

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### Three and Nine Months ended September 30, 2010 and 2009

This management's discussion and analysis ("MD&A") has been prepared by management and reviewed and approved by the Board of Directors of Secure Energy Services Inc. ("Secure" or the "Corporation"). The discussion and analysis is a review of the financial results of the Corporation based upon accounting principles generally accepted in Canada ("GAAP"). Its focus is primarily a comparison of the financial performance for the three and nine months ended September 30, 2010 and 2009 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, which are included in the Corporation's prospectus, and are accessible on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com). The Corporation's management is responsible for the information disclosed in this MD&A and the accompanying unaudited interim consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Corporation's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Corporation. The MD&A has been prepared as of November 4, 2010.

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking statements" within the meaning of securities laws, including the "safe harbor" provisions of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to Secure, or its management, are intended to identify forward-looking statements. Such statements reflect the current views of Secure with respect to future events and operating performance and speak only as of the date of this MD&A. In particular, this MD&A contains forward-looking statements pertaining to: general market conditions, the oil and natural gas industry, activity levels in the oil and gas sector, commodity prices for oil, NGLs and natural gas, debt service, capital expenditures, completion of facilities, future capital needs, access to capital, acquisition strategy, anticipated completion of the Brazeau Disposal Well Facility, anticipated construction of the Drayton Valley FST, anticipated completion of the OBED and Dawson Creek SWDs and Secure becoming a shipper of crude oil at the Fox Creek FST.

Forward-looking information concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity and growth levels in similar phases of previous economic cycles. Forward-looking information concerning the availability of funding for future operations is based upon assumptions that sources of funding which the Corporation has relied upon in the past will continue to be available to the Corporation on terms favorable to the Corporation and that future economic and operating conditions will not limit the Corporation's access to debt and equity markets. Forward-looking information concerning the relative future competitive position of the Corporation is based upon assumptions that economic and operating conditions, including commodity prices, crude oil and natural gas storage levels, interest rates, the regulatory framework regarding oil and natural gas royalties, environmental matters, the ability of the Corporation to successfully market its services and drilling and production activity in the Western Canadian Sedimentary Basin, will lead to sufficient demand for the Corporation's services, that the current business environment will remain substantially unchanged, and that, present and anticipated programs and expansion plans of other organizations operating in the energy service industry will result in increased demand for the Corporation's services. Forward-looking information concerning the nature and timing of growth is based on past factors affecting the growth of the Corporation, past sources of growth and expectations relating to future economic and operating conditions. Forward-looking information in respect of the costs anticipated to be associated with the acquisition and maintenance of equipment and property are based upon assumptions that future acquisition and maintenance costs will not significantly increase from past acquisition and maintenance costs.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. We caution readers not to place undue reliance on these statements as a number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, including but not limited to those factors referred to and under the heading "Risk Factors" in the Corporation's AIF for the year ended December 31, 2009. Although forward-looking statements contained in this MD&A are based upon what the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements in this document are expressly qualified by this cautionary statement. Unless otherwise required by law, Secure does not intend, or assume any obligation, to update these forward-looking statements.



## OVERVIEW

Secure is incorporated under the *Business Corporations Act* (Alberta) and is primarily engaged in clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing and landfill disposal. The Corporation's broad service offerings ensure that its customers have a complete solution for their oil terminalling, processing and disposal requirements. All facilities are complementary to one another and create synergies for the Corporation and its customers. On March 30, 2010, the Corporation completed its initial public offering ("IPO") of common shares ("Common Shares"), which are now listed and posted for trading under the symbol "SES" on the Toronto Stock Exchange. The Company's prospectus is available on SEDAR ([www.sedar.com](http://www.sedar.com)). For a complete description of Secure's business assets and operations, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's annual information form ("AIF") for the year ended December 31, 2009.

## SELECTED FINANCIAL HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>(\$000's except share and per share data)</b>						
<b>(unaudited)</b>						
Revenue	16,524	4,954	234	39,901	14,856	169
Operating margin <sup>(1)</sup>	7,748	2,446	217	20,499	8,251	148
EBITDA <sup>(1)</sup>	6,173	1,444	327	16,001	5,252	205
Per share (\$), basic	0.10	0.03	233	0.28	0.13	115
Per share (\$), diluted	0.09	0.03	200	0.27	0.13	108
Net income (loss)	1,231	(1,342)	192	2,522	(1,787)	241
Per share (\$), basic	0.02	(0.03)	167	0.05	(0.04)	225
Per share (\$), diluted	0.02	(0.03)	167	0.05	(0.04)	225
Funds from operations <sup>(1)</sup>	6,253	1,405	345	16,107	5,267	206
Per share (\$), basic	0.10	0.03	233	0.28	0.13	115
Per share (\$), diluted	0.09	0.03	200	0.28	0.13	115
Cash dividends per common share	nil	nil	-	nil	nil	-
Capital Expenditures	16,084	2,530	536	43,849	19,409	126
Total assets	170,689	97,401	75	170,689	97,401	75
Long term debt - including current portion	-	5,000	(100)	-	5,000	(100)
Total long term liabilities	7,416	3,759	97	7,416	3,759	97
Common Shares - end of period	63,703,148	41,620,292	53	63,703,148	41,620,292	53
Weighted average common shares						
basic	63,701,941	41,620,292	53	56,818,047	40,449,933	40
diluted	65,859,648	42,568,727	55	58,352,073	41,365,612	41
<sup>(1)</sup> Refer to "Non GAAP measures" on page 3 for further information						

## 2010 THIRD QUARTER FINANCIAL SUMMARY

During the three month period ended September 30, 2010, the Corporation generated EBITDA of \$6.2 million, which is an increase of 327% over the same period of 2009. Activity at the Corporation's facilities remained strong in the third quarter despite wet weather conditions for the majority of September. Overall, processing and disposal volumes are up significantly as demand for the Corporation's services continued to increase. The success of the third quarter has further strengthened the Corporation's cash flow, working capital and overall financial position. During the quarter, the Corporation continued its organic growth plan by opening its eleventh facility in Dawson Creek, British Columbia. The new stand-alone water disposal ("SWD") facility is located in the centre of the Montney unconventional shale natural gas play. The new facility performed exceptionally well in its first three months of operations, providing a cost effective solution for processing and disposal in the Dawson Creek area market. Some key financial highlights for the three and nine months ended September 30, 2010, are as follows:



