SECURE energy services

# MANAGEMENT DISCUSSION AND ANALSYIS

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

**Three Months ended March 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 May 10, 2012. 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 includes International Financial Reporting Standards ("IFRS").

The MD&A's focus is primarily a comparison of the financial performance for the three months ended March 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 year ended December 31, 2011. The Corporation's management is responsible for the information disclosed in this MD&A and the accompanying unaudited condensed consolidated interim 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 May 10, 2012. Additional information regarding the Corporation is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A 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", 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 ("NGLs") and natural gas; the increase in 2012 operating days; demand for the Corporation's services; expansion strategy; the amounts of the PRD and DS divisions' 2012 capital budgets 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 new Rocky Mountain House and Judy Creek, Alberta full service terminals; oil purchase and resale revenue; completion of the permanent facility construction at Wild River and the construction of landfills at Saddle Hills and Fox Creek, Alberta.

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as the assumption that increases in market activity and growth will be consistent with industry activity in Canada, 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 are based upon the assumption 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 services and drilling and production activity in North America will lead to sufficient demand for the Corporation's services and its subsidiary's 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 are 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.

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. Readers are cautioned not to place undue reliance on these statements as 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 those 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, 2011. 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, 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 trade 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 fifteen facilities throughout western Canada, providing these services at its full service terminals ("FST"), landfills or stand alone water disposal facilities ("SWD").

## DRILLING SERVICES DIVISION ("DS")

Operating under the trade name Marquis Alliance Energy Group Inc. and its wholly owned subsidiaries ("Marquis Alliance") and operating under the trade name XL Fluids Systems Inc. ("XL Fluids"), the DS division provides drilling fluid systems, solids control, and environmental services. The drilling fluids service line comprises 88% of revenue for the division in the first quarter of 2012, 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, 2011.

## 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-serviced 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

The first quarter of 2012 proved to be Secure's strongest quarter on record, increasing revenue (excluding oil purchase/resale) by 465% over the first quarter of 2011 and increasing earnings before interest, taxes, depreciation and amortization ("EBITDA") by 204% compared to March 31, 2011. Activity levels remained solid throughout the first quarter with the exception of March where spring break up started two weeks earlier than anticipated. Although spring break up was earlier than last year, both divisions were able to deliver outstanding results. Overall, the operating and financial highlights for the first quarter March 31, 2012 can be summarized as follows:

| ($000's except share and per share data) (unaudited) [1] | Three Months Ended March 31, 2012 | 2011 | % Change |
|---|---|---|---|
| Revenue (excludes oil purchase and resale) | **115,426** | 20,423 | 465 |
| Oil purchase and resale | **162,286** | 47,575 | 241 |
| Total revenue | **277,712** | 67,998 | 308 |
| EBITDA [2] | **32,559** | 10,702 | 204 |
| Per share ($), basic | **0.36** | 0.17 | 112 |
| Per share ($), diluted | **0.35** | 0.16 | 119 |
| Profit for the period | **14,977** | 4,230 | 254 |
| Per share ($), basic | **0.17** | 0.07 | 143 |
| Per share ($), diluted | **0.16** | 0.06 | 167 |
| Funds from operations [2] | **28,547** | 10,656 | 168 |
| Per share ($), basic | **0.31** | 0.17 | 82 |
| Per share ($), diluted | **0.30** | 0.16 | 88 |
| Cash dividends per common share | **nil** | nil | - |
| Capital expenditures [2] | **35,833** | 16,635 | 115 |
| Total assets | **622,099** | 202,730 | 207 |
| Long term borrowings | **119,002** | - | 100 |
| Common shares - end of period | **91,196,885** | 63,862,381 | 43 |
| Weighted average common shares | | | |
| basic | **90,658,046** | 63,829,714 | 42 |
| diluted | **94,179,644** | 67,855,436 | 39 |

**[1] Certain amounts were reclassified to conform with current period presentation**

**[2] Refer to "Non GAAP measures and operational definitions" on page 5 for further information**

## FIRST QUARTER 2012 HIGHLIGHTS

- Increased EBITDA per share (diluted) by 119% to $0.35 for the three months ended March 31, 2012 compared to $0.16 for the three months ended March 31, 2011;
- Generated total profit for the period of $15.0 million, which increased by 254% from $4.2 million in the first quarter of 2011;
- Achieved record revenue (excluding oil purchase and resale) of $115.4 million for the three months ended March 31, 2012 compared to $20.4 million in the comparable period of 2011. The PRD division saw increased demand for services with processing and terminalling volumes increasing by 177% compared to the first quarter of 2011. The PRD division also benefited from higher throughput and increased demand from its new Drayton Valley FST and Silverdale FST's. The DS division (acquired June 1, 2011) also had a solid first quarter realizing a 28% market share in western Canada, which resulted in a total of 13,875 operating days in Canada and revenue per operating day of $4,919;
- Reported oil purchase and resale revenue in the first three months of 2012 of $162.3 million compared to $47.6 million in the same period of 2011. The increase is a result of the Corporation becoming a single shipper at the Drayton Valley FST in January 2012 and single shipper at the La Glace FST in the fourth quarter of 2011, in addition to increasing throughput at all pipeline connected facilities;

