industry conditions are influenced by numerous factors over which the Corporation has no control, including oil and natural gas prices, expectations about future oil and natural gas prices, levels of consumer demand, the cost of exploring for, producing and delivering oil and natural gas, the expected rates of declining current production, the discovery rates of new oil and natural gas reserves, available pipeline and other oil and natural gas transportation capacity, weather conditions, political, regulatory and economic conditions, and the ability of oil and natural gas companies to raise equity capital or debt financing.

The level of activity in the oil and natural gas industry is volatile. No assurance can be given that natural gas exploration and production activities will continue at their current levels. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and therefore affect the demand for drilling and well services by oil and natural gas companies. Any addition to, or elimination or curtailment of, government incentives for companies involved in the exploration for and production of oil and natural gas could have a significant effect on the oilfield services industry in the WCSB, the United States and India. A material decline in crude oil or natural gas prices or industry activity could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

### **Governmental regulation**

In addition to environmental regulations, the Corporation's operations are subject to a variety of other federal, provincial and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, and the manufacture, management, transportation, storage, and disposal of certain materials used in the Corporation's operations. The Corporation believes that it is in compliance with such laws, regulations and guidelines. The Corporation has invested financial and managerial resources to comply with applicable laws, regulations and guidelines and will continue to do so in the future. Although regulatory expenditures have not, historically, been material to the Corporation, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for the Corporation to predict the cost or effect of such laws, regulations or guidelines on the Corporation's future operations. In addition, the Corporation's securities are being sold in Canada and are listed on the TSX, and the Corporation is accordingly subject to regulation by Canadian securities regulators and Canadian federal and provincial laws and regulations. The Corporation believes that it is in compliance with such laws and regulations.

### **Merger and acquisition activity**

The Corporation may undertake future acquisitions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on having the acquired assets perform as expected, successfully consolidating functions, retaining key employees and customer relationships, and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources and may divert

management's focus from other strategic opportunities and operational matters, and ultimately the Corporation may fail to realize the anticipated benefits of such acquisitions. Merger and acquisition activity in the oil and natural gas exploration and production sector may impact demand for the Corporation's services as customers focus on reorganizing their business prior to committing funds to exploration and development projects. Further, the acquiring company may have preferred supplier relationships with oilfield service providers other than the Corporation.

In addition, the Corporation may discover that it has acquired substantial undisclosed liabilities in connection with an acquisition. The existence of undisclosed liabilities or the Corporation's inability to retain existing customers or employees of the acquired entity could have a material adverse impact on the Corporation's business, financial condition, results of operations and cash flows.

### **Performance of obligations**

The Corporation's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If the Corporation fails to satisfactorily perform its obligations, or makes professional errors in the services that it provides, its clients could terminate contracts, including master service agreements, exposing the Corporation to loss of its professional reputation and risk of loss or reduced profits or, in some cases, the loss of a project.

### **Competitive conditions**

The Corporation competes with a number of companies, some of which have greater technical and financial resources. The western Canadian market for the PRD division is dominated by two large market participants, Tervita Corporation with approximately 55 facilities, and Newalta Corporation with 35 facilities. There can be no assurance that competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of the Corporation, or that new or existing competitors will not enter the various markets in which the Corporation is active. In addition, reduced levels of activity in the oil and natural gas industry could intensify competition and the pressure on competitive pricing and may result in lower revenues or margins to the Corporation in both divisions. The Corporation's customers may elect not to purchase its services if they view the Corporation's financial viability as unacceptable, which would cause the Corporation to lose customers.

### **Provincial royalty rate changes**

The provincial governments of Alberta, British Columbia, Manitoba, Quebec and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. As an example, during 2009 and 2010, changes were announced to the royalty regimes and/or drilling incentive programs in Alberta and British Columbia. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

### **Regulation and taxation of energy industry**

Material changes to the regulation and taxation of the energy industry in the jurisdictions in which the Corporation operates may reasonably be expected to have an impact on the energy services industry. Generally, a significant increase in the regulation or taxation of the energy industry or material uncertainty regarding such issues may be expected to result in a decrease in industry drilling and production activity in the applicable jurisdiction.

### **Environmental Activism**

Environmental activism and opposition to Secure's operations may adversely affect the business of the Corporation by decreasing revenues and increasing remedial costs. The Corporation's operations, equipment and infrastructure could be vulnerable to unforeseen problems relating to environmental activism including, but not limited to, vandalism and theft which could interrupt the Corporation's operations for an extended period of time, result in significant delays to the Corporation's plans and result in increased costs to the Corporation. As a result of such interruption, the Corporation's business, financial condition and results of operations could be materially adversely affected. The Corporation's operations are dependent upon its ability to protect its operating equipment against damage from fire, vandalism, theft or

a similar catastrophic event. Theft, vandalism and other disruptions could jeopardize the Corporation's operations and infrastructure and could result in significant set-backs, potential liabilities and deter future customers. While the Corporation has systems, policies, practices and procedures designed to prevent or limit the effect of the failure or interruptions of its infrastructure there can be no assurance that these measures will be sufficient and that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed in a timely manner.

### **Terrorist activities**

Terrorist activities, anti-terrorist efforts and other armed conflicts involving the United States, Canada, or other countries may adversely affect the United States, Canada, and global economies and could prevent the Corporation from meeting its financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for the Corporation's services and causing a reduction in its revenues. Oil and natural gas-related facilities could be direct targets of terrorist attacks, and the Corporation's operations could be adversely affected if infrastructure integral to its customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

### **Landfill closure costs**

Operating and maintaining a landfill is capital intensive and generally requires letters of credit to secure performance and financial obligations. In addition, the Corporation has material financial obligations to pay closure and post-closure costs in respect of its landfills. The Corporation has estimated these costs and made provisions for them, but these costs could exceed the Corporation's current provisions as a result of, among other things, any federal, provincial or local government regulatory action including, but not limited to, unanticipated closure and post-closure obligations. The requirement to pay increased closure and post-closure costs could substantially increase the Corporation's letters of credit which could increase the Corporation's future operating costs and cause its profit to decline.

### **Key personnel**

The Corporation's success depends to a significant extent on a number of its officers and key employees. The Corporation does not carry "key man" insurance that would compensate it for the loss of officers or key employees. The loss of the services of one or more of these officers or employees could have an adverse effect on the Corporation.

### **Development of new technology and equipment**

The technology used in the PRD division for waste treatment, recovery and disposal business is not protected by intellectual property rights. As such, there are no significant technological barriers to entry within the industry. The technology used in the DS division for drilling fluids systems and drilling fluid in some instances are protected by intellectual property rights, however new technological advances could occur within the drilling fluids system and drilling fluids industry at any time.

### **Availability of qualified employees**

The Corporation's ability to provide reliable service is dependent upon attracting and retaining skilled workers. The Corporation attempts to overcome this by offering an attractive compensation package and training to enhance skills and career prospects. Shortages of experienced and skilled workers could have a material adverse effect on the Corporation by increasing labour costs, constraining growth or the level of activity as a result of the inability to expand human resources of the Corporation or through the loss of existing employees to competitive businesses. Additionally, a shortage of skilled oilfield workers may constrain overall activity and growth in the oil and natural gas industry, which could have a material adverse effect on the financial results and cash flows and overall financial condition of the Corporation.

### **Global financial conditions**

Global financial conditions include the commodity and equity markets that have recently been volatile as investors react to the sovereign-debt crisis in Europe. Investors fear global economies are heading into another recession and central banks

and the government will be required to increase debt loads in an effort to avoid it. As a result of these global conditions, the Corporation is subject to increased counterparty risk and liquidity risk. The Corporation is exposed to various counterparty risks including, but not limited to: (i) financial institutions that hold the cash of the Corporation or provide available funding on the Revolving Facility; and (ii) the insurance providers of the Corporation. As a result, the cash of the Corporation may become exposed to credit related losses in the event of non-performance by counterparties to these financial instruments. In the event that a counterparty fails to complete its obligations, the Corporation would bear the risk of loss of the amount expected to be received under these financial instruments in the event of the default or bankruptcy of a counterparty.

The Corporation is also exposed to liquidity risk in the event its cash positions decline or become inaccessible for any reason, or additional financing is required to advance its projects or growth strategy and appropriate financing is unavailable, or demand for oil and gas falls. Any of these factors may impact the ability of the Corporation to obtain further equity based funding, loans and other credit facilities in the future and, if obtained, on terms favourable to the Corporation. If these increased levels of volatility and market turmoil were to continue, the Corporation's results of operations and planned growth could be adversely impacted.

### **Market conditions**

Fixed costs, including costs associated with leases, labour costs and depreciation, account for a significant portion of the Corporation's expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather, or other factors could significantly affect the business, financial condition, results of operations and cash flows.

### **Financing future growth or expansion**

The Corporation's business strategy is based in part upon the continued expansion of the Corporation's network of facilities. In order to continue to implement its business strategy, the Corporation will be required to further its capital investment. The Corporation may finance these capital expenditures through vendor financings, ongoing cash flow from operations, borrowings under its revolving credit facility and by raising capital through the sale of additional debt or equity securities. The Corporation's ability to obtain financing or to access the capital markets for future offerings may be limited by the restrictive covenants in the Corporation's current and future debt agreements, by the Corporation's future financial condition, and by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties beyond the Corporation's control.

### **Legal proceedings**

The Corporation is named as a defendant in the Tervita Action. While management of Secure does not believe that this action will have a material effect on the business or financial condition of the Corporation, no assurance can be given as to the final outcome of this or any other legal proceedings or that the ultimate resolution of this or any other legal proceedings will not have a material adverse effect on the Corporation.

In the event that the plaintiff is successful in asserting its claim against the Corporation, the Corporation has insurance and potential damages claimed in the Corporation's countersuit which may mitigate the impact upon the financial condition of the Corporation; however, the Corporation's insurance is limited to \$5 million (which will be reduced by the amount of expenses of the lawsuit claimed by Secure against the insurance) and there can be no assurance that Secure's insurer will not determine that one or more of the claims specified in the Tervita Action are not covered by Secure's insurance policy and deny coverage. In the event that the Tervita Action was to be determined in a manner adverse to the Corporation, it could have a material adverse effect on the Corporation's business, financial condition and results of operations.

### **Raising additional capital**

The Corporation may issue additional Common Shares in the future, which may dilute a shareholder's holdings in the Corporation. The Corporation's articles permit the issuance of an unlimited number of Common Shares and an unlimited number of preferred shares, and shareholders will have no pre-emptive rights in connection with any further issuances.

The directors of the Corporation have the discretion to determine the provisions attaching to any preference shares and the price and the terms of issue of further issuances of Common Shares.

### **Access to capital**

The Corporation may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures, or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Corporation's growth and may have a material adverse effect on the Corporation. The credit agreement governing the credit facility imposes operating and financial restrictions on the Corporation that may prevent the Corporation from pursuing certain business opportunities and restrict its ability to operate its business.

The credit agreement governing the revolving credit facility contains covenants that restrict the Corporation's ability to take various actions. In addition, the credit agreement governing the revolving credit facility requires the Corporation to comply with specified financial ratios. The Corporation's ability to comply with these covenants will likely be affected by events beyond its control, and the Corporation cannot assure that it will satisfy those requirements. The restrictions contained in the credit agreement could also limit the Corporation's ability to plan for or react to market conditions, meet capital needs or otherwise restrict the Corporation's activities or business plans and adversely affect its ability to finance its operations, enter into acquisitions or to engage in other business activities that would be in the Corporation's interest.

### **Volatility of market price of Common Shares**

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Forward-Looking Statements*" herein. In addition, the market price for securities in the stock markets, including the TSX, may experience significant price and trading fluctuations. These fluctuations may result in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Common Shares.

### **Proprietary technology**

The Corporation relies on various intellectual property rights to maintain proprietary control over its patents and trademarks.

The success and ability of the Corporation to compete depends in part on the proprietary technology of the Corporation, and the ability of the Corporation to prevent others from copying such proprietary technologies. The Corporation currently relies on industry confidentiality practices, in some cases by a letter agreement, brand recognition by oil and natural gas exploration and production entities and in some cases patents (or patents pending) to protect its proprietary technology.

There can be no assurance that the Corporation's patent applications will be valid, or that patents will issue from the patent applications that the Corporation has filed or will file. Accordingly, there can be no assurance that the patent application will be valid or will afford the Corporation with protection against competitors with similar technology.

The products developed by the Corporation may also incorporate technology that will not be protected by any patent and are capable of being duplicated or improved upon by competitors. Accordingly, the Corporation may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary information of the Corporation and trade secrets. In addition, effective patent protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions. Policing

unauthorized use of the Corporation's enhancements could prove to be difficult, and there can be no assurance that the steps taken by the Corporation will prevent misappropriation of its enhancements. In addition, litigation may be necessary in the future to enforce the intellectual property rights of the Corporation to protect their patents, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Corporation's business, results of operations or financial condition.

Despite the efforts of the Corporation, the intellectual property rights of the Corporation may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Corporation may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to the Corporation's operations will prevent misappropriation or infringement.

### **Economic dependence**

The top ten customers of the Corporation accounted for approximately 32% of revenue for fiscal 2012, of which no single customer accounting for more than approximately 10%. The Corporation does not generally enter into long term contracts with its customers and there can be no assurance that the current customers will continue their relationships with the Corporation. The loss of one or more major customers, any significant decrease in services provided to a customer, or prices paid or any other changes to the terms of service with customers, could have a material adverse affect on the financial results, cash flows, and the overall financial condition of the Corporation. In addition, treatment and waste disposal services are largely dependent on the willingness of customers to outsource their waste management activities. As such, the demand for Secure's services could be curtailed by a trend towards internal waste management. A concentrated portion of Secure's PRD division current and future revenue is generated from pipeline connected FST facilities. As significant revenue is generated from each pipeline connect FST facility, any single event that interrupts one of these operations could result in the loss of revenues.

### **Commodity price risk – non-trading**

Crude oil prices are primarily based on West Texas Intermediate ("WTI"), plus or minus a differential to WTI based on the crude type and market conditions (the "commodity price"). The value of the Corporation's crude oil inventory is impacted by the commodity price of crude oil. Crude oil prices have historically fluctuated widely and are affected by numerous factors outside of the Corporation's control. As part of normal operating activities, the Corporation is required to hold a certain amount of inventory in any given month. The Corporation is therefore exposed to commodity price fluctuations. The Corporation has elected not to actively manage commodity price risk associated with crude oil inventory at this time as the exposure to these fluctuations is not considered significant, however as the Corporation's exposure to this fluctuation increases, the Corporation may choose to mitigate this risk.

### **Crude oil marketing and Commodity price risk – trading**

The Corporation is exposed to operating and commodity price risk at its FSTs that purchase and sell crude oil. Operating risk relates to factors that include but are not limited to pipeline apportionment, pipeline specifications regarding the quality of crude that is shipped down the pipeline, pipeline breaks at the Corporation's facility, and crude oil volumes actually received verses forecast. In addition, the Corporation's ability to generate crude oil marketing profits is also based on the type of crude oil type entering the facility and the associated commodity price of that crude oil. Any change to differentials can have a positive or negative impact to the Corporation's ability to generate crude oil marketing profits in the future. In order to maximize on crude oil marketing opportunities, the Corporation enters into crude oil contracts. The physical trading activities related to crude oil marketing contracts exposes the Corporation to the risk of profit or loss depending on a variety of factors including: changes in the commodity price; foreign exchange rates; changes in value of different qualities of a commodity; changes in the relationships between commodity prices and the contracts; physical loss of product through operational activities; and counterparty performance as a result of disagreements over terms of deals and/or contracts. These risks are mitigated by the fact that the Corporation only trades physical volumes and the Corporation does not currently participate in the long term storage of the commodities. The oil and gas producer forecasts or nominates crude oil volumes expected to be delivered to the Corporation's facilities in advance of the



production month as part of normal oil and gas operations. As part of the Corporation's processing, and facility operations, Secure will use net buy and net sell crude oil contracts for marketing and trading of crude oil. The volume purchased or sold relates to physical volumes only. Through this process, the Corporation may hold open positions. The Corporation defines an "open position" as the difference between physical deliveries of all net buy crude oil contracts offset against physical delivery of all net sell crude oil contracts. The open position is subject to commodity price risk. The Corporation may choose to do this based on energy commodity pricing relationships, time periods or qualities.

### **Foreign currency risk**

A significant portion of the Corporation's activities relate to the purchase and sale of crude oil or drilling fluids products which are transacted in or referenced to US dollars. The risk is mitigated as the majority of the activities occur in the same period; therefore foreign currency risk exposure is limited to crude oil or drilling fluids products held in inventory. The Corporation does not maintain an active hedge program to mitigate this risk as the exposure is limited at this time. The Corporation is exposed to foreign currency fluctuations as revenues, expenses and working capital derived from its foreign operations are denominated in U.S. dollars. In addition, the Corporation's U.S. subsidiary is subject to translation gains and losses on consolidation. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Corporation's foreign operations are included in the foreign currency translation reserve.