- total revenue of \$16.5 million and \$39.9 million for the three and nine months of 2010 compared to \$5.0 million and \$14.9 million in the comparable periods of 2009. Total revenue is split into the following two streams:
  - **Core processing, recovery and disposal revenue:** \$13.8 million and \$35.9 million for the three and nine months of 2010 compared to \$5.0 million and \$14.9 million in the comparable periods of 2009. The 2010 third quarter results include the new Dawson facility and the Pembina Area Landfill (“Pembina Landfill”) acquisition in May of 2010.
  - **Oil purchase/resale service:** \$2.7 million and \$4.0 million for the three and nine months of 2010 compared to nil in the comparable periods of 2009. The Corporation began offering this new oil purchase and resale service during 2010 at its Nose Hill SWD facility and recently at its new Dawson Creek SWD facility. Although this service has no operating margin, the purpose of providing the service is to increase the overall volumes received, thereby increasing revenues derived from the Corporation’s core business of produced water disposal, crude oil emulsion treating, terminalling and marketing. The price of crude oil received by the Corporation is the same paid to the customer following the production month in which it is sold;
- EBITDA of \$6.2 million and \$16.0 million for the three and nine months of 2010 compared to \$1.4 million and \$5.3 million in the same periods of 2009. Increases in activity levels in 2010 over 2009 and increased demand have contributed in the significant increase in EBITDA levels. The increase is also related to the new facilities described above and the Fox Creek FST and Obed SWD facilities moving out of the start up phase in 2009 and establishing a presence within their respective markets in 2010;
- capital expenditures of \$16.1 million in the third quarter related to the construction of expansion cells at the Corporation’s Willesden Green landfill and the South Grand Prairie landfill, the construction of the new Brazeau SWD facility, expansion of the Obed SWD and Dawson SWD and the new Drayton Valley full service terminal (“FST”);
- exited the third quarter 2010 with working capital of \$31.9 million and an undrawn credit facility of \$26.5 million.

## NON-GAAP MEASURES

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

### Operating margin

Operating margin is used by management to evaluate the operating performance of its facilities, and is calculated as revenues less operating expenses. Management analyzes operating margin as a key indicator of operating efficiency and variable cost control.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>(\$000's) (unaudited)</b>						
<b>Net income (loss)</b>	1,231	(1,342)	192	2,522	(1,787)	241
<b>Add:</b>						
Depreciation, depletion and accretion	4,109	2,934	40	10,964	6,944	58
Stock-based compensation	358	119	201	780	338	131
Financing fees	-	51	(100)	113	154	(27)
Future income tax expense (recovery)	555	(357)	(255)	1,728	(382)	(552)
<b>Funds from operations</b>	<b>6,253</b>	<b>1,405</b>	<b>345</b>	<b>16,107</b>	<b>5,267</b>	<b>206</b>
<b>Add: interest expense (income)</b>	<b>(80)</b>	<b>39</b>	<b>305</b>	<b>(106)</b>	<b>(15)</b>	<b>607</b>
<b>EBITDA</b>	<b>6,173</b>	<b>1,444</b>	<b>327</b>	<b>16,001</b>	<b>5,252</b>	<b>205</b>



### ***Funds from operations and EBITDA***

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

EBITDA is not a recognized measure under GAAP. Management believes that in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how those activities are financed or how the results are taxed. EBITDA is calculated as net income excluding depreciation, depletion and accretion, stock-based compensation, interest, and taxes.

### ***Expansion, growth, acquisition or sustaining capital***

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

## **RESULTS OF OPERATIONS**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>(\$000's except per share data)</b>						
<b>(unaudited)</b>						
Revenue	16,524	4,954	234	39,901	14,856	169
Expenses						
Operating	8,776	2,508	250	19,402	6,605	194
General and administrative	1,429	954	50	3,836	2,878	33
Stock-based compensation	358	119	201	780	338	131
Business development	76	11	591	442	43	928
Interest and financing	74	133	(44)	388	280	39
Depreciation, depletion and accretion	4,109	2,934	40	10,964	6,944	58
Other revenue						
Interest income	84	6	1,300	161	63	156
Income (loss) before income taxes	1,786	(1,699)	205	4,250	(2,169)	296
Income taxes						
Future income tax expense (recovery)	555	(357)	(255)	1,728	(382)	(552)
Net income (loss) and comprehensive income (loss)	1,231	(1,342)	192	2,522	(1,787)	241
Earnings per share						
Basic	0.02	(0.03)		0.05	(0.04)	
Diluted	0.02	(0.03)		0.05	(0.04)	



## Revenue

In order to understand the Corporation's core business, total revenue has been split into two separate revenue streams; core processing, recovery and disposal services; and oil purchase/resale services.

- Core processing, recovery and disposal services: processing services are primarily performed at FST's and include waste processing, crude oil emulsion treating, terminalling and marketing. FST's are connected to oil pipelines through which Secure provides customers with an access point to process or terminal their crude oil for preparation for shipment to market. Typically this crude oil is delivered by customers to Secure's facilities by truck and is stored on site until it is shipped through the gathering or transmission pipelines. Recovery relates to revenue from the sale of oil recovered through waste processing. Disposal services include produced and waste water disposal services through a network of class IB disposal wells and disposal of oilfield solid wastes at the Corporation's landfills.
- Oil purchase/resale services: Although this service has no operating margin, the purpose of providing the service is to increase the overall volumes received, thereby increasing revenues derived from Secure's core business of produced water disposal, crude oil emulsion treating, terminalling and marketing. By offering this service, Secure's customers can gain efficiencies in transportation and handling of their crude oil to the pipeline. At Secure's facilities, Secure will meter the crude oil volumes and purchase the crude oil directly from its customers. The Corporation will then process, transport and handle the shipment of crude oil to its FSTs. The crude oil will then have direct access to be shipped down the pipeline. The price of crude oil received by the Corporation is the same price paid to the customer following the production month in which it's sold. The fees earned in relation to processing, transportation, and marketing the crude oil are all included in the core processing, recovery, and disposal services revenue stream.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>(\$000's) (unaudited)</b>						
<b>Revenue</b>						
Core processing, recovery and disposal services	13,845	4,954	179	35,852	14,856	141
Oil purchase/resale service	2,679	-	100	4,049	-	100
<b>Total revenue</b>	<b>16,524</b>	<b>4,954</b>	<b>234</b>	<b>39,901</b>	<b>14,856</b>	<b>169</b>
<b>Operating Expenses</b>						
Core processing, recovery and disposal services	6,097	2,508	143	15,353	6,605	132
Oil purchase/resale service	2,679	-	100	4,049	-	100
<b>Total operating expenses</b>	<b>8,776</b>	<b>2,508</b>	<b>250</b>	<b>19,402</b>	<b>6,605</b>	<b>194</b>
<b>Operating Margin</b>	<b>7,748</b>	<b>2,446</b>	<b>217</b>	<b>20,499</b>	<b>8,251</b>	<b>148</b>
<b>Operating Margin as a % of core processing, recovery and disposal services</b>	<b>56%</b>	<b>49%</b>	<b>14</b>	<b>57%</b>	<b>56%</b>	<b>2</b>
<b>Operating margin as a % of total revenue</b>	<b>47%</b>	<b>49%</b>	<b>(4)</b>	<b>51%</b>	<b>56%</b>	<b>(9)</b>

