SECURE energy services

2011 ANNUAL REPORT

SECURE ENERGY SERVICES INC. **TSX: SES**

CONTENTS

NOTICE OF ANNUAL MEETING

Secure Energy Services Inc. ("**Secure**" or the "**Corporation**") is pleased to invite its shareholders and other interested parties to the Corporation's Annual meeting which will be held at the Lecture Theatre at the Metropolitan Conference Centre, 333-4th Avenue S.W., Calgary, Alberta T2P 0H9 on May 10th, 2012 at 4:00p.m.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements" and/or "forward-looking information" within the meaning of applicable securities laws (collectively referred to as forward-looking statements). When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", 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 document. In particular, this document contains forward-looking statements pertaining to: general market conditions; the oil and natural gas industry; activity levels in the oil and gas sector, including drilling levels; commodity prices for oil, NGLs and natural gas; the increase in 2012 operating days; demand for the Corporation's services; expansion strategy; the amounts of the PRD and DS divisions' 2012 capital budgets and the intended use thereof; debt service; capital expenditures; completion of facilities; future capital needs; access to capital; acquisition strategy; the balance of the Corporation's capital spending on new full service terminals and landfills; oil purchase and resale revenue; completion of the permanent facility construction at Wild River and the construction of landfills at Saddle Hills and Fox Creek, Alberta.

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

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. Readers are cautioned not to place undue reliance on these statements as a number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, including but not limited to those factors referred to and under the heading "Business Risks" and under the heading "Risk Factors" in the Corporation's annual information form ("**AIF**") for the year ended December 31, 2011. Although forward-looking statements contained in this document 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.

CORPORATE PROFILE

Secure is an energy services corporation that primarily focuses on providing specialized services to upstream oil and natural gas companies operating in the Western Canadian Sedimentary Basin ("WCSB"). The services provided by the Corporation assist these companies with the handling, treatment and sale of crude oil, drilling fluids, recycling services and various complementary services associated with oil and natural gas development and production. On June 1, 2011 the Corporation completed the acquisition of Marquis Alliance Energy Group Inc. and its wholly owned subsidiaries ("Marquis Alliance") which provide energy services relating to drilling fluid systems, solids control, and environmental services primarily in Canada and the United States. On July 1, 2011, the Corporation completed the acquisition of all of the operating assets (excluding working capital) of XL Fluids Systems Inc. ("XL Fluids"). XL Fluids is an energy services company that specializes in the supply and development of drilling fluids and drilling fluid systems. Resulting from these acquisitions, the Corporation now operates two divisions which form the basis for the two operating segments reported in the Corporation's 2011 results. The two reportable segments are as follows:

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

The processing, recovery and disposal ("PRD") division provides clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale services. For a complete description of the services provided in this division, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's annual information form ("**AIF**") for the year ended December 31, 2011. The Corporation provides a combination of these services depending on the type of facility. Secure operates three types of facilities; Full Service Terminals ("FST"), Stand Alone Water Disposal ("SWD") and Class I & II landfills. A SWD can be converted to a FST by adding equipment to handle oilfield waste processing and crude oil emulsion treating. Below is an aerial photo of the La Glace FST.

Over the past year, a number of Secure's facilities have been expanded or converted from a SWD to a FST. Currently, three of the Corporation's FST's are connected to an oil pipeline.

Secure's PRD division currently operates two Class II landfills and one combined Class I & II landfill. A Class II Oilfield landfill provides disposal of contaminated soil associated with oil and natural gas drilling, production and reclamation activities. Class II landfills also dispose of waste solids that have been separated from liquid waste delivered to Secure's FST facilities. Below is an aerial photograph of the Willesden Green Landfill, a Class II landfill.

Class I landfill cells are constructed with three liners and have additional monitoring requirements. The Class I cell is regulated to dispose of hazardous industrial solids and dangerous oilfield waste.

The PRD facilities are long-lived assets designed to maximize the recovery of hydrocarbons and minimize the volume of waste requiring disposal. Treated solid waste is disposed of in landfills, while residual liquid waste water is injected via deep disposal wells into disposal zones between impermeable layers of rock at the Corporation's SWD's or FST's.

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

The drilling services ("DS") division provides drilling fluids solids control, and environmental services. The drilling fluids service line comprises the majority of revenue for the DS division, which includes the design, delivery, and management of drilling fluid systems for producers drilling for oil, bitumen and natural gas.

The DS division provides products and systems that are designed for more complex wells, such as medium to deep wells, horizontal wells and horizontal wells drilled into the oil sands. These services are provided primarily in the WCSB and the United States. The drilling fluid systems are designed to be adaptable to a wide range of complex and varied drilling and completion scenarios, to help clients eliminate inefficiencies in the drilling and completion process and to assist them in meeting operational objectives while maintaining environmental compliance.

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

The solids control service line provides equipment to support drilling operations in both Western Canada and the United States. This equipment includes high speed centrifuges, drying shakers, bead recovery units, tanks and ancillary equipment. The equipment is offered as a stand-alone package or part of an integrated package with the drilling fluids and environmental service lines.

The centrifuge and hydraulic stand package is a state of the art system designed for high end drilling fluids to reduce fluid and moving costs between wells while providing a safe working platform. (shown in the picture above).

The environmental service line provides services primarily to oil and gas producers active in the WCSB. Most of the activity of the environmental service line is in the heavy oil region of Alberta, Central Alberta, and the Grande Prairie region. The environmental service line involves determining the appropriate processes for disposing of drilling waste such as drill cuttings and fluids and/or the recycling of the fluids produced by drilling operations.

The environmental service line also provides reclamation services to assess and determine the most appropriate and cost effective method for reclaiming the land back to its original pre-drilling state.

MARQUIS ALLIANCE

The DS division operates its services under the operating trade name of Marquis Alliance (shown above) and under the operating trade name XL FluidSystems (shown below).

XL FluidSystems

For a complete description of services provided in this division, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's annual information form ("**AIF**") for the year ended December 31, 2011.

In aggregate, the Corporation's broad service offerings exploit the value chain from 'cradle to grave' focusing on complementary services, recycling services, organic growth and acquisitions that complement the existing network of facilities in both operating divisions. All facilities are complementary to one another and create synergies for the Corporation and its customers.

MESSAGE TO SHAREHOLDERS

On behalf of the employees and the Board of Directors of Secure Energy Services Inc. ("Secure" or the "Corporation"), it is my pleasure to report on the Corporation's 2011 operational and financial results. We enjoyed a highly successful year of growth, expansion and value creation. Our goal of achieving profitable growth while providing cost effective solutions and delivering exceptional customer service continues to be an integral part of our vision and mission.

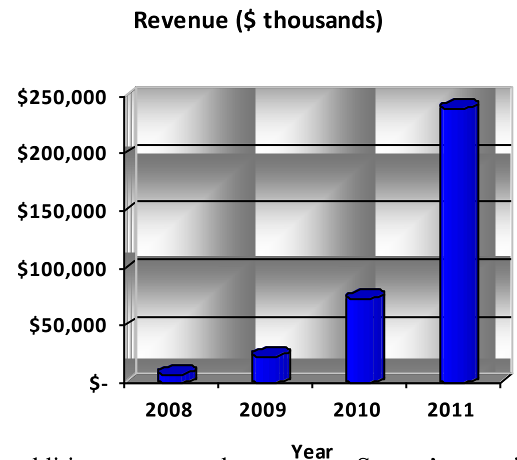
In April of 2011, the Corporation announced the strategic acquisition of Marquis Alliance. The Marquis Alliance business fits within Secure's stated strategy of exploiting the full value chain from 'cradle to grave' and adding complementary services to the Corporation's business lines. The acquisition of the second largest Canadian drilling fluid company allowed Secure to provide an integrated drilling fluid service complementary to the PRD division. In June of 2011, the Corporation grew the drilling fluids services offering by announcing the acquisition of XL Fluids, which significantly expanded the geographical presence of the drilling fluids business, particularly in Saskatchewan. After successfully completing these acquisitions, we continued our aggressive growth strategy in 2011 by adding a heavy oil processing facility. Secure purchased the Silverdale facility from Emerge Oil and Gas Inc. ("Emerge") to gain our first access to the heavy oil market. The acquisitions in 2011 were in addition to completing our 2011 capital program to expand our geographic footprint. Needless to say, it was a very active year for Secure.

The strategic rationale for the acquisitions in 2011 was to exploit the full value chain in the energy services market. The key elements include:

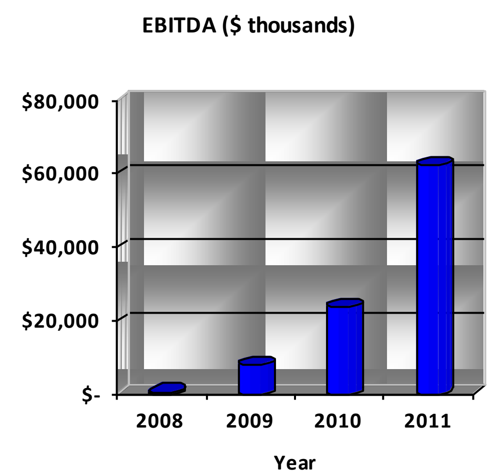
- Recycling drilling fluids at Secure's FSTs;
- Construction of drilling fluid blending facilities at Secure's existing facility locations to reduce costs associated with logistics;
- Efficient drilling waste handling at the well site;
- Enhance environmental stewardship for our customers;
- Access to the heavy oil markets;

With these acquisitions, Secure now provides full cycle 'cradle to grave' drilling fluid solutions. The end result is that we continue to deliver high quality customer service while taking advantage of the synergies and future opportunities these acquisitions will provide.

In addition to providing the Corporation with synergetic opportunities in future years, the acquisitions were immediately accretive to Secure earnings which contributed to Secure's solid financial performance in 2011. As shown in the graph below, our revenue (excluding oil purchase/resale) from 2008 has increased from $7.4 million to a record high of $239.1 million in 2011.



In addition to record revenue, Secure's earnings before interest, taxes and depreciation and amortization ("EBITDA") has also increased from $0.6 million in 2008 to $62.0 million in 2011 as shown below.



Following the Marquis Alliance acquisition, Secure divided into two separate operating divisions. The PRD division contributed $36.0 million in EBITDA (a 50% increase over prior year) and the DS division contributed $26.0 million in EBITDA (from acquisition date of June 1, 2011). Both divisions performed extremely well by increasing revenues and effectively managing operating costs to maintain solid margins. These exceptional results are not only attributable to our employees, but to our suppliers, partners, customers and investors who have helped us along the way. We continually strive for excellence in establishing Secure as a key player in the energy services market. We are dedicated to constantly working with our customers to ensure we always exceed their expectations.

In 2011, Secure paid $188.8 million for the strategic acquisitions as discussed, however we also invested a further $96.5 million on projects relating to organic growth. The PRD division added the Brazeau SWD facility, the Wild River temporary SWD facility, expanded the Obed and South Grand Prairie SWD's to FST's, constructed the Drayton Valley FST, and expanded disposal capacity at our Pembina landfill. In addition, Secure completed a number of smaller expansion projects that included new disposal wells, increased tank storage and additional truck offload risers to support customer demand. In the DS division, the Corporation deployed additional capital for rental equipment such as centrifuges and storage tanks that support the solids control service line. The Corporation's facilities in western Canada are well positioned to service the Montney, Duvernay, Swan Hills, Bakken, Viking, Spearfish and Cardium regions in the WCSB. These areas have significant oil and natural gas production, and a significant amount of current drilling activity driven by the success of modern horizontal drilling technology.

Secure has also increased its financial flexibility by completing a $200.0 million credit facility with a syndicate of lenders. The committed three year revolving facility is to be used for working capital, for capital expenditures including permitted acquisitions, and for general corporate purposes.

We understand the key elements involved in order to execute on our day-to-day operating activities and our ongoing construction projects. One of those key elements is safety. Secure is committed to employing responsible management and best practices that result in protecting the health and safety of our employees, contractors, agents and the public. The Corporation adheres to the policies and procedures as set out in the Health and Safety Program and has adopted this into our Corporate Health and Safety Policy. Our management practices promote the highest standards of safety and reliability.

The accomplishments in 2011 are a direct result of the hard work and dedication of the Corporation's management and employees. We have a strong team and a strong entrepreneurial culture among all employees. We believe that leadership comes from all levels of the organization. All employees are committed to providing innovative product and service lines and being the industry leader.

OUTLOOK

Activity levels in the oil and gas sector remained strong throughout the fourth quarter of 2011. The strength in oil and natural gas liquids ("NGL's") prices continue to drive drilling activity. However, further weakening of natural gas prices have caused the Petroleum Services Association of Canada ("PSAC") to lower its drilling forecast in 2012. Overall, PSAC is still forecasting growth in the number of wells drilled in 2012 over 2011. The Corporation's view is that despite the falling price of natural gas, the strong price of oil and NGL's will keep activity levels strong in 2012. In addition, Secure

views operating days and meters drilled over the number of wells drilled as a better indicator of future macro trends impacting the Corporation's results. The Canadian Association of Oilwell Drilling Contractors ("CAODC") forecasts that in 2012 the number of operating days will continue to increase over 2011 levels. The increase continues to be a result of more complex drilling, a move to horizontal wells and greater lengths/depths being pursued by operators. The Corporation expects the increase in the number of operating days will drive demand for services at the Corporation's waste processing and disposal facilities and in the DS division's business.

There are a number of opportunities in 2012 to expand the Corporation through additional service lines, organic growth, and/or through strategic acquisitions in key market areas. Secure recently announced the Corporation's capital program for 2012 of $116.0 million. The PRD divisions' 2012 capital budget of $98.0 million includes the construction of two FST's, a landfill in Fox Creek, a landfill in Saddle Hills and the permanent Wild River SWD. Construction on the Wild River SWD facility is well underway and it is expected to be completed during the second quarter of 2012. The DS divisions' 2012 capital budget totals $18.0 million comprising $14.0 million for growth capital allocated evenly between Canadian and U.S. operations and is largely comprised of on-site solid's control equipment. Secure's available debt capacity and cash flow from operations provides sufficient funding that allows the Corporation to maintain a strong balance sheet throughout the execution of its capital strategy.

At Secure, we are proud of our accomplishments to date but understand that we have a lot more we would like to achieve. In 2012, we will focus on complementary services, recycling services, organic growth and acquisitions that complement the existing business. The Corporation's business development team will continue to evaluate and execute opportunities for new facilities including drilling fluid blending and storage facilities at the PRD division's FST's to better serve the Corporation's customers.

As each year goes by, Secure continues to strengthen its market position across all service lines. Overall, we look forward to the future of Secure and we are excited about the opportunities ahead. Secure's employees thank you for your support.

R. Amirault

Rene Amirault
President and Chief Executive Officer
Date: March 5, 2012

MANAGEMENT DISCUSSION AND ANALSYIS

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

Three and Twelve Months ended December 31, 2011 and 2010

The following management discussion and analysis ("MD&A") of the financial position and results of operations of Secure Energy Services Inc. ("Secure" or the "Corporation") has been prepared by management and reviewed and approved by the Board of Directors of Secure on March 5, 2012. The discussion and analysis is a review of the financial results of the Corporation based upon accounting principles that are generally accepted in Canada (the issuer's "GAAP"), which includes International Financial Reporting Standards ("IFRS"). The Corporation transitioned to IFRS on January 1, 2011 (the "Transition Date"), which required, for comparative purposes, the restatement of amounts reported on the Corporation's opening IFRS statement of financial position as at January 1, 2010 and amounts reported by the Corporation for each quarter and year ended in 2010.

The MD&A's focus is primarily a comparison of the financial performance for the three and twelve months ended December 31, 2011 and 2010 and should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes prepared under IFRS for the year ended December 31, 2011, as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2010. The Corporation's management is responsible for the information disclosed in this MD&A and the accompanying audited consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Corporation's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Corporation. The MD&A has been prepared as of March 5, 2011. Additional information regarding the Corporation is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

SECURE'S BUSINESS

Secure is a TSX publicly traded energy services company that focuses on providing specialized services to upstream oil and natural gas companies operating in the Western Canadian Sedimentary Basin ("WCSB") and in the United States.