- Achieved EBITDA of $32.6 million for the three months ended March 31, 2012 compared to $10.7 million in the same period of 2011. EBITDA has increased significantly as a result of the new DS division added in June of 2011 and the new facilities and the added expansion services in the PRD division added during the last half of 2011. The Corporation has also benefited from increased demand for services and continued strength in energy sector activity during the first quarter of the 2012 year;
- Completed the acquisition of the operating assets (excluding working capital) of New West Drilling Fluids Inc. ("New West") for an aggregate cash purchase price of $3.4 million. New West specialized in providing drilling fluid systems and products for heavy oil drilling. New West is well known for its patented SAGD system, "BITUDRIL", the first bitumen encapsulating polymer based system on the market. Adding New West's assets, including BITUDRIL, to Marquis Alliance's existing patented and proprietary SAGD product line will increase Marquis Alliance's ability to provide the most cost effective drilling fluid solutions in the SAGD market;
- Incurred capital expenditures of $35.8 million. This includes the $3.4 million for the New West acquisition, $0.5 million of sustaining capital and $31.9 million on growth and expansion capital. Expansion capital of $4.3 million was incurred to increase capacity at several FST's, which included adding waste processing services, additional risers, tanks, meters, and disposal wells. A total of $27.6 million was incurred on growth capital expenditures on projects in various stages of development. The projects are as follows:
    - Wild River SWD (permanent facility);
    - Phase III (oil treating and terminalling) at Dawson FST;
    - Oil based mud ("OBM") blending plant at the Drayton Valley FST;
    - Judy Creek FST and Rocky Mountain House ("Rocky") FST;
    - Saddle Hills and Fox Creek landfills;
    - Rental equipment (centrifuges, tanks);
- Exercised the accordion feature on the Corporation's existing revolving credit facility. The revolving credit facility was increased from $150.0 million to $200.0 million. The Corporation's current available debt capacity and projected cash flow from operations provides sufficient funding to execute on the Corporation's 2012 capital budget of $116.0 million;
- Maintained a strong balance sheet, exiting the first quarter 2012 with positive working capital of $89.5 million and available borrowings of $72.7 million;
- Continued to actively participate in environmental recycling process improvements and cost saving initiatives for customers. This includes performing test pilot programs on drilling fluids recycling. The Corporation is also engaged in research/development on new techniques that will ultimately provide customers with new opportunities to recycle, re-use and reduce oil and gas by-product waste; and
- Increased the Corporation's total employee count to over 600 employees in order to support current and continued growth. The Corporation is proud to be an employer of choice, investing in people that provide safe and innovative solutions.

## OUTLOOK

In April 2012, the Petroleum Services Association of Canada ("PSAC") revised the 2012 drilling forecast from 13,350 total wells expected to be drilled to 13,150 wells. It is uncertain what impact a decline in dry gas drilling may have on activity, as any such reduction may be offset by increases in oil and liquids rich natural gas drilling that remains strong at current pricing levels. In addition, Secure maintains the view that operating days and meters drilled are a better indicator of activity levels for the oil and gas sector and the Corporation than the number of wells drilled. The Canadian Association of Oilwell Drilling Contractors ("CAODC") recently reported that in the first quarter of 2012, total meters drilled increased by seven percent over the first quarter of 2011. Therefore, offsetting the marginal decrease in wells drilled is the increase in meters drilled. The increase in meters drilled continues to be a result of more complex drilling, a move to horizontal wells and greater lengths/depths being pursued by operators. The Corporation anticipates the increase in the number of operating days and meters drilled in 2012, combined with high levels of drilling liquids, will result in sustained actively levels, which will maintain demand for services at the Corporation's waste processing and disposal facilities and in the DS division's business. Moreover, while Secure's business is affected in part by drilling and drilling related activities, the Corporation's PRD operating activities are more heavily weighted to the production cycle, specifically processing, treating, terminalling and marketing of crude oil.

The Corporation continues to explore a number of opportunities to expand Secure through additional service lines, organic growth, and/or through strategic acquisitions in key market areas in both Canada and the United States. The revitalization of mature oil pools continues to drive demand for more infrastructure. In 2012, capital expenditures are expected to be approximately $116.0 million, of which $35.8 million was incurred in the first quarter. In the second quarter, Secure's PRD division commenced construction on the new Rocky FST and the new Judy Creek FST. Secure expects these new FST's to commence operations in early 2013. During the second quarter, Secure also expects to complete and commission the Wild River SWD and start construction of a landfill in Fox Creek and a landfill in Saddle Hills. The PRD division will also start construction in the second quarter of an OBM blending facility at its existing Drayton Valley FST to reduce costs associated with logistics, to develop recycling opportunities and to support the ongoing activities in the DS division.

The Corporation's 2012 capital budget includes $14.0 million for the DS division for growth capital allocated evenly between Canada and the United States. The majority of the capital is comprised of on-site closed loop solid's control equipment which continues to achieve high utilization rates. The majority of the on-site closed loop systems in the United States are located in North Dakota, where activity levels are at an all time high and continue to increase.

Based on Secure's available debt capacity and cash flow from operations, the Corporation is well positioned to execute on its 2012 capital program and take advantage of opportunities in the current market place. For the remainder of 2012, the Corporation will continue to focus on strengthening market position across all service lines and executing on its business 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, 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 CAODC publishes total active rigs in Western Canada on a semi-weekly basis.

### *Funds from operations*

Funds from operations refers 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.

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| Cash from (used in) operating activities | **23,916** | 5,521 | 333 |
| **Add (deduct):** | | | |
| Non-cash working capital changes | **4,631** | 5,135 | (10) |
| **Funds from operations** | **28,547** | 10,656 | 168 |

### *EBITDA*

EBITDA is calculated as profit excluding depreciation, depletion, amortization and accretion, 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.

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| **Profit** | **14,977** | 4,230 | 254 |
| **Add:** | | | |
| Depreciation, depletion and amortization | **9,440** | 4,251 | 122 |
| Share-based payments | **1,027** | 502 | 105 |
| Current tax expense | **2,834** | - | 100 |
| Deferred income tax expense | **2,768** | 1,602 | 73 |
| Interest, accretion and finance costs | **1,513** | 117 | 1,193 |
| **EBITDA** | **32,559** | 10,702 | 204 |

### *Capital Expenditures*

Expansion, growth 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 judgment by management.

