

An aerial photograph of an industrial site, likely a refinery or chemical plant. The facility features several large, cylindrical storage tanks, some painted blue and others silver. A network of pipes and walkways connects these tanks. To the left, there is a white building with a blue roof. In the background, a dirt road and several tanker trucks are visible. The site is surrounded by a dense forest of green trees.

**Consolidated  
Financial Statements**  
For the years ended  
December 31, 2020 and 2019

**SECURE  
ENERGY**



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Secure Energy Services Inc.

### ***Opinion***

We have audited the consolidated financial statements of Secure Energy Services Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



### ***Key Audit Matter***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matters to be communicated in our auditors' report.

### ***Assessment of the recoverable amount of the drilling and production services, Canadian processing and disposal facilities and water management cash generating units***

#### ***Description of the matter***

We draw attention to note 2, note 3, and note 9 to the financial statements. When the carrying amount of a cash generating unit exceeds its recoverable amount, the non-financial assets within the cash generating unit ("CGU") are considered impaired and its carrying amount is reduced to its recoverable amount. The Entity determined that impairment tests were required on various cash generating units including the drilling and production services, the Canadian processing and disposal facilities and the water management cash generating units. The Entity recorded an impairment charge of \$15.7 million related to the drilling and production services CGU.

The estimated recoverable amount of the drilling and production services, Canadian processing and disposal facilities and water management CGUs involves certain significant assumptions including the:

- Forecasted income before finance costs, taxes, depreciation, depletion and amortization, non-cash impairments on non-current assets, unrealized gains or losses on mark to market commodity transactions, share based compensation and certain other income and expenses ("adjusted EBITDA")
- Discount rates.

#### ***Why the matter is a key audit matter***

We identified the assessment of the recoverable amount of the drilling and production services, Canadian processing and disposal facilities and water management cash generating units as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the significant assumptions.



### ***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's 2020 actual adjusted EBITDA to the amount budgeted for 2020 to assess the Entity's ability to accurately forecast.

We evaluated the appropriateness of the forecasted adjusted EBITDA used in the estimate of the recoverable amounts by:

- Comparing the forecasted 2021 adjusted EBITDA for the Canadian processing and disposal facilities and the water management CGUs to the 2021 budget to assess consistency with other significant assumptions used by the Entity in other estimates used in the financial statements
- Comparing the forecasted 2020 adjusted EBITDA for the drilling and production services CGU to the 2020 budget to assess consistency with other significant assumptions used by the Entity in other estimates used in the financial statements
- Comparing the forecasted adjusted EBITDA for each CGU to historical results. We took into account changes in conditions and events affecting each CGU to assess the adjustments or lack of adjustments made by the Entity in arriving at forecasted adjusted EBITDA for each CGU
- Comparing certain underlying assumptions in the forecasted adjusted EBITDA to market data.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Entity's discount rates by comparing the discount rates to market and other external data
- Assessing the reasonableness of the Entity's estimates of the recoverable amounts of each CGU by comparing the Entity's estimates to market metrics and other external data.

### ***Other Information***

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is



materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Shane Doig.

*KPMG LLP*

Chartered Professional Accountants

Calgary, Canada  
February 25, 2021

**SECURE ENERGY SERVICES INC.**  
**Consolidated Statements of Financial Position**  
**As at December 31,**

(\$000's)	Notes	2020	2019
<b>Assets</b>			
<b>Current assets</b>			
Cash		6,781	8,854
Accounts receivable and accrued receivables		143,887	228,468
Inventories	5	48,190	65,158
Prepaid expenses and other current assets		8,839	11,974
		<b>207,697</b>	<b>314,454</b>
Property, plant and equipment	6	1,155,763	1,232,775
Right-of-use assets	7	31,999	49,624
Intangible assets	8	17,993	39,671
Goodwill		11,127	11,127
<b>Total Assets</b>		<b>1,424,579</b>	<b>1,647,651</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		143,874	189,178
Asset retirement obligations	11	3,294	3,060
Lease liabilities	12	10,235	18,030
		<b>157,403</b>	<b>210,268</b>
Long-term borrowings	10	399,069	453,414
Asset retirement obligations	11	104,656	91,332
Lease and other liabilities	12	25,071	31,303
Deferred tax liabilities	16	24,877	48,690
<b>Total Liabilities</b>		<b>711,076</b>	<b>835,007</b>
<b>Shareholders' Equity</b>			
Issued capital	13	1,038,400	1,017,990
Share-based compensation reserve		50,541	61,586
Foreign currency translation reserve		23,933	26,734
Non-controlling interest		29,801	32,954
Deficit		(429,172)	(326,620)
<b>Total Shareholders' Equity</b>		<b>713,503</b>	<b>812,644</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,424,579</b>	<b>1,647,651</b>