The Corporation operates two divisions:

Processing, Recovery and Disposal Division ("PRD"): Operating under the trade name Secure Energy Services Inc, the PRD division provides clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal, and oil purchase/resale service.

Drilling Services Division ("DS"): Operating under the trade names Marquis Alliance and XL Fluids, the DS division provides drilling fluid systems, solids control, and environmental services. The drilling fluids service line includes the design and implementation of drilling fluid systems for producers drilling for oil, bitumen and natural gas.

For a complete description of services provided in both of the above divisions, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's annual information form ("AIF") for the year ended December 31, 2011;

2011 FINANCIAL AND OPERATIONAL HIGHLIGHTS

Secure had significant growth in 2011, increasing revenue (excluding oil purchase/resale) by 339% over 2010 and increasing earnings before interest, taxes, depreciation and amortization ("EBITDA") by 152% compared to the prior year. The Corporation's ability to execute on a strategy of organic growth combined with strategic acquisitions resulted in the creation of the DS division and the Corporation significantly expanding services available at its full service terminals ("FST"). The vertical integration into drilling services is a complementary fit with Secure's PRD division, creating opportunities for the Corporation to leverage its existing facility infrastructure and provide a broad integrated drilling fluid service. With the continued weakness in natural gas prices, drilling has been directed toward oil or liquids rich natural gas producing areas. The wells currently drilled in these resource plays commonly utilize horizontal drilling and multi-stage fracturing techniques which were positive drivers of the Corporation's financial and operating results in 2011. The corresponding increase in meters drilled and operating days required to drill a well has resulted in more demand for drilling, processing, and disposal services in both the PRD division and the DS division.

	Three Months Ended December 31,			Year Ended December 31,		
	2011	**2010**	**2009 (2)**	**2011**	**2010**	**2009 (2)**
($000's except share and per share data) *						
(unaudited)						
Revenue (excludes oil purchase and resale)	**104,288**	18,445	7,520	**239,094**	54,458	22,377
Oil purchase and resale	**126,973**	14,486	-	**312,105**	18,535	-
Total revenue	**231,261**	32,931	7,520	**551,199**	72,993	22,377
EBITDA (1)	**24,785**	8,037	2,759	**61,964**	24,601	8,027
Per share ($), basic	**0.28**	0.13	0.07	**0.79**	0.42	0.20
Per share ($), diluted	**0.26**	0.12	0.06	**0.75**	0.41	0.19
Profit for the period	**10,290**	2,291	(970)	**22,383**	5,368	(2,758)
Per share ($), basic	**0.12**	0.04	(0.02)	**0.28**	0.09	(0.07)
Per share ($), diluted	**0.11**	0.03	(0.02)	**0.27**	0.09	(0.07)
Funds from operations (1)	**22,149**	9,299	2,704	**56,002**	25,524	7,958
Per share ($), basic	**0.25**	0.15	0.06	**0.71**	0.44	0.19
Per share ($), diluted	**0.24**	0.14	0.06	**0.68**	0.42	0.19
Cash dividends per common share	**nil**	nil	nil	**nil**	nil	nil
Capital expenditures (1)	**29,330**	19,866	3,487	**202,053**	63,710	22,686
Total assets	**603,083**	198,464	96,979	**603,083**	198,464	96,979
Long term borrowings	**119,070**	-	4,788	**119,070**	-	4,788
Common shares - end of period	**90,156,688**	63,754,348	41,631,991	**90,156,688**	63,754,348	41,631,991
Weighted average common shares						
basic	**89,481,219**	63,730,396	41,624,234	**78,540,224**	58,560,338	40,857,737
diluted	**93,718,121**	66,732,263	42,600,342	**82,944,975**	60,464,341	41,788,605

*** Includes drilling services division from its acquisition on June 1, 2011.**

(1) Refer to "Non GAAP measures and operational definitions" on page 9 for further information

(2) Prepared under Canadian Generally Accepted Accounting Principles (Previous GAAP)

Corporate highlights:

- EBITDA per share (basic) more than doubled to $0.28 for the three months ended December 31, 2011 and grew 88% to $0.79 for the year ended December 31, 2011 over the comparative period of 2010;
- Reported record revenue (excluding oil purchase and resale) of $104.3 million and $239.1 million for the three and twelve months ended December 31, 2011 compared to $18.4 million and $54.5 million in the comparable periods of 2010. The record revenue for the 2011 year was a result of the new drilling services division added on June 1, 2011, the Dawson FST operating for the entire year, the addition of the Brazeau stand alone water disposal ("SWD") facility, Obed and South Grande Prairie FST expansion, the addition of the Drayton Valley FST in the fourth quarter and overall increased demand for the Corporation's service offerings in both divisions. For the year ended December 31, 2011, the DS division (from June 1, 2011) had a total of 24,870 operating days in Canada and revenue per operating day of $4,995, both of which were positively impacted by increased industry activity;
- Reported higher oil purchase and resale revenue in the twelve months of 2011 compared to same period of 2010 as a result of the Corporation becoming a single shipper at the Fox Creek FST in December 2010, at the La Glace FST in October 2011, and increasing throughput at these facilities. Secure also became a single shipper at the Drayton Valley FST in January 2012 and as a result the Corporation expects oil purchase and resale service revenue to increase in the first quarter of 2012;
- Reported record EBITDA of $24.8 million and $62.0 million for the three and twelve months ended December 31, 2011 compared to $8.0 million and $24.6 million in the same period of 2010. EBITDA has grown significantly as a result of the new DS division, the new facilities and the added expansion services in the PRD division and an overall increase in energy sector activity in both the fourth quarter and the year;

- Completed three significant strategic acquisitions;
    - On June 1, 2011 the Corporation closed the $131.4 million acquisition of Marquis Alliance which formed the new DS division;
    - On July 1, 2011 the acquisition of the operating assets (excluding working capital) of XL Fluids was closed for $39.4 million which was integrated into the DS division;
    - On October 1, 2011, Secure purchased the Silverdale processing facility from Emerge Oil & Gas Inc ("Emerge") for an aggregate cash purchase price of $18.0 million which was integrated into the PRD division;
- Completed $96.5 million of capital spending relating to organic growth which included $38.6 million related to projects that started in 2010, $31.7 million for expansion/new services at existing facilities, equipment totalling $26.2 million for long lead items for new 2012 facilities and for rental equipment used in the DS division;
- Closed a $150.0 million credit facility with a syndicate of lenders, with an option to expand to $200.0 million through the exercise of an additional $50.0 million accordion feature. The committed three year revolving facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes; and
- Announced in December 2011 a capital budget for the 2012 year of $116.0 million. $98.0 million was allocated to the PRD division for the construction of two FST's, a landfill in Fox Creek, a landfill in Saddle Hills and the permanent Wild River SWD facility. The construction on the Wild River SWD is well underway and it is expected to be completed during the second quarter of 2012. The DS divisions' 2012 capital budget totals $18.0 million consisting of $14.0 million for growth capital allocated evenly between Canadian and U.S. operations and is largely comprised of onsite solid's control equipment.

Subsequent to December 31, 2011, the Corporation:

- Closed the exercise of the accordion feature and extended the credit facility to $200.0 million with its lenders. Secure's current available debt capacity and cash flow from operations provides sufficient funding to execute on the Corporation's 2012 capital strategy; and
- During January 2012, the Corporation announced it was acquiring the operating assets (excluding working capital) of New West Drilling Fluids Inc. ("NWDF") for an aggregate cash purchase price of $3.4 million. NWDF is a Canadian based drilling fluids company specializing in providing drilling fluid systems and products for the heavy oil and oil sands segment. NWDF is most well known for its patented SAGD system, "BITUDRIL", the first bitumen encapsulating polymer based system on the market. Adding NWDF's assets, including BITUDRIL, to Marquis Alliance's existing patented and proprietary SAGD product line will increase Marquis Alliance's ability to provide the most cost effective drilling fluid solutions in the SAGD market.

NON-GAAP MEASURES AND OPERATIONAL DEFINITIONS

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

Operating margin

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

Operating days

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

Canadian Market Share

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

Funds from operations

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

	Three Months Ended December 31,			Year Ended December 31,		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
($000's) (unaudited)						
Cash from (used in) operating activities	**(12,828)**	5,325	(341)	**7,761**	18,994	(59)
Add (deduct):						
Non-cash working capital	**34,977**	3,974	780	**48,241**	6,530	639
Funds from operations	**22,149**	9,299	138	**56,002**	25,524	119

EBITDA

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

	Three Months Ended December 31,			Year Ended December 31,		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
($000's) (unaudited)						
Profit	**10,290**	2,291	349	**22,383**	5,368	317
Add:						
Depreciation, depletion and amortization	**8,915**	4,073	119	**25,230**	13,846	82
Share-based payments	**1,007**	504	100	**3,029**	1,640	85
Current tax expense	**1,776**	-	100	**4,491**	-	100
Deferred income tax expense	**1,730**	970	78	**5,042**	3,055	65
Interest, accretion and finance costs	**1,067**	199	436	**1,789**	692	159
EBITDA	**24,785**	8,037	208	**61,964**	24,601	152

Capital Expenditures

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

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011

Operating activities for the Corporation changed on June 1, 2011 with the addition of a new DS division. In order to discuss the factors that have caused period to period variations in operating activities, the Corporation has divided the business into two reportable segments; the PRD division and the DS division.

	Year Ended December 31,		
	2011	**2010**	**% Change**
($000's except per share data) (*)			
(unaudited)			
Revenue	**551,199**	72,993	655
Operating expenses	**489,878**	54,094	806
General and administrative	**25,452**	7,473	241
Business development	**2,014**	2,297	(12)
Interest, accretion and finance costs	**1,939**	706	175
Profit before income taxes	**31,916**	8,423	279
Income taxes			
Current income tax expense	**4,491**	-	100
Deferred income tax expense	**5,042**	3,055	65
	9,533	3,055	212
Profit	**22,383**	5,368	317
Other comprehensive income			
Foreign currency translation adjustment	**231**	-	100
Total comprehensive income	**22,614**	5,368	321
Earnings per share			
Basic	**0.28**	0.09	211
Diluted	**0.27**	0.09	200

*** Includes drilling services division from its acquisition on June 1, 2011.**

PRD DIVISION OPERATIONS - YEAR ENDED DECEMBER 31, 2011

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

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

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

	Year Ended December 31,		
	2011	2010	% Change
($000's) (unaudited)			
Revenue			
Processing, recovery and disposal services	**91,388**	54,458	68
Oil purchase and resale service	**312,105**	18,535	1,584
Total PRD division revenue	**403,493**	72,993	453
Operating Expenses			
Processing, recovery and disposal services	**42,624**	21,713	96
Oil purchase and resale service	**312,105**	18,535	1,584
	354,729	40,248	781
Depreciation, depletion, and amortization	**19,453**	13,846	40
Total PRD division operating expenses	**374,182**	54,094	592
General and administrative	**13,136**	7,473	76
Business development	**1,590**	2,297	(31)
	14,585	9,129	60
Operating Margin (1)	**48,764**	32,745	49
Operating Margin (1) (excluding oil purchase/resale) as a % of revenue	**53%**	60%	(12)

(1) **Refer to "Non GAAP measures and operational definitions" on page 9 for further information**

Revenue (PRD division)

Revenue from processing, recovery and disposal services for the year ended December 31, 2011 increased by 68% to $91.4 million from $54.5 million for the year ended December 31, 2010. Processing volumes increased 103% from 2010 to 2011 primarily as a result of the Corporation's Obed and South GP waste expansions, the new Drayton Valley FST and a full year of operating at the Dawson FST. In addition to the new facilities, significant volumes were processed as a result of increased demand for the Corporation's services and increased oil and gas activity in 2011. Furthermore, the impact of the pipeline break at Rainbow Pipeline System also caused some oil volumes to be diverted to the PRD FST's to allow oil and gas producers the ability to continue operating. Revenue from recovery for the twelve months ended December 31, 2011 increased by 81% over the comparable period in 2010. Crude oil handling, marketing and terminalling revenue was higher as a result of the increase in processing volumes, the greater amount of oil recovered during processing, and marketing oil volumes to maximize differentials on various oil streams. The Corporation will purchase oil to take advantage of pricing differentials primarily based on product density and sulphur content. Finally, during the year ended December 31, 2011, Secure's disposal volumes increased by 24% compared to the same period of 2010. As described above, the new facilities added during the year, higher demand and more oil and gas activity are the primary reasons for the increase.

Oil purchase/resale service revenue for the year ended December 31, 2011 increased to $312.1 million from $18.5 million in the same period of 2010. Secure started offering this service at its Fox Creek FST in 2010 to allow customers to gain efficiencies in transportation and handling of their crude oil to the pipeline. In the fourth quarter of 2011, the revenue and expenses associated with this service increased as a result of Secure becoming a single shipper at its La Glace FST. All oil volume entering into FST's that are pipeline connected are purchased by Secure and sold back to customers in Edmonton. As a single shipper, Secure's accounts receivable and accounts payable have increased significantly, as commodity contracts are executed over the forecast period and commodity contracts are fulfilled on physical delivery. The majority of commodity contracts offset in subsequent payment months. See the "**Business Risks**" section in this MD&A for further discussion. The revenue and corresponding expense of this service will fluctuate depending upon the volume of crude oil received in any given period and the price of crude oil for that period. As shown above, oil purchase/resale revenue is deducted to calculate the operating margin of processing, recovery and disposal services (53%). The Corporation expects the amount of revenue and expense associated with this service to increase in January 2012 as a result of Drayton Valley FST becoming a single shipper.

Operating Expenses (PRD division)

For the year ended December 31, 2011 operating expenses from processing, recovery and disposal services increased significantly to $42.6 million from $21.7 million for the year ended December 31, 2010. Volumes processed and disposed at the PRD facilities have increased in 2011 over the 2010 year, which correlates with the significant increase in revenue. Accordingly, variable operating costs have increased with the higher revenue. Operating expenses are also significantly higher with the addition of Obed and South GP waste expansions, the new Drayton Valley FST, the full year of the Dawson FST, the acquired Silverdale facility, Brazeau SWD and the temporary facility at Wild River. Operating margin as a percentage of revenue from processing, recovery and disposal services for the year ended December 31, 2011 was 53%, down from 60% for the year ended December 31, 2010. Operating margin may fluctuate year over year as a result of changes in volumes affected by seasonality, as new facilities come online and activity levels change, as the Corporation's sales mix or type of services received varies, changes in input costs incurred to maximize differentials on the value of crude oil shipments and as commodity prices rise and fall. Specifically, the decrease in operating margin in 2011 is attributed to the extremely wet weather conditions experienced during the spring and summer months. The heavy rains caused an increase in leachate disposal costs of $1.1 million, road maintenance/site costs of $0.5 million and repairs and maintenance costs of $1.2 million. As a result of the expansions and new facilities described above, the Corporation incurred higher training costs associated with the start up phase. Over the past three years the PRD division has averaged a 56% operating margin through years of high organic growth.

Depreciation, Depletion and Amortization (PRD division)

Depreciation, depletion and amortization expense for the year ended December 31, 2011 increased to $19.5 million from $13.8 million for the year ended December 31, 2010. The additions of the Dawson FST in the fourth quarter of 2010, Obed and South GP FST waste expansions, the Brazeau SWD, the Drayton Valley FST and the Silverdale FST have all contributed to the increase for the year ended December 31, 2011.

General and Administrative (PRD division)

General and administrative expenses ("G&A") increased for the year ended December 31, 2011 to $13.1 million from $7.5 million in the same period of 2010. The PRD division G&A includes all public company costs, salaries and share based payments relating to corporate employees. Management intends to segregate out corporate costs in the first quarter of 2012 for greater transparency. The most significant accounts within G&A include: salaries and benefits, professional fees, office lease, insurance, utilities and communications in the Corporation's head office. The most significant impact to G&A year over year is a result of hiring employees to support the growth in operations and compensation for management and employees in accordance with the Corporation's annual incentive compensation arrangements. Included in benefits are non-cash share-based payments for the twelve months ended December 31, 2011 of $2.2 million compared to $1.6 million in the same period of 2010. The increase in stock-based compensation relates mainly to the stock options granted to new employees hired, employees acquired as part of the completed acquisitions and options granted annually to all employees.

