SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2011 and 2010

(Expressed in Canadian Dollars)

SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars)

($000's) (unaudited)	Notes	June 30, 2011	December 31, 2010	January 1, 2010
Assets			(see Note 26)	(see Note 26)
Current assets				
Cash and short term deposits		**4,087**	22,518	235
Accounts receivable and accrued receivables	7	**51,184**	25,394	5,694
Other receivables		**-**	-	38
Prepaid expenses and deposits		**2,038**	600	320
Inventories	8	**17,327**	3,184	682
Notes receivable	22	**494**	-	-
		75,130	51,696	6,969
Deposit on asset acquisition	25	**18,475**	-	-
Notes receivable	22	**-**	482	459
Deferred income tax asset		**-**	-	982
Assets under construction	9	**41,276**	30,818	7,345
Property, plant and equipment	10	**150,029**	112,237	82,810
Intangible assets	11	**53,540**	3,231	272
Goodwill	12	**61,322**	-	-
Total Assets		**399,772**	198,464	98,837
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	13	**42,092**	29,802	3,326
Bank indebtedness	14	**14,885**	-	-
Finance lease liabilities	23	**2,328**	1,304	561
		59,305	31,106	3,887
Long term borrowings	15	**1,654**	-	4,788
Asset retirement obligations	16	**10,714**	9,570	4,239
Finance lease liabilities	23	**2,005**	1,670	556
Deferred income tax liability		**15,537**	770	-
Total Liabilities		**89,215**	43,116	13,470
Shareholders' Equity				
Issued capital	17	**303,089**	152,983	89,992
Reserves	18	**3,860**	2,999	1,376
Accumulated other comprehensive income		**2**	-	-
Retained earnings (deficit)		**3,606**	(634)	(6,001)
Total Shareholders' Equity		**310,557**	155,348	85,367
Total Liabilities and Shareholders' Equity		**399,772**	198,464	98,837

Commitments and Contingencies	23
Subsequent Events	25

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

SECURE ENERGY SERVICES INC.
Condensed Consolidated Interim Statements of Comprehensive Income
(Expressed in Canadian Dollars)

		For the three months ended June 30,		For the six months ended June 30,	
($000's except per share data) (unaudited)	**Notes**	**2011**	**2010**	**2011**	**2010**
			(see Note 26)		**(see Note 26)**
Revenue	**24**	**93,744**	11,246	**161,742**	23,454
Operating expenses		**88,572**	8,705	**147,700**	16,664
General and administrative		**3,805**	1,839	**6,506**	3,118
Business development		**767**	252	**954**	366
Interest, accretion and finance costs		**249**	169	**399**	360
Total Expenses		**93,393**	10,965	**155,559**	20,508
Profit for the period before before income taxes		**351**	281	**6,183**	2,946
Current income tax expense		**261**	-	**261**	-
Deferred income tax expense		**80**	263	**1,682**	1,392
		341	263	**1,943**	1,392
Profit for the period		**10**	18	**4,240**	1,554
Other comprehensive income					
Foreign currency translation adjustment		**2**	-	**2**	-
Total Comprehensive income for the period, net of income tax		**12**	18	**4,242**	1,554
Earnings per share					
Basic, profit for the period per common share	**19**	**0.00**	0.00	**0.07**	0.03
Diluted, profit for the period per common share	**19**	**0.00**	0.00	**0.06**	0.03

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

SECURE ENERGY SERVICES INC.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

($000's) (unaudited)	Notes	Issued capital	Reserves	Accumulated other comprehensive income	Retained earnings (deficit)	Total Shareholders' Equity (see Note 26)
Balance at January 1, 2010		**89,992**	**1,376**	-	**(6,001)**	**85,367**
Profit for the period		-	-	-	1,537	**1,537**
Issue of share capital, net of tax	**17**	57,544	-	-	-	**57,544**
Exercise of options	**17**	-	-	-	-	**-**
Share issue costs	**17**	(2,815)	-	-	-	**(2,815)**
Share-based payments	**18**	-	186	-	-	**186**
Balance at March 31, 2010		**144,721**	**1,562**	-	**(4,464)**	**141,819**
Profit for the period		-	-	-	18	**18**
Issue of share capital, net of tax	**17**	8,625	-	-	-	**8,625**
Exercise of options	**17**	15	(1)	-	-	**14**
Share issue costs	**17**	(533)	-	-	-	**(533)**
Share-based payments	**18**	-	470	-	-	**470**
Balance at June 30, 2010		**152,828**	**2,031**	-	**(4,447)**	**150,413**
Profit for the period		-	-	-	3,813	**3,813**
Issue of share capital, net of tax	**17**	-	-	-	-	**-**
Exercise of options	**17**	155	(16)	-	-	**139**
Share issue costs	**17**	-	-	-	-	**-**
Share-based payments	**18**	-	984	-	-	**984**
Balance at December 31, 2010		**152,983**	**2,999**	-	**(634)**	**155,348**
Profit for the period		-	-	-	4,240	**4,240**
Foreign currency translation adjustment		-	-	2	-	**2**
Shares issued as consideration for business combination	**6**	66,789	-	-	-	**66,789**
Issue of share capital, net of tax	**17**	86,250	-	-	-	**86,250**
Exercise of options and warrants	**17**	650	(127)	-	-	**523**
Share issue costs	**17**	(3,583)	-	-	-	**(3,583)**
Share-based payments	**18**	-	988	-	-	**988**
Balance at June 30, 2011		**303,089**	**3,860**	**2**	**3,606**	**310,557**

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

SECURE ENERGY SERVICES INC.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars)

		For the three months ended June 30,		For the six months ended June 30,	
($000's) (unaudited)	**Notes**	**2011**	**2010**	**2011**	**2010**
Cash flows from operating activities					
Profit after income tax for the period		**10**	**18**	**4,240**	**1,554**
Adjustments for non-cash items:					
Depreciation, depletion and amortization		**4,739**	2,728	**8,990**	6,168
Accretion		**87**	72	**158**	113
Current income tax expense		**261**	-	**261**	-
Deferred income tax expense		**80**	263	**1,682**	1,392
Unrealized foreign exchange loss		**2**	-	**2**	-
Share-based payments	**17**	**485**	470	**988**	657
Loss on sale of property, plant and equipment		**-**	-	**-**	43
		5,664	3,551	**16,321**	9,927
Change in accounts receivable and accrued receivables, other receivables, and prepaids and deposits		**20,015**	10,051	**14,624**	6,667
Change in inventories		**(796)**	67	**1,071**	291
Change in accounts payable and accrued liabilities related to operating activities		**(2,262)**	(9,286)	**(3,873)**	(6,857)
Net cash flows from operating activities		**22,621**	4,383	**28,143**	10,028
Cash flows from investing activities					
Purchase of property, plant and equipment		**(20,838)**	(10,872)	**(37,473)**	(16,013)
Business combination, net of cash acquired	**6**	**(63,985)**	(11,750)	**(63,985)**	(11,750)
Deposit on asset acquisition	**25**	**(18,475)**	-	**(18,475)**	-
Change in non-cash working capital		**(699)**	4,665	**(2,146)**	5,105
Net cash flows used in investing activities		**(103,997)**	(17,957)	**(122,079)**	(22,658)
Cash flows from financing activities					
Shares issued (net of share issue costs)		**81,731**	7,900	**81,996**	61,534
Repayments of bank indebtedness		**(6,479)**	-	**(6,479)**	(4,900)
Change in non-cash financing activities		**(6)**	(6)	**(12)**	(11)
Net cash flows from financing activities		**75,246**	7,894	**75,505**	56,623
Increase/(decrease) in cash and short term deposits		**(6,130)**	(5,680)	**(18,431)**	43,993
Cash and short term deposits, beginning of period		**10,217**	49,908	**22,518**	235
Cash and short term deposits, end of period		**4,087**	44,228	**4,087**	44,228
Taxes paid		**-**	**-**	**-**	**-**
Interest paid		**18**	**-**	**23**	**51**

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

(Unaudited – Expressed in Canadian Dollars)

1. CORPORATE INFORMATION

Secure Energy Services Inc. ("Secure") is incorporated under the Business Corporations Act of Alberta and primarily engaged in 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 provides a range of these services in each of its operating facilities throughout Alberta and British Columbia.

In March 2010, Secure filed a long form prospectus (the "Prospectus") which constituted Secure's initial public offering ("IPO") of common shares. On March 23, 2010, Secure received approval to list its common shares on the Toronto Stock Exchange ("TSX") and commenced trading under the symbol "SES" on March 30, 2010.

On June 1, 2011, Secure acquired all of the issued and outstanding shares of Marquis Alliance Energy Group Inc. ("MAEG"), who subsequently became a wholly-owned subsidiary of Secure. MAEG is incorporated under the Business Corporations Act of Alberta and is an energy services company that focuses on providing specialized services to upstream oil and natural gas companies operating in the Western Canadian Sedimentary Basin, the United States, and India. MAEG provides products, processes and services that enable oil and gas exploration and production companies to develop oil and natural gas more efficiently and effectively. The services provided by MAEG include drilling and completion fluids supply and engineering, solids control, equipment rentals, drilling waste management and reclamation services.

Secure operates through a number of wholly-owned subsidiaries (together referred to as the "Corporation") which are managed through two reportable segments: a processing, recovery and disposal services division ("PRD"), and a drilling services division ("Drilling services"). The following entities have been consolidated within Secure's condensed consolidated interim financial statements for the period ended June 30, 2011:

Subsidiary	Country	Segment	% Interest 2011	% Interest 2010
Secure Energy Services Inc. (parent company)	Canada	PRD		
Marquis Alliance Energy Group Inc.	Canada	Drilling services	100%	0%
Marquis Alliance Energy Group USA Inc.	USA	Drilling services	100%	0%
Alliance Energy Services International Ltd.	Canada	Drilling services	100%	0%

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 10, 2011. The address of the Corporation's registered office is Suite 4500, 855-2nd Avenue S.W. Calgary, Alberta, T2P 4K7.