For the three and nine months ended September 30, 2010 core processing, recovery and disposal revenue increased substantially to \$13.8 million and \$35.9 million from \$5.0 million and \$14.9 million in the comparative periods in 2009. The substantial increase includes a 122% increase in processing crude oil volumes in the third quarter of 2010 compared to 2009 and a 124% increase in processing crude volumes year to date 2010 compared to year to date 2009. The significant change in the Corporation's processing volumes is primarily a result of the Corporation's Fox Creek FST, which began operations in July 2009 and was only in the start up phase in the third quarter of 2009. Total sales of recovered oil from waste for the three and nine months ended September 30, 2010 increased by 121% and 157%, respectively, over the comparable periods in 2009. The increase is a result of the volume of waste processed in the third quarter and year over year, as well as the amount of oil recovered during processing. Moreover, the higher price of crude oil in 2010 compared to 2009 also impacted the increase in revenue. Finally, during the three and nine months ended September 30, 2010, the Corporation's disposal volumes increased by 139% and 123% respectively, compared to the same period in 2009. The significant factors that increased the disposal volume of waste were the addition of the Pembina Landfill, the Dawson and Obed SWD facilities, as well as continuing and growing demand for the Corporation's services.



Oil purchase/resale service revenue for the three and nine months ended September 30, 2010 increased to \$2.7 million and \$4.0 million from nil in the comparative periods in 2009 as a result of Secure offering this new service in 2010. The revenue and corresponding expense of this service will fluctuate depending upon the volume of crude oil received in any given period and the price of crude oil for that period. As shown above, oil purchase/resale revenue is deducted to calculate the operating margin of core processing, recovery and disposal services (56%). The Corporation expects the amount of revenue and expense associated with this service to increase substantially in the fourth quarter and future quarters as a result of becoming a single shipper on the Peace Pipeline at Fox Creek FST (see Outlook section).

### ***Operating Expenses***

For the three and nine months ended September 30, 2010 operating expenses increased significantly to \$8.8 million and \$19.4 million from \$2.5 million and \$6.6 million in the comparative periods in 2009, respectively. Corresponding with the large increase in revenue, volumes at all facilities have increased year over year. As a result, variable operating costs have risen accordingly. Operating expenses are also significantly higher as a result of the addition of the Dawson SWD and Pembina Landfill in the second half of 2010 as well as both the Fox Creek FST and Obed SWD were in the start up phase in the third quarter of 2009. Operating margin in the table on the previous page is split by the core processing, recovery and disposal services stream and the oil purchase/resale revenue stream in order to evaluate the operating performance of the facilities. Operating margin as a percentage of revenue from core processing, recovery and disposal services for the third quarter 2010 was 56%, up from 49% in the third quarter 2009 and was 57% for the nine months ended 2010, up from 56% for the same period of 2009. The increase in operating margin from 2009 is a result of having both Obed and Fox Creek FST in the start up phase in 2009 and overall efficiencies gained at all facilities during 2010. Year to date the margin has increased due to increased activity levels and volumes received over 2009. The change in operating margin may fluctuate quarter to quarter as a result of changes in volumes affected by seasonality, as new facilities come online and activity levels increase, as the Corporation's sales mix or type of services received varies, and as commodity prices rise and fall.

### ***General and Administrative***

The Corporation's general and administrative expenses increased for the three and nine months ended September 30, 2010 to \$1.4 million and \$3.8 million from \$1.0 million and \$2.9 million in 2009, respectively. General and administrative expenses include salaries and benefits for office staff, professional fees, rent, utilities and communications in the Corporation's head office. The higher costs in 2010 over 2009 relate to increased office staff, training costs, and professional fees. In addition, costs have increased as a result of the Corporation becoming a public company in March of 2010. Overall, general and administrative expense has decreased to 9.6% of the Corporation's revenue for the nine months ended September 30, 2010, from 19.4% in the same comparative period in 2009. This decrease continues to reflect the efficiencies gained as the Corporation expands its network of facilities.

### ***Stock-based Compensation***

Stock-based compensation expense is the amortization of the fair value of stock options granted to employees, officers, directors and key consultants of the Corporation. The fair value of all options and performance warrants granted is estimated at the date of grant using the Black-Scholes option pricing model. The fair value of options and performance warrants granted prior to January 1, 2010 was estimated at the date of grant using the minimum value method in the Black-Scholes option pricing model. Subsequent to December 31, 2009, the Corporation has incorporated a volatility factor of 52% in the Black-Scholes option pricing model. Accordingly, future option grants will likely be recorded at a higher amount, thereby increasing the Corporation's stock based compensation expense in future periods. The non-cash compensation expense for the three and nine months ended September 30, 2010 increased by 201% and 131%, respectively, over the comparable periods in 2009. The increase in stock-based compensation relates mainly to the stock options granted to new employees and options granted during the Corporation's IPO in March 2010. Year to date, the Corporation has granted 2,101,975 stock options to employees, officers, directors and key consultants under the Corporation's stock option plan.

### ***Business Development Expense***

For the three and nine months ended September 30, 2010 business development expenses were \$0.1 million and \$0.4 million, up from \$0.1 million and \$0.1 million in the comparative periods in 2009, respectively. Business development costs for the quarter remained consistent with the comparable period in 2009. Year to date costs in 2010 are higher due to the adoption of the new business combinations accounting standard (CICA Handbook Section 1582) in preparation for the transition to IFRS in 2011. As a result of adopting this new accounting standard, transaction costs relating to an acquisition are no longer capitalized as part of the purchase



price equation. Accordingly, transaction costs of \$0.2 million associated with the Pembina landfill acquisition were expensed as incurred. The remaining business development expense relates to a variety of costs incurred on future prospects for 2011.