## RESULTS OF OPERATIONS FOR THE FIRST QUARTER

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.

| ($000's except per share data) (unaudited) | Three Months Ended March 31, 2012 | 2011 | % Change |
|---|---|---|---|
| Revenue | **277,712** | 67,998 | 308 |
| | | | |
| Operating expenses | **244,251** | 59,128 | 313 |
| General and administrative | **10,964** | 2,701 | 306 |
| Business development | **405** | 187 | 117 |
| Interest, accretion and finance costs | **1,513** | 150 | 909 |
| Profit before income taxes | **20,579** | 5,832 | 253 |
| Income taxes | | | |
| Current income tax expense | **2,834** | - | 100 |
| Deferred income tax expense | **2,768** | 1,602 | 73 |
| | **5,602** | 1,602 | 250 |
| Profit | **14,977** | 4,230 | 254 |
| Other comprehensive income | | | |
| Foreign currency translation adjustment | **(212)** | - | (100) |
| **Total comprehensive income** | **14,765** | 4,230 | 249 |
| | | | |
| Earnings per share | | | |
| Basic | **0.17** | 0.07 | 143 |
| Diluted | **0.16** | 0.06 | 167 |

### *PRD DIVISION OPERATIONS*

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 FST's and include waste processing and crude oil emulsion treating. Secure's FST's 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 FST's, Secure will meter the crude oil volumes and purchase the crude oil 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) (unaudited)[1] | Three Months Ended March 31, 2012 | 2011 | % Change |
|---|---|---|---|
| **Revenue** | | | |
| Processing, recovery and disposal services (a) | **34,066** | 20,423 | 67 |
| Oil purchase and resale service | **162,286** | 47,575 | 241 |
| **Total PRD division revenue** | **196,352** | 67,998 | 189 |
| **Operating Expenses** | | | |
| Processing, recovery and disposal services (b) | **11,862** | 7,302 | 62 |
| Oil purchase and resale service | **162,286** | 47,575 | 241 |
| Depreciation, depletion, and amortization | **6,551** | 4,183 | 57 |
| **Total operating expenses** | **180,699** | 59,060 | 206 |
| **General and administrative** | **3,064** | 2,047 | 50 |
| **Total PRD division expenses** | **183,763** | 61,107 | 201 |
| **Operating Margin [2] (a-b)** | **22,204** | 13,121 | 69 |
| **Operating Margin [2] as a % of revenue (a)** | **65%** | 64% | 2 |

**(1) Certain amounts were reclassified to conform with current period presentation (see note below)**

**(2) Refer to "Non GAAP measures and operational definitions" on page 5 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 within the 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 in the first quarter of 2012 increased by 67% to $34.1 million from $20.4 million in the comparable period of 2011. Processing volumes in the first quarter of 2012 increased by 199% over the first quarter of 2011. The contributing factors of the significant increase relate to the Drayton Valley FST and Silverdale FST becoming operational in the fourth quarter of 2011, the completion of Obed and South GP waste expansion subsequent to the first quarter of 2011, increased demand for the Corporation's services and an overall increase in oil and gas activity. Revenue from recovery includes crude oil handling, marketing and terminalling. During the quarter, $1.3 million in revenue and expenses in the comparative quarter of 2011 were reclassified to the oil purchase and resale service line. The reclassification relates to the impact of natural gas liquids purchased and sold to maximize differentials on various oil streams. There is no absolute dollar change on the operating margin. For the three months ended March 31, 2012, revenue from recovery increased by 95% over the comparable period in 2011. Revenue from recovery increased substantially as a result of higher processing volumes, an increased amount of oil recovered during processing, and marketing oil volumes to maximize differentials on various oil streams. Secure's disposal volumes also increased by 32% in the first quarter of 2012 compared to the same period of 2011. As described above, the new facilities and expansions completed in 2011, higher demand and more oil and gas activity are the primary reasons for the increase.

Oil purchase/resale service increased dramatically during the first quarter of 2012 as a result of Secure becoming a single shipper at the new Drayton Valley FST in January 2012 and at the La Glace FST at the start of the fourth quarter of 2011. The increase in this service helps drive demand for Secure's other services. Oil purchase/resale service revenue for the three months ended March 31, 2012 increased to $162.3 million from $47.6 million for the three months ended March 31, 2011. The revenue and corresponding expense of this service will fluctuate depending upon the volume of crude oil received in any given period and the price of crude oil for that period. As shown above, oil purchase/resale revenue is deducted to calculate the operating margin of processing, recovery and disposal services (65%). See the "**Business Risks**" section in this MD&A for further discussion.

### *Operating Expenses (PRD division)*

Operating expenses from processing, recovery and disposal services for the three months ended March 31, 2012 increased to $11.9 million from $7.3 million in the comparative period of 2011. The increase in operating expenses relates to higher variable costs (trucking, utilities, etc.) associated with the 67% increase in revenue (excluding oil purchase/resale) for the first quarter of 2012 compared to the first quarter of 2011. In addition, operating expenses increased as a result of the addition of the Drayton Valley FST and Silverdale FST becoming operational in the fourth quarter of 2011, the completion of Obed and South GP waste expansion subsequent to the first quarter of 2011, and increased demand for the Corporation's services. Operating margin as a percentage of revenue from processing, recovery and disposal services for the first quarter 2012 was 65%, up from 64% in the first quarter of 2011. As discussed in the revenue analysis, $1.3 million in revenue and expenses in the comparative quarter of 2011 were reclassified to the oil purchase and resale service line. If the natural gas liquids purchased and sold were not reclassified, the operating margin in the first quarter of 2012 would have been 61% compared to 60% in the same quarter of 2011. The operating margin is up 5% from the fourth quarter of 2011, primarily related to a reduction in trucking costs at the Drayton Valley FST as the pipeline connection was obtained in early January. Overall, operating expenses and operating margin are in line with management expectations. The change in operating margin may fluctuate period over period as a result of changes in volumes affected by seasonality, as new facilities come online and activity levels change, as the Corporation's sales mix or type of services received varies, and as commodity prices rise and fall.