Business Development Expenses (PRD division)

For the year ended December 31, 2011 business development expenses have decreased to $1.6 million from $2.3 million for the year ended December 31, 2010. Business development expenses in 2010 were higher as a result of expensing a one-time cost of $1.3 million associated with Secure's Heritage landfill project. In 2011, $0.8 million of the $1.6 million are a result of transaction costs incurred in connection with the Marquis Alliance, XL Fluids and Silverdale acquisitions. Under IFRS, transaction costs relating to an acquisition are not capitalized as part of the purchase price equation. The remaining business development expense relates to a variety of costs incurred on future prospects.

DS DIVISION OPERATIONS - YEAR ENDED DECEMBER 31, 2011

On June 1, 2011, the acquisition of Marquis Alliance created the DS division, which was expanded on July 1st with the acquisition of XL Fluids. The seven months since that time have been a period of high activity for the DS division. Accordingly, the results of the DS division only includes activity from June 1, 2011, the period in which Marquis Alliance became a wholly owned subsidiary of the Corporation. The DS division has three service lines: drilling fluids, environmental services, and solids control. Geographically, the primary focus of the DS division has been the WCSB. In addition, there are two wholly owned subsidiaries that also provide services to various basins in the United States as well as internationally in India. The DS division's WCSB operations are spearheaded from the Calgary, Alberta office and the U.S. operations are conducted from the Denver, Colorado office.

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

	Year Ended December 31,		
	2011	2010	% Change
($000's) (unaudited) [*]			
Revenue			
Drilling services	**147,706**	-	100
Operating expenses			
Drilling services	**109,919**	-	100
Depreciation and amortization	**5,777**	-	100
Total DS division operating expenses	**115,696**	-	100
General and administrative	**12,316**	-	100
Business development	**424**	-	100
	19,270	-	100
Operating Margin [(1)]	**37,787**	-	100
Operating Margin % [(1)]	**26%**	-	100

*** Includes drilling services division from its acquisition on June 1, 2011.**

(1) Refer to "Non GAAP measures and operational definitions" on page 9 for further information

Revenue (DS division)

Revenue from the DS division for the year ended December 31, 2011 was $147.7 million compared to nil in the comparative period of 2010. Total revenue in Canada and the United States is comprised of $129.1 million or 87% from the drilling fluids service line and $18.6 million or 13% from the environmental and solids control service lines. Canadian operations accounted for 94% or $138.4 million of the total revenue of $147.7 million for the year ended December 31, 2011. U.S. and International operations accounted for 6% or $9.3 million of revenue during the same period; comparatives for 2010 were nil. The environmental and solids control lines of the business experienced high activity levels throughout 2011. Rental equipment remains at full utilization while newly delivered equipment has been fully booked to the end of the winter drilling season. The drilling fluids service line's estimated Canadian market share for the year ended December 31, 2011 was 26% based on the CAODC's average monthly rig count for Western Canada of 438 rigs (June to December 2011). This compares to 340 rigs for the same period in 2010 (refer to "Non GAAP measures and Operational Definitions"). For the year ending December 31, 2011, the DS division (from June 1, 2011) in Canada had a total of 24,870 operating days and total revenue per operating day of $4,995. The move to horizontal drilling has continued to increase the number of operating days and meters drilled. Revenue from all service lines was in-line with management expectations for 2011.

Operating Expenses (DS division)

Operating margin represents the profit earned on revenue after deducting operating expenses which includes the direct cost of products, logistics, personnel and equipment associated with the DS division. Operating margins in the DS division can vary due to changes in product mix, well type, geographic area and nature of activity (i.e. drilling fluids, solids control, environmental, etc.). Generally, labour costs have less of an impact on the operating margin than other cost elements such as product costs. The DS division manages its seasonal activity swings and demand for products and services through the use of consultants and providing employees compensation incentives during peak periods. The DS division incurred operating expenses for the year ended December 31, 2011 of $109.9 million (or 74% of revenue) compared to nil in the prior period. Operating costs are impacted as a result of a changing product mix as more oil and gas producers move from water based drilling fluids to oil based drilling fluids. Increased horizontal drilling combined with increasing technical drilling programs is driving demand for oil based drilling fluids. Oil base stock is an expensive, low margin and high volume commodity. Therefore, in periods of rising oil prices or increased activity in oil based drilling fluids, revenue and product costs will increase accordingly, resulting in decreasing margins on a percentage basis. Operating margins of $37.8 million or 26% for the year ended December 31, 2011 were achieved compared to nil in the same period of 2010. The margins are in line with management expectations, however the move to oil based drilling fluids has impacted product costs in the short term after considering base oil supply issues and transportation costs. Offsetting this trend, the DS division has seen improved efficiency from field related personnel, the result of higher utilization per employee and a corresponding decrease in higher cost field consultants as a percentage of revenue.

Depreciation and Amortization (DS division)

Depreciation and amortization for the DS division for the year ended December 31, 2011 was $5.8 million compared to nil in the comparative period of 2010. Depreciation and amortization relates to property and equipment and intangible assets and is in-line with management expectations.

General and Administrative (DS division)

The DS division G&A for the year ended December 31, 2011 was $12.3 million compared to nil in the same period of 2010. The DS division does not include any public company costs or corporate overhead costs. The most significant accounts within G&A include: salaries and benefits for office staff, professional fees, office lease, insurance, utilities and communications. G&A was 8.3% of revenue for the year ending December 31, 2011 and is in-line with management expectations.

Business Development Expenses (DS division)

Business development expenses for the DS division for the year ended December 31, 2011 were $0.4 million compared to nil in the same period of 2010. The DS division has two laboratory facilities which focus on the development of new technologies in response to down-hole and environmental issues identified. The business development expenses relate to salaries for employees who focus on the development of these new technologies. Subsequent to year end, the DS division acquired the operating assets (excluding working capital) of NWDF. NWDF is a Canadian based drilling fluids company specializing in providing drilling fluid systems and products for the oil sands segment. This acquisition complemented existing operations by expanding market reach and penetration in the heavy oil and SAGD drilling areas of Northern Alberta and Saskatchewan.

INTEREST, ACCRETION AND FINANCING COSTS (CONSOLIDATED)

Interest, accretion and financing costs for the year ended December 31, 2011 were $1.9 million compared to $0.7 million in the comparable period of 2010. The higher financing costs are a result of increase drawings on the Corporation's revolving credit facility. In addition to interest expense, standby fees associated with the undrawn portion of the Corporation's revolving facility, charges relating to the letters of credit and accretion associated with the Corporation's asset retirement obligations have also increased in the year.

FOREIGN CURRENCY TRANSLATION ADJUSTMENT (CONSOLIDATED)

Included in Other Comprehensive Income ("OCI") for the year ended December 31, 2011 is $0.2 million of foreign currency translation adjustments relating to the conversion of the financial results as at December 31, 2011 for the US operating subsidiary. The amount is a function of converting the DS division United States business operations functional US dollar currency to the Corporation's reporting currency in Canadian dollars.

INCOME TAXES (CONSOLIDATED)

Current Taxes

Current income tax expense for the year ended December 31, 2011 increased to $4.5 million from a current income tax expense of nil for the year ended December 31, 2010. The entire amount of current tax relates to the DS division (Canadian operations). Current taxes will be generated in the DS division in future quarters as there are no carry forward losses in the subsidiary and the available tax pools are not significant enough to offset taxes payable.

Deferred Taxes

The Corporation follows the liability method of accounting for income taxes. The deferred tax expense for the year ended December 31, 2011 increased to $5.0 million from $3.1 million for the year ended December 31, 2010. The increase in deferred tax expense is a result of increased activity and demand at the Corporation's facilities, which in turn resulted in an increase in profit before taxes.

SIGNIFICANT PROJECTS (CONSOLIDATED)

Secure's 2011 capital expenditure program included a number of significant projects. For a discussion of the Corporation's 2011 capital expenditure program, see "***Liquidity and Capital Resources***" in this MD&A.

GEOGRAPHICAL FINANCIAL INFORMATION (CONSOLIDATED)

The table below breaks out revenue and non-current assets for the three months and the year ended December 31, 2011 and the three months and year ended December 31, 2010. All of the PRD division's revenue is generated in Canada, therefore the revenue internationally relates to the DS division.

	Canada		**International**		**Total**	
($000's)	**2011**	2010	**2011**	2010	**2011**	2010
Three months ended December 31						
Revenue	**225,820**	32,931	**5,441**	-	**231,261**	32,931
Year ended December 31						
Revenue	**541,881**	72,993	**9,318**	-	**551,199**	72,993
As at December 31						
Total non-current assets	**397,800**	146,768	**11,701**	-	**409,501**	146,768

RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2011

	Three Months Ended December 31,		
	2011	**2010**	**% Change**
($000's except per share data) (*)			
(unaudited)			
Revenue	**231,261**	32,931	602
Operating expenses	**206,022**	25,140	719
General and administrative	**10,117**	2,448	313
Business development	**202**	1,855	(89)
Interest, accretion and finance costs	**1,124**	227	395
Profit before income taxes	**13,796**	3,261	323
Income taxes			
Current income tax expense	**1,776**	-	100
Deferred income tax expense	**1,730**	970	78
	3,506	970	261
Profit	**10,290**	2,291	349
Other comprehensive income			
Foreign currency translation adjustment	**229**	-	100
Total comprehensive income	**10,519**	2,291	359
Earnings per share			
Basic	**0.12**	0.04	200
Diluted	**0.11**	0.03	267

*** Includes drilling services division from its acquisition on June 1, 2011.**

PRD DIVISION OPERATIONS – FOURTH QUARTER 2011

Revenue (PRD division)

During the fourth quarter 2011, processing, recovery and disposal revenue increased significantly to $29.6 million from $18.4 million in the comparable period of 2010. Processing volumes in the fourth quarter of 2011 increased by 139% over the fourth quarter of 2010. The significant increase in processing is the result of the new Drayton Valley FST becoming operational at the start of the fourth quarter, Obed and South GP waste expansion completed in the first half of 2011, increased demand for the Corporation's services and an overall increase in oil and gas activity. Revenue from recovery includes crude oil handling, marketing and terminalling. For the three months ended December 31, 2011, revenue from recovery increased by 105% over the comparable period in 2010. Revenue increased as a result of higher processing volumes, an increased amount of oil recovered during processing, and marketing oil volumes to maximize differentials on various oil streams. Finally, during the fourth quarter of 2011, Secure's disposal volumes increased by 20% compared to the same period of 2010. As described above, the new facilities added during the year, higher demand and more oil and gas activity are the primary reasons for the increase.

($000's) (unaudited)	Three Months Ended December 31, 2011	2010	% Change
Revenue			
Processing, recovery and disposal services	**29,612**	18,445	61
Oil purchase and resale service	**126,973**	14,486	777
Total PRD division revenue	**156,585**	32,931	375
Operating Expenses			
Processing, recovery and disposal services	**13,045**	6,581	98
Oil purchase and resale service	**126,973**	14,486	777
	140,018	21,067	565
Depreciation, depletion, and amortization	**6,274**	4,073	54
Total PRD division operating expenses	**146,292**	25,140	482
General and administrative	**4,326**	2,448	77
Business development	**-**	1,855	(100)
	5,967	3,488	71
Operating Margin (1)	**16,567**	11,864	40
Operating Margin (1) (excluding oil purchase/resale) as a % of revenue	**56%**	64%	(13)

(1) Refer to "Non GAAP measures and operational definitions" on page 9 for further information

As described in the results of the year ended December 31, 2011 section of this MD&A, oil purchase/resale service increased dramatically during the year as a result of Secure becoming a single shipper for two of its pipeline connected FST's. The increase in this service helps drives demand for Secure's other services. Oil purchase/resale service revenue for the three months ended December 31, 2011 increased to $127.0 million from $14.5 million in the same period of 2010. In the fourth quarter of 2011, the revenue and expenses associated with this service increased as a result of Secure becoming a single shipper at its La Glace FST. See the "**Business Risks**" section in this MD&A for further discussion. The revenue and corresponding expense of this service will fluctuate depending upon the volume of crude oil received in any given period and the price of crude oil for that period. As shown above, oil purchase/resale revenue is deducted to calculate the operating margin of processing, recovery and disposal services (56%). The Corporation expects the amount of revenue and expense associated with oil purchase/resale to increase in January 2012 as a result of Drayton Valley FST becoming a single shipper.

Operating Expenses (PRD division)

Operating expenses from processing, recovery and disposal services for the three months ended December 31, 2011 increased to $13.0 million from $6.6 million for the three months ended December 31, 2010. The increase in operating expenses corresponds to the 61% increase in revenue (excluding oil purchase/resale) for the fourth quarter 2011 compared to the fourth quarter of 2010 as variable operating costs have risen accordingly. Operating expenses are also higher as a result of the addition of the Drayton Valley FST in the fourth quarter and the other expansion services and facilities added during the year. Operating margin as a percentage of revenue from processing, recovery and disposal services for the fourth quarter 2011 was 56%, down from 64% in the fourth quarter of 2010. The Corporation had higher costs associated with the start up of the Drayton Valley FST in the fourth quarter. Included in the start up costs was $1.0 million of trucking expense to a third party crude oil terminal experienced as a result of a delay in facility's crude oil pipeline connection. Ultimately, the Corporation recovered these costs directly from the customer. The overall impact of $1.0 million incremental revenue and expense resulted in a reduction in operating margin of 2% for the quarter. In addition, repairs and maintenance costs were $0.5 million higher than the same period of 2010 as a result of more facilities and expansion services added during 2011. The change in operating margin may fluctuate year over year as a result of changes in volumes affected by seasonality, as new facilities come online and activity levels change, as the Corporation's sales mix or type of services received varies, changes in input costs incurred to maximize differentials on the value of crude oil shipments and as commodity prices rise and fall.

Depreciation, Depletion and Amortization (PRD division)

Depreciation, depletion and amortization expense for the three months ended December 31, 2011 increased to $6.3 million from $4.1 million in the same period in 2010. Depreciation, depletion and amortization expense has increased significantly with the additions of the Drayton Valley FST facility, Obed FST waste expansion and the South Grande Prairie FST waste expansion, the Brazeau SWD and the Wild River temporary facility.

General and Administrative (PRD division)

General and administrative expenses ("G&A") increased in the fourth quarter of 2011 to $4.3 million from $2.4 million in the fourth quarter of 2010. The PRD division G&A includes all public company costs, salaries and share based payments relating to corporate employees. The most significant impact to G&A in the fourth quarter of 2011 is a result of hiring employees to support the growth in operations. Included in benefits are non-cash share-based payments for the three months ended December 31, 2011 of $0.6 million compared to $0.5 million in the same period of 2010. The increase in stock-based compensation relates mainly to the stock options granted to new employees hired and options granted annually to all employees. G&A is currently 14.6% of revenue (excluding oil purchase/resale) in the division. Management intends to segregate out corporate costs in the first quarter of 2012 for greater transparency.

Business Development Expenses (PRD division)

Business development expenses for the three months ended December 31, 2011 were nil compared to $1.9 million for the three months ended December 31, 2010. Business development expenses were significantly lower in the fourth quarter of 2011 as all current projects that management is working on relate to 2012 capital projects. Furthermore, all transaction costs incurred in connection with the Silverdale Battery acquisition were expensed in the third quarter of 2011. In the prior year, the higher business development costs relate to the Corporation expensing a one-time cost of $1.3 million associated with Secure's Heritage landfill project.

DS DIVISION OPERATIONS – FOURTH QUARTER 2011

Revenue (DS division)

Revenue from the DS division for the fourth quarter of 2011 was $74.7 million compared to nil for the comparative period of 2010 and compared to $63.5 million for the third quarter of 2011. This represents an 18% increase from the third to the fourth quarter of 2011. The quarter over quarter increase in 2011 is the result of increased activity across all service lines.