Seasonality of 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.

2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements have been prepared by management in accordance with *IAS 34, Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and in effect at the closing date of June 30, 2011. The condensed consolidated financial statements should be read in conjunction with the Corporation's most recent annual financial statements and notes thereto, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), included in the annual report for the year ended December 31, 2010 and the unaudited condensed consolidated interim financial statements for the period ended March 31, 2011 (the Corporation's first financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements form part of the period covered by the first IFRS annual financial statements (December 31, 2011). IFRS 1, "First-time Adoption of International Financial Reporting Standards", has been applied. These condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements.

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

Note 26 provides explanations of how the transition to IFRS has affected the reported financial position and performance. This note includes reconciliations from GAAP to IFRS.

The preparation of interim financial statements in conformity with IAS 34 requires management to make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to depreciation, depletion and amortization, asset retirement obligations, fair values of crude oil derivative contracts, recoverability of assets, and share-based payments. Actual results may differ from these estimates. See Note 4 for a description of significant estimates and judgments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of Secure and its subsidiaries and the proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint venture as at June 30, 2011. All inter-company balances and transactions have been eliminated on consolidation.

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

The following accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010.

a) Revenue recognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Taxes

Current income tax

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

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

Deferred income tax

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable 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 expected to be realized or the liability is expected to be settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

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

Goods and Services tax ("GST")

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Share-based payments

The Corporation has a share-based payment plan. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options and warrants granted. The fair value of each option or warrant granted is estimated on the date of grant and that value is recorded as share-based payment expense over the vesting period of those grants, with a corresponding increase to reserves less an estimated forfeiture rate. 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. Forfeitures are estimated for each reporting period, and adjusted as required to reflect actual forfeitures that have occurred in the period.

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

d) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss (”FVTPL”), 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 FVTPL are recognized at fair value plus directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Corporation commits to purchase or sell the asset.

The Corporation’s financial assets include cash and short term deposits, crude oil derivative contracts, accounts receivable and accrued receivables, other receivables and notes receivable.

Subsequent measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Cash and short-term deposits in the consolidated interim statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Loans and receivables

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

Derecognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Financial liabilities

Initial recognition and measurement

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

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

The Corporation's financial liabilities include crude oil derivative contracts, accounts payable and accrued liabilities, bank indebtedness and long term borrowings.

Subsequent measurement

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

FVTPL

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

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

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

Other financial liabilities

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

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

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

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated interim statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Corporation's crude oil contracts included in accounts receivable and accrued receivables and accounts payable and accrued liabilities are shown on a net basis where there is a legally enforceable right to offset.

v) Shareholders' equity

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

vi) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. The Corporation does not hold any such instruments as at June 30, 2011 (December 31, 2010 – Nil; January 1, 2010 - Nil).

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's crude oil derivative contracts are valued by one or more of these valuation techniques.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and short term deposits are recorded at fair value under level 1. Included in accounts receivable and accounts payable are crude oil derivative contracts related to trading activities. The Corporation uses net buy or net sell crude oil derivative contracts for the marketing and trading of crude oil or natural gas liquids. The contracts are settled with physical delivery of crude oil on a monthly basis and are recorded at fair value at the consolidated statement of financial position date under level 2.

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

vii) Transaction costs

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

e) Property, plant and equipment

Land is measured at cost. Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such costs include geological and geophysical, drilling of wells, labour and materials, site investigation, equipment and facilities, contracted services and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated interim statement of comprehensive income as incurred. The present value of the expected cost for the asset retirement obligation of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to Note 16 for further information about the recognition and measurement of the asset retirement obligation.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCO UNTING POLICIES (continued)

f) Leases

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

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

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

g) Borrowing costs

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

h) Business combinations

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) 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.

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

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

j) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Inventories

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

l) Impairment of non-financial assets

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

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Corporation's individual CGU's comprise two operating segments. The non-financial assets of the Corporation are comprised of assets under construction, property, plant and equipment and intangible assets as at June 30, 2011, December 31, 2010 and January 1, 2010. Impairment losses of continuing operations are recognized in the consolidated interim statement of comprehensive income in those expense categories consistent with the function and nature of the impaired asset.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

m) 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 interim 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

n) Earnings per share

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

o) Jointly controlled operations

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Asset retirement obligations

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

q) Foreign currency translation and transactions

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

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

Transactions of Canadian entities in foreign currencies are translated at rates in effect at the time of the transaction. Foreign currency monetary assets and liabilities are translated at current rates. Gains or losses from the changes in exchange rates are recognized in profit or loss in the period of occurrence.

r) Segment reporting

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

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

s) Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income (“OCI”). OCI is comprised of the adjustments from the translation of foreign entities whose functional currency is other than the Canadian dollar. Amounts included in OCI are shown net of tax.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Corporation's consolidated interim financial statements requires management to make, at the end of the reporting period, judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Amounts recorded for depreciation and amortization are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. Amounts recorded for depletion on the landfill cells are based on estimates of the total capacity utilized in the period.

The Corporation assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows do not include restructuring activities, if any, that the Corporation is not yet committed to or significant future investments that will enhance the non-financial asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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

The Corporation uses estimates and judgements for determining the fair value of its financial instruments. Where the fair value of financial assets and financial liabilities recorded in the consolidated interim statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Amounts recorded for share-based payments are subject to the inputs used in the Black-Scholes option pricing model, including assumptions such as volatility, dividend yield, forfeiture rate and expected option life.

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

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorization of these consolidated interim 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 interim 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 interim financial statements.

In 2010, the IASB issued a collection of amendments as part of its annual project “Improvements to IFRSs.” The amendments address details of the recognition, measurement and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to existing standards. Except as otherwise specified, the amendments, which have not yet been endorsed, are to be applied for annual periods beginning on or after January 1, 2012. They are not expected to have a material impact on the presentation of the Corporation’s financial position or results of operations.

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.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which will supersede the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not expected to have a material impact on the presentation of the Corporation's financial position and results of operations.

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which will supersede existing IAS 31 *Joint Ventures* effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Corporation is currently assessing the impact of this standard.

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 of this standard.

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 of this standard.

In May 2011, the IASB published IFRS 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 financial statements.

6. BUSINESS COMBINATION

On June 1, 2011, Secure, through a series of transactions, acquired all of the issued and outstanding shares of Marquis Alliance Energy Group Inc. ("MAEG") for a total cash and share consideration of $132.3 million. The acquisition of MAEG allows Secure to provide an integrated drilling fluid service and expanded products and services to its customers. The Corporation paid $65.5 million in cash which was funded by the bought deal financing as described in Note 17. The acquisition was also funded through the issuance of 10,015,291 common shares of the Corporation at a closing price per share of $8.62 for consideration of $86.3 million, which was adjusted to fair value consideration for accounting purposes to $66.8 million. The fair value for accounting purposes was determined using a discounted cash flow analysis and was adjusted after considering such factors as the escrow period (shares to be released over a five year period) and liquidity of the Corporation's shares in the market place. Accordingly, the $66.8 million used in the purchase price allocation below is the difference between the $86.3 million at closing and the fair value adjustment of $19.5 million.

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

($000's)	
Common shares issued (10,015,291 shares)	66,789
Cash	65,500
Total consideration	**132,289**
Assets acquired ($000's)	
Cash and short term deposits	1,516
Accounts receivable and accrued receivables	40,191
Inventories	15,214
Prepaid expenses and deposits	1,661
Assets under construction	451
Property, plant and equipment	17,649
Intangible assets	50,906
Goodwill	61,322
Total assets	**188,910**
Liabilities acquired ($000's)	
Accounts payable and accrued liabilities	(18,049)
Bank indebtedness	(21,359)
Finance lease liabilities	(1,275)
Long term borrowings	(1,659)
Deferred income tax liability	(14,279)
Total liabilities	**(56,621)**
Net assets acquired	**132,289**

6. BUSINESS COMBINATION (continued)

Due to the limited time between the acquisition of MAEG and the preparation of these condensed consolidated interim financial statements, the amounts recorded on the MAEG acquisition above are based upon preliminary information available to management as of the date of this report. The above amounts are subject to change if the preliminary information about the facts and circumstances existing at the acquisition date obtained by management changes subsequent to the date of this report.

A contingent liability resulting from a legal claim with a former employee was assumed as part of the acquisition. The claim relates to the termination of the employee's employment and for damages for wrongful dismissal. As at June 30, 2011, the Corporation is unable to estimate the settlement amount and the potential outcome of the claim, and has therefore not recorded a corresponding liability (see Note 23).

The fair value of the accounts receivable and accrued receivables acquired is $40.2 million. The gross amount of accounts receivable and accrued receivables is $40.3 million. A $0.1 million allowance for uncollectable receivables has been included in the fair value of accounts receivable and accrued receivables.

The allocations and determinations of the consideration described above are preliminary and subject to changes upon final adjustments. Pursuant to the MAEG acquisition agreement (the "Agreement"), $7.0 million of the cash consideration is held under trust conditions to account for any potential material environmental liabilities, accounts receivable allowances and inventory obsolescence and a further $3.0 million is held under trust conditions to account for any potential working capital adjustments. On closing, MAEG is required to have an adjusted working capital surplus of $19.8 million, net of outstanding bank debt. Under the provisions of the Agreement, the working capital requirement was adjusted down by $0.6 million to $19.2 million, for deposits paid by MAEG on real property prior to the closing of the Agreement. Actual working capital received on closing was $18.2 million. Accordingly, a $1.0 million other receivable (Note 7) will be deducted from amounts held in trust prior to release of the other amounts held under trust conditions.