### ***Interest and Financing***

Interest and financing costs increased for the nine months ended September 30, 2010 to \$0.4 million from \$0.3 million over the same period in 2009. In the first three months of 2010, the Corporation had \$4.9 million drawn on its credit facility compared to nil drawn in the same period of 2009. In addition, financing charges of \$0.1 million associated with establishing the new credit facility in 2009 were expensed when the facility was repaid in 2010. During the third quarter, no amounts were drawn on the loan, therefore the financing costs in the third quarter of 2010 relate to standby fees associated with the undrawn portion of the credit facility and charges relating to the letters of guarantee (see also note 4 to the interim financial statements).

### ***Depreciation, Depletion and Accretion***

Depreciation, depletion and accretion expense for the three and nine months ended September 30, 2010 increased to \$4.1 million and \$11.0 from \$2.9 million and \$6.9 million for the three and nine months ended September 30, 2009, respectively. The significant increases relate to the addition of the Dawson SWD facility and the Pembina landfill. The additional landfill and higher activity and volumes all contributed to increased depletion for both the quarter and for the nine months ended September 30, 2010.

### ***Income Taxes***

The Corporation follows the liability method of accounting for income taxes. Future income tax expense (recovery) for the three and nine months ended September 30, 2010 increased to \$0.6 million and \$1.7 from a future tax expense (recovery) of (\$0.4) million and (\$0.4) million for the three and nine months ended September 30, 2009, respectively. The main reason for the increase in future tax expense for the three and nine months ended September 30, 2010 is a result of increased activity at the Corporation's facilities, which in turn resulted in an increase in net income before taxes. The future income tax expense also includes the negative impact of tax rates decreasing in future periods and the corresponding reduction on the Corporation's non-capital losses. Secure does not have any current tax expense for the third quarter ended September 30, 2010, as it has non-capital loss carry forwards of \$18.0 million available for future use.

### ***Significant Projects***

Secure's 2010 capital expenditure program includes a number of significant projects that are expected to continue to expand the network of Secure's facilities. For a discussion of the Corporation's 2010 capital expenditure program, see "***Liquidity and Capital Resources***".

## **SUMMARY OF QUARTERLY RESULTS**

### ***Seasonality***

Seasonality impacts Secure's operations. In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. As warm weather returns in the spring, the winter's frost comes out of the ground (commonly referred to as "spring break-up"), rendering many secondary roads incapable of supporting heavy loads and as a result road bans are implemented prohibiting heavy loads from being transported in certain areas. As a result, the movement of the heavy equipment required for drilling and well servicing activities may be restricted, and the level of activity of the Corporation's customers may be consequently reduced and as such the level of oilfield waste processing and landfill disposal is therefore reduced accordingly. In addition, the transportation of heavy waste loads is restricted resulting in smaller loads and a general reduction in the volume of waste delivered to the Corporation's facilities. Accordingly, while the Corporation's facilities are open and accessible year-round, spring break-up reduces the Corporation's activity levels. In the areas in which 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. The table below summarizes unaudited quarterly information for each of the eight most recently completed fiscal quarters.



(\$000s except share and per share data) (unaudited)	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	16,524	11,176	12,201	7,520	4,954	3,534	6,369	3,844
Net income (loss)	1,231	(148)	1,439	(970)	(1,342)	(956)	511	(224)
Earnings (loss) per share - basic	0.02	0.00	0.03	(0.02)	(0.03)	(0.02)	0.01	(0.01)
Earnings (loss) per share - diluted	0.02	0.00	0.03	(0.02)	(0.03)	(0.02)	0.01	(0.01)
Weighted average shares - basic	63,701,941	63,187,252	43,341,202	41,624,234	41,620,292	40,074,801	39,962,075	31,954,775
Weighted average shares - diluted	65,859,648	64,716,438	44,242,584	42,600,342	42,568,727	40,995,562	40,839,554	32,798,930
EBITDA	6,173	3,399	6,428	2,761	1,444	741	3,051	1,063

### Quarterly Review Summary

As described above, quarterly performance is affected by seasonal variation; however, with Secure's significant growth during 2008, 2009 and the nine months ended September 30, 2010, variations in quarterly results extend beyond seasonal factors. Each quarter was impacted by the date at which any one of the constructed or acquired FSTs, SWDs or landfills commenced operations. For a complete description of Secure's business assets and operations, please refer to the headings "Secure Energy Services Inc.," "Description of Business" and "Industry Overview" in the Corporation's annual information form ("AIF") for the year ended December 31, 2009 which will also include a description of the date on which each of Secure's facilities commenced operations. In addition to when the facility commenced operating activities or was acquired, the quarters were also impacted by the length of time required for several oil and natural gas producers to conduct their own individual audits of the facilities to ensure Secure meets all required internal specifications for disposal of oilfield wastes. This process is conducted at all landfills, FSTs and SWDs before the producer will begin sending waste. Depending on the producer, this process can take several months.

### LIQUIDITY AND CAPITAL RESOURCES

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

### Sources of Cash

#### a) Funds from operations

(\$000's) (unaudited)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Funds from operations	6,253	1,405	345	16,107	5,267	206

Funds from operations increased significantly for the three months ended September 30, 2010 to \$6.3 million from \$1.4 million for the three months ended September 30, 2009. The substantial change in funds from operations is a result of the new Dawson Creek SWD and the Pembina Landfill which was acquired in May 2010. In addition, Secure's Fox Creek FST and Obed SWD were in the start up phase in the third quarter of 2009. Funds from operations also increased significantly for the nine months ended September 30, 2010 to \$16.1 million from \$5.3 million in the comparative periods in 2009. The significant change is a combination of the facilities as described above, the growth in operations of all facilities, increase in oil and natural gas activity and the increase in the commodity price and volume of crude oil received.





*b) Issue of common shares*

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>(\$000's) (unaudited)</b>						
Issue of common shares, net of issue costs	19	127	(85)	61,553	4,461	1,280

For the nine months ended September 30, 2010, the significant increase over the same period of 2009 relates to the IPO completed in March 2010 where the Corporation issued 19.2 million Common Shares for net proceeds of \$53.6 million to fund the development of the business and for capital expenditures. Secure issued an additional 2.9 million Common Shares as part of the over-allotment option granted to the Agents in connection with the IPO for \$7.9 million in April 2010.