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

Depreciation, depletion and amortization expense for the three months ended March 31, 2012 increased to $6.6 million from $4.2 million for the three months ended March 31, 2011. Depreciation, depletion and amortization expense has increased significantly with the additions of the Drayton Valley FST, Silverdale FST, Obed FST waste expansion and the South Grande Prairie FST waste expansion, and the increase in disposal volumes at the 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 ("G&A") increased in the first quarter of 2012 to $3.1 million from $2.0 million in the comparative period of 2011. In 2012, the Corporation has reclassified G&A in the PRD division to exclude all public company costs, salaries, share based payments and office costs relating to corporate employees. G&A is currently 9.0% of revenue (excluding oil purchase/resale) in the division. In the first quarter of 2012, the most significant impact to G&A continues to relate to the hiring of employees to support the growth in operations. G&A also includes office lease, insurance, utilities and communications, however the increases are in line with management expectations. Included in benefits are non-cash share-based payments for the three months ended March 31, 2012 of $0.6 million compared to $0.5 million in the same period of 2011. The increase in stock-based compensation relates mainly to the stock options granted to new employees hired and options granted annually to all employees.

## *DS DIVISION OPERATIONS*

On June 1, 2011, the acquisition of Marquis Alliance created the DS division, which was expanded on July 1st with the acquisition of XL Fluids and New West on January 25, 2012. Accordingly, the results of the DS division only includes activity from June 1, 2011, the period in which Marquis Alliance became a wholly owned subsidiary of the Corporation. Geographically, the primary focus of the DS division has been the WCSB. In addition, there are two wholly owned subsidiaries that also provide services to various basins in the United States as well as internationally in India. The DS division's WCSB operations are coordinated from the Calgary, Alberta office and the U.S. operations are conducted from the Denver, Colorado office.

### **Drilling services:**

The DS division has three service lines: drilling fluids, environmental services, and solids control. The drilling fluids service line is the core service of the DS division. Drilling fluids products are designed to optimize the efficiency for customer drilling operations. These efficiencies are achieved by engineering solutions that improve drilling performance and penetration, while reducing fluid related non-productive time. Experienced technical personnel design adaptable drilling programs to meet the needs of increasingly complex horizontal and directional drilling. These programs can save customers significant amounts of money by proactively anticipating the drilling challenges they may encounter. The environmental service line provides remediation, reclamation, special project management, professional services, and drilling waste management to customers in the WCSB. 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 provides equipment that ensures the quality of drilling fluids through the drilling cycle by continually processing and recycling the drilling fluids as they return to surface. This equipment ensures the continual removal of the cuttings and solids from the drilling fluid. In turn, higher penetration rates are maintained, and less fluid is wasted; therefore overall drilling costs are reduced. The current fleet of high speed centrifuges, drying shakers, bead recovery units, tanks, and ancillary equipment is offered as a standalone package or part of an integrated drilling fluids and environmental package.

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** [1] | **2012** | **2011** | **% Change** |
| **Revenue** | | | |
| Drilling services (a) | **81,360** | - | 100 |
| **Operating expenses** | | | |
| Drilling services (b) | **60,663** | - | 100 |
| Depreciation and amortization | **2,785** | - | 100 |
| **Total DS division operating expenses** | **63,448** | - | 100 |
| **General and administrative** | **6,728** | - | 100 |
| **Total DS division expenses** | **70,176** | - | 100 |
| **Operating Margin** [2] [(a-b)] | **20,697** | - | 100 |
| **Operating Margin %** [2] | **25%** | - | 100 |

[1] **Includes DS division from its acquisition on June 1, 2011.**

[2] **Refer to "Non GAAP measures and operational definitions" on page 5 for further information**

***Revenue (DS division)***

In the first quarter of 2012, revenue from the DS division was $81.4 million compared to $74.7 million for the fourth quarter of 2011 and nil for the comparative period of 2011 (acquisition date of June 1, 2011). This represents a 9% increase in revenue from the fourth quarter of 2011 to the first quarter of 2012. The quarter over quarter increase from 2011 into 2012 is the result of increased activity across all service lines during the active winter drilling season. In Canada and the United States, the drilling fluids service line contributed $71.3 million or 88% of total revenue and the remaining service lines of environmental and solids control contributed $9.9 million or 12% for the three months ended March 31, 2012. The drilling fluids service line estimated Canadian market share over the first quarter of 2012 was 28% compared to 25% in the fourth quarter of 2011. The market share percentage was based on the CAODC's average monthly rig count for Western Canada of 540 rigs for the same period, compared to 489 rigs through the three months ended December 31, 2011 (refer to "Non GAAP measures and Operational Definitions"). Average monthly rig count in the first quarter of 2012 increased by 10% from the fourth quarter of 2011, driven by the active winter drilling season.

The DS division had a total of 13,875 operating days in the first quarter in Canada for the drilling fluids service line compared to 11,220 operating days in the fourth quarter. The number of operating days is higher as a result of the increase in market share of 3% over the fourth quarter of 2011 and the acquisition of New West completed at the end of January 2012. In addition, the number of operating days is higher in the first quarter due to the additional drilling rigs operating during the active winter drilling season as certain drilling activities are dependent on cold weather to freeze access roads and lease sites, which was slightly offset by the earlier spring break up. The unseasonal warm weather impacted secondary roads which were incapable of supporting heavy loads. Accordingly, road bans were implemented prohibiting the movement of heavy equipment required for drilling and well servicing activities. Revenue per operating day for the first quarter of 2012 in Canada was $4,919 compared to $5,563 in the fourth quarter of 2011. This slight decline is attributable to a combination of factors including an increase in drilling shallow vertical wells used for delineation purposes and a different service/product mix between the two prior quarters of 2011. The wells drilled for delineation purposes require lower cost drilling fluids –reducing revenue per operating day. Demand for the environmental and solids control service lines remained strong in the first quarter, as the DS division solids control service line maintained high utilization rates with its centrifuges and tank rentals.