Some of the Corporation's current operations and related assets are located in the United States. Risks of foreign operations include, but are not necessarily limited to, changes of laws affecting foreign ownership, government participation, taxation, royalties, duties, rates of exchange, inflation, repatriation of earnings, social unrest or civil war, acts of terrorism, extortion or armed conflict and uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation. While the impact of these factors cannot be accurately predicted, if any of the risks materialize, they could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

### **Equipment risks**

The Corporation's ability to meet customer demands in respect of performance and cost will depend upon continuous improvements in the Corporation's operating equipment. There can be no assurance that the Corporation will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. The Corporation's failure to do so could have a material adverse effect on it. No assurances can be given that competitors will not achieve technological advantages over the Corporation.

### **Credit risk**

Credit risk affects both our non-trading and trading activities. The Corporation provides credit to its customers in the normal course of operations and assumes credit risk with counterparties through its trading activities. In addition, the Corporation is at risk for potential losses if counterparties in its trading activities do not fulfill their contractual obligations. A substantial portion of the Corporation's accounts receivable are with customers or counterparties involved in the oil and natural gas industry, whose revenues may be affected by fluctuations in oil and natural gas prices, economic conditions, environmental regulations, government policy, royalty rates and geopolitical factors. Collection of these receivables could be influenced by economic factors affecting this industry. The carrying value of trade accounts receivable reflects management's assessment of the associated risks. In order to mitigate collection risk, the Corporation assesses the credit worthiness of customers or counterparties by assessing the financial strength of the customers or counterparties through a formal credit process and by routinely monitoring credit risk exposures. In addition, the Corporation uses standard agreements that allow for the netting of exposures associated with a single counterparty. Where the Corporation has a legally enforceable right to offset, the amounts are recorded on a net basis.

### **Leverage and restrictive covenants**

The degree to which the Corporation is financially leveraged could have important consequences to the shareholders of the Corporation, including: (i) a portion of the Corporation's cash flow from operations will be dedicated to the payment of the principal of and interest on its indebtedness; and (ii) certain of the Corporation's borrowings have variable rates of interest, which float with the lender's prime rate, and as such, as these banking facilities are drawn, the Corporation will be exposed to higher interest costs if the prime rate should increase. The Corporation's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. The Corporation's lender have been provided with security over all of the assets of the Corporation. A failure to comply with the obligations in the agreements in respect of the revolving credit facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness.

### **Environmental protection & health and safety**

The oil and natural gas industry is regulated by a number of federal and provincial legislation in Canada, federal and state laws and regulations in the United States and other applicable laws in the jurisdictions in which the Corporation operates. These regulations set forth numerous prohibitions and requirements with respect to planning and approval processes related to land use, sustainable resource management, waste management, responsibility for the release of presumed hazardous materials, protection of wildlife and the environment, and the health and safety of workers. Legislation provides for restrictions and prohibitions on the transport of dangerous goods and the release or emission of various substances, including substances used and produced in association with certain oil and natural gas industry operations. The legislation addresses various permits required for drilling, access road construction, camp construction, well completion, installation of surface equipment, air monitoring, surface and ground water monitoring in connection with these activities, waste management and access to remote or environmentally sensitive areas. Legislation regulating the oil and natural gas industry may be changed to impose higher standards and potentially more costly obligations on the oil and gas customers of the Corporation. The Corporation's oil and gas customers will also be required to comply with any regulatory schemes for greenhouse gas emissions adopted by any applicable jurisdiction. The direct or indirect cost of these regulations may have a material adverse effect on the oil and gas customers of the Corporation and consequently on the Corporation's business, financial condition, results of operations and cash flows. Given the evolving nature of the debate related to climate change and control of greenhouse gases and resulting requirements, management is unable to predict the impact of greenhouse gas emissions legislation and regulation on the Corporation and it is possible that it could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows.

The Corporation is subject to a complex and increasingly stringent array of legal requirements and potential liabilities, including with respect to the ownership and management of property, the need to obtain and comply with permits and approvals, the health and safety of employees, and the handling, use, storage, disposal, intentional or accidental release of hazardous products or oilfield waste material. Failure to comply with these requirements could expose the Corporation to substantial penalties. There can be no assurance that the Corporation will not be required, at some future date, to incur significant costs to comply with environmental laws, or that its operations, business, assets or cash flow will not be materially adversely affected by existing conditions or by the requirements or potential liability under current or future environmental laws.

The Corporation may incur substantial costs, including fines, damages, criminal or civil sanctions, and remediation costs, or experience interruptions in the Corporation's operations for violations or liabilities arising under these laws and regulations. The Corporation may have the benefit of insurance maintained by the Corporation, its customers or others. However, the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons, such as fires, blowouts, freeze-ups, equipment failures, pipeline breaks, unplanned and extended pipeline shutdowns, leakage of landfill cell liners, and other similar events affecting the Corporation or other parties whose operations or assets directly or indirectly affect the Corporation;

The occurrence of any of the matters above, including new legislation or more rigorous enforcement of existing legislation may result in significant liability to the Corporation, which could have a material adverse affect on the financial results, cash flows and overall financial condition of the Corporation.

In addition, the Corporation's customers may elect not to purchase its services if they view its safety record as unacceptable, which could cause the Corporation to lose customers and substantial revenues. These risks may be greater for the Corporation because it may acquire companies that have not allocated significant resources and management focus to safety or have a poor safety record.

### **Operating risks and insurance**

The Corporation has an insurance and risk management program in place to protect its assets, operations and employees. The Corporation also has programs in place to address compliance with current safety and regulatory standards. However, the Corporation's operations are subject to risks inherent in the oilfield services industry, such as equipment defects, malfunctions, failures, accidents, and natural disasters. These risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution, and other environmental damages.

Although the Corporation has obtained insurance against certain of these risks, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Corporation is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Corporation incurs substantial liability and such damages are not covered by insurance or are in excess of policy limits, or if the Corporation incurs such liability at a time when it is not able to obtain liability insurance, the Corporation's business, results of operations and financial condition could be materially adversely affected.

### **Risk of third party claims for infringement**

A third party may claim that the Corporation has infringed such third party's intellectual property rights or may challenge the right of the Corporation in their intellectual property. In such event, the Corporation will undertake a review to determine what, if any, actions the Corporation should take with respect to such claim. Any claim, whether or not with merit, could be time consuming to evaluate, result in costly litigation, cause delays in the operations of the Corporation or require the Corporation to enter into licensing agreements that may require the payment of a license fee or royalties to the owner of the intellectual property. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation.

### **Conflict of interest**

Certain of the directors and officers of the Corporation are also directors and officers of oil and natural gas exploration and/or production entities and oil and natural gas service companies, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies.

### **Sources, Pricing and Availability of Products and Third Party Services**

The Corporation sources their products from a variety of suppliers, many of whom are located in Canada and the United States. Should any suppliers of the Corporation be unable to provide the necessary products or services or otherwise fail to deliver products or services in the quantities required or at acceptable prices, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Corporation. In addition, the ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to equipment, parts and components. Failure of suppliers to deliver such equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the ability of the Corporation to maintain and expand its client list. No assurance can be given that the Corporation will be successful in maintaining the required supply of equipment, parts and components. It is also possible that the final costs of the equipment contemplated by the capital expenditure program of

the Corporation may be greater than anticipated by management, and may be greater than the amount of funds available to the Corporation, in which circumstance the Corporation may curtail or extend the timeframes for completing its capital expenditure plans.

The ability of the Corporation to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, many of whom are located in Canada or the United States. Alternate suppliers do exist for all raw materials. In periods of high industry activity, periodic industry shortages of certain materials have been experienced and costs are sometimes affected. In contrast, periods of low industry activity levels may cause financial distress on a supplier, thus limiting their ability to continue to operate and provide the Corporation with necessary services and supplies. Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the clients of the Corporation could have a material adverse effect on the Corporation's results of operation and cash flows.

### **Oil and Natural Gas market**

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. The Corporation cannot predict the effect of changing demand for oil and natural gas products, and any major changes may materially and adversely affect the Corporation's business, financial condition, results of operations and cash flows.

### **Potential replacement or reduced use of products and services**

Certain of the Corporation's equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. The Corporation will need to keep current with the changing market for drilling fluids and solids control equipment and technological and regulatory changes. If the Corporation fails to do so, this could have a material adverse affect on its business, financial condition, results of operations and cash flows.

### **Interest rates**

The Corporation's banking facilities have interest rates which float with the lender's prime rate ranging from 0.75% to 1.75% above the prime rate or Bankers' Acceptance rate ranging from 1.75% to 2.75% above the Bankers' Acceptance rate depending on the Corporation's prevailing funded debt to EBITDA ratio and as such, as these banking facilities are drawn, the Corporation will be exposed to higher interest costs if the Canadian prime rate and Bankers' Acceptance rate should increase.

### **Disclosure controls & procedures**

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation, is made known to the Chief Executive Officer and Chief Financial Officer by others within the Corporation, particularly during the period in which the annual and interim filings of the Corporation are being prepared, in an accurate and timely manner in order for the Corporation to comply with its disclosure and financial reporting obligations and in order to safeguard the Corporation's assets. Consistent with the concept of reasonable assurance, the Corporation recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Corporation's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

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**Internal controls over financial reporting**

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. While management of the Corporation has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Corporation's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

**Expansion of the Corporation's business into new jurisdictions**

The Corporation has recently expanded its business into North Dakota and intends to continue to expand its business into new operating jurisdictions. The expansion of the business will depend upon the ability of management to successfully implement the strategy of Secure. There is no guarantee that this expansion of the business will be successful. Secure will need to comply with the laws of these new jurisdictions, which may be significantly different than those the Corporation is accustomed to, and there can be no assurance that it will be able to obtain necessary approvals to facilitate the expansion of its business into these new jurisdictions. Any failure to comply with applicable laws could result in the imposition of significant restrictions on the ability of Secure to do business in these jurisdictions, and could also result in fines and other sanctions, any or all of which could adversely affect its results of operations or financial condition. In addition, any changes in laws and regulation in these new jurisdictions could materially adversely affect the business, results of operations and financial condition of the Corporation.

**Forward Looking Statements may prove inaccurate**

Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this AIF under the heading "Forward Looking Statements".

**The decision to pay dividends and the amount of such dividends is subject to the discretion of the Corporation's Board of Directors based on numerous factors and may vary from time to time**

Although the Corporation currently does not pay quarterly cash dividends to its shareholders, the decision to implement dividends and the amount is at the discretion of the Corporation's Board of Directors. The amount of cash available to the Corporation to pay dividends, if any, can vary significantly from period to period for a number of reasons, including, among other things: the Corporation's operational and financial performance; the amount of cash required or retained for debt service or repayment; amounts required to fund capital expenditures and working capital requirements; access to equity markets; foreign currency exchange rates and interest rates; and the risk factors set forth in this MD&A.

The decision whether or not to pay dividends and the amount of any such dividends are subject to the discretion of the Corporation's Board of Directors, which regularly evaluates the Corporation's proposed dividend payments. In addition, the level of dividends per common share will be affected by the number of outstanding common shares and other securities that may be entitled to receive cash dividends or other payments. Dividends may be increased, reduced or suspended depending on the Corporation's operational success and the performance of its assets.

**Seasonal nature of the industry**

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. As warm weather returns in the spring, the winter's frost comes out of the ground (commonly referred to as "spring break-up"), rendering many secondary roads incapable of legally supporting heavy loads and, as a result, road bans are implemented prohibiting such loads from being transported in certain areas. As a result, the movement of the heavy equipment required for drilling and well servicing activities is restricted and the level of activity of our customers is consequently reduced. In addition, the

transportation of heavy waste loads is restricted resulting in smaller loads and a general reduction in the volume of waste delivered to Secure's facilities. Accordingly, while the Corporation's facilities are open and accessible year-round, spring break-up reduces the Corporation's activity levels. In the areas in which Secure operates, the second quarter has generally been the slowest quarter as a result of spring break-up.

### **OUTSTANDING SHARE CAPITAL**

As at March 4, 2013, there were 104,719,750 Common Shares issued and outstanding. In addition as at March 4, 2013, there were 7,026,476 share options outstanding, of which 2,890,284 were exercisable. There are no warrants outstanding.

### **OFF-BALANCE SHEET ARRANGEMENTS**

At December 31, 2012, the Corporation had no off-balance sheet arrangements.

### **TRANSACTIONS WITH RELATED PARTIES**

For the three and twelve months ended December 31, 2012, the Corporation incurred approximately \$0.5 million and \$1.5 million of expenses with related parties. Related parties include companies that have common directors, officers, employees and shareholders. The nature of the expenses relate to operating and general and administrative expenses for use in the Corporation's PRD and DS divisions. Amounts are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the three and twelve months ended December 31, 2012, the Corporation has not recorded any impairment of receivables relating to amounts owed by related parties (December 31, 2011 - Nil). This assessment is undertaken each financial reporting period through examining the financial position of the related party and the market in which the related party operates.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

As at December 31, 2012, the Corporation's financial instrument assets include cash, accounts receivables and accrued receivables, and other receivables. The Corporation's financial instrument liabilities include accounts payable and accrued liabilities, and long term borrowings. The fair values of these financial instruments approximate their carrying amount due to the short term maturity of these instruments and the floating market rate interest on the long term borrowings. The use of financial instruments exposes the Corporation to credit, liquidity and market risk. A discussion of how these and other risks are managed can be found in the "Business Risk" section of this MD&A. Further information on how the fair value of financial instruments is determined is included in the "Critical accounting policies and estimates" section of this MD&A.

There are no off-balance sheet arrangements. Of the Corporation's financial instruments, only accounts receivable represent credit risk. The Corporation provides credit to its customers in the normal course of operations. The Corporation's credit risk policy includes performing credit evaluations on its customers. Substantially all of the Corporation's accounts receivable are due from companies in the oil and natural gas industry and are subject to normal industry credit risks. Management views the credit risk related to accounts receivable as low. Funds drawn under the credit facility bear interest at a floating interest rate. Therefore, to the extent that the Corporation borrows under this facility, the Corporation is at risk to rising interest rates. The Corporation is also exposed to credit risk with respect to its cash. However, the risk is minimized as all cash is held at a major Canadian financial institution.

### **CRITICAL ACCOUNTING POLICES, ESTIMATES AND JUDGEMENTS**

In the preparation of the Corporation's consolidated financial statements, management has made judgements, estimates and assumptions that affect the recorded amounts of revenues, expenses, assets, liabilities and the disclosure of commitments, contingencies and guarantees. Estimates and judgements used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared. Actual results could differ from these estimates. Please refer to the Corporation's



consolidated financial statements for the year ended December 31, 2012 for a complete description of the accounting policies of the Corporation. The Corporation considers the following to be its critical accounting policies, estimates and judgements:

## **Judgements**

### ***Determining cash generating units ("CGU's")***

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs to sell and value in use. Management has determined that the appropriate CGU's for the Corporation are the DS division and each facility that comprises the PRD division.

## **Estimates**

### ***Depreciation, depletion and amortization***

Secure has significant estimates related to the depreciation policies for property, plant and equipment. Factors that are included in the estimates include, but are not limited to, the economic life of the asset and the residual value of the asset at the end of its economic life. The Corporation makes an estimate based on the best information on these factors that it has at the time these estimates are performed. The Corporation also has significant estimates related to the depletion policy for landfill cells. Factors included in the estimation include the capacity of the cell when constructed, and the units of total capacity utilized in a period. Actual results could differ materially if any of these factors for estimating depreciation or depletion, or amortization are different in the future than the current estimates. The assets' residual values, useful lives, and methods of depreciation and amortization are reviewed at each financial year end and adjusted prospectively, if appropriate.

### ***Recoverability of assets***

The Corporation assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Goodwill that is not subject to amortization is tested annually for impairment. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The Corporation used the calculation of fair value less costs to sell to determine the fair value of its CGU's. In determining the fair value less costs to sell, the amount is most sensitive to the selection and use of recent transactions and comparable data in the market to determine an implied fair value of the CGU being tested.

### ***Asset retirement obligations and accretion***

Secure is required to provide for the cost of restoring its facility sites to an acceptable condition, as determined by regulatory authorities. The Corporation estimates the cost to remediate, reclaim and abandon the Corporation's facilities based upon current regulations, costs, technology, and industry standards. Asset retirement obligation costs associated with well sites and facilities are recognized as a liability at fair value and are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted using a risk free rate. Accretion is expensed as incurred and recognized in the consolidated statement of comprehensive income as interest, accretion and finance costs. The estimated future costs of the asset retirement obligations are reviewed at each reporting period and adjusted as appropriate.

### ***Share-based payment transactions***

The Corporation provides share-based awards to certain employees in the form of stock options. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options granted. The fair value of

each option granted is estimated based on the date of grant and a provision for the costs is provided for with a corresponding credit to reserves in shareholders' equity over the vesting period of the option agreement. Share-based payment expense associated with options issued to employees, consultants, officers and directors of the Corporation are expensed. The consideration received by the Corporation on the exercise of share options is recorded as an increase to issued capital together with corresponding amounts previously recognized in reserves in shareholders' equity. Forfeitures are estimated for each tranche, and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based payment expense, the Corporation estimates the fair value of share options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeitures and expected dividend yields.