*Uses of Cash*

*a) Capital Expenditures*

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>(\$000's) (unaudited)</b>						
<b>Capital Expenditures</b>						
Expansion and Growth Capital expenditures	15,881	2,530	528	43,394	19,409	124
Sustaining Capital Expenditures	203	-	100	455	-	100
<b>Total Capital Expenditures</b>	<b>16,084</b>	<b>2,530</b>	<b>536</b>	<b>43,849</b>	<b>19,409</b>	<b>126</b>

Expansion and growth capital are capital expenditures with the intent to expand or restructure operations, enter into new locations or emerging markets, or complete a business acquisition. The Corporation's expansion and growth capital expenditures in the third quarter of 2010 increased to \$15.9 million from \$2.5 in the comparable period of 2009. During the third quarter of 2010, the Corporation incurred expenditures of \$5.9 million for the Obed SWD waste expansion and \$3.9 million for the Dawson Creek SWD waste expansion. The waste expansion includes crude oil treating and waste processing services which will increase revenue potential in those markets. Secure's 2010 capital expenditure program also includes expansion of cell capacity at Secure's existing South Grand Prairie landfill and the Willesden Green landfill. During the third quarter of 2010, the Corporation incurred costs of \$2.6 million in relation to additional cell capacity for both landfills. The Willesden Green landfill cell was completed in September 2010 and it is expected the South Grand Prairie landfill cell will be completed at the end of October 2010. It was originally anticipated that the cell would be completed in September, however a significant amount of rainfall in September delayed the completion until October.

The remaining costs for the third quarter of 2010 relate to purchasing assets for the construction of the Drayton Valley FST and Brazeau SWD facilities and other upcoming projects for the remainder of 2010. Secure's Drayton Valley FST and Brazeau SWD facilities will be located in the centre of the Pembina oilfield. During the third quarter of 2010, a site for the Drayton Valley FST was secured and initial construction work on the disposal well has commenced. Construction of the Brazeau SWD commenced during the third quarter as well, however wet weather conditions in September has delayed the project by a few weeks.

For the nine months ending September 30, 2010, expansion and growth capital expenditures increased to \$43.4 million from \$19.4 for the comparable period in 2009. Including the \$15.9 million of costs incurred in the third quarter 2010, the Corporation also acquired the Pembina landfill for \$11.8 million in May 2010. Furthermore, in the first half of 2010, the Corporation incurred \$8.0 million of expenditures related to construction of Secure's Dawson Creek SWD facility and \$2.0 million related to cell expansion at the Corporation's Willesden Green landfill. The remaining costs incurred for the year relate to upcoming projects.

Sustaining capital or maintenance capital refers to capital expenditures in respect of capital asset additions, replacements or improvements required to maintain ongoing business operations. The determination of what constitutes sustaining capital expenditures versus expansion and growth capital involves judgment by management. In the third quarter of 2010, sustaining capital was \$0.2 million compared to nil in the same period of 2009. Sustaining capital in the first two years of operation of a facility is expected to be minimal because each facility is constructed with new equipment or refurbished equipment. As a facility matures, the amount of sustaining capital required will increase.



b) Credit Facility

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
<b>(\$000's) (unaudited)</b>						
Use of secured Credit Facility	-	-	-	4,900	(5,000)	(198)

In December 2009, the Corporation entered into a secured credit facility with a Canadian financial institution consisting of a \$35.0 million committed revolving term facility (the “credit facility”). The credit facility has an extendible revolving period, followed by a one year non-revolving term period. The initial revolving period is renewable on May 31, 2011. If the credit facility is not renewed prior to May 31, 2011, then a non-revolving term period shall commence immediately thereafter and shall end one year later on May 31, 2012. During March 2010, the Corporation repaid the entire outstanding balance of its credit facility.

The credit facility is a multi-use facility and is intended to provide capital project financing, fund working capital requirements and for the issuance of letters of guarantee in support of financial security requirements. The credit facility has a \$10,000,000 sublimit for the issue of letters of guarantee which bear interest at 1.50% while issued. The aggregate dollar amounts of the outstanding letters of guarantee are not categorized in the consolidated financial statements as long term debt; however, the issued letters of guarantee reduce the amount available under the credit facility. The credit facility provides that the Corporation may borrow, repay, reborrow and convert between types of borrowings at any time. The credit facility bears interest ranging from 1.5% to 2.5% above the prime rate depending on the applicable funded debt to EBITDA ratio, with any unused amounts subject to standby fees. Funded debt includes all outstanding debt, including capital leases, and any outstanding letters of guarantees. At the option of the Corporation, the credit facility may be utilized by way of guaranteed notes with interest calculated at the lenders base rate for such notes plus 3.0% to 4.0% based on the funded debt to EBITDA ratio. EBITDA as defined in the credit facility has the same meaning as ascribed in the Non GAAP measurement section of this MD&A. Under the terms and conditions of the credit facility, the Corporation is subject to certain covenants with respect to maintaining minimum financial ratios. As at September 30, 2010, the Corporation is in compliance with all of its covenants.

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 subjected to the fixed charge.

At September 30, 2010, the Corporation had issued approximately \$8.5 million in letters of guarantee to various environmental regulatory authorities in Alberta and British Columbia. The Energy Resource and Conservation Board (“ERCB”), is implementing amendments to the *Energy Statutes Amendment Act, 2009* (Alberta) with respect to the Oilfield Waste Liability (“OWL”) program. The OWL program is expected to replace the current fully funded liability management program for oilfield waste facilities with a facility specific asset to liability risk based assessment that is backed by the existing upstream oil and natural gas industry liability management program. The amount of letters of guarantee issued will fluctuate based on the growth of the Corporation and future refunds under the OWL program, which are undeterminable at this time. As at September 30, 2010, the Corporation has \$26.5 million available under its credit facility.