	Three Months Ended December 31,		
	2011	**2010**	**% Change**
($000's) (unaudited) (*)			
Revenue			
Drilling services	**74,676**	-	100
Operating expenses			
Drilling services	**57,088**	-	100
Depreciation and amortization	**2,642**	-	100
Total DS division operating expenses	**59,730**	-	100
General and administrative	**5,791**	-	100
Business development	**202**	-	100
	8,953	-	100
Operating Margin (1)	**17,588**	-	100
Operating Margin % (1)	**24%**	-	100

*** Includes drilling services division from its acquisition on June 1, 2011.**

(1) Refer to "Non GAAP measures and operational definitions" on page 9 for further information

In Canada and the United States, the drilling fluids service line contributed $64.4 million or 86% of total revenue and the remaining service lines of environmental and solids control contributed $10.3 million or 14% for the three months ended December 31, 2011. Demand for the environmental and solids control service lines remains strong, with high utilization and newly delivered equipment fully booked to the end of the winter drilling season. The drilling and completions fluids component also continues to perform very well. The drilling fluids service line estimated Canadian market share over the fourth quarter of 2011 was 25% based on the CAODC's average monthly rig count for Western Canada of 489 rigs for the same period. This compares to 453 rigs through the three months ended September 30, 2011 (refer to "Non GAAP measures and Operational Definitions"). Average monthly rig count in the fourth quarter increased by 8% from the third quarter. The Corporation had a total of 11,220 operating days in the fourth quarter in Canada for the drilling fluids service line compared to 12,512 operating days in the third quarter. The number of operating days are lower in the fourth quarter due to the holiday season. Fourth quarter revenue per operating day in Canada was $5,563 compared to $4,334 in the third quarter – an increase of 28%.

Operating Expenses (DS division)

Operating margin represents the profit earned on revenue after deducting operating expenses, which includes the direct cost of products, logistics, personnel and equipment associated in the DS division. Operating margins (excluding depreciation) in the DS division can vary due to changes in product mix, well type, geographic area and nature of activity (i.e. drilling fluids, environmental, solids control, etc.). On a quarterly basis, operating expenses for the three months ended December 31, 2011 were $57.1 million, compared to $46.2 million for the three months ended September 30, 2011. For the three months ending December 31, 2011 operating margins were $17.6 million or 24% compared to $17.3 million or 27% for the three months ending September 30, 2011. A major factor that contributed to margin decline as a percentage of revenue in the fourth quarter versus the third quarter, included the increased use of base oils to make drilling fluids. However, despite the decline on a percentage basis, operating margin on an absolute dollar basis increased. Customers have been steadily increasing their demand for oil based drilling fluids as they ramp up their horizontal and deep technical drilling programs. Oil based stock is an expensive, high volume and low margin commodity, therefore revenue has increased while margins have declined. The demand for oil based drilling fluids continues to build.

Depreciation and Amortization (DS division)

Depreciation and amortization for the three months ended December 31, 2011 was $2.6 million compared to $2.3 million for the three months ended September 30, 2011. Depreciation and amortization increased by 16% in the fourth quarter as a result of a larger fixed asset base. Depreciation and amortization relates to property and equipment and intangible assets.

General and Administrative (DS division)

For the three months ended December 31, 2011 G&A was $5.8 million compared to $5.4 million for the three months ended September 30, 2011; an increase of 8% attributable to higher activity levels. G&A as a percentage of revenue was 7.8% in the fourth quarter, compared to 8.4% in the third quarter. The DS division does not include any public company costs or corporate overhead costs. The most significant accounts within G&A include: salaries and benefits for office staff, professional fees, office lease, insurance, utilities and communications. G&A is in line with management expectations for the three months ended December 31, 2011.

Business Development Expenses (DS division)

Business development expenses for the three months ended December 31, 2011 was $0.2 million compared to nil in the comparative period of 2010. The DS division has two laboratory facilities which focus on the development of new technologies in response to down-hole and environmental issues identified. The business development expenses relate to salaries for employees who focus on the development of these new technologies.

INTEREST, ACCRETION AND FINANCING COSTS (CONSOLIDATED)

Interest, accretion and financing costs for the three months ended December 31, 2011 were $1.1 million compared to $0.2 million in the comparable period of 2010. During the fourth quarter of 2011, the Corporation funded its capital program and increases in working capital through increases in the revolving credit facility. The additional draws during the quarter and the overall balance outstanding resulted in increased interest expense for the three months ended December 31, 2011. The increase also includes standby fees associated with the undrawn portion of the revolving facility, charges relating to the letters of credit and accretion associated with the Corporation's asset retirement obligations.

FOREIGN CURRENCY TRANSLATION ADJUSTMENT (CONSOLIDATED)

Included in Other Comprehensive Income ("OCI") is $0.2 million for the three months ended December 31, 2011 of foreign currency translation adjustments relating to the conversion of the financial results as at December 31, 2011 for the US operating subsidiary. The amount is a function of converting the DS division United States business operations functional US dollar currency to the Corporations reporting currency in Canadian dollars.

INCOME TAXES (CONSOLIDATED)

Current Taxes

Current income tax expense for the three months ended December 31, 2011 increased to $1.8 million from a current income tax expense of nil for the three months ended December 31, 2010. The entire amount of current tax for the fourth quarter of 2011 relates to the DS division (Canadian operations). Current taxes will be generated in the DS division in future quarters as there are no carry forward losses in the subsidiary and the available tax pools are not significant enough to offset taxes payable.

Deferred Taxes

The Corporation follows the liability method of accounting for income taxes. The deferred tax expense for the three months ended December 31, 2011 increased to $1.7 million from $1.0 million for the three month period ended December 31, 2010. The increase in deferred tax expense is a result of increased activity and demand at the Corporation's facilities, which in turn resulted in an increase in profit before taxes.

SUMMARY OF QUARTERLY RESULTS

Seasonality

Seasonality impacts the Corporation's operations. In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. As warm weather returns in the spring, the winter's frost comes out of the ground (commonly referred to as "spring break-up"), rendering many secondary roads incapable of supporting heavy loads and as a result road bans are implemented prohibiting heavy loads from being transported in certain areas. As a result, the movement of the heavy equipment required for drilling and well servicing activities may be restricted, and the level of activity of the Corporation's customers may be consequently reduced. In the areas in which the Corporation operates, the second quarter has generally been the slowest quarter as a result of spring break-up. Historically, the Corporation's first, third and fourth quarters represent higher activity levels and operations. These seasonal trends typically lead to quarterly fluctuations in operating results and working capital requirements, which should be considered in any quarter over quarter analysis of performance.

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

($000s except share and per share data)	**2011**				**2010**			
(unaudited)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue (excluding oil purchase and resale)	**104,288**	86,594	26,482	21,730	18,445	13,929	9,876	12,208
Oil purchase and resale	**126,973**	71,602	67,262	46,268	14,486	2,679	1,370	-
Total Revenue	**231,261**	158,196	93,744	67,998	32,931	16,608	11,246	12,208
Profit for the period	**10,290**	7,853	10	4,230	2,291	1,523	18	1,537
Earnings (loss) per share - basic	**0.12**	0.09	0.00	0.07	0.04	0.02	0.00	0.04
Earnings (loss) per share - diluted	**0.11**	0.08	0.00	0.06	0.03	0.02	0.00	0.03
Weighted average shares - basic	**89,481,219**	89,242,506	71,207,964	63,829,714	63,730,396	63,701,941	63,187,252	43,341,202
Weighted average shares - diluted	**93,718,121**	93,949,868	75,851,337	67,855,436	66,732,263	65,859,648	64,716,438	44,242,584
EBITDA (1)	**24,785**	20,653	5,824	10,702	8,037	6,433	3,648	6,483

(1) Refer to "Non GAAP measures and operational definitions " on page 9 for further information

Quarterly Review Summary

As illustrated above, quarterly performance is affected by seasonal variation; however, with Secure's significant growth and recent acquisitions during 2010 and the year ended December 31, 2011, variations in quarterly results extend beyond seasonal factors. The most significant impact in the second and third quarter of 2011 relate to the Corporation acquiring Marquis Alliance and XL Fluids, which have formed the Corporation's new DS division. In the fourth quarter of 2011, the Corporation also acquired the Silverdale facility which had an impact in the fourth quarter along with the opening of the Drayton Valley FST. In addition, the Corporation's oil purchase/resale service revenue has also increased significantly quarter over quarter. By offering this service, Secure's customers gain efficiencies in transportation and handling of their crude oil to the pipeline. The significant increase in the first quarter of 2011 and the fourth quarter 2010 are a result of Secure becoming a single shipper at the Fox Creek FST on December 1, 2010. The significant increase in the fourth quarter 2011 is a result of the Corporation becoming a single shipper at the La Glace FST. See the "**Business Risks**" section in this MD&A for further discussion on this service. Finally, each quarter was impacted by the date at which any one of the constructed or acquired FSTs, SWDs or landfills commenced operations. For a complete description of Secure's business assets and operations, please refer to the headings "Secure Energy Services Inc.", "Description of Business" and "Industry Overview" in the Corporation's AIF for the year ended December 31, 2011 which includes a description of the date on which each of Secure's facilities commenced operations. In addition to when the facility commenced operating activities or was acquired, the quarters were also impacted by the length of time required for several oil and natural gas producers to conduct their own individual audits of the facilities to ensure Secure meets all required internal specifications for disposal of oilfield wastes. This process is conducted at all landfills, FSTs and SWDs before the producer will begin sending waste. Depending on the producer, this process can take several months.

LIQUIDITY AND CAPITAL RESOURCES

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

Sources of Cash

a) Funds from operations (see non-GAAP measures)

	Year Ended December 31,		
	2011	**2010**	**% Change**
($000's) (unaudited)			
Funds from operations	**56,002**	25,524	119

For the year ended December 31, 2011 funds from operation increased to $56.0 million from $25.5 million in the comparative period of 2010. The significant increase relates to the new DS division, the addition of the Pembina Landfill (May 2010) and Dawson FST for a full year, Obed FST waste expansion, the South Grand Prairie FST waste expansion, the new Drayton Valley FST, and the acquired Silverdale FST. In addition to the acquisitions, expansions and new facilities added during the year, the Corporation also had continued growth in demand for services, including higher volumes processed and disposed of year over year. The increase in the price of oil from 2010 to 2011, crude oil marketing profits and increased energy sector activity during the year has also contributed to the increase.

b) Issue of common shares

	Year Ended December 31,		
	2011	**2010**	**% Change**
($000's) (unaudited)			
Issue of common shares, net of issue costs	**83,015**	61,672	35

The increase in issue of common shares (net of issue costs) relates to the acquisition of Marquis Alliance and XL Fluids during June and July of 2011, respectively. For the year ended December 31, 2011, issue of common shares (net of issue costs) increased to $83.0 million from $61.7 million over the same period of 2010. Secure closed a public offering (the "Offering"), on a bought deal basis, on May 19, 2011. The Offering was conducted with a syndicate of underwriters pursuant to which the underwriters purchased for resale to the public 12,969,900 (including the over-allotment option) subscription receipts of Secure ("Subscription Receipts") at a price of $6.65 per Subscription Receipt for gross proceeds of $86.3 million. Transaction costs and commissions to the underwriters were approximately $4.8 million which resulted in net proceeds of $81.5 million. The gross proceeds of the Offering were held in escrow in accordance with the terms of the underwriting agreement. Upon closing of the Marquis Alliance acquisition, the gross proceeds were released to Secure and each Subscription Receipt was exchanged for one common share of Secure for no additional consideration. The remaining increase in the issue of common shares for the year ended December 31, 2011 relates to common shares issued by the Corporation to employees and officers upon exercise of options and warrants. For the year ended December 31, 2010, the majority of the amount relates to the Corporation completing its IPO, pursuant to which it issued 19.2 million Common Shares for net proceeds of $53.6 million to fund the development of the business and for capital expenditures. In April 2010, the Corporation issued an additional 2.9 million common shares for net proceeds of $7.9 million in connection with the underwriters over allotment option on the IPO.

Uses of Cash

a) Capital Expenditures

	Year Ended December 31,		
	2011	**2010**	**% Change**
($000's) (unaudited)			
Capital expenditures (1)			
Expansion and growth capital expenditures	**96,546**	51,250	88
Acquisitions	**104,445**	11,750	789
Sustaining capital expenditures	**1,062**	710	50
Total capital expenditures	**202,053**	63,710	217

(1) Refer to "Non GAAP measures and operational definitions" on page 9 for further information

For the year ended December 31, 2011 the Corporation's expansion and growth capital expenditures increased to $96.5 million from $51.3 million compared to the same period in 2010. Of the $96.5 million of capital expenditures, $38.6 million relates to completing a number of expansion projects at Dawson FST, Obed FST, South Grande Prairie FST, Fox Creek FST, Kotcho FST, and Pembina Landfill. These ongoing expansion projects include adding waste processing services, additional risers, meters, second disposal wells, additional tankage and cell capacity. The Corporation also incurred costs of $31.7 million for new 2011 facilities for the Brazeau SWD, the Wild River SWD (temporary facility) and the Drayton Valley FST. Therefore a total of $70.3 million of costs were incurred on expansions and the new facilities completed throughout the year ended December 31, 2011 which is summarized as follows:

- Obed FST facility (waste expansion) – commissioned in February 2011;
- Brazeau SWD facility – commissioned in February 2011;
- South Grande Prairie FST facility (waste expansion) – commissioned in July 2011;
- Wild River SWD temporary facility – commissioned in July 2011;
- Drayton Valley FST facility – commissioned in September 2011;
- Fox Creek FST facility – (expansion services–additional risers and tanks) completed in the third quarter 2011;
- Dawson FST facility – (expansion services – expanded waste receiving pad and upgraded processing equipment) completed in the third quarter 2011;
- Kotcho FST facility – (expansion and upgrades to waste receiving bins, processing equipment and tank farm) ongoing construction as at December 31, 2011;and
- Pembina Landfill – (cell expansion in the fourth quarter);

The Corporation also invested $16.1 million in rental equipment and for an office building and land in Grande Prairie. Furthermore, the Corporation invested $10.1 million in long lead items for other upcoming projects for the $116.0 million 2012 capital program. Secure currently has applications underway for two FST's and two Landfills forecasted to be completed in 2012. The Corporation is also in the process of moving forward on a drilling fluid blending facility at the PRD division's FSTs to better serve the Corporation's customers. The Corporation intends to fund its 2012 capital program primarily with available cash, cash flow from operations and the revolving credit facility.

Acquisitions increased significantly for the year ended December 31, 2011 to $104.4 million from $11.8 million in the comparative period of 2010. On June 1, 2011, Secure, through a series of transactions, acquired all of the issued and outstanding shares of Marquis Alliance for a total cash and share consideration of $131.4 million. The Corporation paid $64.6 million in cash which was funded by the bought deal financing as described in issue of common shares above. The acquisition was also funded through the issuance of 10,015,291 Secure common shares 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 of $66.8 million. The fair value for accounting purposes was adjusted after considering such factors as the escrow period (shares released over a five year period) and liquidity of Secure shares in the market place. The Marquis Alliance purchase agreement provides that the 10,015,291 common shares of the Corporation issued 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.

In July 2011, the Corporation also completed the acquisition of all of the operating assets (excluding working capital) of XL Fluids for total cash and share consideration of $39.4 million. The Corporation paid $22.5 million in cash and issued 2,297,885 Secure common shares at a closing price per share of $9.58 for consideration of $22.0 million, which was adjusted to fair value consideration for accounting purposes of $17.0 million. The fair value for accounting purposes was adjusted after considering such factors as the escrow period (shares released over a five year period) and liquidity of Secure shares in the market place. In September 2011, the Corporation announced it was acquiring Emerge Oil & Gas Inc. (“Emerge”) Silverdale (02-06-049-27 W3M) processing facility for an aggregate cash purchase price of $18.0 million. The Silverdale processing facility provides oil terminalling, emulsion processing and produced water disposal services in Saskatchewan. The acquisition closed on October 1, 2011. The prior year acquisition related to the Corporation acquiring the Pembina Landfill.