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

The Corporation incurred acquisition-related costs of $0.4 million relating to due diligence costs and legal fees. These costs have been included in business development costs on the condensed consolidated interim statements of comprehensive income.

From the date of acquisition, MAEG contributed $9.5 million of revenue and $0.3 million to the profit for the period before tax of the Corporation. If the business combination had been completed on January 1, 2011, the revenue and loss before income tax for the three month period ending June 30, 2011 would have been $106.1 million and $2.7 million, respectively, and the revenue and profit before income tax for the six month period ending June 30, 2011 would have been $223.3 million and $11.6 million, respectively based on the unaudited operating results of MAEG.

7. ACCOUNTS RECEIVABLE AND ACCRUED RECEIVABLES

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Trade accounts receivable and accruals	**45,643**	14,974	5,736
Other receivable (Note 6)	**978**	-	-
Crude oil derivative contracts	**4,752**	10,493	-
	51,373	25,467	5,736
Allowance for doubtful accounts	**(189)**	(73)	(42)
	51,184	**25,394**	**5,694**

Trade accounts receivables are non-interest bearing and are generally on 30-90 day terms.

Included in accounts receivable and accrued receivables are crude oil derivative contracts related to trading activities. The Corporation uses net buy and net sell crude oil derivative contracts (the "contracts") for marketing and trading of crude oil which commenced in December of 2010 as part of the Corporation becoming a single shipper of crude oil on Pembina Pipeline Corporation's ("Pembina") pipeline. Typically, these contracts are entered into in the forecast month which is the month prior to the production or delivery month. 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. There is no initial cash outlay in the month prior to the production month, as both the commodity price the producer will receive and the actual crude oil volume to be delivered are determined in the production month. The contract obligation is settled upon delivery. Therefore, as a result of no initial cash outlay in the forecast month, and given both the commodity price and physical delivery are settled at a future date (the production month) these contracts are defined as derivative instruments within financial instruments. The contracts are carried at fair value on the Corporation's consolidated interim statement of financial position in the forecast month, and are included within accounts receivable and accrued receivables or accounts payable and accrued liabilities upon settlement. The contracts settled in the production month are included in accounts receivable and accrued receivables and accounts payable and accrued liabilities and are recorded on a net basis where the Corporation has a legally enforceable right and intention to offset.

As at June 30, 2011, $0.2 million (December 31, 2010 - $0.1 million; January 1, 2010 - $0.1 million) of trade receivables were considered impaired.

8. INVENTORIES

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Crude oil and natural gas liquids	1,047	2,979	595
Drilling fluids inventory acquired through business combination (Note 6)	15,214	-	-
Drilling fluids	715	-	-
Spare parts and supplies	351	205	87
Total inventories	**17,327**	**3,184**	**682**

Inventories are shown at the lower of cost and net realizable value. Drilling fluids inventories recognized as operating expenses on the consolidated interim statements of comprehensive income for the three and six months ended June 30, 2011 was $4.8 million and $4.8 million, respectively (three and six months ended June 30, 2010 – Nil and Nil, respectively).

No inventories were specifically pledged as security; however, inventories are included in the general security agreements held by the banks as security for the Corporation's credit facilities (see Note 14).

9. ASSETS UNDER CONSTRUCTION

Assets under construction or refurbishment are not depreciated until they are complete and available for use. When this occurs, the asset is transferred to property, plant and equipment and classified by the nature of the asset.

($000's)	Projects under construction	Equipment (under refurbishment)	Assets under construction acquired through business combination (Note 6)	Total
At June 30, 2011	**39,684**	**1,141**	**451**	**41,276**
At December 31, 2010	29,655	1,163	-	**30,818**
At January 1, 2010	6,070	1,275	-	**7,345**

The amounts included in the categories above consist of assets associated with a variety of ongoing projects. $0.2 million of capitalized salaries was added to assets under construction for the six month period ending June 30, 2011 ($0.2 million for the six month period ending June 30, 2010).

10. PROPERTY, PLANT AND EQUIPMENT

($000's)	Land	Buildings	Plant, Infrastructure, Equipment, and Landfill Cells	Rental Equipment	Mobile Equipment	Disposal Wells	Furniture and Fixtures	Computer Equipment and Software	Total
Cost:									
At January 1, 2010	21	6,083	60,053	-	1,066	25,528	419	1,134	**94,304**
Additions	655	2,361	33,152	-	2,063	3,652	343	431	**42,657**
Change in asset retirement cost	-	-	156	-	-	265	-	-	**421**
Disposals	-	-	(110)	-	(75)	-	-	-	**(185)**
At December 31, 2010	676	8,444	93,252	-	3,054	29,445	762	1,565	**137,198**
Additions from business combinations (Note 6)	2,113	3,244	4,064	6,919	158	-	748	403	**17,649**
Additions	-	3,199	21,308	-	132	3,741	79	312	**28,771**
Change in asset retirement cost	-	-	12	-	-	25	-	-	**37**
Disposals	-	-	(121)	-	-	-	(200)	-	**(321)**
At June 30, 2011	**2,789**	**14,887**	**118,515**	**6,919**	**3,344**	**33,211**	**1,389**	**2,280**	**183,334**
Accumulated depreciation and depletion:									
At January 1, 2010	-	(373)	(8,810)	-	(218)	(1,673)	(71)	(349)	**(11,494)**
Depreciation and depletion	-	(465)	(10,557)	-	(421)	(1,708)	(61)	(320)	**(13,532)**
Disposals	-	-	29	-	36	-	-	-	**65**
At December 31, 2010	-	(838)	(19,338)	-	(603)	(3,381)	(132)	(669)	**(24,961)**
Depreciation and depletion	-	(380)	(6,063)	(341)	(314)	(1,046)	(41)	(202)	**(8,387)**
Disposals	-	-	43	-	-	-	-	-	**43**
At June 30, 2011	**-**	**(1,218)**	**(25,358)**	**(341)**	**(917)**	**(4,427)**	**(173)**	**(871)**	**(33,305)**
Net book value:									
At June 30, 2011	**2,789**	**13,669**	**93,157**	**6,578**	**2,427**	**28,784**	**1,216**	**1,409**	**150,029**
At December 31, 2010	676	7,606	73,914	-	2,451	26,064	630	896	**112,237**
At January 1, 2010	21	5,710	51,243	-	848	23,855	348	785	**82,810**

10. PROPERTY, PLANT AND EQUIPMENT (continued)

The amount of borrowing costs capitalized during the three month period ended June 30, 2011 was Nil (June 30, 2010 - Nil). During the three and six months ended June 30, 2011, $1.5 million and $26.4 million, respectively, was transferred from assets under construction to property, plant and equipment for completed projects (three and six months ended June 30, 2010 - $1.0 million and $1.6 million).

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of $6.5 million (December, 31 2010 - $3.7 million, January 1, 2010 - $1.4 million). The finance lease commitments over the next five years are disclosed in Note 23.

11. INTANGIBLE ASSETS

Amortization expenses relating to intangible assets are including in operating expenses on the consolidated interim statement of comprehensive income.

($000's)	Non-competition agreements	Customer relationships	Licenses	Patents	Total
Cost:					
At January 1, 2010	93	254	-	-	**347**
Additions through business combination	-	-	3,245	-	**3,245**
Disposals	-	-	-	-	**-**
At December 31, 2010	93	254	3,245	-	**3,592**
Additions through business combination (Note 6)	9,840	36,271	-	4,795	**50,906**
Disposals	-	-	-	-	**-**
At June 30, 2011	**9,933**	**36,525**	**3,245**	**4,795**	**54,498**
Accumulated amortization:					
At January 1, 2010	(20)	(55)	-	-	**(75)**
Amortization	(19)	(51)	(216)	-	**(286)**
Disposals	-	-	-	-	**-**
At December 31, 2010	(39)	(106)	(216)	-	**(361)**
Amortization	(173)	(230)	(162)	(32)	**(597)**
Disposals	-	-	-	-	**-**
At June 30, 2011	**(212)**	**(336)**	**(378)**	**(32)**	**(958)**
Net book value:					
At June 30, 2011	**9,721**	**36,189**	**2,867**	**4,763**	**53,540**
At December 31, 2010	54	148	3,029	-	**3,231**
At January 1, 2010	73	199	-	-	**272**

12. GOODWILL

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Balance - beginning of period	**-**	-	-
Additions through business combination (Note 6)	**61,322**	-	-
Balance - end of period	**61,322**	**-**	**-**

13. ACCOUNTS PAYABLE AND ACCRUED LIABLITIES

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Accounts payable and accruals	**37,293**	19,250	3,326
Related party payable (Note 22)	**47**	59	-
Crude oil derivative contracts	**4,752**	10,493	-
	42,092	**29,802**	**3,326**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-90 day terms.
- For terms and conditions relating to related parties, refer to Note 22.

Included in accounts payable and accrued liabilities are crude oil derivative contracts related to trading activities. The Corporation uses net buy or net sell crude oil derivative contracts for the marketing and trading of crude oil (See Note 7).

14. BANK INDEBTEDNESS

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Margin credit facility	**21,000**	-	-
Amount drawn	**(14,885)**	-	-
Available amount	**6,115**	**-**	**-**

As a result of the business combination described in Note 6, the Corporation acquired MAEG's existing margin credit facility ("margin credit facility") available in the form of an overdraft. The margin credit facility is available to a maximum of $21.0 million, and bears interest, payable monthly, at 1.25% above the Bank Prime rate (June 30, 2011 – 3.00%) depending on certain minimum financial ratios to be maintained by the Corporation. As at June 30, 2011 the Corporation was in compliance with all financial covenants (December 31, 2010 and January 1, 2010 – in compliance).