### *Operating Expenses (DS division)*

Operating margin represents the profit earned on revenue after deducting operating expenses, which includes the direct cost of products, logistics, personnel and associated equipment in the DS division. Operating margins (excluding depreciation) in the DS division can vary due to changes in product mix, well type, geographic area and nature of activity (i.e. drilling fluids, environmental, solids control, etc.). On a quarterly basis, operating expenses for the three months ended March 31, 2012 were $60.7 million, compared to $57.1 million for the three months ended December 31, 2011 and nil for the three months ended March 31, 2011. Operating expenses are higher as a result of the increased product costs associated with higher revenue in the first quarter of 2012 compared to the fourth quarter of 2011. For the three months ending March 31, 2012 operating margins were $20.7 million or 25% compared to $17.6 million or 24% for the three months ending December 31, 2011. Operating margins are in line with management expectations as operating costs continue to be impacted as a result of a changing product mix as more oil and gas producers moved from water based drilling fluids to oil based drilling fluids in the first quarter of 2012. Increased horizontal drilling combined with technical drilling programs is driving demand for oil based drilling fluids. Oil based stock is an expensive, low margin and high volume commodity. Therefore, in periods of rising oil based stock prices or increased activity in oil based drilling fluids, revenue and product costs will increase accordingly, resulting in decreasing margins on a percentage basis. Operating margin on an absolute dollar basis increased by $3.1 million or 18% over the fourth quarter of 2011. Customers have been steadily increasing their demand for oil based drilling fluids as they ramp up their horizontal and deep technical drilling programs.

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

Depreciation and amortization for the three months ended March 31, 2012 was $2.8 million compared to $2.6 million for the three months ended December 31, 2011. Depreciation and amortization increased by 5% in the first quarter as a result of a larger fixed asset base associated with purchasing assets to support the growth in the solid control service line. These equipment purchases include centrifuges and tanks.

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

For the three months ended March 31, 2012 G&A was $6.7 million compared to $5.8 million for the three months ended December 31, 2011. G&A as a percentage of revenue was 8.3% in the first quarter of 2012, compared to 7.8% in the fourth quarter of 2011. As part of the restructuring of the divisions, the DS division does not include any public company costs or corporate overhead costs. The most significant accounts within G&A include: salaries and benefits for office staff, professional fees, office lease, insurance, utilities and communications. G&A is in line with management expectations for the three months ended March 31, 2012.

## *OTHER INCOME AND EXPENSES*

### *CORPORATE EXPENSES*

| ($000's) (unaudited)[1] | Three Months Ended March 31, 2012 | 2011 | % Change |
|---|---|---|---|
| **General and administrative** | 1,172 | 654 | 79 |

[1] **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 the division, including segregating out costs associate 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 were previously recorded in the operating results of the PRD division. G&A expenses for Corporate overhead for the three months ended March 31, 2012 increased to $1.2 million compared to $0.7 million for the three months ended March 31, 2011. Included in G&A Corporate are all public company costs, salaries, share based payments and office costs relating to corporate employees. The increase relates to the increased corporate costs associated with acquiring Marquis Alliance and its subsidiaries, including additional professional services fees. In addition, increases in employee salaries and performance based compensation also contributed to the increase.

### *BUSINESS DEVELOPMENT EXPENSES*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| **Business development** | 405 | 187 | 117 |

As part of the reclassification, 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, etc, contain benefits for both divisions. Accordingly, business development expenses are disclosed in aggregate given the significant overlap and integration among both divisions. Business development expenses for the three months ended March 31, 2012 were $0.4 million compared to $0.2 million for the three months ended March 31, 2011. Business development expenses were higher in the first quarter of 2012 as the Corporation operates two laboratory facilities which focus on the development of new technologies for recycling initiatives, the Corporation continues to expand and evaluate a number of potential projects or prospects. In 2012, the business development team has also added new employees to assist in the research and development of new technologies in the energy services industry.

### *INTEREST, ACCRETION AND FINANCING COSTS*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| **Interest, accretion and finance costs** | 1,513 | 150 | 909 |

Interest, accretion and financing costs for the three months ended March 31, 2012 were $1.5 million compared to $0.2 million in the comparable period of 2011. During the first quarter of 2011, the Corporation funded the majority its capital program and increases in working capital through its available cash flow from operations. The balance of the revolving credit facility at the end of the first quarter of 2012 was $120.0 million compared to nil for the three months ended March 31, 2011. Therefore, the increase relates to interest expense on the drawn portion, 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.

### *FOREIGN CURRENCY TRANSLATION ADJUSTMENT*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| Foreign currency translation adjustment | **(212)** | - | (100) |

Included in Other Comprehensive Income ("OCI") is ($0.2) million for the three months ended March 31, 2012 of foreign currency translation adjustments relating to the conversion of the financial results as at March 31, 2012 for the US operating subsidiary. The amount is a function of converting the DS division United States business operations functional US dollar currency to the Corporations reporting currency in Canadian dollars.