### ***Deferred Income taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

### ***Provision for doubtful accounts***

The provision for doubtful accounts is reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

### ***Purchase price allocations***

The acquired assets and assumed liabilities are recognized at fair value on the date the Corporation effectively obtains control. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property, plant and equipment, other assets and the liabilities assumed are based on assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition.

## **Policies**

### ***Inventories***

Inventories are comprised of crude oil, natural gas liquids, drilling fluids and spare parts and are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The volume of oil held in inventory and the value of the oil in inventory will fluctuate based on the normal capacity of the facility and the market price of crude oil and natural gas liquids in any given month. Drilling fluids inventories are measured at the lower of cost and net realizable value with cost being determined on a weighted-average basis. The cost of drilling fluids inventory comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The amount of drilling fluids inventory held will fluctuate depending on activity levels during a given period. The reversal of previous net realizable value write-downs to inventories is permitted when there is a subsequent increase to the value of inventories.

### ***Goodwill***

The Corporation measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date. Since goodwill results from the application of the acquisition method of accounting for a business combination, it is inherently imprecise and requires judgement in the determination of the fair value of assets and liabilities. Goodwill is allocated as of the date of the business combination to the Corporation's cash generating units. Goodwill is not amortized, but is tested for impairment at least annually. An impairment loss in respect of goodwill is not reversed. On the disposal or termination of a previously acquired business, any remaining balance of associated goodwill is included in the determination of the gain or loss on disposal. Any goodwill balances in subsidiaries whose functional currency is not the Canadian dollar are translated at period end exchange rates.

### ***Intangible assets***

Intangible assets acquired outside business combinations are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in the consolidated statement of comprehensive income in the period in which the expenditure is incurred. Intangible assets resulting from a business combination are recorded at fair value. Fair value is estimated by management based on the expected discounted future cash flows associated with the intangible asset. Intangible assets with a finite life are amortized over the estimated useful life and intangible assets with an indefinite life are not subject to amortization and are tested for impairment annually. Any impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. Any excess of the carrying value of the intangible asset over the implied fair value is the impairment amount and will be charged to profit in the period of the impairment. The reversal of a previous impairment is permitted when there is an indication that the judgement loss may no longer exist and a new implied fair value is calculated.

### ***Current and deferred tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities in the various jurisdictions in which the Corporation operates. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the various jurisdictions where the Corporation operates and generates taxable income. Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

### ***Financial instruments – initial recognition and subsequent measurement***

#### ***Financial assets***

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value. Investments not recognized at fair value through profit or loss are recognized at fair value plus directly attributable transaction costs. The Corporation's financial assets include cash and short term deposits, accounts receivable and accrued receivables, other receivables and notes receivable. The subsequent measurement of financial assets depends on their classification.

### ***Financial liabilities***

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. Other financial liabilities are recognized at fair value plus directly attributable transaction costs. The Corporation's financial liabilities include, accounts payable and accrued liabilities, and long term borrowings. The subsequent measurement of financial liabilities depends on their classification.

### ***Fair value of financial instruments***

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models. The Corporation has classified its financial instrument fair values based on the required three- level hierarchy:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

Cash is recorded at fair value under level 1. The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

### **FUTURE ACCOUNTING PRONOUNCEMENTS**

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Corporation. Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements.

In 2010, the IASB issued IFRS 9 *Financial Instruments*, which addresses the classification and measurement of financial assets. The new standard defines two instead of four measurement categories for financial assets, with classification to be based partly on the Corporation's business model and partly on the characteristics of the contractual cash flows from the respective financial asset. An embedded derivative in a structured product will no longer have to be assessed for possible separate accounting treatment unless the host is a non-financial contract. A hybrid contract that includes a financial host must be classified and measured in its entirety. Application of IFRS 9 is mandatory for financial periods beginning on or after January 1, 2015. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which supersedes IAS 27 *Consolidation and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. This standard provides a single model to be applied in control analysis for all investees, including special purpose entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which will supersede existing IAS 31 *Joint Ventures* effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The new standard does not have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRSs, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty and the effect of those measurements on the financial statements. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB published IAS 28 *Investments in Associates and Joint Ventures*, which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Amendments to IAS 28 provide additional guidance applicable to accounting for interests in joint ventures or associates when a portion of an interest is classified as held for sale or when the Corporation ceases to have joint control or significant influence over an associate or joint venture. When joint control or significant influence over an associate or joint venture ceases, the Corporation will no longer be required to remeasure the investment at that date. When a portion of an interest in a joint venture or associate is classified as held for sale, the portion not classified as held for sale shall be accounted for using the equity method of accounting until the sale is completed at which time the interest is reassessed for prospective accounting treatment. The amendments to the standard are not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In December 2011, the IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* and IAS 32, *Financial Instruments: Presentation* to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IFRS 7 are effective for the Corporation on January 1, 2013 with required retrospective application and early adoption permitted. Amendments to IAS 32 are effective for the Corporation on January 1, 2014 with required retrospective application and early adoption permitted. The adoption of these amended standards is not expected to have a material impact on the Corporation's consolidated financial statements.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES**

Management has evaluated disclosure controls and procedures to provide a reasonable level of assurance that material information relating to the Corporation is made known to the Chief Executive Officer and the Chief Financial Officer by others within the Corporation, particularly during the period in which the annual and interim filings of the Corporation are being prepared, in an accurate and timely manner in order for the Corporation to comply with its disclosure and financial reporting obligations. Consistent with the concept of reasonable assurance, the Corporation recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Corporation's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, have assessed and evaluated the design and effectiveness of the Company's internal control over financial reporting as defined in National Instrument 52-109 as of December 31, 2012. Based on that evaluation, the Corporation's management concluded that the Corporation's internal controls over financial reporting are effective and provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS, and are effective as of December 31, 2012.

While management of the Corporation has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Corporation's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. No changes were made to the Corporation's internal control over financial reporting for the three months and year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting. In the fourth quarter of 2012, management did employ additional procedures to ensure key financial internal controls remained in place after the conversion to a new accounting system in the Corporation's Canadian DS division. Management also performed additional account reconciliations and other analytical and substantive procedures to mitigate any financial risks from the new system

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On December 21, 2007, Tervita Corporation (formerly known as CCS Inc.) ("**Tervita**") filed a statement of claim commencing Action No. 0701-13328 (the "**Tervita Action**") in the Judicial District of Calgary of the Court of Queen's Bench of Alberta (the "**Court**") against the Corporation, certain of the Corporation's employees who were previously employed by Tervita (collectively, the "**Secure Defendants**") and others in which Tervita alleges that the defendants misappropriated business opportunities, misused confidential information, breached fiduciary duties owed to Tervita, and conspired with one another. Tervita seeks damages in the amount of \$110.0 million, an accounting and disgorgement of all profits earned by the Corporation since its incorporation and other associated relief.

A statement of defence was filed by the Secure Defendants on November 10, 2008, after the Court ordered Tervita to provide further particulars of its claim. The Secure Defendants then filed an Amended Statement of Defence (the "Defence"), and the Corporation filed an Amended Counterclaim (the "Counterclaim"), on October 9, 2009. In their Defence, the Secure Defendants deny all of the allegations made against them. In its Counterclaim, the Corporation claims damages in the amount of \$37.9 million against Tervita, alleging that Tervita has engaged in conduct constituting a breach of the *Competition Act* (Canada) and unlawful interference with the economic relations of the Corporation with the intent of causing injury to the Corporation. The Corporation is currently seeking permission to amend the amount of the Counterclaim to \$97.8 million. The matters raised in the lawsuit are considered by the Corporation to be unfounded and unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. The Corporation believes it has valid defences to this claim and accordingly has not recorded any related liability.

Examinations for discovery began in 2010 and will continue through 2014. The Corporation intends to continue to defend against the Tervita Claim and to prosecute the Counterclaim.

The Corporation is a defendant and plaintiff in legal actions that arise in the normal course of business. The Corporation believes that any liabilities that might arise pertaining to such matters would not have a material effect on its consolidated financial position.



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**ADDITIONAL INFORMATION**

Additional information, including Secure's AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.secure-energy.ca](http://www.secure-energy.ca)

To the Shareholders of Secure Energy Services Inc.:

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on management's informed judgments and estimates within the acceptable limits of materiality. Financial information contained in management's discussion and analysis is consistent with the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control systems. The Audit Committee is composed of independent directors who are not employees of the Corporation. The Audit Committee is responsible for reviewing the consolidated financial statements and recommending them to the Board of Directors for approval. To discharge its duties the Audit Committee meets regularly with management and MNP LLP to discuss internal controls, accounting and financial reporting processes, audit plans and financial matters. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers the independence of the external auditors and reviews their fees.

MNP LLP, an independent firm of Chartered Accountants, is responsible for auditing the consolidated financial statements and expressing their opinion thereon and their report is presented separately. The external auditors have full and free access to, and meet regularly with, management and the Audit Committee.

March 4, 2013

*"SIGNED"*

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Rene Amirault  
President & Chief Executive Officer

*"SIGNED"*

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Allen Gransch  
Executive Vice President & Chief Financial Officer

To the Shareholders of Secure Energy Services Inc.:

We have audited the accompanying consolidated financial statements of Secure Energy Services Inc. and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and 2011, and notes comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Secure Energy Services Inc. and its subsidiaries as at December 31, 2012 and 2011 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter – Commitments & Contingencies*

We draw your attention to the disclosure made in note 23 of the financial statements concerning litigation involving the Corporation. This matter, as explained in note 23 of the financial statements, indicates the existence of a material contingency. No adjustment has been made to record this contingency. Our opinion is not qualified in respect of this matter.

March 4, 2013  
Calgary, Alberta

*MNP LLP*  
Chartered Accountants

**SECURE ENERGY SERVICES INC.**  
**Consolidated Statements of Financial Position**  
**As at December 31,**  
*(Expressed in Canadian Dollars)*

(\$000's)	Notes	2012	2011
<b>Assets</b>			
<b>Current assets</b>			
Cash		7,506	11,368
Accounts receivable and accrued receivables	7	125,006	145,481
Prepaid expenses and deposits		3,997	2,257
Inventories	8	42,618	34,476
		179,127	193,582
Assets under construction	9	103,179	37,796
Property, plant and equipment	10	313,426	221,524
Intangible assets	11	79,663	72,361
Goodwill	12	92,516	77,820
<b>Total Assets</b>		<b>767,911</b>	<b>603,083</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	13	106,233	93,316
Asset retirement obligations	15	-	420
Current income tax liability	19	263	1,083
Finance lease liabilities	23	4,114	2,693
		110,610	97,512
Long term borrowings	14	122,810	119,070
Asset retirement obligations	15	24,274	14,585
Finance lease liabilities	23	4,158	2,229
Deferred income tax liability	19	27,660	20,650
<b>Total Liabilities</b>		<b>289,512</b>	<b>254,046</b>
<b>Shareholders' Equity</b>			
Issued capital	16	415,288	321,498
Share-based payment reserve	17	9,400	5,558
Foreign currency translation reserve		(1,091)	231
Retained earnings		54,802	21,750
<b>Total Shareholders' Equity</b>		<b>478,399</b>	<b>349,037</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>767,911</b>	<b>603,083</b>

**Approved by the Board of Directors:**

"SIGNED"  
Rene Amirault

"SIGNED"  
Kevin Nugent

*The accompanying notes are an integral part of these consolidated financial statements*

**SECURE ENERGY SERVICES INC.**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31,**  
*(Expressed in Canadian Dollars)*

<i>(\$000's except per share and share data)</i>	<b>Notes</b>	<b>2012</b>	<b>2011</b>
<b>Revenue</b>	<b>24</b>	<b>1,029,440</b>	551,199
Operating expenses	<b>10</b>	<b>929,048</b>	489,878
General and administrative	<b>17</b>	<b>46,406</b>	25,452
Business development		<b>2,028</b>	2,014
Interest, accretion and finance costs		<b>5,765</b>	1,939
<b>Total expenses</b>		<b>983,247</b>	519,283
<b>Earnings for the year before income taxes</b>		<b>46,193</b>	31,916
Current income tax expense	<b>19</b>	<b>7,286</b>	4,491
Deferred income tax expense	<b>19</b>	<b>5,855</b>	5,042
		<b>13,141</b>	9,533
<b>Net earnings for the year</b>		<b>33,052</b>	22,383
Other comprehensive income			
Foreign currency translation adjustment		<b>(1,322)</b>	231
<b>Total comprehensive income for the year</b>		<b>31,730</b>	22,614
Earnings per share			
Basic, earnings for the year per common share	<b>18</b>	<b>0.34</b>	0.28
Diluted, earnings for the year per common share	<b>18</b>	<b>0.33</b>	0.27

*The accompanying notes are an integral part of these consolidated financial statements*

**SECURE ENERGY SERVICES INC.**
**Consolidated Statements of Changes in Shareholders' Equity**
**For the years ended December 31,**
*(Expressed in Canadian Dollars)*

(\$000's)	Notes	Issued capital	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total Shareholders' Equity
<b>Balance at December 31, 2010</b>		<b>152,983</b>	<b>2,999</b>	<b>-</b>	<b>(634)</b>	<b>155,348</b>
Net earnings for the year		-	-	-	22,383	22,383
Foreign currency translation adjustment		-	-	231	-	231
Shares issued as consideration for business combinations	6	83,763	-	-	-	83,763
Issue of share capital, net of tax	16	86,250	-	-	-	86,250
Exercise of options and warrants	16	2,299	(470)	-	-	1,829
Share issue costs, net of tax	16	(3,797)	-	-	-	(3,797)
Share-based payments	17	-	3,029	-	-	3,029
<b>Balance at December 31, 2011</b>		<b>321,498</b>	<b>5,558</b>	<b>231</b>	<b>21,750</b>	<b>349,037</b>
<b>Balance at December 31, 2011</b>		<b>321,498</b>	<b>5,558</b>	<b>231</b>	<b>21,750</b>	<b>349,037</b>
Net earnings for the year		-	-	-	33,052	33,052
Foreign currency translation adjustment		-	-	(1,322)	-	(1,322)
Shares issued as consideration for business combination	6	5,753	-	-	-	5,753
Issue of share capital, net of tax	16	86,275	-	-	-	86,275
Exercise of options and warrants	16	5,434	(1,255)	-	-	4,179
Share issue costs, net of tax	16	(3,672)	-	-	-	(3,672)
Share-based payments	17	-	5,097	-	-	5,097
<b>Balance at December 31, 2012</b>		<b>415,288</b>	<b>9,400</b>	<b>(1,091)</b>	<b>54,802</b>	<b>478,399</b>

*The accompanying notes are an integral part of these consolidated financial statements*



**SECURE ENERGY SERVICES INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31,**  
*(Expressed in Canadian Dollars)*

(\$000's)	Notes	2012	2011
<b>Cash flows from operating activities</b>			
Net earnings for the year		33,052	22,383
Adjustments for non-cash items:			
Depreciation, depletion and amortization		42,283	25,230
Accretion	15	364	327
Deferred income tax expense		5,855	5,042
Amortization of financing fees	14	1,172	150
Unrealized foreign exchange gain		(313)	(159)
Share-based payments	17	5,383	3,029
<b>Funds from operations</b>		<b>87,796</b>	<b>56,002</b>
Change in accounts receivable and accrued receivables and prepaid expenses and deposits		17,445	(79,713)
Change in inventories		(7,472)	(11,333)
Change in accounts payable and accrued liabilities and current income tax liability related to operating activities		1,497	42,805
<b>Net cash flows from operating activities</b>		<b>99,266</b>	<b>7,761</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment		(170,799)	(97,608)
Business combinations, net of cash acquired	6	(30,788)	(104,445)
Change in non-cash working capital		10,315	3,744
<b>Net cash flows used in investing activities</b>		<b>(191,272)</b>	<b>(198,309)</b>
<b>Cash flows from financing activities</b>			
Shares issued, net of share issue costs	16	85,562	83,015
Draws on revolving credit facility		3,500	95,902
Financing fees		(932)	-
Proceeds from repayments of notes receivable		-	505
Change in non-cash working capital		-	(22)
<b>Net cash flows from financing activities</b>		<b>88,130</b>	<b>179,400</b>
<b>Effect of exchange rate changes on cash</b>		<b>14</b>	<b>(2)</b>
Decrease in cash		(3,862)	(11,150)
Cash, beginning of year		11,368	22,518
<b>Cash, end of year</b>		<b>7,506</b>	<b>11,368</b>
<b>Taxes paid</b>		<b>8,281</b>	<b>3,000</b>
<b>Interest paid</b>		<b>3,243</b>	<b>1,201</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2012 and 2011**  
*(Expressed in Canadian Dollars)*

**1. CORPORATE INFORMATION**

Secure Energy Services Inc. ("Secure") is incorporated under the Business Corporations Act of Alberta. Secure operates through a number of wholly-owned subsidiaries (together referred to as the "Corporation") which are managed through two reportable segments. The processing, recovery and disposal services division ("PRD") is primarily engaged in providing services relating to clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale service. The drilling services division ("DS") is primarily engaged in providing services relating to drilling fluid systems, solids control and environmental services. The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "SES".