The margin credit facility is a revolving facility, due on demand with no repayment terms and is secured by a general security agreement over accounts receivable and an assignment of fire and liability insurance. As at June 30, 2011, the Corporation had drawn $14.9 million (December 31, 2010 – Nil: January 1, 2010 – Nil) on the margin credit facility.

15. LONG TERM BORROWINGS

The Corporation has a secured credit facility ("credit facility") consisting of a committed revolving term facility, bearing interest at 1.5% to 2.5 % above the Bank Prime rate, depending on certain minimum financial ratios to be maintained by the Corporation. During May 2011, the Corporation renewed its existing credit facility for a period of one year to May 31, 2012 and increased the amount available under the credit facility to $55.0 million from $35.0 million. There were no additional costs incurred to increase the amount available under the credit facility. The credit facility is a multi-use facility to provide capital project financing, working capital requirements and letters of guarantee in support of financial security requirements. At June 30, 2011, no amounts were drawn on the credit facility (December 31, 2010 - Nil; January 1, 2010 - $4.9 million)

As security for the credit facility, the Corporation granted lenders a security interest over all of its present and after acquired property. A $200.0 million 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.

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Committed secured credit facility	**55,000**	35,000	35,000
Letters of guarantee issued	**(9,411)**	(8,494)	(8,380)
Available amount	**45,589**	**26,506**	**26,620**

The available credit facility is reduced by any outstanding letters of guarantee. As at June 30, 2011, the Corporation has approximately $9.4 million in letters of guarantee issued by the Corporation's banker (December 31, 2010 - $8.5 million; January 1, 2010 - $8.4 million). The current fee for the issued guarantees is 1.5%. All guarantees reduce the Corporation's available secured credit facility. The guarantees are issued to various government authorities for potential reclamation obligations in accordance with applicable regulations (Note 16).

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Mortgage loan	**1,711**	-	-
Current portion of mortgage loan included in accounts payable and accrued liabilities	**(57)**	-	-
Committed secured credit facility	**-**	-	4,788
Total Long term borrowings	**1,654**	**-**	**4,788**

The Corporation has secured a demand, non-revolving mortgage loan ("mortgage") for $1.7 million with an amortization period of 20 years, bearing interest at 1.5% above the Bank Prime rate. The mortgage is for the financing of an industrial warehouse in the Nisku, Alberta area to be used in the Corporation's Drilling services division. As at June 30, 2011, the current portion of the mortgage loan of $0.1 million (December 31, 2010 - $Nil; January 1, 2010 - $Nil) has been included in the Corporation's accounts payable. The mortgage commitments over the next five years are disclosed in Note 23.

15. LONG TERM BORROWINGS (continued)

As security for the mortgage, a $2.38 million first, fixed and specific mortgage and charge over the lands and premises was provided to the lender.

On August 4, 2011, the Corporation repaid the secured credit facility, the margin credit facility and the mortgage and replaced the existing facilities with a new $150 million committed three year revolving facility ("revolving credit facility") (See Note 25).

16. ASSET RETIREMENT OBLIGATIONS

($000's)	
At January 1, 2010	4,239
Arising during the year through development activities	2,233
Revisions during the year	(147)
Arising during the year through acquisitions	2,609
Discount rate adjustment and accretion	636
At December 31, 2010	9,570
Arising during the year through development activities	393
Revisions during the period	565
Discount rate adjustment and accretion	186
At June 30, 2011	**10,714**

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 June 30, 2011 to be $10.7 million (December 2010 - $9.6 million; January 1, 2010 - $4.2 million) based on a total future liability of $15.9 million as at June 30, 2011 (December 31, 2010 - $14.3 million; January 1, 2010 - $ 7.3 million). These costs are expected to be incurred over the next one to 24 years. The Corporation used its risk-free interest rates of 1.59% to 3.55% and an inflation rate of 3.00% to calculate the net present value of its asset retirement obligations.

17. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of common voting shares of no par value
Unlimited number of preferred shares of no par value

	Number of Shares	Amount ($000's)
Balance, January 1, 2010	41,631,991	89,992
Initial public offering	19,166,667	57,500
Agent's exercise of over-allotment	2,875,000	8,625
Employee share ownership plan	15,990	44
Options exercised	64,700	153
Transfer from reserves in equity	-	17
Share issue costs	-	(4,649)
Deferred tax effect of share issue costs	-	1,301
Balance, December 31, 2010	63,754,348	152,983
Options exercised	180,767	489
Warrants exercised	22,500	34
Transfer from reserves in equity	-	127
Bought-deal equity financing	12,969,900	86,250
Shares issued as consideration for business combination (Note 6)	10,015,291	66,789
Share issue costs	-	(4,777)
Deferred tax effect of share issue costs	-	1,194
Balance, June 30, 2011	**86,942,806**	**303,089**

On March 23, 2010, the Corporation completed an IPO of its common shares. A total of 19,166,667 common shares were issued through a prospectus at a price of $3.00 per common share, resulting in gross proceeds of $57.5 million. On April 16, 2010, the Agents exercised the over-allotment option to purchase an additional 2,875,000 common shares at a price of $3.00 per common share for gross proceeds of approximately $8.6 million. In connection with these offerings, the Corporation incurred approximately $4.6 million in transaction costs which included $3.7 million in agent fees. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2010.

On May 19, 2011, the Corporation completed an offering on a bought deal basis (the "Offering") with a syndicate of underwriters, pursuant to which the underwriters agreed to purchase for resale to the public 12,969,900 subscription receipts of the Corporation at a price of $6.65 per subscription receipt for gross proceeds of approximately $86.3 million. In connection with the offering, the Corporation incurred approximately $4.8 million in transaction costs which included $4.3 million in agent fees. These costs, net of tax, were applied against the proceeds in share capital during the period ended June 30, 2011.

On June 1, 2011, the Corporation purchased all of the issued and outstanding shares of MAEG for total consideration of $132.3 million. The purchase price consisted of $65.5 million in cash consideration and $66.8 million consideration by way of issuance of 10,015,291 common shares (see Note 6).

The MAEG Agreement provides that the 10,015,291 common shares issued by the Corporation will be held in escrow pursuant to which 8,401,673 of such shares will be released on a straight line basis over five years, 608,030 released on a straight line basis over four years, and the remaining 1,005,588 shares released on a straight line basis over two years. Accordingly, as at June 30, 2011, 10,015,291 common shares were held in escrow.

(Unaudited – Expressed in Canadian Dollars)

18. SHARE-BASED PAYMENT PLAN

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

	June 30, 2011		Dec 31, 2010	
	Outstanding options	Weighted average exercise price ($)	Outstanding options	Weighted average exercise price ($)
Balance - beginning of period	5,627,450	2.50	3,447,900	1.98
Granted	1,511,169	8.69	2,317,800	3.28
Exercised	(180,767)	2.71	(64,700)	2.37
Forfeited	(36,258)	4.67	(73,550)	2.98
Balance - end of period	**6,921,594**	**3.83**	**5,627,450**	**2.50**
Exercisable - end of period	**3,320,747**	**2.04**	**2,325,466**	**1.71**

On June 15, 2011 the Corporation, as part of its annual grant of stock options, granted 1,221,559 options to employees, officers and directors.

	Options outstanding			Options exercisable	
Exercise price ($)	Outstanding options	Weighted average exercise price ($)	Weighted average remaining term (years)	Outstanding options	Weighted average exercise price ($)
1.00 - 2.00	1,588,000	1.28	1.12	1,588,000	1.28
2.01 - 3.00	3,315,525	2.79	3.18	1,669,414	2.71
3.01 - 4.00	320,700	3.73	3.93	63,333	3.76
4.01 - 5.00	77,550	4.57	4.38	-	-
5.01 - 6.00	119,300	5.33	4.44	-	-
6.01 - 7.00	111,065	6.10	4.69	-	-
7.01 - 8.00	65,145	7.96	4.88	-	-
8.01 - 9.00	1,301,284	8.96	4.96	-	-
9.01 - 10.00	23,025	9.20	4.98	-	-
	6,921,594	**3.83**	**3.16**	**3,320,747**	**2.04**

(Unaudited – Expressed in Canadian Dollars)

18. SHARE-BASED PAYMENT PLAN (continued)

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

	June 30, 2011	Dec 31, 2010
Volatility factor of expected market price (%)	**45.16**	51.53
Weighted average risk-free interest rate (%)	**2.01**	2.25
Weighted average expected life in years	**4.1**	5.0
Weighted average expected annual dividends per share	**Nil**	Nil
Weighted average fair value per option ($)	**3.28**	1.53
Weighted average forfeiture rate (%)	**1.07**	0.17

The Corporation's stock has limited trading history, therefore the Corporation has used a weighted average volatility consisting of its own limited historical volatility and the historical volatilities of certain members of its peer group for input into the Black-Scholes Option Pricing Model.

Performance warrants

The Corporation has a performance warrant plan, under which the Corporation may grant performance warrants to its employees, officers, directors and consultants to a one-time maximum amount of 1,075,994. The number of warrants issued is approved by the Board of Directors at the time of grant. There are currently no remaining performance warrants to be granted. Performance warrants issued under the plan have a term of five years to expiry from the date of the grant and vest 1/3, 1/3, 1/3 based on predetermined threshold amounts of $3.00, $3.50 and $4.25, respectively. The threshold amounts are determined using the weighted average trading price of the common shares of the Corporation for a period of 45 consecutive days. As at June 30, 2011, all warrants have vested.