### *INCOME TAXES*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| Income taxes | | | |
| Current income tax expense | **2,834** | - | 100 |
| Deferred income tax expense | **2,768** | 1,602 | 73 |
| | **5,602** | 1,602 | 250 |

### *Current Taxes*

Current income tax expense for the three months ended March 31, 2012 increased to $2.8 million from a current income tax expense of nil for the three months ended March 31, 2011. The increase in current tax expense is primarily attributable to significantly higher earnings before taxes. In the first quarter of 2011, the Corporation's non capital loss carry forwards offset any current tax expense.

### *Deferred Taxes*

The Corporation follows the liability method of accounting for income taxes. The deferred tax expense for the three months ended March 31, 2012 increased to $2.8 million from $1.6 million for the three month period ended March 31, 2011. The increase in deferred tax expense is a result of increased activity and demand at the Corporation's facilities, which in turn resulted in an increase in profit before taxes.

## *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*

| | Canada | | International | | Total | |
|---|---|---|---|---|---|---|
| **(unaudited) ($000's)** | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| **Three months ended March 31** | | | | | | |
| Revenue | **271,052** | 67,998 | **6,660** | - | **277,712** | 67,998 |
| **As at Mar 31, 2012 and Dec 31, 2011** | | | | | | |
| Total non-current assets | **423,110** | 397,800 | **13,783** | 11,701 | **436,893** | 409,501 |

The table on geographical financial information breaks out revenue and non-current assets for the three months ended March 31, 2012 and the three months ended March 31, 2011. All of the PRD division's revenue is generated in Canada, therefore the revenue internationally relates to the DS division.

## 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. As a result, 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 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 | | | | 2010 | | |
|---|---|---|---|---|---|---|---|---|
| (unaudited) | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue (excluding oil purchase and resale) | **115,426** | 101,999 | 84,088 | 24,541 | 20,423 | 18,445 | 13,929 | 9,876 |
| Oil purchase and resale | **162,286** | 129,262 | 74,108 | 69,203 | 47,575 | 14,486 | 2,679 | 1,370 |
| **Total Revenue** | **277,712** | 231,261 | 158,196 | 93,744 | 67,998 | 32,931 | 16,608 | 11,246 |
| Profit for the period | **14,977** | 10,290 | 7,853 | 10 | 4,230 | 2,291 | 1,523 | 18 |
| Earnings (loss) per share - basic | **0.17** | 0.12 | 0.09 | 0.00 | 0.07 | 0.04 | 0.02 | 0.00 |
| Earnings (loss) per share - diluted | **0.16** | 0.11 | 0.08 | 0.00 | 0.06 | 0.03 | 0.02 | 0.00 |
| Weighted average shares - basic | **90,658,046** | 89,481,219 | 89,242,506 | 71,207,964 | 63,829,714 | 63,730,396 | 63,701,941 | 63,187,252 |
| Weighted average shares - diluted | **94,179,644** | 93,718,121 | 93,949,868 | 75,851,337 | 67,855,436 | 66,732,263 | 65,859,648 | 64,716,438 |
| EBITDA (1) | **32,559** | 24,785 | 20,653 | 5,824 | 10,702 | 8,037 | 6,433 | 3,648 |

**(1) Refer to "Non GAAP measures and operational definitions " on page 5 for further information**

### *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 relate 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 New West, a Canadian based drilling fluids company specializing in providing drilling fluid systems and products for heavy oil drilling. New West was integrated into the DS division in the first quarter of 2012. In addition, the Corporation's oil purchase/resale service revenue has also 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 increase in the first quarter of 2012 and the fourth quarter of 2011 are a result of Secure becoming a single shipper at Drayton Valley FST and La Glace FST, respectively. Secure became a single shipper at the Fox Creek FST on December 1, 2010. 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, 2011 which includes a description of the date on which each of Secure's facilities commenced operations. 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 meets 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 judgments 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 (see non-GAAP measures)*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| Funds from operations | **28,547** | 10,656 | 168 |

Funds from operations for the period ended March 31, 2012 increased to $28.5 million from $10.7 million for the period ended March 31, 2011. The significant increase relates to the DS division acquisition, the Obed FST waste expansion, the South Grand Prairie FST waste expansion in the second quarter of 2011 and the addition of the Drayton Valley FST and Silverdale FST in the fourth quarter of 2011. In addition to the acquisitions, expansions and new facilities added in 2011, the Corporation also had continued growth in demand for services, including higher volumes processed and increased disposal volumes over the three months ended March 31, 2011. The increase in the price of oil from 2011 to 2012, crude oil marketing profits and increased energy sector activity during the period has also contributed to the increase.

#### *b) Issue of common shares*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| Issue of common shares, net of issue costs | **1,630** | 266 | 513 |

For the period ended March 31, 2012, issue of common shares increased to $1.6 million from $0.3 million over the same period of 2011. The increase in issue of common shares 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 March 31, 2012, Secure had a total of 91,196,885 common shares, 6,706,125 employee stock options outstanding and 7,500 performance warrants outstanding.

### *Uses of Cash*

#### *a) Capital Expenditures*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| **Capital expenditures** [(1)] | | | |
| Expansion and growth capital expenditures | **31,870** | 16,582 | 92 |
| Acquisitions | **3,405** | - | 100 |
| Sustaining capital expenditures | **558** | 53 | 953 |
| Total capital expenditures | **35,833** | 16,635 | 115 |

[(1)] **Refer to "Non GAAP measures and operational definitions" on page 5 for further information**

The Corporation's expansion and growth capital expenditures for the three months end March 31, 2012 increased to $31.9 million from $16.6 million compared to the same period in 2011. Of the $31.9 million of capital expenditures, $4.3 million relates to expansion projects at Dawson FST, Kotcho FST, South Grande Prairie FST, and Fox Creek FST. These ongoing expansion projects include adding waste processing services, additional risers, meters, additional disposal wells, and tankage. The Corporation also incurred costs of $20.5 million for Wild River SWD (permanent facility), Dawson FST Phase III, Drayton Valley FST (OBM blending plant), the new Judy Creek and Rocky FST, Fox Creek landfill and Saddle Hills landfill. The Corporation also purchased $7.1 million in centrifuges, tanks, a storage warehouse in Saskatchewan, and long lead items for future projects. Of the $7.1 million of capital expenditures, $2.3 million relates to equipment purchased for the U.S. operations. This equipment includes centrifuges and tanks used in the solids control service line. The Corporation intends to fund its 2012 capital program primarily with available cash, cash flow from operations and the revolving credit facility.