	Sept 30,	Dec 31,	% Change
	2010	2009	
<b>(\$000's) (unaudited)</b>			
Committed secured Credit Facility	35,000	35,000	-
Letters of guarantee issued	(8,494)	(8,380)	1
Available amount	26,506	26,620	(1)



## **OUTLOOK**

Secure expects activity levels experienced in the third quarter in the oil and natural gas sector to continue for the remainder of 2010, despite relatively low natural gas prices. Natural gas producers are discovering the value of liquids-rich gas or natural gas liquids ("NGL's") in improving cash flow from natural gas wells. Because of the added NGL content in the form of Ethane, Propane, Butane or Condensate, producers can obtain higher value through the sale of NGL's when prices are lower for natural gas. Therefore, any NGL plays will continue to attract attention among natural gas producers. Prices for crude oil have remained strong in 2010 and it is expected that oil wells drilled will outpace natural gas wells again in 2011. Overall, the strength of crude oil and NGL prices will continue to revitalize key markets as old wells are worked over to enhance production and new wells are drilled. Secure expects crude oil and natural gas activity will strengthen demand for the Corporation's services in the fourth quarter of 2010 and into 2011.

In the fourth quarter of 2010, Secure will continue to execute its business strategy and growth plans. Completion of the Corporation's 12<sup>th</sup> facility is expected in the fourth quarter. The Brazeau Disposal Well facility is located south west of Drayton Valley, AB and is well positioned to service the Pembina oil field, one of the largest and most prolific oil fields in the Western Canadian Sedimentary Basin. This area presents an excellent opportunity for Secure as it has both a long history of stable oil and natural gas production, and a significant amount of current drilling activity driven by the success of modern horizontal drilling technology. The new facility is approved to accept third party sweet and sour produced and waste waters (Class Ib) for deep well injection into a disposal well. The Corporation has also secured the future site of the Drayton Valley FST with construction expected to commence in the fourth quarter of 2010 after receiving treating and disposal regulatory approval. In addition, the Obed and Dawson Creek SWD facilities are both being expanded to include waste treatment and disposal services. The Corporation expects that both waste facilities will also be operational in the fourth quarter of 2010. An equivalent expansion of the South Grande Prairie facility began at the end of the third quarter. Finally, incremental disposal capacity has also been added to the Willesden Green and the South Grand Prairie landfills.

On December 1, 2010 Secure intends to become a shipper of crude oil on the Peace Pipeline system at the Corporation's Fox Creek FST. Currently, Secure engages a third party contractor to act as shipper. Originally setup to facilitate the initial startup of the FST, recent levels of activity has resulted in Secure evaluating to undertake this function and thereby expand its service offering. The outcome will be to improve customer service and gain operational efficiencies. By integrating this function with the Fox Creek operation, Secure will be purchasing incremental volumes of crude oil for resale in Edmonton. The purchase and sale of crude oil will substantially increase both the Corporation's revenue and operating expenses beginning in December 2010.

Overall, Secure has had an exceptional nine months of activity as facilities constructed in 2009 have started to fully penetrate their respective markets, which in turn has strengthened the Corporation's financial position heading into the fourth quarter of 2010. Entering 2011, Secure's cash flow from operations and available debt capacity position the Corporation well to execute its growth strategy.

## **BUSINESS RISKS**

The Corporation's business is subject to certain risks and uncertainties including, without limitation: industry activity; the general stability of the economic and political environment; effect of market conditions on demand for the Corporation's products and services; access to capital markets; seasonality; the ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability to operate its business in a safe, efficient and effective manner; the performance and characteristics of various business services; third party credit risk; the CCS Action (as defined below); the effect of current plans; the timing and costs of capital expenditures; future oil and natural gas prices; interest rates; the regulatory framework regarding royalties, environmental regulation, and taxes. In addition, actual results could differ materially from those anticipated as a result of the risk factors set forth under the section entitled "Risk Factors" in the Corporation's AIF dated March 31, 2010, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **OUTSTANDING SHARE CAPITAL**

As at November 4, 2010, there were 63,703,148 Common Shares issued and outstanding.

## **OFF-BALANCE SHEET ARRANGEMENTS**

At September 30, 2010, the Corporation had no off-balance sheet arrangements.



## CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations as at September 30, 2010 were as follows:

	Payments due by period			
	Total	1 year or less	1-3 years	4-6 years
<b>(\$000's) (unaudited)</b>				
Capital leases	1,417	637	774	6
Operating leases	3,901	1,065	1,474	1,362
Total Commitments	5,318	1,702	2,248	1,368

All of the Corporation's contractual obligations range from one to six years. The most significant are capital lease commitments totaling \$1.4 million.

The Corporation also has commitments for estimated future costs for asset retirement obligations. The net present value of its total asset retirement obligations as at September 30, 2010 are approximately \$6.6 million (December 31, 2009: approximately \$3.1 million) based on a total future liability as at September 30, 2010 of approximately \$12.8 million (December 31, 2009: approximately \$7.3 million). These costs are expected to be incurred over the next two to twenty-five years.

## TRANSACTIONS WITH RELATED PARTIES

In the third quarter, the Corporation incurred approximately \$0.1 million of expenses with companies that have common directors, officers, employees and shareholders. For the nine months ending September 30, 2010, the total expenses are \$0.5 million compared to \$0.2 million in 2009. These transactions are in the normal course of operations and have been valued at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The nature of the expenses relate to service work on the Corporation's disposal wells and promotional items.

In March 2007, the Corporation entered into an interest bearing promissory note and pledge agreement with three of its shareholders, who are also officers and/or employees of the Corporation. 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 a representative portion of their shares of the Corporation. The notes are repayable on demand and are due on March 23, 2012. As at September 30, 2010, the aggregate amount outstanding under the loans is \$0.5 million.

## PROPOSED TRANSACTIONS

As of the date of this MD&A, there is no proposed asset or business acquisitions or dispositions expected to have a material effect on the financial condition, results of operations or cash flows of Secure.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

All of the Corporation's financial instruments as at September 30, 2010 relate to standard working capital and credit facility items, with the exception of notes receivable. There are no significant differences between the carrying value of these financial instruments and their estimated fair values. There are no off-balance sheet arrangements and the Corporation does not use any financial instruments such as derivatives. Of the Corporation's financial instruments, only accounts receivable represent credit risk. The Corporation provides credit to its customers in the normal course of operations. The Corporation's credit risk policy includes performing credit evaluations on its customers. Substantially all of the Corporation's accounts receivable are due from companies in the oil and natural gas industry and are subject to normal industry credit risks. Management views the credit risk related to accounts receivable as low. Funds drawn under the Credit Facility bear interest at a floating interest rate. Therefore, to the extent that the Corporation borrows under this facility, the Corporation is at risk to rising interest rates. The Corporation is also exposed to credit risk with respect to its cash and cash equivalents. However, the risk is minimized as cash is held at a major Canadian financial institution.