	June 30, 2011		Dec 31, 2010	
	Outstanding warrants	Weighted average exercise price ($)	Outstanding warrants	Weighted average exercise price ($)
Balance - beginning of period	1,068,494	1.50	1,075,994	1.50
Granted	-	-	-	-
Exercised	(22,500)	1.50	-	-
Forfeited	-	-	(7,500)	1.50
Balance - end of period	**1,045,994**	**1.50**	**1,068,494**	**1.50**
Exercisable - end of period	**1,045,994**	**1.50**	**1,068,494**	**1.50**

18. SHARE-BASED PAYMENT PLAN (continued)

The following table summarizes information about performance warrants outstanding as at June 30, 2011:

Warrants outstanding				Warrants exercisable	
Exercise price ($)	**Warrants outstanding**	**Weighted average exercise price ($)**	**Weighted average remaining contractual life (years)**	**Exercisable Warrants**	**Weighted average exercise price ($)**
1.50	1,045,994	1.50	0.97	1,045,994	1.50

For the three month period ended June 30, 2011, share-based payment expense of $0.5 million (June 30, 2010 - $0.5 million) has been recognized for stock options and warrants granted. For the six month period ended June 30, 2011, share-based payment expense of $1.0 million (June 30, 2010 - $0.7 million) has been recognized for stock options and warrants granted. These costs are recorded as share-based payment expense with the offsetting amount being credited to reserves as shown in the following table:

Reserves

($000's)	June 30, 2011	Dec 31, 2010
Balance - beginning of period	**2,999**	1,376
Share-based payments	**988**	1,640
Transfer to issued capital	**(127)**	(17)
Balance - end of period	**3,860**	2,999

Employee Share Ownership Plan

The Employee Share Ownership Plan ("ESOP") allows employees to purchase common shares of the Corporation. Employees may contribute up to 5% of their base salaries in the ESOP. For the three and six months ended June 30, 2011, employees contributed $0.1 million and $0.2 million, respectively, into the plan. The Corporation will match contributions up to 5% based on the employee's years of service with the Corporation. The Corporation's matching expense for the three and six months ended June 30, 2011 was $0.04 million and $0.07 million, respectively (three and six months ended June 30, 2010 - $0.01 and $0.01, respectively). The program was implemented in 2009.

19. EARNINGS PER COMMON SHARE

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

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

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

	For the three months ended		For the six months ended	
($000's)	**June 30, 2011**	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Net profit attributable to common shareholders for basic and diluted earnings	**10**	18	**4,240**	1,554

	For the three months ended		For the six months ended	
	June 30, 2011	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Weighted average number of shares for basic earnings per share	**71,207,964**	63,187,252	**67,539,221**	53,319,051
Effect of dilution:				
Options and warrants	**4,643,373**	1,529,186	**4,336,254**	1,217,017
Weighted average number of shares for diluted earnings per share	**75,851,337**	**64,716,438**	**71,875,475**	**54,536,068**

20. FINANCIAL INSTRUMENTS

a. Carrying values and fair values

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

($000's)	June 30, 2011		December 31, 2010		January 1, 2010	
	Carrying amount	Fair value amount	Carrying amount	Fair value amount	Carrying amount	Fair value amount
Financial Assets:						
Financial assets at fair value through profit or loss:						
Cash and short term deposits	**4,087**	**4,087**	22,518	22,518	235	235
Crude oil derivative contracts	**4,752**	**4,752**	10,493	10,493	-	-
Loans and receivables:						
Accounts receivable	**46,432**	**46,432**	14,901	14,901	5,694	5,694
Other receivables	**-**	**-**	-	-	38	38
Notes receivable	**494**	**494**	482	482	459	459
Financial Liablilties:						
Financial liabilities at fair value through profit or loss:						
Crude oil derivative contracts	**4,752**	**4,752**	10,493	10,493	-	-
Other financial liabilities:						
Accounts payable and accrued liabilities	**37,340**	**37,340**	19,309	19,309	3,326	3,326
Bank indebtedness	**14,885**	**14,885**	-	-	-	-
Long term borrowings	**1,654**	**1,654**	-	-	4,788	4,900

b. Derivatives

The Corporation uses net buy and net sell crude oil derivative contracts (the "contracts") for marketing and trading of crude oil. Typically, these contracts are entered into in the forecast month which is the month prior to the production or delivery month. 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. There is no initial cash outlay in the month prior to the production month, as both the commodity price the producer will receive and the actual crude oil volume to be delivered are determined in the production month. The contract obligation is settled upon delivery. Therefore, as a result of no initial cash outlay in the forecast month, and given both the commodity price and physical delivery are settled at a future date (the production month) these contracts are defined as derivative instruments within financial instruments. The contracts are carried at fair value on the Corporation's condensed consolidated interim statements of financial position in the forecast month and are included within accounts receivable or accounts payable upon settlement. Changes in fair value are included in the condensed consolidated interim statements of comprehensive income during the period of change. The contracts settled in the production month are included in accounts receivable and account payable, and are recorded on a net basis where the Corporation has a legally enforceable right and intention to offset.

20. FINANCIAL INSTRUMENTS (continued)

c. Risks

Commodity price risk – non-trading

The value of the Corporation's crude oil inventory, including oil inventory purchased as base stock for drilling fluids, is impacted by the commodity price of crude oil. Crude oil prices have historically fluctuated widely and are affected by numerous factors outside of the Corporation's control. Crude oil prices are primarily based on Western Texas Intermediate ("WTI") plus or minus a differential to WTI based on the crude oil type and other contributing market conditions. As part of normal operating activities, the Corporation is required to hold a certain amount of inventory in any given month. In addition, changes in the prices of crude oil and natural gas can impact overall drilling activity and demand for the Drilling services division's products and services. 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 contracts. The physical trading activities related to the contracts exposes the Corporation to the risk of profit or loss depending on a variety of factors including: changes in the prices of commodities; foreign exchange rates; changes in value of different qualities of a commodity; changes in the relationships between commodity prices and the contracts; physical loss of product through operational activities; and disagreements over terms of deals and/or contracts. These risks are mitigated by the fact that the Corporation only trades physical volumes, the volumes are traded over a short period (forecast and production month), and the Corporation does not currently participate in the long term storage of the commodities. In addition, the Corporation has developed detailed policies, procedures and controls over the trading activities, which include oversight by experienced management.

The Corporation defines an "open position" as the difference between physical deliveries of all net buy crude oil derivative contracts offset against physical delivery of all net sell crude oil derivative contracts. The open position is subject to commodity price risk. As a single shipper, the pipeline mandates that any open positions of crude oil remaining at the end of any production month greater than approximately 3,200 barrels of crude oil would be subject to penalties. As a result, the Corporation's strategy is to reduce all opening positions below this threshold for any given month. The Corporation does have open positions throughout the forecast and production month, however those positions are closed within a relatively short period (before the end of the production month) therefore the overall exposure to the Corporation is significantly reduced. If the Corporation holds at or below 3,200 barrels of crude oil in open positions to a subsequent period, the exposure to the Corporation on a 10% increase or decrease in the price of crude oil per barrel would be an increase or decrease in revenue of approximately $0.03 million.

20. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Under 30 days	**20,171**	11,096	1,959
31-60 days	**3,886**	910	583
61-90 days	**4,151**	309	476
Over 90 days	**1,995**	231	213
Total	**30,203**	**12,546**	**3,231**
Provision for doubtful accounts	**189**	**73**	**42**

The balance of $20.2 million under 30 days includes crude oil contracts settled as part of the trading activities for June of 2011. Of the $20.2 million, 25% of the receivable balance under 30 days is due from one counterparty. The entire amount due from the one counterparty relates to crude oil payments, which as part of industry practice, are settled within 30 days following the production month. These specific counterparties are approved by the Corporation's risk management committee in accordance with the Corporation's credit policy relating to crude oil payments. The Corporation's credit exposure to any crude oil contracts settled is limited to transactions occurring over a 60 day period. The Corporation is also exposed to credit risk with respect to its cash and short term deposits. However, the risk is minimized as cash is held at major financial institutions.

20. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk as it had borrowed funds at variable interest rates on both the mortgage loan and the margin credit facility. A 1% increase or decrease is used when management assesses changes in interest rate risk internally. If interest rates had been 1% higher/lower, and all other variables were held constant, the Corporation's consolidated interim comprehensive income would be approximately $0.1 million lower/higher for the six month period ended June 30, 2011.

The Corporation is also exposed to interest rate risk on its cash and short term deposits balance of $4.1 million. A 1% increase or decrease in the interest rate received by the Corporation would potentially increase or decrease consolidated revenue by $0.01 million for the six month period ended June 30, 2011. The Corporation currently does not use interest rate hedges or fixed interest rate contracts to mitigate the Corporation's exposure to interest rate fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. The Corporation manages its liquidity risk through cash and debt management. Management's assessment of its liquidity reflects estimates, assumptions and judgments relating to current market conditions. As at June 30, 2011, the Corporation has $4.1 million in cash and short term deposits and an undrawn facility of $51.7 million. The timing of cash outflows relating to financial liabilities are outlined in the table below:

($000's)	Less than 1 year	1 year to 3 years	4 years to 5 years	5 years and thereafter
Accounts payable and accrued liabilities	42,092	-	-	-
Financing and operating lease obligations	4,234	5,259	3,054	1,655
Bank indebtedness	14,885	-	-	-
Long term borrowings	57	121	132	1,401
Total	**61,268**	**5,380**	**3,186**	**3,056**

20. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from its purchase and sale of crude oil, working capital balances denominated in foreign currencies and on the translation of its foreign operations. Foreign currency risk on the purchase and sale of crude oil is mitigated as the majority of the activities occur in the same period, therefore foreign currency risk exposure is limited to crude oil held in inventory. The Corporation manages and mitigates foreign currency risk by monitoring exchange rate trends and forecasted economic conditions. The Corporation does not maintain an active hedge program to mitigate the risks associated with its foreign operations as the exposure is limited and insignificant at this time given the revenue generated from foreign operations is less than 1% of total revenue. A 1% increase or decrease in foreign exchange rates would result in a less than $0.01 million change in the Corporation's consolidated profit for the period.