*Approved by the Board of Directors:*

"SIGNED"  
Rene Amirault

"SIGNED"  
Kevin Nugent

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

**SECURE ENERGY SERVICES INC.**  
**Consolidated Statements of Comprehensive Loss**  
**For the years ended December 31,**

<i>(\$000's except per share and share data)</i>	Notes	2020	2019
Revenue	22	1,823,656	3,053,276
Cost of sales	17	1,826,224	2,927,787
<b>Gross margin</b>		<b>(2,568)</b>	125,489
General and administrative expenses	17	65,971	101,297
Restructuring costs and other	17	16,426	-
<b>Operating (loss) income</b>		<b>(84,965)</b>	24,192
Interest, accretion and finance costs		24,876	24,915
<b>Loss before tax</b>		<b>(109,841)</b>	(723)
Current tax expense (recovery)	16	1,151	(159)
Deferred tax recovery	16	(23,805)	(755)
<b>Net (loss) income</b>		<b>(87,187)</b>	191
<b>Net (loss) income attributable to:</b>			
Shareholders of SECURE		(85,209)	1,600
Non-controlling interest		(1,978)	(1,409)
<b>Other comprehensive loss</b>			
Foreign currency translation adjustment		(2,456)	(7,386)
<b>Total comprehensive loss</b>		<b>(89,643)</b>	(7,195)
<b>Total comprehensive loss attributable to:</b>			
Shareholders of SECURE		(88,010)	(5,648)
Non-controlling interest		(1,633)	(1,547)
Basic and diluted loss per common share	15	(0.55)	-
Weighted average shares outstanding - basic	15	158,561,369	158,984,770
Weighted average shares outstanding - diluted	15	158,561,369	161,817,532

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

**SECURE ENERGY SERVICES INC.**

**Consolidated Statements of Changes in Shareholders' Equity**

(\$000's)	Note	Issued capital	Share-based compensation reserve	Foreign currency translation reserve	Non-controlling interest	Deficit	Total Shareholders' Equity
<b>Balance at January 1, 2020</b>		<b>1,017,990</b>	<b>61,586</b>	<b>26,734</b>	<b>32,954</b>	<b>(326,620)</b>	<b>812,644</b>
Net loss		-	-	-	(1,978)	(85,209)	(87,187)
Dividends declared	13	-	-	-	(1,520)	(17,343)	(18,863)
Foreign currency translation adjustment		-	-	(2,801)	345	-	(2,456)
Exercise of share units	13	21,941	(21,941)	-	-	-	-
Share-based compensation		-	10,896	-	-	-	10,896
Shares cancelled under normal course issuer bid ("NCIB")	13	(1,531)	-	-	-	-	(1,531)
<b>Balance at December 31, 2020</b>		<b>1,038,400</b>	<b>50,541</b>	<b>23,933</b>	<b>29,801</b>	<b>(429,172)</b>	<b>713,503</b>
<b>Balance at January 1, 2019</b>		<b>1,031,189</b>	<b>64,413</b>	<b>33,982</b>	<b>-</b>	<b>(285,268)</b>	<b>844,316</b>
Net (loss) income		-	-	-	(1,409)	1,600	191
Dividends declared		-	-	-	(1,145)	(42,952)	(44,097)
Acquisition of non-controlling interest		-	-	-	35,646	-	35,646
Foreign currency translation adjustment		-	-	(7,248)	(138)	-	(7,386)
Exercise of share units		21,508	(21,508)	-	-	-	-
Share-based compensation		-	18,681	-	-	-	18,681
Shares cancelled under NCIB		(34,707)	-	-	-	-	(34,707)
<b>Balance at December 31, 2019</b>		<b>1,017,990</b>	<b>61,586</b>	<b>26,734</b>	<b>32,954</b>	<b>(326,620)</b>	<b>812,644</b>