Sustaining capital or maintenance capital refers to capital expenditures in respect of capital asset additions, replacements or improvements required to maintain ongoing business operations. The determination of what constitutes sustaining capital expenditures versus expansion and growth capital involves judgment by management. During the year ended December 31, 2011, sustaining capital was $1.1 million compared to $0.7 million in the comparable period of 2010. Sustaining capital is typically minimal in the first two years of operation of a facility because each facility is constructed with new equipment or refurbished equipment. Sustaining capital relates to pump and riser replacements or upgrades. As a facility matures, the amount of sustaining capital required will increase.

b) Revolving Credit Facility

	Year Ended December 31,		
	2011	**2010**	**% Change**
($000's) (unaudited)			
Use of revolving credit facility	**118,920**	-	100
Repayment of margin credit facility	**(21,364)**	-	100
Repayment of mortgage credit facility	**(1,654)**	-	100
Repayment of secured credit facility	**-**	(4,900)	(100)
Total draws (repayments)	**95,902**	(4,900)	(2,057)

On August 4, 2011 the Corporation completed a $150.0 million committed three year revolving credit facility (the “revolving credit facility”). The revolving credit facility consists of a $140.0 million extendible revolving term credit facility and a $10.0 million revolving operating facility provided to the Corporation and all its subsidiaries. The revolving credit facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes. The Corporation can borrow by way of Canadian dollar advances through Canadian Prime Rate Loans or Bankers Acceptances or United States dollar advances through US Base Rate Loans or Libor or letters of credit denominated in Canadian or U.S. dollars. The revolving credit facility provides that the Corporation may borrow, repay, draw on and convert between types of borrowings at any time. The revolving credit facility bears interest ranging from 1.0% to 2.0% above the prime rate or Bankers Acceptances ranging from 2.0% to 3.0% above the Bankers Acceptance depending on the Corporation’s prevailing funded debt to EBITDA ratio, with any unused amounts subject to standby fees ranging from 0.50% to 0.75%. Funded debt includes all outstanding debt, including capital leases, and any outstanding letters of credit. The revolving credit facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes. The revolving credit facility is due July 29, 2014 (the “maturity date”), and includes an option for the Corporation to extend the maturity date (on an annual basis) to a maximum of three years from the extension request date, subject to approval by the Corporation’s lenders. Repayment of any amounts drawn on the facility would therefore be repayable on the maturity date if the revolving credit facility was not extended. The revolving credit facility also includes an accordion feature, which grants the Corporation the right to increase the maximum amount on the revolving credit facility to $200.0 million.

For the year ended December 31, 2011 the Corporation has drawn $120.0 million on its revolving credit facility compared to nil in the same period in 2010. In conjunction with obtaining the revolving credit facility, the Corporation incurred transaction costs in the amount of $0.9 million, of which the unamortized amount has been offset against the outstanding principle balance of the debt. Amortization of the transaction costs are recognized in interest, accretion and finance costs on the consolidated statements of comprehensive income. Prior to August 4, 2011, the PRD division maintained a $55.0 million secured credit facility (the "secured credit facility") and the DS division maintained a $21.0 million margin credit facility (the "margin credit facility") and a $1.7 million non-revolving mortgage loan ("mortgage"). Subsequent to August 4, 2011 all of these previous facilities were paid down and closed. Accordingly, the amount drawn on the revolving credit facility of $120.0 million relates to the repayment of the previous facilities of $16.5 million, Silverdale facility purchase of $18.0 million, $59.3 million for additional capital expenditures during the period and the remainder for working capital requirements in both divisions. Working capital, specifically inventory, is stock piled in the DS division in order to meet the needs of customers as the active winter drilling season ramps up. During slower periods such as spring break up, the inventory level held is reduced significantly as activity levels dictate the amount held at any given time.

As at December 31, 2011, the Corporation was in compliance with all of its debt covenants. The following is a list of key financial covenants determined as of the end of each of the Corporation's fiscal quarters, including, without limitation:

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

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.

	Year Ended December 31, 2011
($000's) (unaudited)	
Revolving credit facility	**150,000**
Amount Drawn on revolving credit facility	**(120,000)**
Letters of Credit	**(6,316)**
Available amount	**23,684**

At December 31, 2011, the Corporation had issued approximately $6.3 million in letters of credit to various environmental regulatory authorities in Alberta and British Columbia. The Energy Resource and Conservation Board ("ERCB") is implementing the Oilfield Waste Liability ("OWL") program. The OWL program is expected to replace the current fully funded liability management program for oilfield waste facilities with a facility specific asset to liability risk based assessment that is backed by the existing upstream oil and natural gas industry liability management program. The amount of letters of credit issued will fluctuate based on the growth of the Corporation and future refunds under the OWL program, which are undeterminable at this time. During the year, the Corporation had $3.2 million of letters of credit released under the OWL program.

As at December 31, 2011, the Corporation had $23.7 million available under its revolving credit facility. Subsequent to December 31, 2011, Secure expanded its existing revolving credit facility to $200.0 million through the exercise of the $50.0 million accordion feature. All members of the existing syndicate consisting of six financial institutions and Canadian chartered banks participated in the expansion of the revolving credit facility. There were no changes to the terms of underlying revolving credit facility.

c) Contractual Obligations

The Corporation has a total of $48.3 million in commitments, excluding the above commitment relating to the revolving credit facility. The $48.3 million includes commitments for finance and operating lease agreements primarily for heavy equipment, vehicles, land leases and office space, and capital commitments relating to purchases for use in the Corporation's current and future capital projects. This also includes inventory purchases relating to a specialized product used in drilling fluids systems. Overall, the Corporation has sufficient funds from operations and availability though the revolving credit facility to meet upcoming commitments.

	Payments due by period				
	Total	1 year or less	1-3 years	4-5 years	5 years and thereafter
($000's) (unaudited)					
Finance leases	**4,922**	2,693	1,989	236	4
Operating leases	**9,503**	2,007	3,534	2,504	1,458
Capital purchases	**8,039**	8,039	-	-	-
Inventory purchases	**25,812**	10,928	14,884	-	-
Total Commitments	**48,276**	23,667	20,407	2,740	1,462

The Corporation's asset retirement obligations were estimated by management based on the Corporation's estimated costs to remediate, reclaim, and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at December 31, 2011 to be $15.0 million (December 31, 2010 - $9.6 million; January 1, 2010 - $4.2 million) based on a total future liability of $21.4 million as at December 31, 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 0.95% to 2.49% and an inflation rate of 3.00% to calculate the net present value of its asset retirement obligations.

PROPOSED TRANSACTIONS

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

OUTLOOK

Activity levels in the oil and gas sector remained strong throughout the fourth quarter of 2011. The strength in oil and natural gas liquids ("NGL's") prices continue to drive drilling activity. However, further weakening of natural gas prices have caused the Petroleum Services Association of Canada ('PSAC') to lower its drilling forecast in 2012. Overall, PSAC is still forecasting growth in the number of wells drilled in 2012 over 2011. The Corporation's view is that despite the falling price of natural gas, the strong price of oil and NGL's will keep activity levels strong in 2012. In addition, Secure views operating days and meters drilled over the number of wells drilled as a better indicator of future macro trends impacting the Corporation's results. The Canadian Association of Oilwell Drilling Contractors ("CAODC") forecasts that in 2012 the number of operating days will continue to increase over 2011 levels. The increase continues to be a result of more complex drilling, a move to horizontal wells and greater lengths/depths being pursued by operators. The Corporation expects the increase in the number of operating days will drive demand for services at the Corporation's waste processing and disposal facilities and in the DS division's business.

There are a number of opportunities in 2012 to expand the Corporation through additional service lines, organic growth, and/or through strategic acquisitions in key market areas. Secure recently announced the Corporation's capital program for 2012 of $116.0 million. The PRD divisions' 2012 capital budget of $98.0 million includes the construction of two FST's, a landfill in Fox Creek, a landfill in Saddle Hills and the permanent Wild River SWD. The construction on the Wild River SWD is well underway and it is expected to be completed during the second quarter of 2012. The DS divisions' 2012 capital budget totals $18.0 million comprising $14.0 million for growth capital allocated evenly between Canadian and U.S. operations and is largely comprised of on-site solid's control equipment. Secure's available debt capacity and cash flow from operations provides sufficient funding that allows the Corporation to maintain a strong balance sheet throughout the execution of its capital strategy.

In 2012, we will focus on complementary services, recycling services, organic growth and acquisitions that complement the existing business. The Corporation's business development team will continue to evaluate and execute opportunities for new facilities including drilling fluid blending and storage facilities at the PRD division's FST's to better serve the Corporation's customers.

BUSINESS RISKS

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

Oil and Natural Gas prices

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

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

In addition, treatment and waste disposal services are largely dependent on the willingness of customers to outsource their waste management activities. As such, the demand for Secure’s services could be curtailed by a trend towards internal waste management.

Commodity price risk – non-trading

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

Commodity price risk – trading

The Corporation is exposed to commodity price risk on its crude oil marketing contracts. The physical trading activities related to the contracts exposes the Corporation to the risk of profit or loss depending on a variety of factors including: changes in the prices of commodities; foreign exchange rates; changes in value of different qualities of a commodity; changes in the relationships between commodity prices and the contracts; physical loss of product through operational activities; and counterparty performance as a result of disagreements over terms of deals and/or contracts. These risks are mitigated by the fact that the Corporation only trades physical volumes, the volumes are traded over a short period, and the Corporation does not currently participate in the long term storage of the commodities. The oil and gas producer forecasts or nominates crude oil volumes expected to be delivered to the Corporation’s facilities in advance of the production month as part of normal oil and gas operations. As part of the Corporation’s processing, and facility operations, Secure will use net buy and net sell crude oil contracts for marketing and trading of crude oil. The volume purchased or sold relates to physical volumes only. Through this process, the Corporation may hold open positions. The Corporation defines an “open position” as the difference between physical deliveries of all net buy crude oil contracts offset against physical delivery of all net sell crude oil contracts. The open position is subject to commodity price risk. The Corporation may choose to do this based on energy commodity pricing relationships, time periods or qualities.

Foreign currency risk

A significant portion of the Corporation’s activities relate to the purchase and sale of crude oil or drilling fluids products which are transacted in or referenced to US dollars. The risk is mitigated as the majority of the activities occur in the same period; therefore foreign currency risk exposure is limited to crude oil or drilling fluids products held in inventory. The Corporation does not maintain an active hedge program to mitigate this risk as the exposure is limited at this time.

Volatility of market price of Common Shares

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

Competitive conditions

The Corporation competes with a number of companies, some of which have greater technical and financial resources. The western Canadian market for the PRD division is dominated by two large market participants, CCS Midstream Services with approximately 53 facilities, and Newalta Corporation with 35 facilities. There can be no assurance that competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of the Corporation, or that new or existing competitors will not enter the various markets in which the Corporation is active. In addition, reduced levels of activity in the oil and natural gas industry could intensify competition and the pressure on competitive pricing and may result in lower revenues or margins to the Corporation in both divisions. The Corporation's customers may elect not to purchase its services if they view the Corporation's financial viability as unacceptable, which would cause the Corporation to lose customers.

Financing future growth or expansion

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

Access to capital

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

The credit agreement governing the revolving credit facility contains covenants that restrict the Corporation's ability to take various actions. In addition, the credit agreement governing the revolving credit facility requires the Corporation to comply with specified financial ratios. The Corporation's ability to comply with these covenants will likely be affected by events beyond its control, and the Corporation cannot assure that it will satisfy those requirements.

The restrictions contained in the credit agreement could also limit the Corporation's ability to plan for or react to market conditions, meet capital needs or otherwise restrict the Corporation's activities or business plans and adversely affect its ability to finance its operations, enter into acquisitions or to engage in other business activities that would be in the Corporation's interest.

Seasonal nature of the industry

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. As warm weather returns in the spring, the winter's frost comes out of the ground (commonly referred to as "spring break-up"), rendering many secondary roads incapable of supporting heavy loads and, as a result, road bans are implemented prohibiting heavy loads from being transported in certain areas. As a result, the movement of the heavy equipment required for drilling and well servicing activities is restricted and the level of activity of our customers is consequently reduced. In addition, the transportation of heavy waste loads is restricted resulting in smaller loads and a general reduction in the volume of waste delivered to Secure's facilities. Accordingly, while the Corporation's facilities are open and accessible year-round, spring break-up reduces the Corporation's activity levels. In the areas in which Secure operates, the second quarter has generally been the slowest quarter as a result of spring break-up.

Development of new technology and equipment

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

Risk of third party claims for infringement

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

Equipment risks

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

Credit risk

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

Environmental protection & health and safety

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

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

The Corporation may incur substantial costs, including fines, damages, criminal or civil sanctions, and remediation costs, or experience interruptions in the Corporation's operations for violations or liabilities arising under these laws and regulations. The Corporation may have the benefit of insurance maintained by the Corporation, its customers or others. However, the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

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

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

Governmental regulation

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

Regulation and taxation of energy industry

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

Provincial royalty rate changes

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

Operating risks and insurance

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

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

Potential replacement or reduced use of products and services

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

Performance of obligations

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

Legal proceedings

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

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

Oil and Natural Gas market

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

Merger and acquisition activity

The Corporation may undertake future acquisitions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on having the acquired assets perform as expected, successfully consolidating functions, retaining key employees and customer relationships, and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters, and ultimately the Corporation may fail to realize the anticipated benefits of such acquisitions. Merger and acquisition activity in the oil and natural gas exploration and production sector may impact demand for the Corporation's services as customers focus on reorganizing their business prior to committing funds to exploration and development projects. Further, the acquiring company may have preferred supplier relationships with oilfield service providers other than the Corporation.

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

Terrorist activities

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

Market conditions

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

Conflict of interest

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

Sources, Pricing and Availability of Products and Third Party Services

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

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

Global financial conditions

Global financial conditions include the commodity and equity markets that have recently been volatile as investors react to the sovereign-debt crisis in Europe. Investors fear global economies are heading into another recession and central banks and the government will be required to increase debt loads in an effort to avoid it. As a result of these global conditions, the Corporation is subject to increased counterparty risk and liquidity risk. The Corporation is exposed to various counterparty risks including, but not limited to: (i) financial institutions that hold the cash of the Corporation or provide available funding on the Revolving Facility; and (ii) the insurance providers of the Corporation. As a result, the cash of the Corporation may become exposed to credit related losses in the event of non-performance by counterparties to these financial instruments. In the event that a counterparty fails to complete its obligations, the Corporation would bear the risk of loss of the amount expected to be received under these financial instruments in the event of the default or bankruptcy of a counterparty.

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

Availability of qualified employees

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

Proprietary technology

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

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

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

The products developed by the Corporation may also incorporate technology that will not be protected by any patent and are capable of being duplicated or improved upon by competitors. Accordingly, the Corporation may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary information of the Corporation and trade secrets. In addition, effective patent protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions. Policing unauthorized use of the Corporation's enhancements could prove to be difficult, and there can be no assurance that the steps taken by the Corporation will prevent misappropriation of its enhancements. In addition, litigation may be necessary in the future to enforce the intellectual property rights of the Corporation to protect their patents, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Corporation's business, results of operations or financial condition.

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

Economic dependence

The top ten customers of the Corporation accounted for approximately 32% of revenue for fiscal 2012, of which no single customer accounting for more than approximately 10%. The Corporation does not generally enter into long term contracts with its customers and there can be no assurance that the current customers will continue their relationships with the Corporation. The loss of one or more major customers, any significant decrease in services provided to a customer, or prices paid or any other changes to the terms of service with customers, could have a material adverse affect on the financial results, cash flows, and the overall financial condition of the Corporation.

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Interest rates

The Corporation's banking facilities have interest rates which float with the lender's prime rate, and as such, as these banking facilities are drawn, the Corporation will be exposed to higher interest costs if the prime rate should increase.

Leverage and restrictive covenants

The degree to which the Corporation is financially leveraged could have important consequences to the shareholders of the Corporation, including: (i) a portion of the Corporation's cash flow from operations will be dedicated to the payment of the principal of and interest on its indebtedness; and (ii) certain of the Corporation's borrowings have variable rates of interest, which float with the lender's prime rate, and as such, as these banking facilities are drawn, the Corporation will be exposed to higher interest costs if the prime rate should increase. The Corporation's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Corporation's lender has been provided with security over all of the assets of the Corporation. A failure to comply with the obligations in the agreements in respect of the revolving credit facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness.

Key personnel

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

Landfill closure costs

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

Legal and financial compliance

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

Disclosure controls & procedures

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

Internal controls over financial reporting

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

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

Raising additional capital

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

OUTSTANDING SHARE CAPITAL

As at March 5, 2012, there were 90,616,587 Common Shares issued and outstanding. In addition as at March 5, 2012, there were 6,648,019 share options outstanding, 2,961,864 of which were exercisable, and 267,498 warrants outstanding, 267,498 of which were exercisable.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2011, the Corporation had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

For the year ended December 31, 2011, the Corporation incurred approximately $1.1 million of expenses with related parties. Related parties include companies that have common directors, officers, employees and shareholders. The nature of the expenses relate to operating and general and administrative expenses for use in the Corporation's PRD and DS divisions. Amounts are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 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.