21. CAPITAL MANAGEMENT

The Corporation's objective in capital management is to ensure adequate sources of capital are available to carry out its planned capital program, while maintaining operational growth and increased cash flow so as to sustain future development of the business and to maintain creditor and shareholder confidence. Management considers capital to be the Corporation's current assets less current liabilities, total debt facilities and shareholders' equity as the components of capital to be managed.

Management controls its capital structure through detailed forecasting and budgeting, as well as established policies and processes over monitoring planned capital and operating expenditures.

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

Management will manage its debt to maintain compliance with the various financial covenants contained within its long term borrowings (Note 15). Those covenants are as follows:

- the working capital ratio may not be less than 1.25:1;
- the fixed charge coverage ratio may not be less than 1.25:1;
- the ratio of tangible assets to funded debt may not be less than 2.00:1;
- the ratio of funded debt to EBITDA (12 month trailing) may not exceed 3.50:1; and

On August 4, 2011, the Corporation completed a $150 million committed three year revolving facility (the "Revolving Facility") including within an amount up to $10 million available as an operating facility provided to the Corporation. (Note 25).

22. RELATED PARTY DISCLOSURES

The consolidated interim financial statements include the financial statements of the entities listed in the following table:

	% Interest	
Name	**2011**	**2010**
Pembina Pipeline Corporation (LaGlace joint venture)	50%	50%

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

($000's)		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related parties	**June 30, 2011**	**101**	**421**	**56**	**47**
	December 31, 2010	3	606	-	59
Director's fees	**June 30, 2011**	**-**	**32**	**-**	**-**
	December 31, 2010	-	51	-	-

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions, unless otherwise disclosed. The nature of the expenses relate to service work on the Corporation's disposal wells and for promotional items. 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 period ended June 30, 2011, the Corporation has not recorded any impairment of receivables relating to amounts owed by related parties (December 31, 2010 - Nil; January 1, 2010 - Nil). This assessment is undertaken each financial reporting period through examining the financial position of the related party and the market in which the related party operates.

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

22. RELATED PARTY DISCLOSURES (continued)

($000's)		Interest received	Amounts owed by related parties	Amounts owed to related parties
Notes receivable	**June 30, 2011**	**-**	**494**	**-**
	December 31, 2010	-	482	-
	January 1, 2010	-	459	-

In March 2007, the Corporation entered into an interest bearing promissory note and pledge agreement with three of its shareholders, who are also officers or employees of the Corporation. The principle amount is $0.4 million and the notes bear interest at a rate of 5% per annum. The proceeds of the loan were used to purchase shares in the Corporation. As security for the loan, the shareholders have pledged their shares of the Corporation. Total interest accrued to date is $0.09 million (December 31, 2010 - $0.08 million; January 1, 2010 - $0.06 million) for a total amount outstanding as at June 30, 2011 of $0.5 million (December 31, 2010 - $0.5 million; January 1, 2010 - $0.5 million). The notes are repayable on demand and are due on March 23, 2012, and are shown under current assets on the consolidated interim statements of financial position.

23. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Operating lease commitments

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

($000's)	June 30, 2011	Dec 31, 2010
Within one year	**1,906**	566
After one year but not more than five years	**6,308**	2,340
More than five years	**1,655**	703
	9,869	**3,609**

Finance lease commitments

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

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Within one year	**2,328**	1,304	561
After one year but not more than five years	**2,005**	1,670	556
More than five years	**-**	-	-
	4,333	**2,974**	**1,117**

23. COMMITMENTS, CONTINGENCIES AND GUARANTEES (continued)

Mortgage commitments

The Corporation has a mortgage loan payable on an industrial warehouse in the Nisku, Alberta area (Note 15). The future minimum mortgage payments are as follows:

($000's)	June 30, 2011	Dec 31, 2010	Jan 1, 2010
Within one year	**57**	-	-
After one year but not more than five years	**253**	-	-
More than five years	**1,401**	-	-
	1,711	**-**	**-**

Capital Commitments

As at June 30, 2011, the Corporation had committed $6.8 million (December 31, 2010 – Nil, January 1, 2010 - Nil) relating to various capital purchases for use in the Corporation's current and future capital projects. In addition, the Corporation had a $0.3 million commitment (December 31, 2010 – Nil, January 1, 2010 - Nil) relating to the purchase of a warehouse in Williston, North Dakota for use on the Corporation's Drilling services division's USA operations. All amounts are current and due within one year.

Inventory Purchase Commitment

As at June 30, 2011, the Corporation had commitments of $2.1 million (December 31, 2010 – Nil, January 1, 2010 - Nil) relating to inventory product purchases from a supplier for use in the Corporation's drilling services division. All amounts are current and due within one year.

Litigation

In December 2007, the Corporation was named as a co-defendant in a lawsuit on behalf of CCS Inc., seeking to recover damages in the aggregate of $110 million allegedly sustained by them pertaining to actions by former employees who are now employees of the Corporation. During 2008, the Defendants filed their Statements of Defence and counter claim. The matters raised in the lawsuit are considered by the Corporation to be unfounded and unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. The Corporation believes it has valid defences to this claim and accordingly has not recorded any related liability.

In December 2010, a statement of claim was filed against MAEG by a former employee seeking to recover damages of $0.5 million for wrongful dismissal. In January 2011, MAEG filed its Statement of Defence. As part of the acquisition of MAEG (Note 6), the Corporation indirectly acquired this legal claim. As at June 30, the Corporation is unable to determine the potential outcome of the claim nor an amount related to the claim, and as such has not recorded any related liability.

23. COMMITMENTS, CONTINGENCIES AND GUARANTEES (continued)

Guarantees

The Corporation indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers.

As at June 30, 2011, the Corporation has approximately $9.4 million in letters of guarantee issued by the Corporation's banker (December 31, 2010 - $8.5 million; January 1, 2010 - $8.4 million). The current fee for the issued guarantees is 1.5%. All guarantees are not cash secured and have been deducted from the Corporation's available long term borrowings (Note 15). The guarantees relate to security for the Corporation's facilities and are held with Alberta regulatory bodies (Note 16).

24. OPERATING SEGMENTS

For management purposes, the Corporation is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment. The PRD division general and administrative includes corporate costs relating to salaries, share based payments, office rent related to corporate employees, as well as public company costs. The Corporation intends to segregate this information in future periods when the Corporation has determined the appropriate amounts to include in a corporate category.

The Corporation has two reportable operating segments as follows:

- PRD division provides services relating to clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale service;

- Drilling services division provides services relating to drilling fluid systems, solids control, equipment rental service, drilling waste management and environmental sciences.

	Three months ended June 30, 2011		
($000's)	**PRD division**	**Drilling services division**	**Total**
Revenue	84,238	9,506	93,744
Operating expenses	81,129	7,443	88,572
General and administrative	2,643	1,162	3,805
Business development	711	56	767
Depreciation, depletion and amortization	3,889	850	4,739
Total profit before income taxes	31	320	351
Current assets	20,289	54,840	75,130
Total assets	214,320	185,452	399,772
Goodwill	-	61,322	61,322
Intangibles	3,034	50,506	53,540
Property, plant and equipment and assets under construction	172,511	18,794	191,305
Current liabilities	23,076	36,229	59,305
Total liabilities	36,619	52,596	89,215

24. OPERATING SEGMENTS (continued)

	Three months ended June 30, 2010		
($000's)	**PRD division**	**Drilling services division**	**Total**
Revenue	11,246	-	11,246
Operating expenses	8,705	-	8,705
General and administrative	1,839	-	1,839
Business development	252		252
Depreciation, depletion and amortization	2,728	-	2,728
Total profit before income taxes	281	-	281
Current assets	52,581	-	52,581
Total assets	170,224	-	170,224
Goodwill	-	-	-
Intangibles	3,428	-	3,428
Property, plant and equipment and assets under construction	112,852	-	112,852
Current liabilities	11,217	-	11,217
Total liabilities	19,810	-	19,810

	Six months ended June 30, 2011		
($000's)	**PRD division**	**Drilling services division**	**Total**
Revenue	152,236	9,506	161,742
Operating expenses	140,257	7,443	147,700
General and administrative	5,344	1,162	6,506
Business development	898	56	954
Depreciation, depletion and amortization	8,140	850	8,990
Total profit before income taxes	5,863	320	6,183
Current assets	20,289	54,840	75,130
Total assets	214,320	185,452	399,772
Goodwill	-	61,322	61,322
Intangibles	3,034	50,506	53,540
Property, plant and equipment and assets under construction	172,511	18,794	191,305
Current liabilities	23,076	36,229	59,305
Total liabilities	36,619	52,596	89,215

24. OPERATING SEGMENTS (continued)

	Six months ended June 30, 2010		
($000's)	**PRD division**	**Drilling services division**	**Total**
Revenue	23,454	-	23,454
Operating expenses	16,664	-	16,664
General and administrative	3,118	-	3,118
Business development	366	-	366
Depreciation, depletion and amortization	6,168	-	6,168
Total profit before income taxes	2,946	-	2,946
Current assets	52,581	-	52,581
Total assets	170,224	-	170,224
Goodwill	-	-	-
Intangibles	3,428	-	3,428
Property, plant and equipment and assets under construction	112,852	-	112,852
Current liabilities	11,217	-	11,217
Total liabilities	19,810	-	19,810

Geographical Financial Information

	Canada		International		Total	
($000's)	2011	2010	2011	2010	**2011**	**2010**
Three months ended June 30						
Revenue	93,087	11,246	657	-	**93,744**	11,246
Six months ended June 30						
Revenue	161,085	23,454	657	-	**161,742**	23,454
As at June 30, 2011 and December 31, 2010						
Total non-current assets	318,120	146,768	6,522	-	**324,642**	146,768

(Unaudited – Expressed in Canadian Dollars)

25. SUBSEQUENT EVENTS

On July 1, 2011, the Corporation purchased substantially all of the operating assets, including inventory but excluding all other working capital, of XL Fluid Systems Inc. ("XL") for total cash and share consideration of $39.5 million (the "XL Purchase Agreement"). The acquisition of XL allows the Corporation to expand the geographical presence of its drilling services division into Saskatchewan, and continue to expand the Corporation's products and services to its customers. The Corporation paid $22.5 million in cash and issued 2,297,885 common shares of the Corporation at a closing price per share of $9.58 for consideration of $22.0 million, which was adjusted downward to fair value consideration for accounting purposes of $17.0 million. The fair value for accounting purposes was adjusted after considering such factors as the escrow period (shares to be released over a five year period) and liquidity of the Corporation's shares in the market place. The Corporation paid an $18.5 million deposit for the purchase of XL, included in prepaid expenses and deposits as at June 30, 2011.