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

**SECURE ENERGY SERVICES INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31,**

(\$000's)	Notes	2020	2019
<b>Cash flows (used in) from operating activities</b>			
Net (loss) income		(87,187)	191
Adjustments for non-cash items:			
Depreciation, depletion and amortization	17	144,118	132,252
Interest, accretion and finance costs		24,876	24,915
Current and deferred tax recovery	16	(22,654)	(914)
Other non-cash expense		2,944	4,769
Impairment of non-current assets	9	50,124	-
Share-based compensation	14	10,394	19,449
Interest paid		(18,881)	(20,584)
Income taxes recovered (paid)		1,429	(2,397)
Asset retirement costs incurred	11	(123)	(2,855)
Funds flow from operations		105,040	154,826
Change in non-cash working capital		43,683	41,779
<b>Net cash flows from operating activities</b>		<b>148,723</b>	<b>196,605</b>
<b>Cash flows (used in) from investing activities</b>			
Purchase of property, plant and equipment		(71,339)	(120,859)
Proceeds from dispositions		4,178	7,658
Partnership distributions to non-controlling interest		(1,520)	(1,145)
Business acquisition	4	-	(13,866)
Change in non-cash working capital		8,621	(6,664)
<b>Net cash flows used in investing activities</b>		<b>(60,060)</b>	<b>(134,876)</b>
<b>Cash flows (used in) from financing activities</b>			
Repurchase and cancellation of shares under NCIB	13	(1,531)	(34,707)
(Repayment) draw on credit facilities		(54,859)	40,872
Financing fees		(195)	(1,362)
Lease liability principal payments	12	(16,586)	(21,520)
Dividends declared	13	(17,343)	(42,952)
Change in non-cash working capital		1,190	-
<b>Net cash flows used in financing activities</b>		<b>(89,324)</b>	<b>(59,669)</b>
<b>Effect of foreign exchange on cash</b>		<b>(1,412)</b>	<b>(1,134)</b>
(Decrease) increase in cash		(2,073)	926
Cash, beginning of period		8,854	7,928
<b>Cash, end of period</b>		<b>6,781</b>	<b>8,854</b>

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

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2020 and 2019**

**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

**Nature of Business**

SECURE Energy Services Inc. (“SECURE” or the “Corporation”) 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 which provide innovative, efficient and environmentally responsible fluids and solids solutions to the oil and gas industry.

The Midstream Infrastructure segment owns and operates a network of facilities throughout western Canada, North Dakota and Oklahoma. These facilities provide processing, storing, shipping and marketing of crude oil; processing of waste; and water treatment and disposal. SECURE also transports oil and water through pipelines direct to SECURE facilities.

The Environmental and Fluid Management segment includes a network of landfill disposal facilities; onsite abandonment, remediation and reclamation management; a suite of comprehensive environmental management solutions provided by the Corporation to a diversified customer base; and drilling, completion and production fluid operations management for oil and gas producers in western Canada.

The following entities have been consolidated within SECURE’s consolidated financial statements for the years ended December 31, 2020 and 2019.