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 December 31, 2011, all outstanding amounts under the loans have been repaid.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

As at December 31, 2011, the Corporation's financial instrument assets include cash and short term deposits, accounts receivables and accrued receivables, and other receivables. The Corporation's financial instrument liabilities include accounts payable and accrued liabilities, and long term borrowings. The fair values of these financial instruments approximate their carrying amount due to the short term maturity of these instruments. The use of financial instruments exposes the Corporation to credit, liquidity and market risk. A discussion of how these and other risks are managed can be found in the "Business Risk" section of this MD&A. Further information on how the fair value of financial instruments is determined is included in the "Critical accounting policies and estimates" section of this MD&A.

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

CRITICAL ACCOUNTING POLICES AND ESTIMATES

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("**AcSB**") published a new strategic plan that outlined the convergence with IFRS over a five year period. The changeover date to IFRS was completed on January 1, 2011.

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

IFRS 1, First-time adoption of International Financial Reporting Standards ("**IFRS 1**") 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. Below is a list of the IFRS exemptions applied and not applied:

Business combinations - exemption applied: The Corporation elected not to re-value business combinations performed prior to January 1, 2010.

Fair value or revaluation as deemed cost – exemption not applied: The Corporation elected to restate the property, plant and equipment balance to the historic cost basis that would have existed if IFRS policies had been in place since inception.

Share-based payment transactions – exemption not applied: The Corporation has not elected to use the option under IFRS 1 to revalue only those options that have vested before January 1, 2010. All options have been revalued under IFRS 2, Share-Based Payment.

Asset retirement obligations included in the costs of property, plant and equipment - exemption not applied: IFRS 1 provides an optional exemption whereby an entity may measure asset retirement obligations ("ARO") at the transition date using the guidance in IAS 37. The Corporation must then determine the amount that would have been included in property, plant and equipment 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 Corporation must calculate the accumulated depreciation on the amount included in property, plant and equipment, at the transition date, using the current estimate of the useful life of the property, plant and equipment item and the depreciation policy implemented under IFRS. The Corporation revalued all ARO's from inception.

In the preparation of the Corporation's condensed consolidated interim financial statements, management has made estimates that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Estimates and judgments used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the condensed consolidated interim financial statements are prepared. Actual results could differ from these estimates. Please refer to the Corporation's consolidated financial statements for the year ended December 31, 2011 for a description of the accounting policies of the Corporation. The Corporation considers the following to be its critical accounting policies and estimates:

Depreciation, depletion and amortization

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

Asset retirement obligations and accretion

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

Share-based payments

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

Goodwill

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

Intangible assets

Intangible assets acquired outside business combinations are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in the consolidated interim statement of comprehensive income in the period in which the expenditure is incurred. Intangible assets resulting from a business combination are recorded at fair value. Fair value is estimated by management based on the expected discounted future cash flows associated with the intangible asset. Intangible assets with a finite life are amortized over the estimated useful life and intangible assets with an indefinite life are not subject to amortization and are tested for impairment annually. Any impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. Any excess of the carrying value of the intangible asset over the implied fair value is the impairment amount and will be charged to profit in the period of the impairment.

Current and deferred tax

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

Financial instruments – initial recognition and subsequent measurement

Financial assets

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

Financial liabilities

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

Fair value of financial instruments

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

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

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

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

Provisions

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

FUTURE ACCOUNTING PRONOUNCEMENTS

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

In 2010, the IASB issued 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.

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements, which supercedes IAS 27 Consolidation and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. This standard provides a single model to be applied in control analysis for all investees, including special purpose entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact, if any, that the adoption of this standard will have on its consolidated financial statements.

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

In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities, which is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact, if any, that the adoption of this standard will have in its consolidated financial statements.

In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRSs, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty and the effect of those measurements on the financial statements. The Corporation is currently assessing the impact, if any, that the adoption of this standard will have in its consolidated financial statements.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

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

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, have assessed and evaluated the design and effectiveness of the Company's internal control over financial reporting as defined in National Instrument 52-109 as of December 31, 2011. Based on that evaluation, the Corporation’s management concluded that the Corporation’s internal controls over financial reporting are effective and provide reasonable assurance regarding the reliability of the Corporation’s financial reporting and its preparation of financial statements for external purposes in accordance with IFRS, and are effective as of December 31, 2011, except as noted below.

In accordance with the provisions of section 3.3 of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), in relation to the acquisition of Marquis Alliance effective June 1, 2011, the Corporation has limited its assessment of the design of disclosure controls and procedures and internal control over financial reporting to exclude the controls, policies and procedures of Marquis Alliance. Management is in the process of aligning the systems, processes and controls of Marquis Alliance with the Corporation's standards and has not concluded on the design of disclosure controls and procedures or internal control over financial reporting for this subsidiary as at December 31, 2011. Also in accordance with the provision of section 3.3 of NI 52-109, summary financial information for Marquis Alliance is included in Note 24 of the accompanying financial statements as the DS division of the Corporation is solely comprised of Marquis Alliance.

While management of the Corporation has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Corporation’s financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. No changes were made to the Corporation's internal control over financial reporting for the three months and year ended December 31, 2011 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 $110.0 million, an accounting and disgorgement of all profits earned by the Corporation since its incorporation and other associated relief.

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

The Secure Defendants filed an Amended Statement of Defence (the "**Defence**"), and the Corporation filed an Amended Counterclaim (the "**Counterclaim**"), on October 9, 2009. In their Defence, the Secure Defendants deny all of the allegations made against them. In its Counterclaim, the Corporation claims damages in the amount of $37.9 million against CCS, alleging that CCS has engaged in conduct constituting a breach of the *Competition Act* (Canada) and unlawful interference with the economic relations of the Corporation with the intent of causing injury to the Corporation.

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

ADDITIONAL INFORMATION

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

To the Shareholders of Secure Energy Services Inc:

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

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

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

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

March 5, 2012

"SIGNED"	*"SIGNED"*
Rene Amirault President & Chief Executive Officer	Nick Wieler Chief Financial Officer

To the Shareholders of Secure Energy Services Inc.:

We have audited the accompanying consolidated financial statements of Secure Energy Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and notes comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Secure Energy Services Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

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

MNP LLP

March 5, 2012
Calgary, Alberta

Chartered Accountants

MNP

SECURE ENERGY SERVICES INC.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

($000's)	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Assets			**(see Note 26)**	**(see Note 26)**
Current assets				
Cash and short term deposits		**11,368**	22,518	235
Accounts receivable and accrued receivables	**7**	**145,481**	25,394	5,694
Other receivables		**-**	-	38
Prepaid expenses and deposits		**2,257**	600	320
Inventories	**8**	**34,476**	3,184	682
		193,582	51,696	6,969
Notes receivable	**22**	**-**	482	459
Deferred income tax asset	**19**	**-**	-	982
Assets under construction	**9**	**37,796**	30,818	7,345
Property, plant and equipment	**10**	**221,524**	112,237	82,810
Intangible assets	**11**	**72,361**	3,231	272
Goodwill	**12**	**77,820**	-	-
Total Assets		**603,083**	198,464	98,837
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**13**	**93,316**	29,802	3,326
Asset retirement obligations	**15**	**420**	-	-
Current income tax liability	**19**	**1,083**	-	-
Finance lease liabilities	**23**	**2,693**	1,304	561
		97,512	31,106	3,887
Long term borrowings	**14**	**119,070**	-	4,788
Asset retirement obligations	**15**	**14,585**	9,570	4,239
Finance lease liabilities	**23**	**2,229**	1,670	556
Deferred income tax liability	**19**	**20,650**	770	-
Total Liabilities		**254,046**	43,116	13,470
Shareholders' Equity				
Issued capital	**16**	**321,498**	152,983	89,992
Reserves	**17**	**5,558**	2,999	1,376
Accumulated other comprehensive income		**231**	-	-
Retained earnings (deficit)		**21,750**	(634)	(6,001)
Total Shareholders' Equity		**349,037**	155,348	85,367
Total Liabilities and Shareholders' Equity		**603,083**	198,464	98,837

Commitments and Contingencies	**23**
Subsequent Events	**25**

Approved by the Board of Directors:

"SIGNED"
Rene Amirault

"SIGNED"
Kevin Nugent

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

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

($000's except per share data)	Notes	For the years ended December 31, 2011	2010
			(see Note 26)
Revenue	**24**	**551,199**	72,993
Operating expenses	**10**	**489,878**	54,094
General and administrative	**17**	**25,452**	7,473
Business development		**2,014**	2,297
Interest, accretion and finance costs		**1,939**	706
Total Expenses		**519,283**	64,570
Profit for the period before income taxes		**31,916**	8,423
Current income tax expense	**19**	**4,491**	-
Deferred income tax expense	**19**	**5,042**	3,055
		9,533	3,055
Profit for the period		**22,383**	5,368
Other comprehensive income			
Foreign currency translation adjustment		**231**	-
Total Comprehensive Income for the period		**22,614**	5,368
Earnings per share			
Basic, profit for the period per common share	**18**	**0.28**	0.09
Diluted, profit for the period per common share	**18**	**0.27**	0.09

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

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

($000's)	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		-	-	-	5,368	**5,368**
Issue of share capital	**16**	66,169	-	-	-	**66,169**
Exercise of options	**16**	170	(17)	-	-	**153**
Share issue costs, net of tax	**16**	(3,348)	-	-	-	**(3,348)**
Share-based payments	**17**	-	1,640	-	-	**1,640**
Balance at December 31, 2010		**152,983**	**2,999**	**-**	**(634)**	**155,348**
Profit for the period		-	-	-	22,383	**22,383**
Foreign currency translation adjustment		-	-	231	-	**231**
Shares issued as consideration for business combination	**6a**	66,789	-	-	-	**66,789**
Shares issued as consideration for business combination	**6b**	16,974	-	-	-	**16,974**
Issue of share capital	**16**	86,250	-	-	-	**86,250**
Exercise of options and warrants	**16**	2,299	(470)	-	-	**1,829**
Share issue costs, net of tax	**16**	(3,797)	-	-	-	**(3,797)**
Share-based payments	**17**	-	3,029	-	-	**3,029**
Balance at December 31, 2011		**321,498**	**5,558**	**231**	**21,750**	**349,037**

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

SECURE ENERGY SERVICES INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

($000's)	Notes	For the years ended December 31, 2011	2010
Cash flows from operating activities			
Profit after income tax for the period		**22,383**	5,368
Adjustments for non-cash items:			
Depreciation, depletion and amortization		**25,230**	13,846
Accretion	**15**	**327**	215
Deferred income tax expense	**19**	**5,042**	3,055
Amortization of financing fees	**14**	**150**	112
Unrealized foreign exchange gain		**(159)**	-
Share-based payments	**17**	**3,029**	1,640
Write down of assets under construction		**-**	1,288
		56,002	25,524
Change in accounts receivable and accrued receivables, other receivables, and prepaids and deposits		**(79,713)**	(30,504)
Change in inventories		**(11,333)**	(2,502)
Change in accounts payable, accrued liabilities and current income tax liability related to operating activities		**42,805**	26,476
Net cash flows from operating activities		**7,761**	18,994
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(97,608)**	(51,960)
Business combinations, net of cash acquired	**6**	**(104,445)**	(11,750)
Change in non-cash working capital		**3,744**	10,250
Net cash flows used in investing activities		**(198,309)**	(53,460)
Cash flows from financing activities			
Shares issued (net of share issue costs)		**83,015**	61,672
Proceeds from repayments of notes receivable		**505**	-
Draws (repayments) of bank indebtedness		**95,902**	(4,900)
Change in non-cash financing activities		**(22)**	(23)
Net cash flows from financing activities		**179,400**	56,749
Effect of exchange rate changes on cash		**(2)**	-
(Decrease)/increase in cash and short term deposits		**(11,150)**	22,283
Cash and short term deposits, beginning of year		**22,518**	235
Cash and short term deposits, end of year		**11,368**	22,518
Taxes paid		**3,000**	-
Interest paid		**1,201**	59

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

(Expressed in Canadian Dollars)

1. CORPORATE INFORMATION

Secure Energy Services Inc. ("Secure") is incorporated under the Business Corporations Act of Alberta. Secure operates through a number of wholly-owned subsidiaries (together referred to as the "Corporation") which are managed through two reportable segments. The processing, recovery and disposal services division ("PRD") is primarily engaged in providing services relating to clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale service. The drilling services division ("DS") is primarily engaged in providing services relating to drilling fluid systems, solids control and environmental services (Note 6).

The following entities have been consolidated within Secure's consolidated financial statements for the year ended December 31, 2011:

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

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.

These consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2012. The address of the Corporation's registered office is Suite 4500, 855 - 2nd Street 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 consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and in effect at the closing date of December 31, 2011. These consolidated financial statements form the first IFRS annual financial statements. IFRS 1, "First-time Adoption of International Financial Reporting Standards", has been applied.

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

Note 26 provides explanations of how the transition to IFRS has affected the reported financial position and performance of the Corporation. This note includes reconciliations from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS.

Management is required to make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to 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 consolidated financial statements include the accounts of Secure and its subsidiaries and the proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint venture as at December 31, 2011. All inter-company balances and transactions have been eliminated on consolidation.

In the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows, certain items are combined for the sake of clarity. These are explained in the notes. Assets and liabilities are classified by maturity. They are regarded as current if they mature within one year or within the normal business cycle of the Corporation. Cash 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 consolidated financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 products sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Corporation; and,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

b) Share-based payments

The Corporation has a share-based payment plan. The Corporation follows the fair-value method to record share-based payment expense with respect to stock options 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.

c) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Corporation's financial assets include cash and short term deposits, accounts receivable and accrued receivables, other receivables and notes receivable.

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

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

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

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

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 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 statements of comprehensive income.

Other financial liabilities

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

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

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

Derecognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Offsetting of financial instruments

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

v) Shareholders' equity

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

vi) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. The Corporation does not hold any such instruments as at December 31, 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 has classified its financial instrument fair values based on the required three- level hierarchy:

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

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

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.

d) Property, plant and equipment

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statements of comprehensive income when the asset is derecognized.

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

e) Leases

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

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

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

f) Borrowing costs

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

g) Business combinations

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in 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.

h) Intangible assets

Intangible assets acquired outside business combinations are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in the consolidated statements of comprehensive income in the period in which the expenditure is incurred. Intangible assets resulting from a business combination are recorded at fair value. Fair value is estimated by management based on the expected discounted future cash flows associated with the intangible asset. Intangible assets with a finite life are amortized over the estimated useful life and intangible assets with an indefinite life are not subject to amortization and are tested for impairment annually. Any impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. Any excess of the carrying value of the intangible asset over the implied fair value is the impairment amount and will be charged to 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

i) Goodwill

The Corporation measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date. Since goodwill results from the 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.

j) Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment of non-financial assets

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

The non-financial assets of the Corporation are comprised of assets under construction, property, plant and equipment, goodwill and intangible assets as at December 31, 2011, December 31, 2010 and January 1, 2010. Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function and nature of the impaired asset.

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

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 statements of comprehensive income. Any previously recognized impairment losses on goodwill are not reversed.

l) Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) 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 in-the-money stock options and warrants were exercised. The calculation of diluted earnings per share has been calculated by dividing net profit available to common shareholders by the total of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding, utilizing the treasury method, arising from the exercise of in-the-money share options and warrants.

n) Jointly controlled operations

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

o) Asset retirement obligations

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

p) Foreign currency translation and transactions

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Taxes

Current income tax

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

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

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 statements of financial position.

r) Segment reporting

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

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

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 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, including those acquired in business combinations. Where the fair value of financial assets and financial liabilities recorded in the consolidated statements 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.

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

In 2010, the IASB issued 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.

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which supercedes IAS 27 *Consolidation and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.* This standard provides a single model to be applied in control analysis for all investees, including special purpose entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact, if any, that the adoption of this standard will have on its Consolidated Financial Statements.

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

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact, if any, that the adoption of this standard will have on its Consolidated Financial Statements.