The following entities have been consolidated within Secure's consolidated financial statements for the year ended December 31, 2012:

Subsidiary	Country	Segment	% Interest	
			Dec 31, 2012	Dec 31, 2011
Secure Energy Services Inc. (parent company)	Canada	PRD		
Marquis Alliance Energy Group Inc.	Canada	DS	100%	100%
Marquis Alliance Energy Group USA Inc.	USA	PRD & DS	100%	100%
Alliance Energy Services International Ltd.	Canada	DS	100%	100%
1658774 Alberta Inc.	Canada	DS	100%	0%

These consolidated financial statements were authorized for issue by the Board of Directors on March 4, 2013. The address of the Corporation's registered office is Suite 4500, 855 - 2nd Street S.W. Calgary, Alberta, T2P 4K7.

**2. BASIS OF PRESENTATION**

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and in effect at the closing date of December 31, 2012.

The consolidated financial statements of the Corporation are stated in and recorded in Canadian dollars (\$) which is the Corporation's functional and presentation currency and have been prepared on a historical cost basis, except for financial instruments and share-based payment transactions that have been measured at fair value.

Management is required to make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to the determination of cash generating units, depreciation, depletion and amortization, asset retirement obligations, fair values of financial instruments, recoverability of assets, income taxes, and share-based payments. Actual results may differ from these estimates. See Note 4 for a description of significant estimates and judgments.

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2012 and 2011**  
*(Expressed in Canadian Dollars)*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

These consolidated financial statements include the accounts of Secure and its subsidiaries and the proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint venture as at December 31, 2012 and 2011. All inter-company balances and transactions have been eliminated on consolidation.

In the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows, certain items are combined for the sake of clarity. These are explained in the notes. Assets and liabilities are classified by maturity. They are regarded as current if they mature within one year or within the normal business cycle of the Corporation. Cash, accounts receivable and accrued receivables, accounts payable and accrued liabilities, current tax assets and liabilities and inventories are always presented as current items; deferred tax assets and liabilities, assets under construction, property, plant and equipment, intangible assets and goodwill are presented as non-current items. Asset retirement obligations, prepaid expenses and deposits, borrowings, and finance lease obligations may be shown as both current and non-current, in connection with their respective maturities.

The following accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

**a) Revenue recognition**

Revenue is recognized in the period services are provided or performed and when collectability is reasonably assured, economic benefits will flow to the Corporation and revenue can be reliably measured. Processing and disposal revenues are recorded at the time of delivery. Revenue from the sale of crude oil and natural gas liquids is recorded when title passes to the customer and collection is reasonably assured. Revenue from drilling services is recognized when services are provided and when rental equipment is delivered and materials are utilized. Materials that are delivered and not utilized are shown as drilling fluids inventory. Revenue from rentals is recognized over the term of the rental agreement at pre-determined rates. The following specific recognition criteria must also be met before revenue is recognized:

- The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Corporation; and,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **b) Share-based payments**

The Corporation has a share-based payment plan. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant and that value is recorded as share-based payment expense over the vesting period of those grants, with a corresponding increase to share-based payment reserve less an estimated forfeiture rate. The consideration received by the Corporation on the exercise of share options is recorded as an increase to issued capital together with corresponding amounts previously recognized in share-based payment reserve. Forfeitures are estimated for each reporting period, and adjusted as required to reflect actual forfeitures that have occurred in the period.

In order to record share-based payment expense, the Corporation estimates the fair value of share options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeiture rates and expected dividend yields.

#### **Cash-settled transactions**

The Corporation has implemented a deferred share unit ("DSU") plan for its non-employee directors. The DSU's vest immediately and the fair value of the liability and the corresponding expense is charged to earnings in the consolidated statements of comprehensive income at the grant date. Subsequently, at each reporting date between the grant date and settlement date, the fair value of the liability is revalued with any changes in the fair value recognized in earnings for the period in the consolidated statements of comprehensive income. When the awards are surrendered for cash, the cash settlement paid reduces the outstanding liability. The liability is included in accounts payable and accrued liabilities in the statement of financial position and the expense is included in the general and administrative expenses in the statements of comprehensive income.

#### **c) Financial instruments – initial recognition and subsequent measurement**

##### **i) Financial assets**

##### ***Initial recognition and measurement***

Financial assets within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss ("FVTPL"), available for sale, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition. The Corporation currently does not classify any financial instruments as available for sale.

All financial assets are recognized initially at fair value. Investments not recognized at FVTPL are recognized at fair value plus directly attributable transaction costs.

The Corporation accounts for its physical delivery purchase and sale contracts as executory contracts as they were entered into and continue to be held for the purpose of receipt or delivery of products in accordance with its expected purchase, sale or usage requirements. As such, these contracts are not considered to be derivative financial instruments. Settlement on these physical contracts is recognized in earnings over the term of the contracts as they occur.

The Corporation's financial assets include cash, and accounts receivable and accrued receivables.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

#### ***Financial assets at fair value through profit or loss ("FVTPL")***

FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39, and cash. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. The Corporation does not designate any derivative financial instruments as hedging instruments. FVTPL are carried in the consolidated statements of financial position at fair value, with changes in fair value recognized in finance income or finance cost in the consolidated statements of comprehensive income.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of comprehensive income. Any losses arising from impairment are recognized in the consolidated statements of comprehensive income in interest, accretion and finance costs. The Corporation has classified accounts receivable and accrued receivables, as loans and receivables.

#### ***Derecognition***

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The rights to receive cash flows from the asset have expired; or,
- The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### **ii) Impairment of financial assets**

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default, or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with financial defaults.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Financial assets carried at amortized cost***

For financial assets carried at amortized cost, the Corporation first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future expected credit that has not yet been incurred. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statements of comprehensive income. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to interest, accretion and finance costs in the consolidated statements of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### **iii) Financial liabilities**

##### ***Initial recognition and measurement***

Financial liabilities within the scope of *IAS 39, Financial Instruments: Recognition and Measurement* are classified as financial liabilities at FVTPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value. Other financial liabilities are recognized at fair value plus directly attributable transaction costs.

The Corporation's financial liabilities include accounts payable and accrued liabilities and long term borrowings.

##### ***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***FVTPL***

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category could include derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives could also be classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statements of comprehensive income.

#### ***Other financial liabilities***

After initial recognition, interest-bearing other financial liabilities are subsequently measured at amortized cost using the effective interest rate method ("EIR"). Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs on the consolidated statements of comprehensive income.

The Corporation has designated accounts payable and accrued liabilities, and long term borrowings as other financial liabilities.

#### ***Derecognition***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

#### **iv) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**v) Shareholders' equity**

Common shares are presented in issued capital within shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from issued capital, net of any tax effects.

**vi) Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. The Corporation does not hold any such instruments as at December 31, 2012 and 2011.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

The Corporation has classified its financial instrument fair values based on the required three- level hierarchy:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

Cash is recorded at fair value under Level 1. The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

**vii) Transaction costs**

Transaction costs for financial instruments other than held for trading are capitalized in the period they are incurred. Transaction costs for loan facilities that have durations longer than one year are capitalized and amortized using the EIR method over the period that corresponds with the term of the loan facilities.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **d) Property, plant and equipment**

Land is measured at cost. Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such costs include geological and geophysical, drilling of wells, labour and materials, site investigation, equipment and facilities, contracted services and borrowing costs for long-term construction projects if the recognition criteria are met. Overhead costs which are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by management are capitalized. These costs include compensation costs paid to internal personnel dedicated to capital projects. When significant parts of plant and equipment are required to be replaced, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated statements of comprehensive income as incurred. The present value of the expected cost for the asset retirement obligation of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to Note 15 for further information about the recognition and measurement of the asset retirement obligation.

Depreciation, except for units of capacity, is based on a straight line basis and is calculated over the estimated useful life of the asset as follows:

Buildings	10 to 45 years
Landfill cells	Units of total capacity utilized in the period
Mobile equipment	5 years
Plant infrastructure and equipment	2 to 15 years
Rental equipment	2 to 15 years
Disposal wells	15 years
Furniture and fixtures	7.5 years
Leasehold improvements	10 years
Computer equipment and software	3 to 10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Costs related to assets under construction are capitalized when incurred. Assets under construction or refurbishment are not depreciated until they are complete and available for use in the manner intended. When this occurs, the asset is transferred to property, plant and equipment and classified by the nature of the asset.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Leases**

Finance leases, which transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statements of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated statements of comprehensive income.

**f) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with the borrowing of funds.

**g) Business combinations**

Business combinations are accounted for using the acquisition method. Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. If the acquisition meets the definition of a business combination, the assets and liabilities are classified or designated based on the contractual terms, economic conditions, the Corporation's operating and accounting policies, and other factors that exist on the acquisition date. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in earnings or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured and its final settlement shall be accounted for within equity.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **h) Intangible assets**

Intangible assets acquired outside business combinations are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in the consolidated statements of comprehensive income in the period in which the expenditure is incurred. Intangible assets resulting from a business combination are recorded at fair value. Fair value is estimated by management based on the expected discounted future cash flows associated with the intangible asset. Intangible assets with a finite life are amortized over the estimated useful life and intangible assets with an indefinite life are not subject to amortization and are tested for impairment annually. Any impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. Any excess of the carrying value of the intangible asset over the implied fair value is the impairment amount and will be charged to earnings in the period of the impairment. The reversal of a previous impairment is permitted when there is an indication that the impairment loss may no longer exist and a new implied fair value is calculated. The reversal is limited so that the carrying amount of intangible asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the intangible asset in prior periods.

Amortization is based on a straight line basis and is calculated over the estimated useful life of the intangible asset as follows:

Non-competition agreements	3 to 5 years
Customer relationships	5 to 15 years
Licenses	10 years
Patents	11 to 12.5 years

#### **i) Goodwill**

The Corporation measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date. Since goodwill results from the application of the acquisition method of accounting for a business combination, it is inherently imprecise and requires judgement in the determination of the fair value of assets and liabilities.

Goodwill is allocated as of the date of the business combination to the Corporation's cash generating units. Goodwill is not amortized, but is tested for impairment at least annually. An impairment loss in respect of goodwill is not reversed. On the disposal or termination of a previously acquired business, any remaining balance of associated goodwill is included in the determination of the gain or loss on disposal.

Any goodwill balances in subsidiaries whose functional currency is not the Canadian dollar are translated at period end exchange rates.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Inventories**

Inventories are comprised of crude oil, natural gas liquids, drilling fluids and spare parts and are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The volume of oil held in inventory and the value of the oil in inventory will fluctuate based on the normal capacity of the facility and the market price of crude oil and natural gas liquids in any given month. Drilling fluids inventories are measured at the lower of cost and net realizable value, cost being determined on a weighted-average basis. The cost of drilling fluids inventory comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The amount of drilling fluids inventory held will fluctuate depending on activity levels during a given period. The reversal of previous net realizable value write-downs to inventories is permitted when there is a subsequent increase to the value of inventories.

**k) Impairment of non-financial assets**

The Corporation assesses at each reporting date whether there is an indication that an asset or cash generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The non-financial assets of the Corporation are comprised of assets under construction, property, plant and equipment, goodwill and intangible assets as at December 31, 2012 and 2011. Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function and nature of the impaired asset.

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at either the individual or group CGU level and is determined based upon the amount of future discounted cash flows generated by the individual CGU or group of CGU's compared to the individual CGU or group of CGU's' respective carrying amount(s). The recoverable amount is the higher of fair value less costs to sell and the value in use. Value in use is generally determined using the discounted cash flow method. If the impairment loss exceeds the carrying amount of goodwill, the goodwill is written off completely. Any impairment loss left over is allocated to the remaining assets of the individual CGU or group of CGU's.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the non-financial asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the non-financial asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the non-financial asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior periods. Such reversal is recognized in the consolidated statements of comprehensive income. Any previously recognized impairment losses on goodwill are not reversed.

#### **l) Provisions**

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a risk free rate. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

#### **m) Earnings per share**

The Corporation uses the treasury method for outstanding options which assumes that the use of proceeds that could be obtained upon exercise of options in computing diluted per share are used to purchase the Corporation's common shares at the average market price during the period. The calculation of basic earnings per share has been calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if in-the-money stock options were exercised. The calculation of diluted earnings per share has been calculated by dividing net earnings available to common shareholders by the total of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding, utilizing the treasury method, arising from the exercise of in-the-money share options.

#### **n) Jointly controlled operations**

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. A portion of the Corporation's operating activities are conducted jointly with others and therefore are consolidated into the operations of the Corporation. The consolidated financial statements reflect only the Corporation's proportionate interest in assets, liabilities, revenues, expenses and cash flows.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **o) Asset retirement obligations**

Asset retirement obligations associated with well sites and facilities are measured at the present value of the expenditures expected to be incurred. The Corporation uses a risk-free rate in the measurement of the present value of its asset retirement obligations. The associated asset retirement cost is capitalized as part of the related asset. Changes in the estimated obligation resulting from revisions to estimated timing, amount of cash flows or changes in the discount rate are recognized as a change in the asset retirement obligation and the related asset retirement cost. Accretion is expensed as incurred and recognized in the consolidated statements of comprehensive income as interest, accretion and finance costs. The estimated future costs of the Corporation's asset retirement obligations are reviewed at each reporting period and adjusted as appropriate.

#### **p) Foreign currency translation and transactions**

For foreign entities whose functional currency is the Canadian dollar, the Corporation translates monetary assets and liabilities at period-end exchange rates and non-monetary items are translated at historical rates. Income and expense accounts are translated at the average rates in effect during the period. Gains or losses from changes in exchange rates are recognized in earnings in the period of occurrence.

For foreign entities whose functional currency is not the Canadian dollar, the Corporation translates assets and liabilities at period-end rates and income and expense accounts at average exchange rates. Adjustments resulting from these translations are reflected in the consolidated statements of comprehensive income as foreign currency translation adjustments.

Transactions of Canadian entities in foreign currencies are translated at rates in effect at the time of the transaction. Foreign currency monetary assets and liabilities are translated at current rates. Gains or losses from the changes in exchange rates are recognized in earnings in the period of occurrence. Foreign exchange gains or losses arising from a monetary item that is receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in the foreign currency translation reserve in the cumulative amount of foreign currency translation differences.

#### **q) Taxes**

##### ***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities in the various jurisdictions in which the Corporation operates. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the various jurisdictions where the Corporation operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate in accordance with *IAS 37 Provisions, Contingent Liabilities, and Contingent Assets*.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Deferred income tax***

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable earnings will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is expected to be settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax items relating to items recognized outside of earnings are recognized in correlation to the underlying transaction either in other comprehensive income or directly in shareholders' equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority.

***Goods and Services tax ("GST") and Sales Tax***

Revenues, expenses, liabilities and assets are recognized net of the amount of GST and sales tax. The net amount of GST and sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

**r) Segment reporting**

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Corporation's CEO in order to make decisions regarding the allocation of resources to the segment.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

#### **4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Corporation's consolidated financial statements requires management to make, at the end of the reporting period, judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to required estimates are recognized in the year in which the estimate is revised.

The key estimates and judgements concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below. Readers are cautioned that the following list is not exhaustive and other items may also be affected by estimates and judgements.

##### **Significant judgements**

###### ***Determining cash generating units ("CGU's")***

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs to sell and value in use. Management has determined that the appropriate CGU's for the Corporation is each service line in the DS division, and each facility that comprises the PRD division. The Corporation aggregates each service line in the DS division to test for impairment at the group CGU level.

##### **Significant estimates and assumptions**

###### ***Depreciation, depletion and amortization***

Amounts recorded for depreciation and amortization are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. The actual lives of the assets and residual values are assessed annually taking into account factors such as technological innovation and maintenance programs. Amounts recorded for depletion on the landfill cells are based on estimates of the total capacity utilized in the period.

###### ***Recoverability of assets***

The Corporation assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Goodwill that is not subject to amortization is tested annually for impairment. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The Corporation used the calculation of fair value less costs to sell to determine the fair value of its CGU's. In determining the fair value less costs to sell, the amount is most sensitive to the selection and use of recent transactions, comparable data in the market and applied weighted average to that data, to determine an implied fair value of the CGU being tested.

#### **4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

##### ***Asset retirement obligations and accretion***

The amounts recorded for asset retirement obligations and the related accretion expenses are based on estimates of the costs to abandon and reclaim the wells and facilities and the estimated time period in which these costs are expected to be incurred in the future. In determining the fair value of the asset retirement obligation, assumptions and estimates are made in relation to discount rates, the expected cost for the reclamation, the expected cost to recover the asset and the expected timing of those costs. The Corporation's operations are affected by federal, provincial and local laws and regulations concerning environmental protection. The Corporation's provisions for future site restoration and reclamation are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

##### ***Share - based payments***

The Corporation provides share-based awards to certain employees in the form of stock options. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options granted. The fair value of each option granted is estimated based on the date of grant and a provision for the costs is provided for with a corresponding credit to reserves in shareholders' equity over the vesting period of the option agreement. Share-based payment expense associated with options issued to employees, consultants, officers and directors of the Corporation are expensed. The consideration received by the Corporation on the exercise of share options is recorded as an increase to issued capital together with corresponding amounts previously recognized in reserves in shareholders' equity. Forfeitures are estimated for each tranche, and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based payment expense, the Corporation estimates the fair value of share options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeitures and expected dividend yields.