<b>Subsidiaries</b>	<b>Country</b>	<b>Functional Currency</b>	<b>% Interest Dec 31, 2020 and 2019</b>
SECURE Energy Services Inc. (parent company)	Canada	Canadian Dollar	
True West Energy Ltd.	Canada	Canadian Dollar	100%
Chaleur Terminals Inc.	Canada	Canadian Dollar	100%
SECURE Energy (Drilling Services) Inc.	Canada	Canadian Dollar	100%
Alliance Energy Services International Ltd.	Canada	Canadian Dollar	100%
SECURE Energy (OnSite Services) Inc.	Canada	Canadian Dollar	100%
SECURE Energy (Logistics Services) Inc.	Canada	Canadian Dollar	100%
Reef International Ltd. (added Q1 2020)	Canada	US Dollar	100%
SES USA Holdings Inc.	USA	US Dollar	100%
SECURE Energy Services USA LLC	USA	US Dollar	100%
SECURE Drilling Services USA LLC	USA	US Dollar	100%
SECURE Minerals USA LLC	USA	US Dollar	100%
SECURE OnSite Services USA LLC	USA	US Dollar	100%
Barcas Pipeline Ventures LLC (acquired April 11, 2019)	USA	US Dollar	27%
BPV Gathering & Marketing LLC (acquired April 11, 2019)	USA	US Dollar	51%

**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION (continued)**

**Basis of Presentation**

The consolidated financial statements of SECURE 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”) in effect at the closing date of December 31, 2020.

These consolidated financial statements are recorded and presented in Canadian dollars (\$), which is SECURE’s functional currency, and have been prepared on a historical cost basis, except for certain financial instruments and share-based compensation transactions that have been measured at fair value. All values are rounded to the nearest thousand dollars (\$000’s), except where otherwise indicated. The accounting policies described in Note 2 have been applied consistently to all periods presented in these consolidated financial statements, except as noted herein. Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year. The Corporation adjusted prior year comparative figures on the consolidated statements of comprehensive loss to present pipeline tariff fees charged as a recovery of cost of sales rather than revenue. As a result, revenue for the year ended December 31, 2019 decreased by \$19.2 million, with an offsetting decrease to cost of sales.

The timely preparation of financial statements requires that management make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. See Note 3 for a description of significant estimates and judgments used in the preparation of the consolidated financial statements.

These consolidated financial statements were approved by SECURE’s Board of Directors on February 25, 2021. The head office of the Corporation is located at 2300, 225 – 6th Avenue S.W., Calgary, Alberta, Canada, T2P 1N2. The registered office of the Corporation is located at 4500, 855 – 2nd Street S.W., Calgary, Alberta, Canada, T2P 4K7.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of consolidation**

These consolidated financial statements include the accounts of SECURE and its subsidiaries. All inter-company balances and transactions are eliminated on consolidation.

**b) Business combinations and goodwill**

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 acquired and liabilities assumed 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. Goodwill is measured at the acquisition date 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. The measurement of goodwill is inherently imprecise and requires judgment in the determination of the fair value of assets and liabilities.

Transaction costs associated with business combinations, other than those related to issuing debt or equity securities, are expensed as incurred.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Changes in the fair value of liability classified contingent consideration are recognized in net income. If the contingent consideration is classified in equity, it is not remeasured, and its final settlement is accounted for within equity.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Revenue recognition**

The Corporation has many different business lines, offering services, products and integrated solutions to meet customer needs. Revenue is recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

- Revenue associated with services provided at the Corporation's midstream facilities and landfills such as processing, disposal, transportation, terminalling and rail transloading are recognized when the services are rendered.
- Revenue from the sale of crude oil and natural gas liquids is recorded when title to the product transfers to the customer and SECURE has fulfilled its performance obligation of delivery of product.
- Revenue from drilling fluid services is recognized when services are provided and materials are utilized. Materials that are delivered and not utilized are shown as drilling fluid inventory.
- Revenue from the sale of production chemicals and minerals is recognized at the point of sale, when the customer takes ownership of the products.
- Revenue from rental equipment is recognized once the asset is delivered to the customer, over the term of the rental agreement at pre-determined rates.
- Revenue from environmental projects is typically recognized when services are provided. For related projects where a performance obligation is satisfied over time, revenue may be recognized based on an appropriate input method determined by the physical portion of work performed depending on the nature of the project.

Revenue is measured net of trade discounts and volume rebates as they are incurred in relation to the goods and services provided.