## **CRITICAL ACCOUNTING POLICES AND ESTIMATES**

In the preparation of the Corporation's consolidated financial statements, management has made estimates that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Estimates and judgments used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared. Actual results could differ from these estimates. Please refer to the Corporation's prospectus on SEDAR, which includes the notes to the consolidated financial statements for the year ended December 31, 2009 for a description of the accounting policies of the Corporation. The Corporation considers the following to be its critical accounting policies and estimates:

### ***Depreciation and depletion***

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

### ***Asset retirement obligation and accretion***

Secure is required to provide for the cost of restoring its facility sites to an acceptable condition, as determined by regulatory authorities. The Corporation estimates the cost to remediate, reclaim and abandon the Corporation's facilities based upon current regulations, costs, technology, and industry standards. Accretion expense is the increase in the asset retirement obligation over time.

### ***Stock-Based Compensation***

The Corporation provides stock-based compensation to certain employees in the form of stock options. The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated volatility of the Corporation's shares and anticipated dividends.

### ***Income Taxes***

The Corporation follows the liability method of accounting for income taxes, which evaluates the differences between the financial statement treatment and tax treatment of certain transactions, assets and liabilities. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Estimates of the Corporation's future taxable income have been considered in assessing the utilization of available tax losses.

## **NEW ACCOUNTING STANDARDS ADOPTED**

### ***Business combinations, Consolidated financial statements and Non-controlling interests***

Effective January 1, 2010 the Corporation has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests. The new Business Combinations standard provides guidance as to what an acquirer must measure when it obtains control, the basis of valuation and the date at which the valuation should be determined. The majority of acquisition-related costs must be expensed in the periods they are incurred. Section 1582 will be applicable for acquisitions that are completed on or after November 1, 2011 although early adoption in 2010 is permitted to facilitate the transition to IFRS in 2011. The Corporation has elected to early adopt Handbook Section 1582. The Consolidated Financial Statements standard provides clarification for preparing consolidated financial statements after the acquisition date. The Non-controlling Interests standard provides guidance on the accounting and presentation of non-controlling interest. All of these new standards must all be adopted concurrently. The adoption of these new standards has impacted the financial statements in relation to transaction costs association with the Pembina Landfill acquisition in May of 2010. Under the previous accounting standard, transaction costs were capitalized as part of the purchase price, however under the new standard all transaction costs are expensed as incurred.



## **FUTURE ACCOUNTING PRONOUNCEMENTS**

### ***International Financial Reporting Standards***

In 2006, the Canadian Accounting Standards Board (“**AcSB**”) published a new strategic plan that outlined the convergence of GAAP with International Financial Reporting Standards (“**IFRS**”) over an expected five year transitional period. Over the past few years, the AcSB has adopted new GAAP standards that converge with that of IFRS in order to reduce the amount of differences upon transition. On February 13, 2008, the AcSB confirmed 2011 as the official changeover date from current GAAP to IFRS. The Corporation will transition to IFRS on January 1, 2011, which will require, for comparative purposes, the restatement of amounts reported on the Corporation’s opening IFRS balance sheet as at January 1, 2010 and amounts reported by the Corporation for the quarters and year ended in 2010.

### ***Conversion Project***

In the prior year, the Corporation commenced its IFRS Conversion Project (the “**Conversion Project**”). The Conversion Project consists of three phases:

- 1) impact assessment,
- 2) analysis and development; and
- 3) implementation.

#### ***1) Impact Assessment***

The Corporation has currently completed the impact assessment which involved establishing a conversion timeline, project planning, assessment of IT systems and controls, and identification of differences between current GAAP and IFRS. In identifying the GAAP differences, management focused on areas having the most significant financial statement impact based on the IFRS standards existing at the time of review.

The following list illustrates the areas of accounting difference of highest potential impact to the Corporation on transition to IFRS. The quantitative impact on future financial position and results of operations is not fully determinable or estimable at this time.

### ***Property, Plant and Equipment (PP&E)***

The basic principles of accounting for property, plant and equipment under Canadian GAAP handbook section 3061 and International Accounting Standards (IAS) 16 are similar; however, differences in application do exist. IAS 16 requires the parts or components approach and depreciation is based on the expected useful life of the parts or components. This method of componentizing property, plant and equipment may result in an increased number of component parts that are recorded and depreciated. In addition, IAS 16 requires the capitalization of major inspections that were previously expensed under Canadian GAAP. As a result, this may impact the cost of the asset and the calculation of depreciation expense. Depreciation will also be impacted as the Corporation intends on changing its declining balance depreciation policy to the straight line method. The straight line method better reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Corporation. This intended change will increase the net book value of PP&E, with the corresponding offset to retained earnings. The Corporation can also elect to use the cost model or the revaluation model to measure its property, plant and equipment.

Under IAS 17, accounting for property, plant and equipment capital leases takes a substance over form approach to classifying leases as either capital or operating, stating that the classification depends on the substance of the transaction rather than the form of the contract (risks and rewards transferred, etc.). Operating leases are recognized in the same manner as Canadian GAAP. As a result, this classification may result in operating leases becoming capital leases recorded under property, plant and equipment. The International Accounting Standards Board (“**IASB**”) has released an Exposure Draft on lease accounting that could result in a significantly different accounting model; therefore, the final extent of the impact of IAS 17 may change pending the outcome of this project in 2011.

### ***Impairment of Assets***

Under IAS 36, Impairment of Assets, an asset is impaired when the recoverable amount is less than the carrying amount. The recoverable amount is the higher of fair value less costs to sell or value in use (Present Value of discounted cash flows) derived from the asset or cash generating unit (“**CGU**”). The Corporation has yet to define CGU’s for this determination. The use of discounted cash flows under IAS 36 to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset’s carrying value to determine if impairment exists. Impairment therefore can be more likely with



discounted cash flows when calculating value in use; however IAS 36 does allow reversal of impairment losses with the exception of goodwill and indefinite life intangibles. This differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses. The Corporation's assets will be subject to the new application for testing and measuring asset impairments which may result in some impairments being recognized or reversed under IAS 36 that would not have been required or permitted under Canadian GAAP.