##### ***Deferred Income taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

##### ***Provision for doubtful accounts***

The provision for doubtful accounts is reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

#### **4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

##### ***Purchase price allocations***

The acquired assets and assumed liabilities are recognized at fair value on the date the Corporation effectively obtains control. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property, plant and equipment, other assets and the liabilities assumed are based on assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition.

#### **5. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Corporation. Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements.

In 2010, the IASB issued IFRS 9 *Financial Instruments*, which addresses the classification and measurement of financial assets. The new standard defines two instead of four measurement categories for financial assets, with classification to be based partly on the Corporation's business model and partly on the characteristics of the contractual cash flows from the respective financial asset. An embedded derivative in a structured product will no longer have to be assessed for possible separate accounting treatment unless the host is a non-financial contract. A hybrid contract that includes a financial host must be classified and measured in its entirety. Application of IFRS 9 is mandatory for financial periods beginning on or after January 1, 2015. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which supersedes IAS 27 *Consolidation and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. This standard provides a single model to be applied in control analysis for all investees, including special purpose entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which will supersede existing IAS 31 *Joint Ventures* effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The new standard will not have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.



**5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRSs, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty and the effect of those measurements on the financial statements. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB published IAS 28 *Investments in Associates and Joint Ventures*, which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Amendments to IAS 28 provide additional guidance applicable to accounting for interests in joint ventures or associates when a portion of an interest is classified as held for sale or when the Corporation ceases to have joint control or significant influence over an associate or joint venture. When joint control or significant influence over an associate or joint venture ceases, the Corporation will no longer be required to remeasure the investment at that date. When a portion of an interest in a joint venture or associate is classified as held for sale, the portion not classified as held for sale shall be accounted for using the equity method of accounting until the sale is completed at which time the interest is reassessed for prospective accounting treatment. The amendments to the standard are not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In December 2011, the IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* and IAS 32, *Financial Instruments: Presentation* to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IFRS 7 are effective for the Corporation on January 1, 2013 with required retrospective application and early adoption permitted. Amendments to IAS 32 are effective for the Corporation on January 1, 2014 with required retrospective application and early adoption permitted. The adoption of these amended standards is not expected to have a material impact on the Corporation's consolidated financial statements.

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**6. BUSINESS COMBINATIONS**

a) On June 1, 2011, Secure, through a series of transactions, acquired all of the issued and outstanding shares of Marquis Alliance Energy Group Inc. ("Marquis Alliance") for a total cash and share consideration of \$130.9 million. The acquisition of Marquis Alliance allows Secure to provide an integrated drilling fluid service and expanded products and services to its customers. The Corporation paid \$64.1 million in cash which was funded by the bought deal financing as described in Note 16. The acquisition was also funded through the issuance of 10,015,291 common shares of the Corporation at a closing price per share of \$8.62 for consideration of \$86.3 million, which was adjusted to fair value consideration for accounting purposes to \$66.8 million. The fair value for accounting purposes was determined using a discounted cash flow analysis and was adjusted after considering such factors as the escrow period (shares to be released over a five year period) and liquidity of the Corporation's shares in the market place. Accordingly, the \$66.8 million used in the purchase price allocation below is the difference between the \$86.3 million at closing and the fair value adjustment of \$19.5 million.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of June 1, 2011, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill.

**(\$000's)**

Common shares issued (10,015,291 shares)	66,789
Cash	64,083
<b>Total consideration</b>	<b>130,872</b>

**Assets acquired (\$000's)**

Cash and short term deposits	1,516
Accounts receivable and accrued receivables	39,973
Inventories	14,878
Prepaid expenses and deposits	683
Assets under construction	451
Property, plant and equipment	17,649
Intangible assets	50,906
Goodwill	63,706
<b>Total assets</b>	<b>189,762</b>

**Liabilities acquired (\$000's)**

Accounts payable and accrued liabilities	(18,049)
Bank indebtedness	(21,359)
Finance lease liabilities	(1,275)
Long term borrowings	(1,659)
Deferred income tax liability	(16,548)
<b>Total liabilities</b>	<b>(58,890)</b>

<b>Net assets acquired</b>	<b>130,872</b>
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**6. BUSINESS COMBINATIONS (continued)**

The fair value of the accounts receivable and accrued receivables acquired was \$40.0 million. The gross amount of accounts receivable and accrued receivables is \$40.1 million. A \$0.1 million allowance for uncollectable receivables has been included in the fair value of accounts receivable and accrued receivables.

Pursuant to the Marquis Alliance acquisition agreement (the "Agreement"), \$7.0 million of the cash consideration was held under trust conditions to account for any potential material environmental liabilities, accounts receivable allowances and inventory obsolescence. \$3.0 million was held under trust conditions to account for any potential working capital adjustments. This amount was released from trust as at December 31, 2011 in conjunction with the settlement of the working capital deficiency. On closing, Marquis Alliance was required to have an adjusted working capital surplus of \$19.8 million, net of outstanding bank debt. Under the provisions of the Agreement, the working capital requirement was adjusted down by \$0.6 million to \$19.2 million, for deposits paid by Marquis Alliance on real property prior to the closing of the Agreement. Actual working capital received on closing was \$18.3 million. The \$0.9 million difference between the \$19.2 million working capital requirement in the Agreement and the \$18.3 million in actual working capital was settled in cash as at December 31, 2011, and was deducted from the \$3.0 million held in trust prior to being released. The \$0.9 million cash settlement resulted in a reduction of total consideration paid by \$0.9 million and a corresponding reduction to accounts receivable and accrued receivables. The remaining amounts held in trust were released on March 29, 2012 which resulted in a reduction of total consideration paid by \$0.6 million and a corresponding reduction to accounts receivable and accrued receivables and inventories. The \$0.6 million adjustment was a result of final agreements on the amounts of accounts receivable allowance and inventory obsolescence recorded at the acquisition date.

An adjustment of \$2.3 million was recorded as an increase to the deferred income tax liability upon finalizing the Marquis Alliance tax filings related to operations prior to the acquisition. The change results in an increase to goodwill.

The goodwill arises as a result of the assembled workforce, the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining Marquis Alliance with the rest of the Corporation. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Corporation incurred acquisition-related costs of \$0.5 million relating to due diligence costs and legal fees. These costs have been included in business development costs on the consolidated statements of comprehensive income.

**SECURE ENERGY SERVICES INC.****Notes to the Consolidated Financial Statements****For the years ended December 31, 2012 and 2011***(Expressed in Canadian Dollars)***6. BUSINESS COMBINATIONS (continued)**

**b)** On July 1, 2011, the Corporation purchased substantially all of the operating assets, including inventory but excluding all other working capital, of XL Fluid Systems Inc. ("XL Fluids") for total cash and share consideration of \$39.4 million. The acquisition of XL Fluids allows the Corporation to expand the geographical presence of its DS division into Saskatchewan, and continue to expand the Corporation's products and services to its customers. The Corporation paid \$22.5 million in cash and issued 2,297,885 common shares of the Corporation at a closing price per share of \$9.58 for consideration of \$22.0 million, which was adjusted to fair value consideration for accounting purposes of \$17.0 million. The fair value for accounting purposes was adjusted after considering such factors as the escrow period (shares to be released over a five year period) and liquidity of the Corporation's shares in the market place. Accordingly, the \$17.0 million used in the purchase price allocation below is the difference between the \$22.0 million at closing and the fair value adjustment of \$5.0 million.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of July 1, 2011, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill.

**(\$000's)**

Common shares issued (2,297,885 shares)	16,974
Cash	22,460
<b>Total consideration</b>	<b>39,434</b>

**Assets acquired (\$000's)**

Inventories	3,985
Property, plant and equipment	342
Intangible assets	20,659
Goodwill	16,383
<b>Total assets</b>	<b>41,369</b>

**Liabilities acquired (\$000's)**

Finance lease liabilities	(216)
Deferred income tax liability	(1,719)
<b>Total liabilities</b>	<b>(1,935)</b>

<b>Net assets acquired</b>	<b>39,434</b>
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The goodwill arises as a result of the assembled workforce, the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining XL Fluids with the rest of the Corporation. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Corporation incurred acquisition-related costs of \$0.2 million relating to due diligence costs and legal fees. These costs have been included in business development costs on the consolidated statements of comprehensive income.

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**6. BUSINESS COMBINATIONS (continued)**

On July 1, 2011 Marquis Alliance and XL Fluids were combined to form the DS division. From the date each of them was acquired, Marquis Alliance and XL Fluids have together contributed \$147.7 million of revenue and \$12.8 million to the earnings before tax of the Corporation for the year ended December 31, 2011. If the business combinations had been completed on January 1, 2011, the revenue and earnings before income tax for the Corporation for the year ended December 31, 2011 would have been \$659.1 million and \$42.7 million, respectively based on the unaudited operating results of Marquis Alliance and XL Fluids. Management has presented combined revenue and earnings for Marquis Alliance and XL Fluids as it was determined that it was not practical to present the amounts separately, as Marquis Alliance and XL Fluids have been integrated as of July 1, 2011.

c) On October 1, 2011, the Corporation closed an asset purchase agreement with Emerge Oil & Gas Inc. ("Emerge") to acquire Emerge's Silverdale (02-06-049-27 W3M) processing facility ("Silverdale") for an aggregate cash purchase price of \$18.0 million. The Silverdale processing facility currently provides oil terminalling, emulsion processing and produced water disposal services. The acquisition of Silverdale allows the Corporation to expand the geographical presence of its PRD division and continue to expand the Corporation's products and services to its customers.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of October 1, 2011, whereby the assets acquired and the liabilities assumed are recorded at their fair values.

**(\$000's)**

Cash	18,000
<b>Total consideration</b>	<b>18,000</b>

**Assets acquired (\$000's)**

Inventories	760
Property, plant and equipment	16,417
Intangible assets	1,839
<b>Total assets</b>	<b>19,016</b>

**Liabilities acquired (\$000's)**

Asset retirement obligation	(901)
Deferred income tax liability	(115)
<b>Total liabilities</b>	<b>(1,016)</b>

<b>Net assets acquired</b>	<b>18,000</b>
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The Corporation incurred acquisition-related costs of \$0.1 million relating to due diligence costs and legal fees. These costs have been included in business development costs on the consolidated statements of comprehensive income.

Silverdale was acquired and integrated with the Corporation's existing operations and therefore specific income information in respect of Silverdale is not included in these consolidated financial statements.

**SECURE ENERGY SERVICES INC.****Notes to the Consolidated Financial Statements****For the years ended December 31, 2012 and 2011***(Expressed in Canadian Dollars)***6. BUSINESS COMBINATIONS (continued)**

**d)** On January 25, 2012, the Corporation closed an asset purchase agreement with New West Drilling Fluids Inc. ("New West"), a wholly owned subsidiary of New West Energy Services Inc. to acquire the operating assets of New West (excluding working capital) for aggregate cash consideration of \$3.4 million. New West specializes in providing drilling fluid systems and products for the oil sands industry, and is most well-known for a patented Steam Assisted Gravity Drainage system ("SAGD") called "BITUDRIL", the first bitumen encapsulating polymer based system on the market. The acquisition of New West allows the Corporation, through its subsidiary Marquis Alliance, to expand its existing patented and proprietary SAGD product line and to increase Marquis Alliance's ability to provide cost effective drilling fluid solutions in the SAGD market.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of January 25, 2012, whereby the assets acquired and the liabilities assumed are recorded at their fair values.

<b>(\$000's)</b>	
Cash	3,405
<b>Total consideration</b>	<b>3,405</b>
<b>Assets acquired (\$000's)</b>	
Inventories	105
Property, plant and equipment	21
Intangible assets	3,347
<b>Total assets acquired</b>	<b>3,473</b>
<b>Liabilities acquired (\$000's)</b>	
Deferred income tax liability	(68)
<b>Total liabilities</b>	<b>(68)</b>
<b>Net assets acquired</b>	<b>3,405</b>

The Corporation incurred acquisition-related costs of \$0.1 million relating to due diligence costs and legal fees. These costs have been expensed and included in business development costs on the consolidated statements of comprehensive income.

**e)** On July 2, 2012, the Corporation closed an asset purchase agreement with DRD Saltwater Disposal LLC ("DRD") to acquire the operating assets of DRD for total cash and share consideration of \$26.3 million. The operating assets acquired include two recently constructed fully operational standalone water disposal facilities serving the Bakken oil play. The acquisition of DRD allows the Corporation to expand its geographical presence of its PRD division into the United States, and to continue to expand on the Corporation's growth strategy in underserved markets. The Corporation paid \$20.5 million in cash and issued 1,168,519 common shares of the Corporation at a closing price per share of \$7.90 for consideration of \$9.2 million, which was adjusted to fair value consideration for accounting purposes of \$5.8 million. The fair value for accounting purposes was determined using a discounted cash flow analysis and was adjusted after considering such factors as the escrow period and liquidity of the Corporation's shares in the market place. Accordingly, the \$5.8 million used in the purchase price allocation is the difference between the \$9.2 million at closing and the fair value adjustment of \$3.4 million.



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**6. BUSINESS COMBINATIONS (continued)**

The acquisition has been accounted for using the acquisition method of accounting with an effective date of July 2, 2012, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill.

<b>(\$000's)</b>	
Common shares issued (1,168,519 shares)	5,753
Cash	20,499
<b>Total consideration</b>	<b>26,252</b>
<b>Assets acquired (\$000's)</b>	
Property, plant and equipment	9,235
Intangible assets	7,313
Goodwill	11,837
<b>Total assets acquired</b>	<b>28,385</b>
<b>Liabilities acquired (\$000's)</b>	
Asset retirement obligation	(2,133)
<b>Total liabilities</b>	<b>(2,133)</b>
<b>Net assets acquired</b>	
	<b>26,252</b>

The amounts recorded on the DRD acquisition above are based upon preliminary information available to management as of the date of this report and the preparation of these consolidated financial statements. The above amounts are subject to change upon final adjustments.

The acquisition agreement states there is a hold back of the shares to be issued as part of the consideration (the "consideration shares") subject to the performance testing of the two disposal wells acquired. Up to US\$4.5 million in the value of consideration shares will be held back until performance testing is completed that shows the disposal wells meet the agreed upon minimum daily average injection capacity.

The goodwill arises as a result of the assembled workforce, the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining DRD with the rest of the Corporation. The goodwill is expected to be deducted straight-line over 15 years for US tax purposes.

The Corporation incurred acquisition-related costs of \$0.1 million relating to due diligence costs and legal fees. These costs have been expensed and included in business development costs on the consolidated statements of comprehensive income.

**f)** On August 15, 2012, the Corporation closed an asset purchase agreement with Imperial Drilling Fluids Engineering Inc. ("IDF") to acquire the operating assets of IDF (excluding working capital) for aggregate cash consideration of \$6.9 million. IDF specializes in drilling fluids in Colorado, predominately in the Niobrara and Cordell Shale plays. The acquisition of IDF allows the Corporation, through its subsidiary Marquis Alliance, to expand its geographical presence and take advantage of a growing market opportunity in the region.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of August 15, 2012, whereby the assets acquired and the liabilities assumed are recorded at their fair values.

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**6. BUSINESS COMBINATIONS (continued)**

<b>(\$000's)</b>	
Cash	6,882
<b>Total consideration</b>	<b>6,882</b>
<b>Assets acquired (\$000's)</b>	
Inventories	564
Property, plant and equipment	393
Intangible assets	5,482
Goodwill	443
<b>Total net assets acquired</b>	<b>6,882</b>

The amounts recorded on the IDF acquisition above are based upon preliminary information available to management as of the date of this report and the preparation of these consolidated financial statements. The above amounts are subject to change upon final adjustments.

The goodwill arises as a result of the assembled workforce, the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining IDF with the rest of the Corporation. The goodwill is expected to be deducted straight-line over 15 years for US tax purposes.

Pursuant to the IDF acquisition agreement (the "IDF agreement"), the Corporation is obligated to pay additional consideration consisting of a series of three annual earn out payments ("contingent payments") beginning in September 2013 to certain selling shareholders based on the achievement of a certain gross margin percentage. The potential annual earn out payments range from US\$0.9 million to US\$2.7 million for total earn out payments over the three year period ranging from US\$2.7 million to US\$8.0 million. Since the obligation to pay the contingent payments is conditional upon the continued employment of the former shareholders, the payments are considered compensation expense and, accordingly, are included in operating expenses on the consolidated statements of comprehensive income in accordance with the applicable IFRS.

The Corporation incurred acquisition-related costs of \$0.1 million relating to due diligence costs and legal fees. These costs have been expensed and included in business development costs on the consolidated statements of comprehensive income.

New West, DRD and IDF were acquired and integrated with the Corporation's existing operations and therefore specific income information in respect of these acquisitions are not included in these consolidated financial statements.