**d) Inventories**

Inventories are comprised of crude oil, natural gas liquids, drilling fluids, minerals, speciality chemicals, production chemicals and spare parts. Inventories, other than crude oil and natural gas liquids held for trading purposes, 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 cost of drilling fluids is determined on a weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventory in transit is recognized at the point of shipment. Any inventory write-downs are included in cost of sales. The reversal of previous write-downs to inventories is permitted when there is a subsequent increase to the value of inventories.

Crude oil and natural gas liquids held for trading purposes are measured at fair value less costs to sell with changes to fair value less costs to sell recognized in net income. The fair value is determined based on the market price of crude oil and natural gas liquids on the measurement date.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

Land is measured at cost, net of accumulated impairment losses, if any. Property, plant and equipment is stated at cost, net of accumulated depreciation, depletion and/or accumulated impairment losses, if any. Such costs include geological and geophysical, drilling of wells, labour and materials, site investigation, equipment and facilities, contracted services and borrowing costs for long-term construction projects if the recognition criteria are met. Overhead costs which are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by management are capitalized. These costs include compensation costs paid to internal personnel dedicated to capital projects. When significant parts of plant and equipment are required to be replaced, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively.

All other repair and maintenance costs are recognized in net 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.

Costs related to assets under construction are capitalized when incurred. Assets under construction or refurbishment are not depreciated until they are complete and available for use in the manner intended by management.

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.

An item of property, plant and equipment and any significant part 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 net income when the asset is derecognized.

### **f) 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.

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets resulting from a business combination are initially recorded at fair value. Fair value is estimated by management taking into account its highest and best use 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 at least annually.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### g) Depreciation, depletion and amortization

Capital expenditures are not depreciated until assets are substantially complete and ready for their intended use. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

#### *Depreciation and depletion*

Depreciation of property, plant and equipment, other than landfill cells, is based on a straight line basis and is calculated over the estimated useful life of the asset as follows:

Buildings	10 to 45 years
Plant equipment and disposal wells	2 to 25 years
Rental and mobile equipment	2 to 25 years
Office and computer equipment	3 to 10 years
Crude oil pipelines	40 years

Landfill cells are depleted based on units of total capacity utilized in the period.

#### *Amortization*

Amortization of intangible assets is recorded on a straight line basis over the estimated useful life of the intangible asset as follows:

Non-competition agreements	2 to 5 years
Customer relationships	5 to 15 years
Licenses and patents	3 to 20 years

### h) Impairment of non-financial assets

The non-financial assets of the Corporation are comprised of property, plant and equipment, goodwill and intangible 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 of impairment exists, or when annual impairment testing for an asset is required, the Corporation estimates the CGU's recoverable amount. An asset or CGU's recoverable amount is the higher of its fair value less costs to dispose ("FVLCD") and its value in use. In determining fair value less costs to dispose, recent market transactions are taken into account, if available. 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in net income.

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. 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 CGUs compared to the individual CGU or group of CGUs' respective carrying amount(s).

For non-financial assets other than goodwill and intangible assets with an indefinite useful life, 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 CGU's recoverable amount.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Any reversal is limited so that the carrying amount of the non-financial asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior periods. Such reversal is recognized in net income.

Impairment losses related to assets under construction; property, plant and equipment; goodwill and intangible assets are included with cost of sales on the consolidated statements of comprehensive loss.

**i) Leases**

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Corporation. Lease liabilities are initially measured at the present value of unpaid lease payments, less any lease incentives. Lease payments include fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Lease payments are discounted using the Corporation's incremental borrowing rate where the rate implicit in the lease is not readily determinable. Right-of-use assets are initially measured at the amount of the lease liability, plus any lease payments made at or before the commencement date, any initial direct costs, and estimated cost for dismantling or restoring the asset. 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. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Corporation uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The Corporation determines its incremental borrowing rate by applying interest rates from external financing sources and adjusting the rate to reflect the term of the lease. Lease payments on short-term leases or leases on which the underlying asset is of low value are accounted for as expenses on a straight-line basis in the consolidated statement of operations.

**j) Government grants**

Government assistance related to current expenses is recorded by the Corporation as a reduction of the related expenses that the assistance is intended to compensate.

**k) Restructuring costs**

Restructuring costs are recognized when the Corporation has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly.