### ***Share-Based Payments***

Under Canadian GAAP, section 3870, share options granted vest in installments (tranches) over the vesting period, where the total grant can be valued at grant date with the corresponding stock-based compensation expense recognized in a straight line method over the vesting period of the options. This differs under IFRS 2, Share-Based Payments, where share options granted vest in installments (tranches) over the vesting period, and each tranche is treated as a separate share option grant, and all tranches are valued at the grant date. Corresponding stock based compensation expense will be calculated at the start of each vesting period with fair value inputs that exist at that time. IFRS 2 also requires the use of the fair value method for valuing options and companies are required to estimate forfeitures at the start of the vesting period. This may change the amount the Corporation recognizes as stock-based compensation as well as the timing of recognition. The Black-Scholes model is currently being used for option valuation, which is also permitted under IFRS. No change in option valuation method is required.

### ***Asset retirement obligation (ARO)***

Unlike IFRS, Canadian GAAP includes accounting standards which specifically cover ARO's and which provide comprehensive guidance on accounting for ARO's. Within this guidance, Canadian GAAP requires the use of an entity's credit-adjusted risk free rate which is revised only when there is an upward revision in expected cash flows whereas IFRS requires that, at each reporting period, the discount rate used in calculating the present value of an ARO be updated to the current market-based rate.

### ***IFRS 1, First-Time Adoption of International Financial Reporting Standards***

The first-time adoption of IFRS states that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 provides the framework and specifies that, the adjustments that arise on retrospective conversion to IFRS from another GAAP should be recognized directly in retained earnings. There are certain optional exemptions and mandatory exceptions to retrospective application, both of which are clarified under IFRS 1. The Corporation has made decisions with regards to the elective exemptions available upon transition, however a final decision is pending audit committee approval.

- ***Fair Value or Revaluation as Deemed Cost:*** The Corporation has the elective option upon transitioning to IFRS to reset the cost of its property, plant and equipment based on fair value in accordance with the provisions of IFRS 1. The Corporation expects not to take this election upon transitioning to IFRS.
- ***Share-Based Payments:*** The Corporation has the option to elect under IFRS 1 to elect not to revalue options that have fully vested before January 1, 2010. Options that vest after this date are required to be revalued under IFRS 2, Share-Based Payments. The Corporation expects to apply this election upon transitioning to IFRS.
- ***Asset retirement obligation (ARO):*** IFRS 1 provides an optional exemption whereby an entity may measure an ARO at the transition date using the guidance in IAS 37. The entity must then determine the amount that would have been included in PP&E at the date the ARO first arose by discounting the ARO back to that date using a best estimate of the historical risk-adjusted rate(s) that would have applied for that ARO over the period from when it first arose to the transition date. Furthermore, the entity must calculate the accumulated depreciation on the amount included in PP&E, at the transition date, using the current estimate of the useful life of the PP&E item and the depreciation policy implemented under IFRS. The Corporation does not expect to apply this election upon transitioning to IFRS.



## **2) *Analysis and development***

The analysis and development phase is a significant stage in the transition to IFRS. It involves the following:

- a detailed review and evaluation of the financial statement impact;
- review of possible options under specific IFRS policies;
- review of business processes and IT processes;
- initial staff training.

During the year, management has completed additional training, reviewed the options available and considered the financial statement impact. Management has completed the above review and determined that the adoption of IFRS will have minimal impact on business processes and information system requirements.

## **3) *Implementation***

Management has completed drafting all the final memorandums on the Corporation's position relating to each significant financial statement impact. In addition, management has documented the options to be selected upon transition. The next step is to obtain approval from the Corporation's audit committee on the choices made by management. Management expects to obtain this approval in November 2010. Furthermore, during the Corporation's interim audit management, will review the approved memorandums with the Corporation's auditor's.

Subsequent to approval, management will begin compiling the changes under IFRS and management will prepare an opening balance sheet as at January 1, 2010. Management intends to have the opening balance sheet for January 1, 2010 completed by December 31, 2010. The quantitative impact on the Corporation's future financial position and results of operations are not fully determinable or estimable at this time, however the Corporation intends to be completed by December 31, 2010.

Finally, at the end of the third quarter, management has drafted a full set of IFRS financial statements with full note disclosure. The note disclosure is based upon accounting policy choices in the outlined memorandums which are pending approval. The approval of all the Corporation's memorandums is the final step in determining the financial statement note disclosure. There will be a significant increase in disclosure resulting from the adoption of IFRS. In the fourth quarter of 2010 and in early 2011, the Corporation will implement the necessary changes that will be required to comply with the new disclosure requirements.

## **DISCLOSURE CONTROLS AND PROCEDURES**

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

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. While management of the Corporation has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Corporation's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. No changes were made to the Corporation's internal control over financial reporting during the three and nine months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.





## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On December 21, 2007, CCS Inc. (“**CCS**”) filed a statement of claim commencing Action No. 0701-13328 (the “**CCS Action**”) in the Judicial District of Calgary of the Court of Queen’s Bench of Alberta (the “**Court**”) against the Corporation, certain of the Corporation’s employees who were previously employed by CCS (collectively, the “**Secure Defendants**”) and others in which CCS alleges that the defendants misappropriated business opportunities, misused confidential information, breached fiduciary duties owed to CCS, and conspired with one another. CCS seeks damages in the amount of \$110 million, an accounting and disgorgement of all profits earned by the Corporation since its incorporation and other associated relief.

A statement of defence was filed by the Secure Defendants on November 10, 2008, after the Court ordered CCS to provide further particulars of its claim. On September 17, 2008, CCS obtained an *Anton Pillar* Order and seized various documents from the Corporation’s offices. The Secure Defendants applied to the Court and were granted an order varying the *Anton Pillar* Order and the seized documents were returned to the Corporation’s solicitors, with the exception of several documents which do not impact the business of Secure and which in respect thereof the order states that it shall in no way be interpreted as a finding of the Court or an acknowledgement or admission by the Secure Defendants that the documents constitute the property of CCS.

The Secure Defendants filed an Amended Statement of Defence (the “**Defence**”), and the Corporation filed an Amended Counterclaim (the “**Counterclaim**”), on October 9, 2009. In their Defence, the Secure Defendants deny all of the allegations made against them. In its Counterclaim, the Corporation claims damages in the amount of \$37,860,000 against CCS, alleging that CCS has engaged in conduct constituting a breach of the *Competition Act* (Canada) and unlawful interference with the economic relations of the Corporation with the intent of causing injury to the Corporation.

Examinations for discovery began in the second quarter and will continue into 2011. The Corporation intends to continue to defend against the CCS Claim and to prosecute the Counterclaim.

## ADDITIONAL INFORMATION

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