For the three months ended March 31, 2012 acquisitions increased to $3.4 million from nil in the comparative period of 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 is a Canadian based drilling fluids company specializing in providing drilling fluid systems and products for heavy oil drilling. New West is most well known for its patented SAGD system, "BITUDRIL", the first bitumen encapsulating polymer based system on the market. Adding New West's assets, including BITUDRIL, to Marquis Alliance's existing patented and proprietary SAGD product line will increase Marquis Alliance's ability to provide the most cost effective drilling fluid solutions in the SAGD market. The majority of the purchase price related to acquiring the patent BITUDRIL and the customer relationships developed by New West.

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 judgment by management. During the three months ended March 31, 2012, sustaining capital was $0.6 million compared to $0.1 million for the three months ended March 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.

### *b) Revolving Credit Facility*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **($000's) (unaudited)** | **2012** | **2011** | **% Change** |
| Repayment of revolving credit facility | **-** | - | - |
| Financing costs | **(175)** | - | (100) |

For the three months ended March 31, 2012, the Corporation has not drawn or repaid any amounts on its revolving credit facility (the "revolving credit facility"). As at March 31, 2012, the Corporation has drawn $120.0 million on its revolving credit facility compared to nil in the same period in 2011. In the first quarter of 2012, Secure expanded its existing revolving credit facility of $150.0 million to $200.0 million through the exercise of the $50.0 million accordion feature. All members of the existing syndicate consisting of six financial institutions and Canadian chartered banks participated in the expansion of the revolving credit facility. There were no changes to the terms of the underlying revolving credit facility. In conjunction with obtaining the increase in the revolving credit facility, the Corporation incurred transaction costs of which the unamortized amount has been offset against the outstanding principle balance of the debt. Amortization of the transaction costs are recognized in interest, accretion and finance costs on the consolidated statements of comprehensive income. The amount drawn on the revolving credit facility of $120.0 million relates to capital expenditures and working capital requirements. Working capital in the DS division, specifically inventory, requires certain minimum levels to be held in order to meet the needs of customers for the active winter drilling season. As a result of the earlier than anticipated spring break up, inventory levels were not depleted as anticipated; therefore ending working capital was higher at the end of the first quarter of 2012.

| **($000's) (unaudited)** | **Three Months Ended March 31, 2012** |
|---|---|
| Revolving credit facility | **200,000** |
| Amount Drawn on revolving credit facility | **(120,000)** |
| Letters of Credit | **(7,266)** |
| Available amount | **72,734** |

As at March 31, 2012, the Corporation had $72.7 million available under its revolving credit facility. The Corporation is well positioned based on the available amount on its revolving credit facility and expected funds from operations, to execute on the 2012 capital program.

At March 31, 2012, the Corporation had issued approximately $7.3 million in letters of credit to various environmental regulatory authorities in Alberta and British Columbia. The Energy Resource and Conservation Board ("ERCB") is implementing the Oilfield Waste Liability ("OWL") program. The OWL program is expected to replace the current fully funded liability management program for oilfield waste facilities with a facility specific asset to liability risk based assessment that is backed by the existing upstream oil and natural gas industry liability management program. 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 March 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.

The revolving credit facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes. 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 revolving credit facility provides that the Corporation may borrow, repay, draw on and convert between types of borrowings at any time. The revolving credit facility bears interest ranging from 1.0% to 2.0% above the 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 EBITDA ratio, with any unused amounts subject to standby fees ranging from 0.50% to 0.75%. Funded debt includes all outstanding debt, including capital leases, and any outstanding letters of credit. The revolving credit facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes. The revolving credit facility is due July 29, 2014 (the "maturity date"), and includes an option for the Corporation to extend the maturity date (on an annual basis) to a maximum of three years from the extension request date, subject to approval by the Corporation's lenders. Repayment of any amounts drawn on the facility would therefore be repayable on the maturity date if the revolving credit facility was not extended. 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.

### *c) Contractual Obligations*

The Corporation has a total of $21.5 million in commitments, excluding the above commitment relating to the revolving credit facility. The $21.5 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 though the revolving credit facility to meet upcoming commitments.

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| **($000's) (unaudited)** | **Total** | **1 year or less** | **1-3 years** | **4-5 years** | **5 years and thereafter** |
| Total Commitments | **21,454** | 11,626 | 5,981 | 2,553 | 1,294 |

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 March 31, 2012 to be $15.0 million (December 31, 2011 - $15.0 million) based on a total future liability of $20.2 million as at March 31, 2012 (December 31, 2011 - $20.1 million). These costs are expected to be incurred over the next one to 24 years. The Corporation used its risk-free interest rates of 1.20% to 2.66% and an inflation rate of 3.00% to calculate the net present value of its asset retirement obligations.

## PROPOSED TRANSACTIONS

As of the date of this MD&A, 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, Quebec, the United States and India. 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, Quebec, 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.

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.

### Commodity price risk – non-trading

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. 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. 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.

### Commodity price risk – trading

The Corporation is exposed to commodity price risk on its crude oil marketing 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 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, 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. 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.

**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, recently experienced significant price and trading fluctuations. These fluctuations have resulted 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.

**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, CCS Midstream Services with approximately 53 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.