In May 2011, the IASB published IFRS 13 *Fair Value Measurement,* which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRSs, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty and the effect of those measurements on the financial statements. The Corporation is currently assessing the impact, if any, that the adoption of this standard will have on its Consolidated Financial Statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

6. BUSINESS COMBINATIONS

a) On June 1, 2011, Secure, through a series of transactions, acquired all of the issued and outstanding shares of Marquis Alliance Energy Group Inc. ("Marquis Alliance") for a total cash and share consideration of $131.4 million. The acquisition of Marquis Alliance allows Secure to provide an integrated drilling fluid service and expanded products and services to its customers. The Corporation paid $64.6 million in cash which was funded by the bought deal financing as described in Note 16. The acquisition was also funded through the issuance of 10,015,291 common shares of the Corporation at a closing price per share of $8.62 for consideration of $86.3 million, which was adjusted to fair value consideration for accounting purposes to $66.8 million. The fair value for accounting purposes was determined using a discounted cash flow analysis and was adjusted after considering such factors as the escrow period (shares to be released over a five year period) and liquidity of the Corporation's shares in the market place. Accordingly, the $66.8 million used in the purchase price allocation below is the difference between the $86.3 million at closing and the fair value adjustment of $19.5 million.

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

6. BUSINESS COMBINATIONS (continued)

($000's)	
Common shares issued (10,015,291 shares)	66,789
Cash	64,638
Total consideration	**131,427**

Assets acquired ($000's)	
Cash and short term deposits	1,516
Accounts receivable and accrued receivables	40,192
Inventories	15,214
Prepaid expenses and deposits	683
Assets under construction	451
Property, plant and equipment	17,649
Intangible assets	50,906
Goodwill	61,437
Total assets	**188,048**

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	**131,427**

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 determinations of the consideration described above are subject to changes upon final adjustments. Pursuant to the Marquis Alliance 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. $3.0 million was held under trust conditions to account for any potential working capital adjustments. This amount was released from trust as at December 31, 2011 in conjunction with the settlement of the working capital deficiency. On closing, Marquis Alliance was required to have an adjusted working capital surplus of $19.8 million, net of outstanding bank debt. Under the provisions of the Agreement, the working capital requirement was adjusted down by $0.6 million to $19.2 million, for deposits paid by Marquis Alliance on real property prior to the closing of the Agreement. Actual working capital received on closing was $18.3 million. The $0.9 million difference between the $19.2 million working capital requirement in the Agreement and the $18.3 million in actual working capital was settled in cash as at December 31, 2011, and was deducted from the $3.0 million held in trust prior to being released. The $0.9 million cash settlement resulted in a reduction of total consideration paid by $0.9 million and a corresponding reduction to accounts receivable and accrued receivables.

6. BUSINESS COMBINATIONS (continued)

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

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

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

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

($000's)	
Common shares issued (2,297,885 shares)	16,974
Cash	22,460
Total consideration	**39,434**

Assets acquired ($000's)	
Inventories	3,985
Property, plant and equipment	342
Intangible assets	20,659
Goodwill	16,383
Total assets	**41,369**

Liabilities acquired ($000's)	
Finance lease liabilities	(216)
Deferred income tax liability	(1,719)
Total liabilities	**(1,935)**

Net assets acquired	**39,434**

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

6. BUSINESS COMBINATIONS (continued)

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

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

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

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

($000's)	
Cash	18,000
Total consideration	**18,000**

Assets acquired ($000's)	
Inventories	760
Property, plant and equipment	16,417
Intangible assets	1,839
Total assets	**19,016**

Liabilities acquired ($000's)	
Asset retirement obligation	(901)
Deferred income tax liability	(115)
Total liabilities	**(1,016)**

Net assets acquired	**18,000**

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

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

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

7. ACCOUNTS RECEIVABLE AND ACCRUED RECEIVABLES

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Trade accounts receivable and accruals	**145,855**	25,467	5,736
Allowance for doubtful accounts	**(374)**	(73)	(42)
	145,481	**25,394**	**5,694**

During the year, the Corporation completed three business acquisitions (note 6) which has significantly increased accounts receivable and accruals for the year ended December 31, 2011. Trade accounts receivables are non-interest bearing and are generally on 30-90 day terms.

As at December 31, 2011, $0.4 million (December 31, 2010 - $0.1 million; January 1, 2010 - $0.1 million) of trade receivables were considered impaired.

8. INVENTORIES

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Crude oil and natural gas liquids	**2,505**	2,979	595
Drilling fluids	**31,665**	-	-
Spare parts and supplies	**306**	205	87
Total inventories	**34,476**	**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 statements of comprehensive income for the year ended December 31, 2011 was $83.3 million (year ended December 31, 2010 – Nil).

Inventories are included in the general security agreements held by the banks as security for the Corporation's credit facility (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)	Total
At December 31, 2011	**32,682**	**5,114**	**37,796**
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. $0.8 million of capitalized salaries were added to assets under construction for the year ended December 31, 2011 ($0.5 million for the year ended December 31, 2010).

10. PROPERTY, PLANT AND EQUIPMENT

Included in Operating expenses on the Consolidated Statements of Comprehensive Income for the year ended December 31, 2011 is $25.2 million of depreciation, depletion and amortization expense (December 31, 2010 - $13.8 million)

The amount of borrowing costs capitalized during the year ended December 31, 2011 was $0.1 million (December 31, 2010 - Nil). During the year ended December 31, 2011, $87.9 million was transferred from assets under construction to property, plant and equipment for completed projects (year ended December 31, 2010 - $26.2 million).

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of $6.7 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.

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

($000's)	Land	Buildings	Plant, Infrastructure, Equipment, and Landfill Cells	Rental Equipment	Mobile Equipment	Disposal Wells	Furniture and Fixtures	Computer Equipment and Software	Total
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 6a)	2,113	3,244	4,064	6,919	158	-	748	403	**17,649**
Additions from business combinations (Note 6b)	-	-	301	-	-	-	11	30	**342**
Additions from business combinations (Note 6c)	-	1,442	13,097	-	15	1,863	-	-	**16,417**
Additions	332	8,496	67,349	8,137	292	9,123	153	975	**94,857**
Change in asset retirement cost	-	-	477	-	-	837	-	-	**1,314**
Disposals	-	-	(391)	-	-	-	-	(32)	**(423)**
Foreign exchange effect	(7)	(4)	(9)	17	-	-	(1)	-	**(4)**
At December 31, 2011	**3,114**	**21,622**	**178,140**	**15,073**	**3,519**	**41,268**	**1,673**	**2,941**	**267,350**
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	-	(1,037)	(15,225)	(1,129)	(663)	(2,244)	(144)	(515)	**(20,957)**
Disposals	-	-	91	-	-	-	-	-	**91**
Foreign exchange effect	-	-	-	1	-	-	-	-	**1**
At December 31, 2011	**-**	**(1,875)**	**(34,472)**	**(1,128)**	**(1,266)**	**(5,625)**	**(276)**	**(1,184)**	**(45,826)**
Net book value:									
At December 31, 2011	**3,114**	**19,747**	**143,668**	**13,945**	**2,253**	**35,643**	**1,397**	**1,757**	**221,524**
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**

11. INTANGIBLE ASSETS

Amortization expenses relating to intangible assets are including in operating expenses on the consolidated statements 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**
At December 31, 2010	93	254	3,245	-	**3,592**
Additions through business combination (Note 6a)	9,840	36,271	-	4,795	**50,906**
Additions through business combination (Note 6b)	4,851	15,808	-	-	**20,659**
Additions through business combination (Note 6c)	-	1,839	-	-	**1,839**
At December 31, 2011	**14,784**	**54,172**	**3,245**	**4,795**	**76,996**
Accumulated amortization:					
At January 1, 2010	(20)	(55)	-	-	**(75)**
Amortization	(19)	(51)	(216)	-	**(286)**
At December 31, 2010	(39)	(106)	(216)	-	**(361)**
Amortization	(1,651)	(2,074)	(325)	(224)	**(4,274)**
At December 31, 2011	**(1,690)**	**(2,180)**	**(541)**	**(224)**	**(4,635)**
Net book value:					
At December 31, 2011	**13,094**	**51,992**	**2,704**	**4,571**	**72,361**
At December 31, 2010	54	148	3,029	-	**3,231**
At January 1, 2010	73	199	-	-	**272**

12. GOODWILL

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Balance - beginning of period	**-**	-	-
Additions through business combination (Note 6a)	**61,437**	-	-
Additions through business combination (Note 6b)	**16,383**	-	-
Balance - end of period	**77,820**	**-**	**-**

The Corporation tests goodwill annually for impairment or more frequently if there are indications that the asset may be impaired. At December 31, 2011, an impairment test was performed at the group CGU level and no impairment was recognized. The recoverable amounts of the group of CGU's were estimated as their value in use, determined by using the discounted cash flow method based on the net present value of the after-tax cash flows from the group of CGU's.

13. ACCOUNTS PAYABLE AND ACCRUED LIABLITIES

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Accounts payable and accruals	**93,212**	29,743	3,326
Related party payable (Note 22)	**104**	59	-
	93,316	**29,802**	**3,326**

During the year, the Corporation completed three business acquisitions (note 6) which has significantly increased accounts payable and accruals for the year ended December 31, 2011. Terms and conditions of the above financial liabilities are as follows:

- 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.

14. LONG TERM BORROWINGS

Prior to August 4, 2011, the Corporation had the following credit facilities in place:

As a result of the business combination described in Note 6a, the Corporation acquired Marquis Alliance's existing margin credit facility ("margin credit facility") available in the form of an overdraft. The margin credit facility was available to a maximum of $21.0 million, and bore interest, payable monthly, at 1.25% above the Bank Prime rate. The margin credit facility was a revolving facility, due on demand with no repayment terms and was secured by a general security agreement over accounts receivable and an assignment of fire and liability insurance.

14. LONG TERM BORROWINGS (continued)

The Corporation also acquired, through the acquisition of Marquis Alliance, 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 was for the financing of an industrial warehouse in the Nisku, Alberta area used in the Corporation’s DS division. 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.

The Corporation also had a $55.0 million 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. The credit facility was a multi-use facility to provide capital project financing, working capital requirements and letters of guarantee in support of financial security requirements. 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 provided 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.

On August 4, 2011, the Corporation repaid the credit facility, the margin credit facility and the mortgage and replaced these facilities with a new $150 million committed three year revolving credit facility (“revolving credit facility”).

The revolving credit facility consists of a $140 million extendible revolving term credit facility and a $10 million revolving operating facility provided to the Corporation and all its subsidiaries. The Corporation can borrow by way of Canadian dollar advances through Canadian Prime Rate Loans or Bankers Acceptances or United States dollar advances through US Base Rate Loans or Libor or letters of credit denominated in Canadian or U.S. dollars. The revolving credit facility provides that the Corporation may borrow, repay, draw on and convert between types of borrowings at any time. The revolving credit facility bears interest ranging from 1.0% to 2.0% above the prime rate or Bankers Acceptances ranging from 2.0% to 3.0% above the Bankers Acceptance rate depending on the Corporation’s prevailing funded debt to EBITDA ratio, with any unused amounts subject to standby fees ranging from 0.5% to 0.75%. Funded debt includes all outstanding debt, including finance leases, and any outstanding letters of credit. The revolving credit facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes. The revolving credit facility is due July 29, 2014 (the “maturity date”), and includes an option for the Corporation to extend the maturity date (once per annum) to a maximum of three years from the extension request date, subject to the approval of the Corporation’s lenders. Repayment of any amounts drawn on the facility would therefore be repayable on the maturity date if the revolving credit facility was not extended. The revolving credit facility also includes an accordion feature, which grants the Corporation the right to increase the maximum amount on the revolving credit facility to $200.0 million. As at December 31, 2011, the Corporation has drawn $120.0 million on its revolving credit facility (December 31, 2010: Nil; January 1, 2010: $4.9 million).

On January 16, 2012, the Corporation exercised the accordion feature in its revolving credit facility agreement, thereby increasing the maximum amount on the facility by $50.0 million to $200.0 million (Note 25).

14. LONG TERM BORROWINGS (continued)

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Amount drawn on revolving credit facility	**120,000**	-	4,900
Unamortized transaction costs	**(930)**	-	(112)
Total long term borrowings	**119,070**	**-**	**4,788**

In conjunction with obtaining the revolving credit facility, the Corporation incurred transaction costs in the amount of $1.1 million, of which the unamortized amount has been offset against the outstanding principle balance of the debt. Amortization of the transaction costs recognized in interest, accretion and finance costs on the consolidated statements of comprehensive income for the year ended December 31, 2011 was $0.2 million (year ended December 31, 2010 – $0.1 million).

The following covenants apply to the revolving credit facility:

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

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

($000's)	Dec 31, 2011
Revolving credit facility	**150,000**
Amount drawn on revolving credit facility	**(120,000)**
Letters of credit issued	**(6,316)**
Available amount	**23,684**

The available revolving facility is reduced by any outstanding letters of credit. As at December 31, 2011, the Corporation has $6.3 million in letters of credit issued by the Corporation's banker (December 31, 2010 - $8.5 million; January 1, 2010 - $8.4 million). The guarantees are issued to various government authorities for potential reclamation obligations in accordance with applicable regulations (Note 15).

15. 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
Accretion	215
Change in discount rate	421
At December 31, 2010	9,570
Arising during the year through development activities	2,893
Arising during the year through acquisitions (Note 6c)	901
Accretion	327
Change in discount rate	1,314
At December 31, 2011	**15,005**

Current December 31, 2011	**420**
Non-current December 31, 2011	**14,585**

The Corporation's asset retirement obligations were estimated by management based on the Corporation's estimated costs to remediate, reclaim and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at December 31, 2011 to be $15.0 million (December 31, 2010 - $9.6 million; January 1, 2010 - $4.2 million) based on a total future liability of $21.4 million as at December 31, 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 0.95% to 2.49% (December 31, 2010 - 1.87% to 3.52%; January 1, 2010 - 2.74% to 4.07%) and an inflation rate of 3.00% (December 31, 2010 - 3.00%; January 1, 2010 - 3.00%) to calculate the net present value of its asset retirement obligations at December 31, 2011.

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

16. 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 (Note 16a)	19,166,667	57,500
Agent's exercise of over-allotment (Note 16a)	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	679,267	1,169
Warrants exercised	439,997	660
Transfer from reserves in equity	-	470
Bought-deal equity financing (Note 16b)	12,969,900	86,250
Shares issued as consideration for business combination (Notes 6a and 16c)	10,015,291	66,789
Shares issued as consideration for business combination (Notes 6b and 16d)	2,297,885	16,974
Share issue costs	-	(5,063)
Deferred tax effect of share issue costs	-	1,266
Balance, December 31, 2011	**90,156,688**	**321,498**

As at December 31, 2011, there were 12,249,269 (December 31, 2010 – nil) common shares of the Corporation held in escrow (see Note 16c and 16d below).

a) 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.

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

(Expressed in Canadian Dollars)

16. SHAREHOLDERS' EQUITY (continued)

c) On June 1, 2011, the Corporation purchased all of the issued and outstanding shares of Marquis Alliance for total consideration of $131.4 million. The purchase price consisted of $64.6 million in cash consideration and $66.8 million consideration by way of issuance of 10,015,291 common shares (see Note 6a). The Marquis Alliance Agreement provides that the 10,015,291 common shares issued by the Corporation will be held in escrow pursuant to which 8,401,673 of such shares will be released on a straight line basis annually over five years, 608,030 released on a straight line basis annually over four years, and the remaining 1,005,588 shares released on a straight line basis annually over two years. Accordingly, as at December 31, 2011, 10,015,291 common shares were held in escrow. In connection with the share issuance, the Corporation incurred approximately $0.2 million in transaction costs. These costs, net of tax, were applied against the proceeds in share capital during the period ended December 31, 2011.

d) On July 1, 2011, the Corporation purchased substantially all of the operating assets of XL Fluids for total consideration of $39.4 million. The purchase price consisted of $22.5 million in cash consideration and $17.0 million consideration by way of issuance of 2,297,885 common shares (see Note 6b). The XL Fluids Agreement provides that 2,233,978 of the common shares issued by the Corporation will be held in escrow and will be released on a straight line basis annually over five years. As at December 31, 2011, all 2,233,978 common shares were held in escrow. In connection with the share issuance, the Corporation incurred approximately $0.1 million in transaction costs. These costs, net of tax, were applied against the proceeds in share capital during the period ended December 31, 2011.