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**7. ACCOUNTS RECEIVABLE AND ACCRUED RECEIVABLES**

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Trade accounts receivable and accruals	<b>122,877</b>	144,491
Related party receivables (Note 22)	<b>2,444</b>	1,364
Allowance for doubtful accounts	<b>(315)</b>	(374)
	<b>125,006</b>	<b>145,481</b>

As at December 31, 2012, \$0.3 million (2011 - \$0.4 million) of trade receivables were considered impaired (Note 20).

**8. INVENTORIES**

Inventories are shown at the lower of cost and net realizable value. Crude oil, natural gas liquids and drilling fluids inventories recognized as operating expenses on the consolidated statements of comprehensive income for the year ended December 31, 2012 was \$145.2 million (2011 – \$83.3 million).

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Crude oil and natural gas liquids	<b>3,192</b>	2,505
Drilling fluids	<b>39,077</b>	31,665
Spare parts and supplies	<b>349</b>	306
<b>Total inventories</b>	<b>42,618</b>	<b>34,476</b>

Inventories are included in the general security agreements held by the banks as security for the Corporation's credit facility (Note 14).

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**9. ASSETS UNDER CONSTRUCTION**

<b>(\$000's)</b>	<b>Projects under construction</b>	<b>Equipment (under refurbishment)</b>	<b>Total</b>
<b>At December 31, 2012</b>	<b>101,339</b>	<b>1,840</b>	<b>103,179</b>
At December 31, 2011	32,682	5,114	37,796

The amounts included in the categories above consist of assets associated with a variety of ongoing projects. \$2.6 million of capitalized salaries were added to assets under construction for the year ended December 31, 2012 (2011 - \$0.8 million).

The amount of borrowing costs capitalized to assets under construction during the year ended December 31, 2012 was \$0.4 million (2011 - nil) based on a capitalized borrowing rate of 3.37% (2011 - nil).

**10. PROPERTY, PLANT AND EQUIPMENT**

Included in operating expenses on the consolidated statements of comprehensive income for the year ended December 31, 2012 is \$31.2 million of depreciation and depletion expense (2011 - \$19.4 million).

An amount of \$0.3 million was recognized in depreciation and depletion expense for the year ended December 31, 2012 related to the loss on retirement of assets (2011 - nil).

The amount of borrowing costs capitalized during the year ended December 31, 2012 was \$0.2 million (2011 - \$0.1 million) based on a capitalized borrowing rate of 3.45% (2011 - 3.27%). During the year ended December 31, 2012, \$104.7 million was transferred from assets under construction to property, plant and equipment for completed projects (2011 - \$87.9 million).

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of \$14.5 million (2011 - \$6.7 million). The finance lease commitments over the next five years are disclosed in Note 23.

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**10. PROPERTY, PLANT AND EQUIPMENT (Continued)**

(\$000's)	Land	Buildings	Plant, Infrastructure, Equipment, and Landfill Cells	Rental Equipment	Mobile Equipment	Disposal Wells	Furniture and Fixtures	Computer Equipment and Software	Total
<b>Cost:</b>									
<b>At December 31, 2010</b>	676	8,444	93,252	-	3,054	29,445	762	1,565	<b>137,198</b>
Additions from business combinations (Note 6a)	2,113	3,244	4,064	6,919	158	-	748	403	<b>17,649</b>
Additions from business combinations (Note 6b)	-	-	301	-	-	-	11	30	<b>342</b>
Additions from business combinations (Note 6c)	-	1,442	13,097	-	15	1,863	-	-	<b>16,417</b>
Additions	332	8,496	67,349	8,137	292	9,123	153	975	<b>94,857</b>
Change in asset retirement cost	-	-	477	-	-	837	-	-	<b>1,314</b>
Disposals	-	-	(391)	-	-	-	-	(32)	<b>(423)</b>
Foreign exchange effect	(7)	(4)	(9)	17	-	-	(1)	-	<b>(4)</b>
<b>December 31, 2011</b>	3,114	21,622	178,140	15,073	3,519	41,268	1,673	2,941	<b>267,350</b>
Additions from business combination (Note 6d)	-	-	20	-	-	-	-	1	<b>21</b>
Additions from business combination (Note 6e)	-	479	4,632	-	-	4,100	12	12	<b>9,235</b>
Additions from business combination (Note 6f)	-	-	385	-	-	-	-	8	<b>393</b>
Additions	708	7,867	74,579	15,138	3,040	10,375	1,055	2,974	<b>115,736</b>
Transfers between divisions	-	-	19	-	112	-	-	-	<b>131</b>
Change in asset retirement cost	-	-	115	-	-	154	-	-	<b>269</b>
Disposals	-	-	(1,698)	-	(237)	-	-	-	<b>(1,935)</b>
Foreign exchange effect	(5)	(2)	48	(141)	(1)	35	(2)	(1)	<b>(69)</b>
<b>December 31, 2012</b>	<b>3,817</b>	<b>29,966</b>	<b>256,240</b>	<b>30,070</b>	<b>6,433</b>	<b>55,932</b>	<b>2,738</b>	<b>5,935</b>	<b>391,131</b>
<b>Accumulated depreciation and depletion:</b>									
<b>At December 31, 2010</b>	-	(838)	(19,338)	-	(603)	(3,381)	(132)	(669)	<b>(24,961)</b>
Depreciation and depletion	-	(1,037)	(15,225)	(1,129)	(663)	(2,244)	(144)	(515)	<b>(20,957)</b>
Disposals	-	-	91	-	-	-	-	-	<b>91</b>
Foreign exchange effect	-	-	-	1	-	-	-	-	<b>1</b>
<b>December 31, 2011</b>	-	(1,875)	(34,472)	(1,128)	(1,266)	(5,625)	(276)	(1,184)	<b>(45,826)</b>
Depreciation and depletion	-	(1,720)	(22,700)	(2,777)	(1,095)	(2,996)	(274)	(779)	<b>(32,341)</b>
Transfers between divisions	-	-	1	-	(87)	-	-	-	<b>(86)</b>
Disposals	-	-	444	-	100	-	-	-	<b>544</b>
Foreign exchange effect	-	-	(4)	8	-	-	-	-	<b>4</b>
<b>December 31, 2012</b>	-	<b>(3,595)</b>	<b>(56,731)</b>	<b>(3,897)</b>	<b>(2,348)</b>	<b>(8,621)</b>	<b>(550)</b>	<b>(1,963)</b>	<b>(77,705)</b>
<b>Net book value:</b>									
<b>December 31, 2012</b>	<b>3,817</b>	<b>26,371</b>	<b>199,509</b>	<b>26,173</b>	<b>4,085</b>	<b>47,311</b>	<b>2,188</b>	<b>3,972</b>	<b>313,426</b>
December 31, 2011	3,114	19,747	143,668	13,945	2,253	35,643	1,397	1,757	<b>221,524</b>

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**11. INTANGIBLE ASSETS**

Amortization expense relating to intangible assets is included in operating expenses on the consolidated statements of comprehensive income.

<b>(\$000's)</b>	<b>Non-competition agreements</b>	<b>Customer relationships</b>	<b>Licenses</b>	<b>Patents</b>	<b>Total</b>
<b>Cost:</b>					
At December 31, 2010	93	254	3,245	-	3,592
Additions through business combination (Note 6a)	9,840	36,271	-	4,795	50,906
Additions through business combination (Note 6b)	4,851	15,808	-	-	20,659
Additions through business combination (Note 6c)	-	1,839	-	-	1,839
At December 31, 2011	14,784	54,172	3,245	4,795	76,996
Additions through business combination (Note 6d)	-	999	-	2,348	3,347
Additions through business combination (Note 6e)	4,247	3,066	-	-	7,313
Additions through business combination (Note 6f)	1,318	4,164	-	-	5,482
Foreign exchange effect	64	84	-	-	148
<b>At December 31, 2012</b>	<b>20,413</b>	<b>62,485</b>	<b>3,245</b>	<b>7,143</b>	<b>93,286</b>
<b>Accumulated amortization:</b>					
At December 31, 2010	(39)	(106)	(216)	-	(361)
Amortization	(1,651)	(2,074)	(325)	(224)	(4,274)
At December 31, 2011	(1,690)	(2,180)	(541)	(224)	(4,635)
Amortization	(3,772)	(4,316)	(324)	(578)	(8,990)
Foreign exchange effect	2	-	-	-	2
<b>At December 31, 2012</b>	<b>(5,460)</b>	<b>(6,496)</b>	<b>(865)</b>	<b>(802)</b>	<b>(13,623)</b>
<b>Net book value:</b>					
<b>At December 31, 2012</b>	<b>14,953</b>	<b>55,989</b>	<b>2,380</b>	<b>6,341</b>	<b>79,663</b>
At December 31, 2011	13,094	51,992	2,704	4,571	72,361

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**12. GOODWILL**

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
<b>Balance - beginning of year</b>	<b>77,820</b>	-
Additions through business combination (Note 6e)	<b>11,837</b>	-
Additions through business combination (Note 6f)	<b>443</b>	-
Additions through business combination (Note 6a)	<b>2,269</b>	61,437
Additions through business combination (Note 6b)	-	16,383
Foreign exchange effect	<b>147</b>	-
<b>Balance - end of year</b>	<b>92,516</b>	<b>77,820</b>

The Corporation tests goodwill annually for impairment or more frequently if there are indications that the asset may be impaired. At December 31, 2012, an impairment test was performed at the group CGU level or individual CGU level as applicable, and no impairment was recognized (note 4). The recoverable amounts of the group of CGU's were estimated as their fair value less costs to sell, determined by applying a market-observed multiple to the CGU's trailing EBIDTA to estimate an implied fair value of the group CGU's.

**13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Accounts payable and accrued liabilities	<b>105,637</b>	93,212
Related party payables (Note 22)	<b>596</b>	104
	<b>106,233</b>	<b>93,316</b>



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**14. LONG TERM BORROWINGS**

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Amount drawn on revolving credit facility	<b>123,500</b>	120,000
Unamortized transaction costs	<b>(690)</b>	(930)
<b>Total long term borrowings</b>	<b>122,810</b>	<b>119,070</b>

In the first quarter of 2012, Secure expanded its existing revolving credit facility ("revolving credit facility") of \$150.0 million to \$200.0 million through the exercise of the \$50.0 million accordion feature. There were no changes to the terms of the underlying revolving credit facility. Under the revolving credit facility, the Corporation could borrow by way of Canadian dollar advances through Canadian Prime Rate Loans or Bankers' Acceptances or United States dollar advances through US Base Rate Loans or Libor or letters of credit denominated in Canadian or U.S. dollars, and bears interest ranging from 1.0% to 2.0% above the Canadian prime rate or Bankers' Acceptances ranging from 2.0% to 3.0% above the Bankers' Acceptance depending on the Corporation's prevailing funded debt to earnings before income tax, depreciation, and amortization ("EBITDA") ratio, with any unused amounts subject to standby fees ranging from 0.50% to 0.75%. Funded debt included all outstanding debt, including capital leases, and any outstanding letters of credit. As security for the revolving credit facility, the Corporation granted lenders a security interest over all of its present and after acquired property. A \$1.0 billion debenture provides a first fixed charge over the Corporation's real properties and a floating charge over all present and after acquired property not subject to the fixed charge. The revolving credit facility was to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes.

On November 5, 2012, the Corporation and its lenders amended the revolving credit facility to add an additional lender and to increase the facility from \$200 million to \$300.0 million (the "new credit facility"); the new facility includes an accordion feature which if exercised, would increase the credit facility by an additional \$50.0 million. The new credit facility consists of a \$290.0 million extendible revolving term credit facility and a \$10.0 million revolving operating facility. The Corporation can borrow by way of Canadian dollar advances through Canadian Prime Rate Loans or Bankers' Acceptances or United States dollar advances through US Base Rate Loans or Libor or letters of credit denominated in Canadian or U.S. dollars. The new credit facility provides that the Corporation may borrow, repay, draw on and convert between types of borrowings at any time. There are no advances in U.S dollars as at December 31, 2012.

The new credit facility bears interest ranging from 0.75% to 1.75% above the Canadian prime rate or Bankers' Acceptances ranging from 1.75% to 2.75% above the Bankers' Acceptance rate depending on the Corporation's prevailing funded debt to EBITDA ratio, with any unused amounts subject to standby fees ranging from 0.40% to 0.62%. Funded debt includes all outstanding debt, including finance leases, and any outstanding letters of credit. The facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes.

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**14. LONG TERM BORROWINGS (continued)**

The new credit facility is due on July 31, 2015 (the "new maturity date"), and includes an option for the Corporation to extend the new maturity date (once per annum) to a maximum of three years from the extension request date, subject to the approval of the Corporation's lenders. Repayment of any amounts drawn on the facility would therefore be repayable on the maturity date if the new credit facility was not extended.

In conjunction with obtaining the new credit facility, the Corporation incurred transaction costs in the amount of \$0.7 million, of which the unamortized amount has been offset against the outstanding principle balance of the debt. Amortization of the transaction costs recognized in interest, accretion and finance costs on the consolidated statements of comprehensive income for the year ended December 31, 2012 was \$1.2 million (2011 - \$0.2 million) of which \$0.8 million in transaction costs related to the previous revolving credit facility that were expensed and included in interest, accretion and finance costs on the consolidated statements of comprehensive income.

The following covenants apply to the new credit facility:

- The Funded Debt to EBITDA Ratio shall not exceed 3:00:1; where EBITDA is adjusted for acquisitions on a pro-forma trailing twelve month basis;
- The ratio of Senior Debt to Senior Debt plus Equity shall not exceed 40%; and,
- The Fixed Charge Coverage Ratio shall not be less than 1:00:1.

At December 31, 2012, and 2011, Secure was in compliance with all covenants.

As security for the new credit facility, the Corporation granted lenders a security interest over all of its present and after acquired property. A \$1.0 billion debenture provides a first fixed charge over the Corporation's real properties and a floating charge over all present and after acquired property not subject to the fixed charge.

The available new credit facility is reduced by any outstanding letters of credit. As at December 31, 2012, the Corporation has \$19.6 million in letters of credit issued by the Corporation's lead lender (2011 - \$6.3 million). The guarantees are issued to various government authorities for potential reclamation obligations in accordance with applicable regulations (Note 15).

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Revolving credit facility	<b>300,000</b>	150,000
Amount drawn on revolving credit facility	<b>(123,500)</b>	(120,000)
Letters of credit issued	<b>(19,552)</b>	(6,316)
Available amount	<b>156,948</b>	<b>23,684</b>

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**15. ASSET RETIREMENT OBLIGATIONS**

<b>(\$000's)</b>	
<b>At December 31, 2010</b>	<b>9,570</b>
Arising during the year through development activities	2,893
Arising during the year through acquisitions (Note 6c)	901
Accretion	327
Change in discount rate	1,314
<b>At December 31, 2011</b>	<b>15,005</b>
Arising during the year through development activities	6,503
Arising during the year through acquisitions (Note 6e)	2,133
Accretion	364
Change in discount rate	269
<b>At December 31, 2012</b>	<b>24,274</b>

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Current	-	420
Non-current	<b>24,274</b>	14,585
	<b>24,274</b>	<b>15,005</b>

The Corporation's asset retirement obligations were estimated by a third party or management based on the Corporation's estimated costs to remediate, reclaim and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at December 31, 2012 to be \$24.3 million (2011 - \$15.0 million) based on a total future liability of \$32.3 million as at December 31, 2012 (2011 - \$21.4 million). These costs are expected to be incurred over the next twenty-five years. The Corporation used its risk-free interest rates of 1.14% to 2.36% (2011 - 0.95% to 2.49%) and an inflation rate of 3.00% (2011 - 3.00%) to calculate the net present value of its asset retirement obligations at December 31, 2012.

The Corporation has letters of credit issued by the Corporation's banker in relation to the Corporation's asset retirement obligations (Note 14).

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**16. SHAREHOLDERS' EQUITY**

***Authorized***

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

	<b>Number of Shares</b>	<b>Amount (\$000's)</b>
<b>Balance, December 31, 2010</b>	<b>63,754,348</b>	<b>152,983</b>
Options exercised	679,267	1,169
Warrants exercised	439,997	660
Transfer from reserves in equity	-	470
Bought-deal equity financing (Note 16a)	12,969,900	86,250
Shares issued as consideration for business combination (Notes 6a and 16b)	10,015,291	66,789
Shares issued as consideration for business combination (Notes 6b and 16c)	2,297,885	16,974
Share issue costs	-	(5,063)
Deferred tax effect of share issue costs	-	1,266
<b>Balance, December 31, 2011</b>	<b>90,156,688</b>	<b>321,498</b>
Options exercised	1,683,536	3,236
Warrants exercised	628,497	943
Transfer from reserves in equity	-	1,255
Bought-deal equity financing (Note 16e)	10,987,262	86,250
Shares issued as consideration for business combination (Notes 6e and 16d)	1,168,519	5,753
Other	2,500	25
Share issue costs	-	(4,892)
Deferred tax effect of share issue costs	-	1,220
<b>Balance, December 31, 2012</b>	<b>104,627,002</b>	<b>415,288</b>

As at December 31, 2012, there were 10,674,197 (2011 – 12,249,269) common shares of the Corporation held in escrow (see Note 16b, 16c, and 16d below).