**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.

**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.

**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 supporting heavy loads and, as a result, road bans are implemented prohibiting heavy 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.

**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 anytime.

**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.

**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.

**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.

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.

**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.

**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.

**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.

**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.

**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.

**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.

**Legal proceedings**

The Corporation is named as a defendant in the CCS Action. See "*Legal Proceedings and Regulatory Actions*". 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 CCS Action are not covered by Secure's insurance policy and deny coverage. In the event that the CCS 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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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 the first quarter 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.

**Interest rates**

The Corporation’s banking facilities have interest rates 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.

**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 has 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.

**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.

**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.

**Legal and financial compliance**

The Corporation is required to comply with the rules and regulations applicable to public companies in Canada and to file reports with the Canadian securities administrators. Accordingly, the Corporation incurs significant legal, accounting and other expenses that the Corporation did not incur as a private company. The Corporation's management and other personnel must devote a substantial amount of time and resources to comply with these requirements. These rules and regulations will increase the Corporation's legal and financial compliance costs, compared to similar costs incurred as a private company.

**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.

**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.

In accordance with the provisions of section 3.3 of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), in relation to the acquisition of Marquis Alliance effective June 1, 2011, the Corporation has limited its assessment of the design of disclosure controls and procedures and internal control over financial reporting to exclude the controls, policies and procedures of Marquis Alliance.

## 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.

## OUTSTANDING SHARE CAPITAL

As at May 10, 2012, there were 91,530,351 Common Shares issued and outstanding. In addition as at May 10, 2012, there were 7,644,957 share options outstanding, 3,176,585 of which were exercisable, and nil warrants outstanding.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## TRANSACTIONS WITH RELATED PARTIES

For the three months ended March 31, 2012, the Corporation incurred approximately $0.3 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 months ended March 31, 2012, the Corporation has not recorded any impairment of receivables relating to amounts owed by related parties (March 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 March 31, 2012, the Corporation's financial instrument assets include cash and short term deposits, 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. 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 and notes 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 and cash equivalents. However, the risk is minimized as all cash is held at a major Canadian financial institution.

## CRITICAL ACCOUNTING POLICES AND ESTIMATES

In the preparation of the Corporation's condensed consolidated interim financial statements, management has made estimates that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Estimates and judgments 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 condensed consolidated interim 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, 2011 for a complete description of the accounting policies of the Corporation. The Corporation considers the following to be its critical accounting policies and 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.

***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 condensed consolidated interim 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 payments***

The Corporation provides share-based awards to certain employees in the form of stock options and warrants. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options and warrants granted. The fair value of each option or warrant 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 and warrants 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 and warrants granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeitures and expected dividend yields.

***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 culmination of purchase accounting, 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 interim 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.

*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 Canadian taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in Canada 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. Estimates of the Corporation's future taxable income have been considered in assessing the utilization of available tax losses in both the current and future periods. 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 profit 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 and short term deposits are 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.

### *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 statement 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 that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

## FUTURE ACCOUNTING PRONOUNCEMENTS

At the date of authorization of the 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, 2013. 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 supercedes 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 Corporation is currently assessing the impact, if any, that the adoption of this standard will have on its consolidated financial statements.

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 Corporation is currently assessing the impact, if any, that the adoption of this standard will have in its consolidated financial statements.

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 Corporation is currently assessing the impact, if any, that the adoption of this standard will have in its consolidated financial statements.

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 Corporation is currently assessing the impact, if any, that the adoption of this standard will have in its consolidated financial statements.

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 June 2011, the IASB issued IAS 1 Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements. The amendments stipulate the presentation of net earnings and OCI and also require the Corporation to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for the Corporation beginning on January 1, 2012 with retrospective application and early adoption permitted. The adoption of the amendments to this standard is not expected to have a material impact on the Corporation's consolidated financial statements.

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 in accordance with IFRS. 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 during the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

In accordance with the provisions of section 3.3 of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), in relation to the acquisition of Marquis Alliance effective June 1, 2011, the Corporation has limited its assessment of the design of disclosure controls and procedures and internal control over financial reporting to exclude the controls, policies and procedures of Marquis Alliance. Management is in the process of aligning the systems, processes and controls of Marquis Alliance with the Corporation's standards and has not concluded on the design of disclosure controls and procedures or internal control over financial reporting for this subsidiary as at March 31, 2012. Also in accordance with the provision of section 3.3 of NI 52-109, summary financial information for Marquis Alliance is included in note 12 of the accompanying condensed consolidated interim financial statements as the DS division of the Corporation is solely comprised of Marquis Alliance.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On December 21, 2007, CCS Inc. ("**CCS**") filed a statement of claim commencing Action No. 0701-13328 (the "**CCS 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 CCS (collectively, the "**Secure Defendants**") and others in which CCS alleges that the defendants misappropriated business opportunities, misused confidential information, breached fiduciary duties owed to CCS, and conspired with one another. CCS 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 CCS to provide further particulars of its claim. On September 17, 2008, CCS obtained an *Anton Pillar* Order and seized various documents from the Corporation's offices. The Secure Defendants applied to the Court and were granted an order varying the *Anton Pillar* Order and the seized documents were returned to the Corporation's solicitors, with the exception of several documents which do not impact the business of Secure and which in respect thereof the order states that it shall in no way be interpreted as a finding of the Court or an acknowledgement or admission by the Secure Defendants that the documents constitute the property of CCS.

The Secure Defendants 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 CCS, alleging that CCS 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.

Examinations for discovery began in 2010 and will continue through 2013. The Corporation intends to continue to defend against the CCS Claim and to prosecute the Counterclaim.

## ADDITIONAL INFORMATION

Additional information, including Secure's AIF, is available on SEDAR at www.sedar.com and on the Corporation's website at www.secure-energy.ca