The following is the purchase price allocation for the acquisition of XL at July 1, 2011:

Cash	$ 22,502	
Shares issued	16,974	
Total fair value of consideration for accounting purposes		$ 39,476
Purchase Price Allocation:		
Inventories	$ 4,028	
Property, plant and equipment	342	
Intangible assets	20,659	
Goodwill	15,954	
Finance lease liabilities	(216)	
Deferred income tax liability	(1,291)	
		$ 39,476

Due to the limited time between the acquisition of XL and the preparation of these condensed consolidated interim financial statements, the amounts recorded on the XL acquisition above are based upon preliminary information available to management as of the date of this report. The above amounts are subject to change if the preliminary information about the facts and circumstances existing at the acquisition date obtained by management changes subsequent to the date of this report.

25. SUBSEQUENT EVENTS (continued)

On August 4, 2011, the Corporation completed a $150 million committed three year revolving facility including within an amount up to $10 million available as an operating facility provided to the Corporation. The revolving facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes. The covenants related to the revolving facility are as follows:

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

As security for the revolving 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.

26. RECONCILIATION OF GAAP TO IFRS

For all periods up to and including the year ended December 31, 2010, the Corporation prepared its consolidated financial statements in accordance with GAAP.

Accordingly, the Corporation has prepared consolidated interim financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 as described in the accounting policies. In preparing these condensed consolidated interim financial statements, the Corporation's opening consolidated statement of financial position was prepared as at January 1, 2010, the Corporation's date of transition to IFRS. This note explains the principle adjustments made by the Corporation in restating its GAAP consolidated statement of financial position as at January 1, 2010, March 31, 2010, June 30, 2010 and December 31, 2010, and its GAAP consolidated statement of comprehensive income for the periods ending March 31, 2010, June 30, 2010 and December 31, 2010.

Exemptions applied
The guidance for the first time adoption of IFRS is set out in *IFRS, 1 First-Time Adoption of International Financial Reporting Standards*. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these consolidated interim financial statements, the Company has elected to apply the following exemption:

- **Business combinations** - the Corporation elected not to re-value business combinations performed prior to January 1, 2010.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2010 (date of transition to IFRS)

	Notes	GAAP	Remeasurements	IFRS
Assets		**($000's)**	**($000's)**	**($000's)**
Current assets				
Cash and short term deposits		235	-	**235**
Accounts receivable and accrued receivables		5,694	-	**5,694**
Other receivables		38	-	**38**
Prepaid expenses and deposits		320	-	**320**
Inventories		682	-	**682**
		6,969	-	**6,969**
Notes receivable		459	-	**459**
Deferred income tax asset	**26C**	1,645	(663)	**982**
Assets under construction		7,345	-	**7,345**
Property, plant and equipment	**26A**	78,383	4,427	**82,810**
Intangible assets		272	-	**272**
Goodwill	**26B**	1,906	(1,906)	**-**
Total Assets		96,979	1,858	**98,837**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		3,326	-	**3,326**
Finance lease liabilities	**26E**	347	214	**561**
		3,673	214	**3,887**
Long term borrowings		4,788	-	**4,788**
Asset retirement obligations	**26D**	3,145	1,094	**4,239**
Finance lease liabilities	**26E**	217	339	**556**
Total Liabilities		11,823	1,647	**13,470**
Shareholders' Equity				
Issued capital		89,992	-	**89,992**
Reserves	**26F**	694	682	**1,376**
Deficit		(5,530)	(471)	**(6,001)**
Total Shareholders' Equity		85,156	211	**85,367**
Total Liabilities and Shareholders' Equity		96,979	1,858	**98,837**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2010

	Notes	GAAP	Remeasurements	IFRS
Assets		**($000's)**	**($000's)**	**($000's)**
Current assets				
Cash and short term deposits		49,908	-	**49,908**
Accounts receivable and accrued receivables		9,119	-	**9,119**
Prepaid expenses and deposits		368	-	**368**
Inventories		458	-	**458**
		59,853	-	**59,853**
Notes receivable		464	-	**464**
Deferred income tax asset	**26C**	1,724	(776)	**948**
Assets under construction		11,674	-	**11,674**
Property, plant and equipment	**26A**	75,468	4,734	**80,202**
Intangible assets		255	-	**255**
Goodwill	**26B**	1,906	(1,906)	**-**
Total Assets		151,344	2,052	**153,396**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		6,195	-	**6,195**
Finance lease liabilities	**26E**	339	234	**573**
		6,534	234	**6,768**
Asset retirement obligations	**26D**	3,199	1,077	**4,276**
Finance lease liabilities	**26E**	183	350	**533**
Total Liabilities		9,916	1,661	**11,577**
Shareholders' Equity				
Issued capital		144,721	-	**144,721**
Reserves	**26F**	798	764	**1,562**
Deficit		(4,091)	(373)	**(4,464)**
Total Shareholders' Equity		141,428	392	**141,820**
Total Liabilities and Shareholders' Equity		151,344	2,052	**153,396**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2010

	Notes	GAAP	Remeasurements	IFRS
Assets		**($000's)**	**($000's)**	**($000's)**
Current assets				
Cash and short term deposits		44,228	-	**44,228**
Accounts receivable and accrued receivables		7,486	-	**7,486**
Prepaid expenses and deposits		476	-	**476**
Inventories		391	-	**391**
		52,581	-	**52,581**
Notes receivable		470	-	**470**
Deferred income tax asset	**26C**	1,775	(882)	**893**
Assets under construction		21,380	-	**21,380**
Property, plant and equipment	**26A**	85,485	5,987	**91,472**
Intangible assets		3,428	-	**3,428**
Goodwill	**26B**	1,906	(1,906)	**-**
Total Assets		167,025	3,199	**170,224**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		10,183	-	**10,183**
Finance lease liabilities	**26E**	693	341	**1,034**
		10,876	341	**11,217**
Asset retirement obligations	**26D**	5,596	1,693	**7,289**
Finance lease liabilities	**26E**	848	456	**1,304**
Total Liabilities		17,320	2,490	**19,810**
Shareholders' Equity				
Issued capital		152,829	-	**152,829**
Reserves	**26F**	1,115	917	**2,032**
Deficit		(4,239)	(208)	**(4,447)**
Total Shareholders' Equity		149,705	709	**150,414**
Total Liabilities and Shareholders' Equity		167,025	3,199	**170,224**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

	Notes	GAAP	Remeasurements	IFRS
Assets		**($000's)**	**($000's)**	**($000's)**
Current assets				
Cash and short term deposits		22,518	-	**22,518**
Accounts receivable and accrued receivables		25,394	-	**25,394**
Prepaid expenses and deposits		600	-	**600**
Inventories		3,184	-	**3,184**
		51,696	-	**51,696**
Notes receivable		482	-	**482**
Deferred income tax asset	**26C**	404	(404)	**-**
Assets under construction		30,818	-	**30,818**
Property, plant and equipment	**26A**	104,439	7,798	**112,237**
Intangible assets		3,231	-	**3,231**
Goodwill	**26B**	1,906	(1,906)	**-**
Total Assets		192,976	5,488	**198,464**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		29,802	-	**29,802**
Finance lease liabilities	**26E**	807	497	**1,304**
		30,609	497	**31,106**
Asset retirement obligations	**26D**	7,560	2,010	**9,570**
Finance lease liabilities	**26E**	1,035	635	**1,670**
Deferred income tax liability	**26C**	-	770	**770**
Total Liabilities		39,204	3,912	**43,116**
Shareholders' Equity				
Issued capital		152,983	-	**152,983**
Reserves	**26F**	1,846	1,153	**2,999**
Deficit		(1,057)	423	**(634)**
Total Shareholders' Equity		153,772	1,576	**155,348**
Total Liabilities and Shareholders' Equity		192,976	5,488	**198,464**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2010

	Notes	GAAP ($000's)	Remeasurements ($000's)	IFRS ($000's)
Revenue		12,208	-	**12,208**
Operating expenses	**26A,26E**	8,239	(281)	**7,958**
General and administrative	**26F**	1,196	83	**1,279**
Business development		114	-	**114**
Interest, accretion and finance costs	**26D**	204	(13)	**191**
Total Expenses		9,753	(211)	**9,542**
Profit for the period before income taxes		2,455	211	**2,666**
Deferred income tax expense	**26C**	1,016	113	**1,129**
Profit for the period		1,439	98	**1,537**
Other comprehensive income		-	-	**-**
Total profit and comprehensive income for the period, net of income tax		1,439	98	**1,537**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED JUNE 30, 2010