- a) On May 19, 2011, the Corporation completed an offering on a bought deal basis (the "Offering") with a syndicate of underwriters, pursuant to which the underwriters agreed to purchase for resale to the public 12,969,900 subscription receipts of the Corporation at a price of \$6.65 per subscription receipt for gross proceeds of approximately \$86.3 million. In connection with the offering, the Corporation incurred approximately \$4.8 million in transaction costs which included \$4.3 million in underwriter fees. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2011.

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**16. SHAREHOLDERS' EQUITY (continued)**

- b)** On June 1, 2011, the Corporation purchased all of the issued and outstanding shares of Marquis Alliance for total consideration of \$131.4 million. The purchase price consisted of \$64.6 million in cash consideration and \$66.8 million consideration by way of issuance of 10,015,291 common shares (see Note 6a). The Marquis Alliance Agreement provides that the 10,015,291 common shares issued by the Corporation will be held in escrow pursuant to which 8,401,673 of such shares will be released on a straight line basis annually over five years, 608,030 released on a straight line basis annually over four years, and the remaining 1,005,588 shares released on a straight line basis annually over two years. Accordingly, as at December 31, 2012, 7,680,152 (December 31, 2011 - 10,015,291) common shares were held in escrow. In connection with the share issuance, the Corporation incurred approximately \$0.2 million in transaction costs. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2011.
- c)** On July 1, 2011, the Corporation purchased substantially all of the operating assets of XL Fluids for total consideration of \$39.4 million. The purchase price consisted of \$22.5 million in cash consideration and \$17.0 million consideration by way of issuance of 2,297,885 common shares (see Note 6b). The XL Fluids Agreement provides that 2,233,978 of the common shares issued by the Corporation will be held in escrow and will be released on a straight line basis annually over five years. As at December 31, 2012, 1,825,526 (December 31, 2011 - 2,233,978) common shares were held in escrow. In connection with the share issuance, the Corporation incurred approximately \$0.1 million in transaction costs. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2011.
- d)** On July 2, 2012, The Corporation closed an asset purchase agreement to acquire the operating assets of DRD for total cash and share consideration of \$26.3 million. The purchase price consisted of \$20.5 million in cash consideration and \$5.8 million consideration by way of issuance of 1,168,519 common shares of the Corporation (Note 6e). The DRD agreement provides that 1,168,519 of the common shares issued by the Corporation will be held in escrow with twenty five percent being released on each anniversary of the closing date.
- e)** On July 24, 2012, the Corporation entered into an agreement on a bought deal basis (the "2012 offering") with a syndicate of underwriters, pursuant to which the underwriters agreed to purchase for resale to the public 10,987,262 common shares (including overallotment) of the Corporation at a price of \$7.85 per common share for gross proceeds of \$86.3 million. In connection with the 2012 offering, the Corporation incurred approximately \$4.8 million in transaction costs which included \$4.3 million in agent fees. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2012.

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**17. SHARE-BASED PAYMENT PLANS**

The Corporation has a share-based payment plan (the "Plan") under which the Corporation may grant share options to its employees, directors, and consultants for up to 10% of the issued and outstanding common shares of the Corporation calculated on a non-diluted basis at the time of grant. The exercise price of options granted under the Plan to Canadian employees, directors and consultants is calculated as the five-day weighted average trading price of the common shares for the five trading days immediately preceding the date the options are granted. The exercise price of options granted under the Plan to US employees, directors and consultants is calculated as the five-day weighted average trading price of the common shares for the five trading days immediately after the date the options are granted. Options issued under the Plan have a term of five years to expiry and vest over a three year period starting one year from the date of the grant. A summary of the status of the Corporation's share-based payment plan is as follows:

	<b>Dec 31, 2012</b>		<b>Dec 31, 2011</b>	
	<b>Outstanding options</b>	<b>Weighted average exercise price (\$)</b>	<b>Outstanding options</b>	<b>Weighted average exercise price (\$)</b>
<b>Balance - beginning of year</b>	6,788,685	4.25	5,627,450	2.50
Granted	2,560,142	8.35	2,095,975	8.49
Exercised	(1,683,536)	1.92	(679,267)	1.72
Forfeited	(434,769)	7.64	(255,473)	7.09
<b>Balance - end of year</b>	<b>7,230,522</b>	<b>6.04</b>	<b>6,788,685</b>	<b>4.25</b>
<b>Exercisable - end of year</b>	<b>2,991,579</b>	<b>3.90</b>	<b>3,045,255</b>	<b>2.26</b>

The following table summarizes information about share options outstanding as at December 31, 2012:

<b>Options outstanding</b>				<b>Options exercisable</b>	
<b>Exercise price (\$)</b>	<b>Outstanding options</b>	<b>Weighted average exercise price (\$)</b>	<b>Weighted average remaining term (years)</b>	<b>Outstanding options</b>	<b>Weighted average exercise price (\$)</b>
1.00 - 2.00	25,500	1.50	0.09	25,500	1.50
2.01 - 3.00	2,730,759	2.79	1.68	2,179,313	2.74
3.01 - 4.00	217,150	3.72	2.43	130,583	3.71
4.01 - 5.00	66,000	4.57	2.87	43,000	4.57
5.01 - 6.00	116,900	5.32	2.93	76,458	5.32
6.01 - 7.00	112,415	6.11	3.19	37,472	6.11
7.01 - 8.00	1,634,634	7.75	4.17	118,475	7.77
8.01 - 9.00	1,891,696	8.79	3.83	369,103	8.93
9.01 - 10.00	221,269	9.75	4.65	11,675	9.35
10.01 - 11.00	214,199	10.09	4.93	-	-
	<b>7,230,522</b>	<b>6.04</b>	<b>3.06</b>	<b>2,991,579</b>	<b>3.90</b>

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The fair value of options granted to employees, directors and consultants was estimated at the date of grant using the Black-Scholes Option Pricing Model, including the following assumptions:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
Volatility factor of expected market price (%)	<b>42.57</b>	45.89
Weighted average risk-free interest rate (%)	<b>1.44</b>	1.82
Weighted average expected life in years	<b>4.1</b>	4.1
Weighted average expected annual dividends per share	<b>Nil</b>	Nil
Weighted average fair value per option (\$)	<b>2.95</b>	3.23
Weighted average forfeiture rate (%)	<b>3.57</b>	1.29

The Corporation's stock has less than three years of trading history, therefore the Corporation has used a weighted average volatility consisting of its own historical volatility and the historical volatilities of certain members of its peer group for input into the Black-Scholes Option Pricing Model. The Corporation determines a forfeiture rate by using actual historical forfeiture rates.

**Performance warrants**

The Corporation has a performance warrant plan, under which the Corporation may grant performance warrants to its employees, officers, directors and consultants to a one-time maximum amount of 1,075,994. The number of warrants issued is approved by the Board of Directors at the time of grant. There are currently no remaining performance warrants to be granted. Performance warrants issued under the plan have a term of five years to expiry from the date of the grant and vest 1/3, 1/3, 1/3 based on predetermined threshold amounts of \$3.00, \$3.50 and \$4.25 per share, respectively. The threshold amounts are determined using the weighted average trading price of the common shares of the Corporation for a period of 45 consecutive days. As at December 31, 2012, all warrants have vested and have been exercised.

	<b>Dec 31, 2012</b>		<b>Dec 31, 2011</b>	
	<b>Outstanding warrants</b>	<b>Weighted average exercise price (\$)</b>	<b>Outstanding warrants</b>	<b>Weighted average exercise price (\$)</b>
<b>Balance - beginning of year</b>	628,497	1.50	1,068,494	1.50
Granted	-	-	-	-
Exercised	(628,497)	1.50	(439,997)	1.50
Forfeited	-	-	-	-
<b>Balance - end of year</b>	-	-	<b>628,497</b>	<b>1.50</b>
<b>Exercisable - end of year</b>	-	-	<b>628,497</b>	<b>1.50</b>



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**17. SHARE-BASED PAYMENT PLANS (continued)**

***Share-based payment reserve***

For the year ended December 31, 2012, share-based payment expense of \$5.1 million (2011 - \$3.0 million) has been recognized for stock options and warrants granted, and is included in general and administrative expenses on the consolidated statements of comprehensive income. These costs are recorded as share-based payment expense with the offsetting amount being credited to share-based payment reserve as shown in the following table:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
<b>Balance - beginning of year</b>	<b>5,558</b>	2,999
Share-based payments	<b>5,097</b>	3,029
Transfer to issued capital	<b>(1,255)</b>	(470)
<b>Balance - end of year</b>	<b>9,400</b>	<b>5,558</b>

***Deferred Share Unit Plan***

In April 2012, the Board of Directors of the Corporation approved a DSU plan. Under the terms of the plan, DSU's awarded will vest immediately and will be settled in cash in the amount equal to the previous five day's weighted average price of the Corporation's common shares on the date the members of the Board of Directors specify upon the non-employee director tendering their resignation from, or ceasing to be a member of, the Board of Directors. The specified date must be after the date in which the notice of redemption is filed with the Corporation and within the period from the non-employee director's termination date and December 31 of the first calendar year commencing after the non-employee's termination date. As of December 31, 2012, there were 28,864 DSU's issued and outstanding (2011 – nil).

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>Balance - beginning of year</b>	-	-
Granted	28,864	-
Settled in cash	-	-
Forfeited	-	-
<b>Balance - end of year</b>	<b>28,864</b>	-
<b>Exercisable - end of year</b>	<b>28,864</b>	-

Share-based payment expense for DSU's is included in general and administrative expenses on the consolidated statements of comprehensive income and credited to accounts payable and accrued liabilities on the consolidated statements of financial position. As at December 31, 2012, \$0.3 million (2011 – nil) was included in accounts payable and accrued liabilities for outstanding DSU's.

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**17. SHARE-BASED PAYMENT PLANS (continued)**

***Employee Share Ownership Plan***

The Employee Share Ownership Plan ("ESOP") allows employees to purchase common shares of the Corporation. Employees may contribute up to 20% of their base salaries in the ESOP. For year ended December 31, 2012, employees contributed \$1.7 million into the plan (2011 - \$0.6 million). The Corporation will match contributions, subject to certain limitations, based on the employee's years of service with the Corporation. On July 1, 2011, the Corporation increased its matching portion to a maximum of 7.5% of an employee's base salary from 5%. Shares purchased for both the employee contributions and Corporation's matching contributions are purchased on the open market. The Corporation's matching expense for the year ended December 31, 2012 was \$0.9 million (2011 - \$0.2 million).

**18. EARNINGS PER COMMON SHARE**

Basic earnings per common share amounts are calculated by dividing net earnings for the year attributable to common shareholders of the Corporation by the weighted average number of shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net earnings for the year attributable to common shareholders of the Corporation by the weighted average number of shares outstanding during the year plus the weighted average number of shares, if any, that would be issued on conversion of all the potential dilutive instruments utilizing the treasury method.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
<b>(\$000's)</b>		
Net earnings attributable to common shareholders for basic and diluted earnings per share	33,052	22,383
	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Weighted average number of shares for basic earnings per share	96,388,929	78,540,224
Effect of dilution:		
Options and warrants	2,973,769	4,404,751
Weighted average number of shares for diluted earnings per share	99,362,698	82,944,975

For the year ended December 31, 2012, the above table excludes 214,199 options (2011 – 1,794,028) that are considered anti-dilutive.

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**19. INCOME TAXES**

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Current income tax expense	<b>7,286</b>	4,491
Deferred income tax expense	<b>5,855</b>	5,042
	<b>13,141</b>	<b>9,533</b>

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rates of 25.25% (2011 – 26.50%) to earnings before income taxes for the following reasons:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Earnings before income taxes	<b>46,193</b>	31,916
Combined federal and provincial income tax rate	<b>25.25%</b>	26.50%
Tax effect	<b>11,664</b>	8,458
Share-based payment	<b>1,357</b>	807
Non-deductible expenses	<b>431</b>	275
Changes to deferred income tax rates	<b>-</b>	363
Other	<b>(311)</b>	(370)
	<b>13,141</b>	<b>9,533</b>

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**19. INCOME TAXES (continued)**

The components of the net deferred income tax liability as at December 31, 2012 are as follows:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Deferred income tax assets:		
Intangible assets	<b>239</b>	-
Share issue costs	<b>2,203</b>	1,839
Asset retirement obligations	<b>1,591</b>	1,430
Non-capital losses carried forward	<b>4,018</b>	3,989
Other	<b>1,795</b>	1,240
	<b>9,846</b>	8,498
Deferred income tax liabilities:		
Intangible assets	<b>(12,232)</b>	(13,786)
Goodwill	<b>(143)</b>	-
Property, plant and equipment	<b>(25,131)</b>	(15,362)
	<b>(37,506)</b>	(29,148)
<b>Net deferred income tax liabilities</b>	<b>(27,660)</b>	(20,650)
Deferred income tax assets by jurisdiction:		
Canada	<b>5,539</b>	6,659
U.S.	<b>4,307</b>	1,839
	<b>9,846</b>	8,498
Deferred income tax liabilities by jurisdiction:		
Canada	<b>(31,159)</b>	(27,664)
U.S.	<b>(6,347)</b>	(1,484)
	<b>(37,506)</b>	(29,148)

The Corporation's non-capital losses of \$11.5 million relate to the U.S. operations and expire between 2029 and 2032 (2011 - \$13.9 million Canadian and U.S. operations).

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**20. FINANCIAL INSTRUMENTS**

**a. Carrying values and fair values**

The fair values of financial assets and liabilities, together with the carrying amounts included in the consolidated statements of financial position, are as follows:

(\$000's)	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value amount	Carrying amount	Fair value amount
<b>Financial Assets:</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Cash	7,506	7,506	11,368	11,368
<b>Loans and receivables:</b>				
Accounts receivable and accrued receivables	125,006	125,006	145,481	145,481
<b>Financial Liabilities:</b>				
<b>Other liabilities:</b>				
Accounts payable and accrued liabilities	106,233	106,233	93,316	93,316
Long term borrowings	122,810	123,500	119,070	120,000

**b. Risks**

**Commodity price risk – non-trading**

The value of the Corporation's crude oil inventory, including oil inventory purchased as base stock for drilling fluids, is impacted by the commodity price of crude oil. Crude oil prices have historically fluctuated widely and are affected by numerous factors outside of the Corporation's control. Crude oil prices are primarily based on West Texas Intermediate ("WTI") plus or minus a differential to WTI based on the crude oil type and other contributing market conditions. As part of normal operating activities, the Corporation is required to hold a certain amount of inventory in any given month. In addition, changes in the prices of crude oil and natural gas can impact overall drilling activity and demand for the Corporation's products and services. In the DS division, the Corporation purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. The Corporation has elected not to actively manage commodity price risk associated with crude oil and drilling fluids inventory at this time as the exposure to these fluctuations is not considered significant.

**20. FINANCIAL INSTRUMENTS (continued)**

**Commodity price risk – trading**

The Corporation is exposed to commodity price risk on its contracts. The physical trading activities related to the contracts exposes the Corporation to the risk of profit or loss depending on a variety of factors including: changes in the prices of commodities; foreign exchange rates; changes in value of different qualities of a commodity; changes in the relationships between commodity prices and the contracts; physical loss of product through operational activities; and disagreements over terms of deals and/or contracts. These risks are mitigated by the fact that the Corporation only trades physical volumes, the volumes are traded over a short period, and the Corporation does not currently participate in the long term storage of the commodities. The oil and gas producer forecasts or nominates crude oil volumes expected to be delivered to the Corporation's facilities in advance of the production month as part of normal oil and gas operations. As part of the Corporation's processing, and facility operations, Secure will use net buy and net sell crude oil contracts for marketing and trading of crude oil. In addition, the Corporation has developed detailed policies, procedures and controls over the trading activities, which include oversight by experienced management.

The Corporation defines an "open position" as the difference between physical deliveries of all net buy crude oil contracts offset against physical delivery of all net sell crude oil contracts. The open position is subject to commodity price risk. As a single shipper, the pipeline mandates that any open positions of crude oil remaining at the end of any production month greater than approximately 3,200 barrels of crude oil per facility would be subject to penalties. As at December 31, 2012, the Corporation is a single shipper at four of its full service terminals. As a result, the Corporation's strategy is to reduce all open positions below this threshold for any given month. The Corporation does hold open positions however, those positions are closed within a relatively short period (before the end of the production month) therefore the overall exposure to the Corporation is significantly reduced. If the Corporation holds at or below 12,800 barrels of crude oil in open positions into a subsequent period, the exposure to the Corporation on a 10% increase or decrease in the price of crude oil per barrel would be an increase or decrease in revenue of approximately \$0.1 million.

**Credit risk**

Credit risk is the risk of financial loss to the Corporation if a counterparty fails to meet its contractual obligations. The Corporation provides credit to its customers in the normal course of operations. This includes credit risk on trading activities as the Corporation is at risk for potential losses if the counterparties do not fulfill their contractual obligations. In order to mitigate collection risk, the Corporation assesses the credit worthiness of customers or counterparties by assessing the financial strength of the customers or counterparties through a formal credit process and by routinely monitoring credit risk exposures. In addition, the Corporation uses standard agreements that allow for the netting of exposures associated with a single counterparty. Where the Corporation has a legally enforceable right to offset, the amounts are recorded on a net basis.