**l) Financial instruments**

***Classification***

Financial Instruments are classified upon initial recognition into one of the following categories: fair value through profit and loss ("FVTPL"), fair value through other comprehensive loss ("FVTOCI"), or amortized cost.

The Corporation determines the classification of financial assets at initial recognition. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Corporation has opted to measure them at FVTPL.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***Measurement***

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net earnings in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Corporation's own credit risk will be recognized in other comprehensive loss.

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive loss.

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

### ***Fair value measurement***

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.

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.

### ***Derivative financial instruments***

The Corporation may utilize derivative financial instruments, such as, but not limited to, physical and financial contracts, futures, swaps and options, to manage certain exposures to fluctuations in commodity prices, foreign exchange rates and interest rates as part of its overall risk management program. These derivative financial instruments are not generally used for speculative positions and are not designated as hedges. They are initially recognized at fair value at the date the derivative contracts are entered into on the Corporation's consolidated statements of financial position as either an asset, when the fair value is positive, or a liability, when the fair value is negative. The derivative contracts are subsequently remeasured to their fair value at the end of each reporting period, with the resulting gain or loss included in the statements of comprehensive loss.

Certain physical commodity contracts are deemed to be derivative financial instruments for accounting purposes. Physical commodity contracts entered into for the purpose of receipt or delivery of products in accordance with the Corporation's own purchase, sale or usage requirements are not considered to be derivative financial instruments. Settlement on these physical contracts is recognized in the statements of comprehensive loss over the term of the contracts as they occur.

### ***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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***Impairment of financial assets***

The Corporation recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Corporation measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Corporation measures the loss allowance for the financial asset at an amount equal to twelve months of expected credit losses.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in net earnings. The asset, 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.

### ***Derecognition***

The Corporation derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net earnings. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within the accumulated other comprehensive loss.

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 net earnings.

## **m) Provisions**

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of comprehensive loss, 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 in interest, accretion and finance costs in net income.

## **n) Asset retirement obligations**

Asset retirement obligations associated with well sites, facilities, pipelines and landfills 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 loss 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### o) 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.

### p) Share-based compensation

#### *Equity-settled transactions*

The Corporation has a share option plan ("Option Plan") for eligible employees and consultants of the Corporation. During 2019, the Corporation eliminated the Option Plan, removing the Corporation's ability to issue new share options. Outstanding options remain subject to the terms and conditions of the Option Plan in effect at the time of the grant. The Corporation follows the fair-value method to record share-based compensation expense with respect to share options granted. The fair value of each option granted was estimated on the date of grant and that value is recorded as share-based compensation expense over the vesting period of those grants, with a corresponding increase to share-based compensation reserve less an estimated forfeiture rate. The consideration received by the Corporation on the exercise of share options is recorded as an increase to issued capital together with corresponding amounts previously recognized in the share-based compensation reserve. Forfeitures are estimated based on historical information for each reporting period, and adjusted as required to reflect actual forfeitures that have occurred in the period. No share options have been granted since 2017.

The Corporation also has a unit incentive plan ("UIP") under which the Corporation may grant restricted share units ("RSUs"), performance share units ("PSUs") to its employees.

Under the terms of the UIP, the RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in equity or cash at the discretion of the Corporation, in the amount equal to the fair value of the RSU on that date.

If the RSUs are equity settled, the fair value of the RSUs issued is equal to the Corporation's five day weighted average share price on the grant date. The fair value is expensed over the vesting term on a graded vesting basis. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of RSUs that vest.

Under the terms of the UIP, the date or dates which all or a portion of the PSUs shall vest and any performance conditions to such vesting, is designated by the Board of Directors at the time of grant. PSUs will be settled in equity or cash, at the discretion of the Corporation, at the amount equal to the fair value of the PSU on that date. If the PSUs are equity settled, the fair value of the PSUs issued is equal to the Corporation's five day weighted average share price on the grant date and is adjusted for the estimate of the outcome of the performance conditions. The fair value is expensed over the vesting term on a graded vesting basis. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of PSUs that vest.