	Notes	GAAP ($000's)	Remeasurements ($000's)	IFRS ($000's)
Revenue		11,246	-	**11,246**
Operating expenses	**26A,26E**	9,101	(396)	**8,705**
General and administrative	**26F**	1,687	152	**1,839**
Business development		252	-	**252**
Interest, accretion and finance costs	**26D**	197	(28)	**169**
Total Expenses		11,237	(272)	**10,965**
Profit for the period before income taxes		9	272	**281**
Deferred income tax expense	**26C**	157	106	**263**
Profit (loss) for the period		(148)	166	**18**
Other comprehensive income		-	-	**-**
Total profit (loss) and comprehensive income (loss) for the period, net of income tax		(148)	166	**18**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2010

	Notes	GAAP	Remeasurements	IFRS
		($000's)	($000's)	($000's)
Revenue		23,454	-	**23,454**
Operating expenses	**26A,26E**	17,339	(675)	**16,664**
General and administrative	**26F**	2,884	234	**3,118**
Business development		366	-	**366**
Interest, accretion and finance costs	**26D**	401	(41)	**360**
Total Expenses		20,990	(482)	**20,508**
Profit for the period before income taxes		2,464	482	**2,946**
Deferred income tax expense	**26C**	1,173	219	**1,392**
Profit for the period		1,291	263	**1,554**
Other comprehensive income		-	-	**-**
Total profit and comprehensive income for the period, net of income tax		1,291	263	**1,554**

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	Notes	GAAP ($000's)	Remeasurements ($000's)	IFRS ($000's)
Revenue		72,993	-	**72,993**
Operating expenses	**26A,26E**	55,867	(1,773)	**54,094**
General and administrative	**26F**	7,003	470	**7,473**
Business development		2,297	-	**2,297**
Interest, accretion and finance costs	**26D**	808	(102)	**706**
Total Expenses		65,975	(1,405)	**64,570**
Profit for the period before income taxes		7,018	1,405	**8,423**
Deferred income tax expense	**26C**	2,544	511	**3,055**
Profit for the period		4,474	894	**5,368**
Other comprehensive income		-	-	**-**
Total profit and comprehensive income for the period, net of income tax		4,474	894	**5,368**

RESTATEMENT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FROM GAAP TO IFRS

Notes to the reconciliations

A. Property, plant and equipment

Under GAAP, the Corporation depreciated its property, plant and equipment using the declining balance method. IFRS requires the depreciation method to reflect the consumption pattern of the assets being depreciated. As a result, the Corporation has retroactively changed depreciation methods from the declining balance method to the straight-line method to reflect the consumption pattern of its property, plant and equipment. The net result is an increase to property, plant and equipment and a decrease to deficit.

IFRS requires a substance-over-form approach for determining whether a particular lease arrangement should be considered a finance lease. Under GAAP, the Corporation did not treat certain leases as finance leases as they did not meet the GAAP requirements to do so. As a result, upon transitioning to IFRS, the Corporation included certain leases as finance leases. The net result is an increase to property, plant and equipment and a decrease to deficit.

The Corporation is required under IFRS to revalue its asset retirement obligations ("ARO") at each reporting period. The IFRS 1 exemption to revalue asset retirement obligations only at the date of transition was not taken. As a result, the Corporation has revalued all of its asset retirement obligations since inception. The net result is adjustments to property, plant and equipment, ARO and a corresponding adjustment to deficit.

($000's)	**December 31, 2010**	**June 30, 2010**	**March 31, 2010**	**January 1, 2010**
Decrease in depreciation from the change to straight line method	5,165	3,583	3,116	2,702
Increase in PP&E from the reclassification of leases to financing (26E)	1,712	1,153	857	765
Increase in the ARO asset (26D)	2,182	1,802	1,159	1,163
Depreciation relating to the ARO asset	(1,261)	(551)	(398)	(203)
Net increase to property, plant and equipment	**7,798**	**5,987**	**4,734**	**4,427**

RESTATEMENT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FROM GAAP TO IFRS (continued)

B. Goodwill

Under GAAP, the Corporation tested its goodwill annually for impairment, at the entity level. IFRS requires that goodwill be tested at the CGU level, at least annually, or more frequently if an impairment conditions exists. Under IAS 36, Goodwill acquired through a business combination is allocated to a CGU that is expected to benefit from the acquisition and which represents the lowest level within the Corporation at which the goodwill is monitored for internal management purposes. The recoverable amount of each CGU is compared to the carrying value of its net assets, with the recoverable amount of each CGU being its value in use (“VIU”). The VIU of each CGU is derived using the estimated discounted future cash flows. The impairment test for goodwill is now performed on a smaller portion of the Corporation’s assets than under GAAP. The Corporation performed an impairment test under IAS 36 on January 1, 2010, which indicated that a CGU in the Corporation’s PRD division was impaired, which resulted in a write-down of goodwill of $1.9 million and a corresponding increase to deficit.

The discounted cash flow model employed by the Corporation reflects the specifics of each CGU and its business environment. The model calculates the present value of the estimated future earnings of each CGU. Estimating future earnings requires judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment. The calculation of the VIU was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the one year business plan for the immediate year. Cash flows for future periods were extrapolated using a constant zero growth rate with adjustments reflecting an expectation of a recovery in the general economy, forecasted increases in drilling activity, and represents the Corporation's best estimate of the set of economic conditions that are expected to exist over the forecast period.
- Each CGU pre-tax discount rate reflects its individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital.

C. Deferred tax asset and liability

The various transitional adjustments lead to temporary differences. A reduction in deferred tax assets has been provided based on the Corporation changing depreciation methods from the declining balance methods to the straight line method. The net result is a decrease to deferred tax assets and an increase to deficit.

D. Asset retirement obligations

Under GAAP, ARO was measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred, discounted to their net present value upon initial recognition using a credit-adjusted risk free rate. ARO’s were not remeasured to reflect period end discount rates. Under IFRS, IAS 37 requires that the liability is measured as the best estimate of the expenditure to be incurred, discounted using a risk-free rate. Liabilities are required to be reassessed for the current risk-free rate at each reporting date.

RESTATEMENT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FROM GAAP TO IFRS (continued)

The IFRS 1 exemption to revalue its asset retirement obligations only at the date of transition was not taken. As a result, the Corporation has revalued all of its asset retirement obligations since inception for the changes in risk-free rates. The net result is an increase to property, plant and equipment, a decrease in asset retirement obligations and a decrease to accretion with a corresponding adjustment to deficit for the change in accretion.

($000's)	December 31, 2010	June 30, 2010	March 31, 2010	January 1, 2010
Increase in ARO liability due to a revaluation of the obligation [(1)] (26A)	2,182	1,802	1,159	1,163
Change in accretion expense due to the change in the obligation	(172)	(109)	(82)	(69)
Net increase in obligation	**2,010**	**1,693**	**1,077**	**1,094**

[(1)] The entire increase is a result of changing the interest rate used in valuing the obligation from a "credit adjusted risk free rate" to a "risk free rate".

E. Finance lease liabilities

IFRS requires a substance-over-form approach for determining whether a particular lease arrangement should be considered a finance lease. Under GAAP, the Corporation did not treat certain leases as finance leases as they did not meet the GAAP requirements to do so. As a result, upon transitioning to IFRS, the Corporation included certain leases as finance leases. The net result is an increase to finance lease liabilities (current and non-current) and a decrease to deficit.

($000's)	December 31, 2010	June 30, 2010	March 31, 2010	January 1, 2010
Increase in liability due to changes in finance lease criteria (26A)	1,712	1,153	857	765
Paydown of liability	(580)	(356)	(273)	(212)
Net Increase in finance lease liability	**1,132**	**797**	**584**	**553**
Increase in short term liability	497	341	234	214
Increase in long term liability	635	456	350	339
Net Increase in finance lease liability	**1,132**	**797**	**584**	**553**

RESTATEMENT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FROM GAAP TO IFRS (continued)

F. Share-based payments

Under GAAP, the Corporation calculated the fair value of share-based awards with graded vesting as one grant, and the resulting fair value was recognized on a straight-line basis over the vesting period. Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. This resulted in an increase to reserves and deficit upon initial grant of the share-based awards, however would result in a net nil effect once all tranches of awards had vested.

Also under Canadian GAAP, forfeitures were recognized as they occurred. Under IFRS the forfeiture estimates are recognized on the grant date. The effect of this change resulted in a decrease to reserves and deficit. In addition, the Corporation used an assumption of nil volatility in the Black-Scholes option valuation model for options granted before the Corporation was publicly traded, an exception to applying an expected volatility under GAAP for entities whose equity securities are not traded in a public market. Under IFRS, the expected volatility is required to be included in the valuation of share-based awards granted to employees with no exceptions. The use of a volatility rate resulted in an increase to reserves and deficit. The net result of the adoption of IFRS 2, *Share-based Payments*, is an increase to reserves of $917 as at June 30, 2010 (January 1, 2010 - $682; March 31, 2010 - $764; December 31, 2010 - $1,153) and an increase to deficit.

G. Consolidated statement of cash flows

The transition from GAAP to IFRS has not had a material impact on the Corporation's consolidated statement of cash flows.

Corporate Information

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David Johnson [(2) (3)]
Kevin Nugent [(1) (3)]
Brad Munro [(1) (2) (3)]

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President, Marquis Alliance Energy Group Inc.

Nick Wieler
Chief Financial Officer

Allen Gransch
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Vice President, Operations

Daniel Steinke
Vice President Business Development

Karen Myrheim
Vice President, Sales and Marketing

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[3] Corporate Governance Committee