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**20. FINANCIAL INSTRUMENTS (continued)**

A substantial portion of the Corporation's accounts receivable are with customers or counterparties involved in the oil and natural gas industry, whose revenues may be affected by fluctuations in oil and natural gas prices. Collection of these receivables could be influenced by economic factors affecting this industry. The carrying value of trade accounts receivable reflects management's assessment of the associated risks.

The following is a schedule of the Corporation's trade accounts receivable:

	Dec 31, 2012	Dec 31, 2011
<b>(\$000's)</b>		
Under 30 days	<b>68,787</b>	81,365
31-60 days	<b>10,936</b>	11,716
61-90 days	<b>2,649</b>	1,999
Over 90 days	<b>2,130</b>	1,450
<b>Total</b>	<b>84,502</b>	<b>96,530</b>
<b>Provision for doubtful accounts</b>	<b>315</b>	<b>374</b>

The balance of \$68.8 million under 30 days includes crude oil contracts settled as part of the trading activities for December 2012. Of the \$68.8 million, 37% of the receivable balance under 30 days is due from seven counterparties. The entire amount due from the seven counterparties relate to crude oil payments, which as part of industry practice, are settled within 30 days of the production month. These specific counterparties are approved by the Corporation's risk management committee in accordance with the Corporation's credit policy relating to crude oil payments. The Corporation's credit exposure to any crude oil contracts settled is limited to transactions occurring over a 60 day period.

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**20. FINANCIAL INSTRUMENTS (continued)**

The change in the provision for doubtful accounts is as follows:

<b>(\$000's)</b>	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
Balance, beginning of year	<b>374</b>	73
Additional allowance	<b>386</b>	383
Amounts used	<b>(442)</b>	(81)
Foreign exchange effect	<b>(3)</b>	(1)
<b>Balance, end of year</b>	<b>315</b>	<b>374</b>

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Corporation considers all amounts greater than 90 days to be past due. As at December 31, 2012, \$2.1 million of accounts receivable are past due (2011 - \$1.5 million) and a provision of \$0.3 million (2011 - \$0.4 million) has been established as a provision for doubtful accounts. All amounts past due are considered to be collectable.

The Corporation is also exposed to credit risk with respect to its cash. However, the risk is minimized as cash is held at major financial institutions.

Maximum credit risk is calculated as the total recorded value of accounts receivable and accrued receivables as at the date of the consolidated statement of financial position.

**Interest rate risk**

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk as it has borrowed funds at variable interest rates on its revolving credit facility. A 1% increase or decrease is used when management assesses changes in interest rate risk internally. If interest rates had been 1% higher/lower, and all other variables were held constant, the Corporation's consolidated comprehensive income before income taxes would be approximately \$1.3 million lower/higher for the year ended December 31, 2012 (2011 - \$1.2 million).

The Corporation currently does not use interest rate hedges or fixed interest rate contracts to mitigate the Corporation's exposure to interest rate fluctuations.



**SECURE ENERGY SERVICES INC.**  
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**20. FINANCIAL INSTRUMENTS (continued)**

**Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. The Corporation manages its liquidity risk through cash and debt management. Management's assessment of its liquidity reflects estimates, assumptions and judgments relating to current market conditions. As at December 31, 2012, the Corporation has \$7.5 million in cash and \$156.9 million of available room on its new revolving credit facility (Note 14). The timing of cash outflows relating to financial liabilities, including estimated interest payments, are outlined in the table below:

	<b>Less than 1 year</b>	<b>1 year to 3 years</b>	<b>4 years to 5 years</b>	<b>5 years and thereafter</b>
<b>(\$000's)</b>				
Accounts payable and accrued liabilities	106,233	-	-	-
Financing and operating lease obligations	7,371	10,219	1,785	962
Long term borrowings	4,063	127,563	-	-
<b>Total</b>	<b>117,667</b>	<b>137,782</b>	<b>1,785</b>	<b>962</b>

For the foreseeable future, the Corporation anticipates that cash flows from operations, working capital, and other sources of financing will be sufficient to meet its debt repayments and obligations and will provide sufficient funding for anticipated capital expenditures.

**Foreign currency risk**

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from its purchase and sale of crude oil, working capital balances denominated in foreign currencies and on the translation of its foreign operations. Foreign currency risk on the purchase and sale of crude oil is mitigated as the majority of the activities occur in the same period, therefore foreign currency risk exposure is limited to crude oil held in inventory. The Corporation also has foreign currency risk arising from the translation of amounts receivable from and payable to its foreign subsidiary. The amounts are considered to form part of the net investment and are therefore recognized in the foreign currency translation reserve. The Corporation manages and mitigates foreign currency risk by monitoring exchange rate trends and forecasted economic conditions. The Corporation does not maintain an active hedge program to mitigate the risks associated with its foreign operations as the exposure is limited and insignificant at this time given the revenue generated from foreign operations is approximately 4% of total revenue. A 1% increase or decrease in foreign exchange rates would result in a nominal change in the Corporation's consolidated earnings before income taxes for the year ended December 31, 2012.

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**21. CAPITAL MANAGEMENT**

The capital structure of the Corporation consists of the following:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Current assets	<b>179,127</b>	193,582
Current liabilities	<b>(110,610)</b>	(97,512)
Long term borrowings	<b>123,500</b>	120,000
Shareholders' equity	<b>478,399</b>	349,037
	<b>670,416</b>	<b>565,107</b>

The Corporation's objective in capital management is to ensure adequate sources of capital are available to carry out its planned capital program, while maintaining operational growth and increased cash flow so as to sustain future development of the business and to maintain creditor and shareholder confidence. Management considers capital to be the Corporation's current assets less current liabilities, total debt facilities and shareholders' equity as the components of capital to be managed. The Corporation's overall capital management strategy remains unchanged from 2011. Management controls its capital structure through detailed forecasting and budgeting, as well as established policies and processes over monitoring planned capital and operating expenditures.

This includes the Board of Directors, reviewing the Corporation's results on a monthly basis, and capital costs to budget and approved authorizations for expenditures on a quarterly basis. The key measures management uses to monitor its capital structure are actual capital expenditures compared to authorized budgets, and earnings before interest, taxes, and depreciation ("EBITDA") on all of its operations. The Corporation is subject to certain financial covenants in its new revolving credit facility. The Corporation is in compliance with all financial covenants.

Management will manage its debt to maintain compliance with the various financial covenants contained within its long term borrowings (Note 14).

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**22. RELATED PARTY DISCLOSURES**

These consolidated financial statements include the Corporation's 50% share of its jointly controlled operations with Pembina Pipeline Corporation.

**Significant transactions**

The following table provides the total amount of transactions that have been entered into with related parties:

(\$000's)		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
<b>Related parties</b>	<b>December 31, 2012</b>	<b>11,448</b>	<b>1,520</b>	<b>2,444</b>	<b>596</b>
	December 31, 2011	5,235	1,101	1,364	104

***Terms and conditions of transactions with related parties***

The sales to and purchases from related parties are in the normal course of business and are at terms agreed to by the related parties. Related parties include companies that have common directors, officers, employees and shareholders. The nature of the expenses relate to operating and general and administrative expenses for use in the Corporation's activities. Amounts are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2012, the Corporation has not recorded any impairment of receivables relating to amounts owed by related parties (2011 - Nil). This assessment is undertaken each financial reporting period through examining the financial position of the related party and the market in which the related party operates.

***Entity with significant influence over the Corporation***

The shares of the Corporation are widely held. No entity has significant influence over the Corporation.

***Transactions with key management personnel***

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. Key management personnel of the Corporation include its executive officers and the board of directors. In addition to the salaries and short-term benefits paid to the executive officers and directors fees paid to the directors, the Corporation also provides compensation under the Corporation's ESOP (Note 17) to its executive officers. In addition, the Corporation provides compensation to both its executive officers and directors under its share-based payment plans (Note 17).

The compensation related to key management personnel is as follows:

(\$000's)	Dec 31, 2012	Dec 31, 2011
Salaries and short-term employee benefits	2,961	2,380
Share-based payments	681	478
	<b>3,642</b>	<b>2,858</b>

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**23. COMMITMENTS, CONTINGENCIES AND GUARANTEES**

**Operating lease commitments**

The Corporation has entered into operating land lease agreements at the Corporation's facilities. In addition, the Corporation has entered into operating leases for office and warehouse spaces. The leases require future minimum lease payments as follows:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Within one year	<b>2,693</b>	2,007
After one year but not more than five years	<b>6,926</b>	6,038
More than five years	<b>888</b>	1,458
	<b>10,507</b>	<b>9,503</b>

**Finance lease commitments**

The Corporation has entered into finance lease agreements for computer equipment, vehicles, and mobile equipment. The leases require future minimum lease payments as follows:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Within one year	<b>4,114</b>	2,693
After one year but not more than five years	<b>4,158</b>	2,225
More than five years	<b>-</b>	4
	<b>8,272</b>	<b>4,922</b>

The average lease term is three years (2011 – three years). The Corporations obligations under finance leases are secured by the related assets. Interest rates underlying finance lease obligations are fixed at respective contract dates ranging from 0.0% to 16.7% (2011 – 0.0% to 16.7%) per annum.

**Earn out commitment**

Pursuant to the IDF acquisition, the Corporation is obligated to pay additional consideration consisting of a series of three annual earn out payments beginning in September 2013 to certain selling shareholders based on the achievement of a certain Gross Margin Percentage. The potential annual earn out payments range from US\$0.9 million to US\$2.7 million for total earn out payments over the three year period ranging from US\$2.7 million to US\$8.0 million (Note 6f). The estimated future payments are as follows:

	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
<b>(\$000's)</b>		
Within one year	<b>2,210</b>	-
After one year but not more than five years	<b>4,371</b>	-
More than five years	<b>-</b>	-
	<b>6,581</b>	<b>-</b>

## **23. COMMITMENTS, CONTINGENCIES AND GUARANTEES (continued)**

### **Capital commitments**

As at December 31, 2012, the Corporation had committed \$25.6 million (2011 – \$8.0 million) relating to various capital purchases for use in the Corporation's current and future capital projects. All amounts are current and due within one year.

### **Litigation**

On December 21, 2007, Tervita Corporation (formerly known as CCS Inc.) ("Tervita") filed a statement of claim commencing Action No. 0701-13328 (the "Tervita Action") in the Judicial District of Calgary of the Court of Queen's Bench of Alberta (the "Court") against the Corporation, certain of the Corporation's employees who were previously employed by Tervita (collectively, the "Secure Defendants") and others in which Tervita alleges that the defendants misappropriated business opportunities, misused confidential information, breached fiduciary duties owed to Tervita, and conspired with one another. Tervita seeks damages in the amount of \$110.0 million, an accounting and disgorgement of all profits earned by the Corporation since its incorporation and other associated relief.

A statement of defence was filed by the Secure Defendants on November 10, 2008, after the Court ordered Tervita to provide further particulars of its claim. The Secure Defendants then filed an Amended Statement of Defence (the "Defence"), and the Corporation filed an Amended Counterclaim (the "Counterclaim"), on October 9, 2009. In their Defence, the Secure Defendants deny all of the allegations made against them. In its Counterclaim, the Corporation claims damages in the amount of \$37.9 million against Tervita, alleging that Tervita has engaged in conduct constituting a breach of the *Competition Act* (Canada) and unlawful interference with the economic relations of the Corporation with the intent of causing injury to the Corporation. The Corporation is currently seeking permission to amend the amount of the Counterclaim to \$97.8 million. The matters raised in the lawsuit are considered by the Corporation to be unfounded and unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. The Corporation believes it has valid defences to this claim and accordingly has not recorded any related liability.

The Corporation is a defendant and plaintiff in legal actions that arise in the normal course of business. The Corporation believes that any liabilities that might arise pertaining to such matters would not have a material effect on its consolidated financial position.

### **Guarantees**

The Corporation indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers. The Corporation may also provide indemnifications in the normal course of business that are often standard contractual terms to counterparties in certain transactions.

### **Letters of Credit**

As at December 31, 2012, the Corporation has approximately \$19.6 million in letters of credit issued by the Corporation's banker (2011 - \$6.3 million). All letters of credit are not cash secured and have been deducted from the Corporation's available long term borrowings (Note 14). The guarantees relate to security for the Corporation's facilities and are held with provincial regulatory bodies (Note 15) and under crude oil marketing contracts.

## **24. OPERATING SEGMENTS**

For management purposes, the Corporation is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Corporation has two reportable operating segments as follows:

- PRD division provides services relating to clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale service;
- DS division provides services relating to drilling fluid systems, solids control, equipment rental service, drilling waste management and environmental sciences;
- The Corporate division does not represent an operating segment and is included for informational purposes only. Corporate division expenses consist of public company costs, as well as salaries, share-based compensation, interest and finance costs and office and administrative costs relating to corporate employees. Comparative period amounts have been reclassified to conform with current period presentation.

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**24. OPERATING SEGMENTS (continued)**

	PRD division	DS division	Corporate	Total
<b>(\$000's)</b>	<b>Year Ended Dec 31, 2012</b>			
Revenue	767,141	262,299	-	1,029,440
Operating expenses	(716,850)	(211,682)	(516)	(929,048)
General and administrative	(14,281)	(26,867)	(5,258)	(46,406)
Business development	-	-	(2,028)	(2,028)
Depreciation, depletion and amortization	(29,356)	(12,412)	(515)	(42,283)
Interest, accretion and finance costs	(364)	-	(5,401)	(5,765)
Earnings before income taxes	35,646	23,750	(13,203)	46,193
	<b>As at Dec 31, 2012</b>			
Current assets	61,222	117,905	-	179,127
Total assets	450,937	313,240	3,734	767,911
Goodw ill	11,984	80,532	-	92,516
Intangible assets	10,484	69,179	-	79,663
Property, plant and equipment and assets under construction	367,247	45,624	3,734	416,605
Current liabilities	75,699	34,911	-	110,610
Total liabilities	114,222	52,479	122,811	289,512

	PRD division	DS division	Corporate	Total
<b>(\$000's)</b>	<b>Year ended Dec 31, 2011</b>			
Revenue	403,493	147,706	-	551,199
Operating expenses	(373,882)	(115,696)	(300)	(489,878)
General and administrative	(10,041)	(12,036)	(3,375)	(25,452)
Business development	-	-	(2,014)	(2,014)
Depreciation, depletion and amortization	(19,153)	(5,777)	(300)	(25,230)
Interest, accretion and finance costs	(327)	-	(1,612)	(1,939)
Earnings before income taxes	19,243	19,974	(7,301)	31,916
	<b>As at December 31, 2011</b>			
Current assets	54,920	138,662	-	193,582
Total assets	288,503	313,118	1,462	603,083
Goodw ill	-	77,820	-	77,820
Intangible assets	4,611	67,750	-	72,361
Property, plant and equipment and assets under construction	228,973	28,885	1,462	259,320
Current liabilities	50,908	46,604	-	97,512
Total liabilities	71,986	62,990	119,070	254,046

**Geographical Financial Information**

	Canada		International		Total	
<b>(\$000's)</b>	<b>2012</b>	2011	<b>2012</b>	2011	<b>2012</b>	<b>2011</b>
<b>Year ended Dec 31</b>						
Revenue	<b>986,801</b>	541,881	<b>42,639</b>	9,318	<b>1,029,440</b>	551,199
<b>As at Dec 31</b>						
Total non-current assets	<b>517,892</b>	397,800	<b>70,892</b>	11,701	<b>588,784</b>	409,501

## **25. SUBSEQUENT EVENT**

On March 4, 2013, the Corporation's Board of Directors approved the implementation of a dividend of \$0.0125 per share per month, or \$0.15 per share on an annual basis, commencing May 1, 2013.



## Corporate Information

### DIRECTORS

Rene Amirault - Chairman

Brad Munro <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>

David Johnson <sup>(2)</sup> <sup>(3)</sup>

George Wadsworth

Kevin Nugent <sup>(1)</sup> <sup>(3)</sup>

Murray Cobbe <sup>(1)</sup> <sup>(2)</sup>

### OFFICERS

Rene Amirault

*President and Chief Executive Officer*

Allen Gransch

*Executive Vice President & Chief Financial Officer*

George Wadsworth

*Executive Vice President, Drilling Services Division & USA Operations*

Nick Wieler

*Executive Vice President, Crude Oil Marketing & Information Systems*

Daniel Steinke

*Executive Vice President, PRD Division*

Brian McGurk

*Executive Vice President, Human Resources & Strategy*

### STOCK EXCHANGE

Toronto Stock Exchange

Symbol: SES

### AUDITORS

MNP LLP

Calgary, Alberta

### LEGAL COUNSEL

Bennett Jones LLP

Calgary, Alberta

### BANKERS

Alberta Treasury Branches

### TRANSFER AGENT AND REGISTRAR

Olympia Trust Company

Calgary, Alberta

<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

<sup>3</sup> Corporate Governance Committee