17. 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:

	Dec 31, 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	2,095,975	8.49	2,317,800	3.28
Exercised	(679,267)	1.72	(64,700)	2.37
Forfeited	(255,473)	7.09	(73,550)	2.98
Balance - end of period	**6,788,685**	**4.25**	**5,627,450**	**2.50**
Exercisable - end of period	**3,045,255**	**2.26**	**2,325,466**	**1.71**

(Expressed in Canadian Dollars)

17. SHARE-BASED PAYMENT PLAN (continued)

The following table summarizes information about share options outstanding as at December 31, 2011:

	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	1,174,000	1.36	0.69	1,174,000	1.36
2.01 - 3.00	3,198,025	2.79	2.68	1,710,079	2.70
3.01 - 4.00	314,367	3.73	3.42	97,234	3.71
4.01 - 5.00	76,550	4.57	3.87	24,850	4.57
5.01 - 6.00	119,300	5.33	3.93	39,092	5.32
6.01 - 7.00	112,415	6.11	4.19	-	-
7.01 - 8.00	432,225	7.75	4.80	-	-
8.01 - 9.00	1,326,778	8.93	4.47	-	-
9.01 - 10.00	35,025	9.35	4.49	-	-
	6,788,685	**4.25**	**2.92**	**3,045,255**	**2.26**

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:

	Dec 31, 2011	Dec 31, 2010
Volatility factor of expected market price (%)	**45.89**	51.53
Weighted average risk-free interest rate (%)	**1.82**	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 ($)	**3.23**	1.53
Weighted average forfeiture rate (%)	**1.29**	0.17

The Corporation's stock has less than two years of 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. The Corporation determines a forfeiture rate by using actual historical forfeiture rates.

Performance warrants

The Corporation has a performance warrant plan, under which the Corporation may grant performance warrants to its employees, officers, directors and consultants to a one-time maximum amount of 1,075,994. The number of warrants issued is approved by the Board of Directors at the time of grant. There are currently no remaining performance warrants to be granted. Performance warrants issued under the plan have a term of five years to expiry from the date of the grant and vest 1/3, 1/3, 1/3 based on predetermined threshold amounts of $3.00, $3.50 and $4.25 per share, respectively. The threshold amounts are determined using the weighted average trading price of the common shares of the Corporation for a period of 45 consecutive days. As at December 31, 2011, all warrants have vested.

17. SHARE-BASED PAYMENT PLAN (continued)

	Dec 31, 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	(439,997)	1.50	-	-
Forfeited	-	-	(7,500)	1.50
Balance - end of period	**628,497**	**1.50**	**1,068,494**	**1.50**
Exercisable - end of period	**628,497**	**1.50**	**1,068,494**	**1.50**

The following table summarizes information about performance warrants outstanding as at December 31, 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	628,497	1.50	0.49	628,497	1.50

For the year ended December 31, 2011, share-based payment expense of $3.0 million (December 31, 2010 - $1.6 million) has been recognized for stock options and warrants granted, and is included in general and administrative expenses on the Consolidated Statements of Comprehensive Income. These costs are recorded as share-based payment expense with the offsetting amount being credited to reserves as shown in the following table:

Reserves

($000's)	Dec 31, 2011	Dec 31, 2010
Balance - beginning of period	**2,999**	1,376
Share-based payments	**3,029**	1,640
Transfer to issued capital	**(470)**	(17)
Balance - end of period	**5,558**	**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 20% of their base salaries in the ESOP. For year ended December 31, 2011, employees contributed $0.6 million into the plan (year ended December 31, 2010 - $0.2 million). The Corporation will match contributions, subject to certain limitations, based on the employee's years of service with the Corporation. On July 1, 2011, the Corporation increased its matching portion to a maximum of 7.5% of an employee's base salary from 5%. Shares purchased for both the employee contributions and Corporation's matching contributions are purchased on the open market. The Corporation's matching expense for the year ended December 31, 2011 was $0.2 million (year ended December 31, 2010 - $0.1 million). The program was implemented in 2009.

18. 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 utilizing the treasury method.

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

	For the year ended	
($000's)	**Dec 31, 2011**	**Dec 31, 2010**
Net profit attributable to common shareholders for basic and diluted earnings	**22,383**	5,368

	For the year ended	
	Dec 31, 2011	**Dec 31, 2010**
Weighted average number of shares for basic earnings per share	**78,540,224**	58,560,338
Effect of dilution:		
Options and warrants	**4,404,751**	1,904,003
Weighted average number of shares for diluted earnings per share	**82,944,975**	**60,464,341**

19. INCOME TAXES

($000's)	Dec 31, 2011	Dec 31, 2010
Current income tax expense	4,491	-
Deferred income tax expense	5,042	3,055
	9,533	**3,055**

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rates of 26.50% (2010 – 28.00%) to profit before income taxes for the following reasons:

($000's)	Dec 31, 2011	Dec 31, 2010
Profit before income taxes	31,916	8,423
Combined federal and provincial income tax rate	26.50%	28.00%
Tax effect	8,458	2,358
Share-based payment	807	435
Non-deductible expenses	275	56
Changes to deferred income tax rates	363	206
Other	(370)	-
	9,533	**3,055**

The components of the net deferred income tax liability as at December 31, 2011 are as follows:

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Deferred income tax assets:			
Share issue costs	**1,839**	1,230	460
Asset retirement obligations	**1,430**	54	50
Non-capital losses carried forward	**3,989**	4,256	4,913
Other	**1,240**	735	1
	8,498	6,275	5,424
Deferred income tax liabilities:			
Intangibles	**(13,786)**	(38)	(73)
Property, plant and equipment	**(15,362)**	(7,007)	(4,369)
	(29,148)	(7,045)	(4,442)
Net deferred income tax (liabilty) asset	**(20,650)**	(770)	982

The Corporation's non-capital losses of $13.9 million (December 31, 2010 - $17.0 million) expire between 2025 and 2030.

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)	December 31, 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	**11,368**	**11,368**	22,518	22,518	235	235
Loans and receivables:						
Accounts receivable and accrued receivables	**145,481**	**145,481**	25,394	25,394	5,694	5,694
Other receivables	**-**	**-**	-	-	38	38
Notes receivable	**-**	**-**	482	482	459	459
Financial Liablilties:						
Other financial liabilities:						
Accounts payable and accrued liabilities	**93,316**	**93,316**	29,802	29,802	3,326	3,326
Long term borrowings	**119,070**	**120,000**	-	-	4,788	4,900

b. Risks

Commodity price risk – non-trading

The value of the Corporation's crude oil inventory, including oil inventory purchased as base stock for drilling fluids, is impacted by the commodity price of crude oil. Crude oil prices have historically fluctuated widely and are affected by numerous factors outside of the Corporation's control. Crude oil prices are primarily based on West Texas Intermediate ("WTI") plus or minus a differential to WTI based on the crude oil type and other contributing market conditions. As part of normal operating activities, the Corporation is required to hold a certain amount of inventory in any given month. In addition, changes in the prices of crude oil and natural gas can impact overall drilling activity and demand for the Corporation's products and services. 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.

20. FINANCIAL INSTRUMENTS (continued)

Commodity price risk – trading

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

The Corporation defines an "open position" as the difference between physical deliveries of all net buy crude oil contracts offset against physical delivery of all net sell crude oil contracts. The open position is subject to commodity price risk. As a single shipper, the pipeline mandates that any open positions of crude oil remaining at the end of any production month greater than approximately 3,200 barrels of crude oil per facility would be subject to penalties. As at December 31, 2011, the Corporation is single shipper at two of its full service terminals. As a result, the Corporation's strategy is to reduce all open positions below this threshold for any given month. The Corporation does hold open positions however those positions are closed within a relatively short period (before the end of the production month) therefore the overall exposure to the Corporation is significantly reduced. If the Corporation holds at or below 6,400 barrels of crude oil in open positions into a subsequent period, the exposure to the Corporation on a 10% increase or decrease in the price of crude oil per barrel would be an increase or decrease in revenue of approximately $0.1 million.

Credit risk

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

20. FINANCIAL INSTRUMENTS (continued)

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

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

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Under 30 days	**81,365**	11,096	1,959
31-60 days	**11,716**	910	583
61-90 days	**1,999**	309	476
Over 90 days	**1,450**	231	213
Total	**96,530**	**12,546**	**3,231**
Provision for doubtful accounts	**374**	**73**	**42**

The balance of $81.4 million under 30 days includes crude oil contracts settled as part of the trading activities for December of 2011. Of the $81.4 million, 23% of the receivable balance under 30 days is due from six counterparties. The entire amount due from the six counterparties relate 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.

Maximum credit risk is calculated as the total recorded value of accounts receivable and accrued receivables as at the balance sheet date.

Interest rate risk

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

The Corporation is also exposed to interest rate risk on its cash and short term deposits balance of $11.4 million. A 1% increase or decrease in the interest rate received by the Corporation would potentially increase or decrease consolidated revenue by $0.1 million for the year ended December 31, 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.

20. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. The Corporation manages its liquidity risk through cash and debt management. Management's assessment of its liquidity reflects estimates, assumptions and judgments relating to current market conditions. As at December 31, 2011, the Corporation has $11.4 million in cash and short term deposits and $23.7 million of available room on its revolving credit facility (Note 14). Subsequent to December 31, 2011, the Corporation increased the maximum amount available on its revolving credit facility by $50 million to $200 million (Note 25b). 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	93,316	-	-	-
Financing and operating lease obligations	4,700	5,523	2,740	1,462
Long term borrowings	-	120,000	-	-
Total	**98,016**	**125,523**	**2,740**	**1,462**

Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from its purchase and sale of crude oil, working capital balances denominated in foreign currencies and on the translation of its foreign operations. Foreign currency risk on the purchase and sale of crude oil is mitigated as the majority of the activities occur in the same period, therefore foreign currency risk exposure is limited to crude oil held in inventory. The Corporation also has foreign currency risk arising from the translation of amounts receivable from and payable to its foreign subsidiary. The amounts are considered to form part of the net investment and are therefore recognized in other comprehensive income. 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 before income taxes for the year ended December 31, 2011.

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 the Corporation's results on a monthly basis, and capital costs to budget and approved authorizations for expenditures on a quarterly basis. The key measures management uses to monitor its capital structure are actual capital expenditures compared to authorized budgets, and earnings before interest, taxes, and depreciation ("EBITDA") on all of its operations. The Corporation is subject to certain financial covenants in its 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 14).

22. RELATED PARTY DISCLOSURES

These consolidated financial statements include the Corporation's 50% share of its joint venture with Pembina Pipeline Corporation.

Significant transactions

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

($000's)		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related parties	**December 31, 2011**	**5,235**	**1,101**	**1,364**	**104**
	December 31, 2010	3	606	-	59

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. Related parties include companies that have common directors, officers, employees and shareholders. The nature of the expenses relate to operating and general and administrative expenses for use in the Corporation's PRD and DS divisions. Amounts are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 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)

Transactions with key management personnel

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

The compensation related to key management personnel is as follows:

($000's)	Dec 31, 2011	Dec 31, 2010
Salaries and short-term employee benefits	2,380	1,347
Share-based payments	478	1,017
	2,858	**2,364**

($000's)		Interest received	Amounts owed by related parties
Notes receivable	**December 31, 2011**	**105**	**-**
	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 was $0.4 million and the notes bore 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 pledged their shares of the Corporation. As at December 31, 2011, the three shareholders have repaid the full amount of promissory notes owing to the Corporation, including interest.

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)	Dec 31, 2011	Dec 31, 2010
Within one year	**2,007**	566
After one year but not more than five years	**6,038**	2,340
More than five years	**1,458**	703
	9,503	**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)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Within one year	**2,693**	1,304	561
After one year but not more than five years	**2,225**	1,670	556
More than five years	**4**	-	-
	4,922	**2,974**	**1,117**

Inventory Purchase Commitment

Corporation has commitments relating to inventory product purchases from suppliers for use in the Corporation's DS division.

($000's)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Within one year	**10,928**	-	-
After one year but not more than five years	**14,884**	-	-
More than five years	**-**	-	-
	25,812	**-**	**-**

Capital Commitments

As at December 31, 2011, the Corporation had committed $8.0 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. All amounts are current and due within one year.

23. COMMITMENTS, CONTINGENCIES AND GUARANTEES (continued)

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.

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

Guarantees

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

Letters of Credit

As at December 31, 2011, the Corporation has approximately $6.3 million in letters of credit issued by the Corporation's banker (December 31, 2010 - $8.5 million; January 1, 2010 - $8.4 million). All letters of credit are not cash secured and have been deducted from the Corporation's available long term borrowings (Note 14). The guarantees relate to security for the Corporation's facilities and are held with provincial regulatory bodies (Note 15).

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's general and administrative expenses include 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;

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

24. OPERATING SEGMENTS (continued)

($000's)	PRD division	DS division	Total
	Year ended Dec 31, 2011		
Revenue	403,493	147,706	551,199
Operating expenses	374,182	115,696	489,878
General and administrative	13,136	12,316	25,452
Business development	1,590	424	2,014
Depreciation, depletion and amortization	19,453	5,777	25,230
Total profit before income taxes	19,136	12,780	31,916
	As at December 31, 2011		
Current assets	54,920	138,662	193,582
Total assets	289,965	313,118	603,083
Goodwill	-	77,820	77,820
Intangibles	4,611	67,750	72,361
Property, plant and equipment and assets under construction	230,435	28,885	259,320
Current liabilities	50,908	46,604	97,512
Total liabilities	191,056	62,990	254,046

($000's)	PRD division	DS division	Total
	Year ended Dec 31, 2010		
Revenue	72,993	-	72,993
Operating expenses	54,094	-	54,094
General and administrative	7,473	-	7,473
Business development	2,297	-	2,297
Depreciation, depletion and amortization	13,846	-	13,846
Total profit before income taxes	8,423	-	8,423
	As at December 31, 2010		
Current assets	51,696	-	51,696
Total assets	198,464	-	198,464
Intangibles	3,231	-	3,231
Property, plant and equipment and assets under construction	143,055	-	143,055
Current liabilities	31,106	-	31,106
Total liabilities	43,116	-	43,116

Geographical Financial Information

	Canada		International		Total	
($000's)	2011	2010	2011	2010	2011	2010
Year ended Dec 31						
Revenue	**541,881**	72,993	**9,318**	-	**551,199**	72,993
As at Dec 31						
Total non-current assets	**397,800**	146,768	**11,701**	-	**409,501**	146,768

25. SUBSEQUENT EVENTS

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

b) On January 16, 2012, the Corporation closed an agreement with its lenders to exercise an accordion feature in the Corporation's existing revolving credit facility agreement, thereby increasing the maximum amount on its revolving credit facility by $50.0 million to $200.0 million (See Note 14).

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 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 consolidated 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 statements of financial position as at January 1, 2010 and December 31, 2010, and its GAAP consolidated statements of comprehensive income for the year ended 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 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 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 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 Comprehensive Income for the period		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**	**January 1, 2010**
Decrease in depreciation from the change to straight line method	5,165	2,702
Increase in PP&E from the reclassification of leases to financing (26E)	1,712	765
Increase in the ARO asset (26D)	2,182	1,163
Depreciation relating to the ARO asset	(1,261)	(203)
Net increase to property, plant and equipment	**7,798**	**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**	**January 1, 2010**
Increase in ARO liability due to a revaluation of the obligation [1] (26A)	2,182	1,163
Change in accretion expense due to the change in the obligation	(172)	(69)
Net increase in obligation	**2,010**	**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**	**January 1, 2010**
Increase in liability due to changes in finance lease criteria (26A)	1,712	765
Paydown of liability	(580)	(212)
Net Increase in finance lease liability	**1,132**	**553**
Increase in short term liability	497	214
Increase in long term liability	635	339
Net Increase in finance lease liability	**1,132**	**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 $1,153 as at December 31, 2010 (January 1, 2010 - $682) 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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Chief Financial Officer

Allen Gransch
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Vice President Business Development

Karen Myrheim
Vice President, Sales and Marketing

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