#### *Cash-settled transactions*

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### q) Per share amounts

The Corporation calculates net income per share by dividing net income 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 share options and other equity awards were exercised or converted into common shares. Diluted earnings per share is calculated by dividing net income 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 other equity awards. The treasury method for outstanding options assumes that the use of proceeds that could be obtained upon exercise of options in computing diluted earnings per share are used to purchase the Corporation's common shares at the average market price during the period. For RSUs and PSUs, the treasury stock method assumes that the deemed proceeds related to unrecognized share-based compensation are used to repurchase shares at the average market price during the period.

### r) Taxes

#### *Current income tax*

Current income tax assets and liabilities are measured at the amounts 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 amounts 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 expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable or receivable on the taxable earnings or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 Corporation follows the liability method of accounting for income taxes whereby deferred income taxes are recorded for the effect of differences between the accounting and income tax basis of an asset or liability. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates as at the balance sheet date that are anticipated to apply to taxable income in the years in which temporary differences are anticipated to be recovered or settled. Changes to these balances are recognized in net earnings or Other Comprehensive loss in the period they occur.

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

Deferred tax assets and 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

Entities who transact in currencies that are not their functional currency translate monetary assets and liabilities at period-end exchange rates and non-monetary items 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 net income 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 in effect during the period. Adjustments resulting from these translations are reflected in total comprehensive loss as foreign currency translation adjustments.

Foreign exchange gains or losses arising from a monetary item that is receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in the foreign currency translation reserve in the cumulative amount of foreign currency translation differences.

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

The reportable segments of the Corporation have been derived because they are the segments: (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the Corporation's chief operating decision maker, identified as the Corporation's Chairman, President and Chief Executive Officer, to make decisions about resources to be allocated to each segment and assess its performance; and (c) for which discrete financial information is available.

The Corporation has aggregated the identified operating segments into two reportable segments through examination of the Corporation's performance which is based on the similarity of services and goods provided and economic characteristics exhibited by the operating segments.

## **3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

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

The key estimates and judgments 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 judgments.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

#### Significant judgments

##### *Determining CGUs*

For the purpose of assessing impairment of non-financial assets, the Corporation must determine its CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has identified CGUs based on facility type, service line and/or geographical area.

#### Significant estimates and assumptions

##### *Recoverability of assets*

The Corporation assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. The assessment of the existence of impairment indicators is based on various internal and external factors and involves management's judgment.

Goodwill is tested annually for impairment or when an indicator is present. 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 dispose and its value in use.

The required valuation methodology and underlying financial information that is used to determine value in use requires significant estimates to be made by management. The key estimates the Corporation normally applies in determining the recoverable amount of an individual asset, CGU or group of CGUs include expected levels of activity within the oil and gas industry, future sustaining capital costs, discount rates, tax rates, and forecasted income before finance costs, taxes, depreciation, depletion and amortization, non-cash impairments on non-current assets, realized gains or losses on mark to market transactions, share based compensation and certain other income and expenses. Assumptions that are valid at the time of preparing the cash flow models may change significantly when new information becomes available. Changes to these estimates may affect the recoverable amounts of an individual asset, CGU or group of CGUs which may then require a material adjustment to their related carrying value.

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

Determination of which components of an item of property, plant and equipment represent a significant cost to the asset as a whole and identifying the consumption patterns along with the useful lives and residual values of these significant parts involve management judgment and estimates. The actual lives of the assets and residual values are assessed annually taking into account factors such as technological innovation and maintenance programs. Amounts recorded for depletion on the landfill cells are based on estimates of the total capacity utilized in the period.

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

The amounts recorded for asset retirement obligations and the related accretion expenses are based on management's best estimate of the costs to abandon and reclaim the wells, facilities, pipelines and landfills, and the estimated time period in which these costs are expected to be incurred in the future. In determining 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.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

#### *Other provisions and contingent liabilities*

The determination of other provisions and contingent liabilities is a complex process that involves judgments about the outcomes of future events, estimates of timing and amount of future expenditures, the interpretation of laws and regulations, and discount rates. The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

#### *Inventories*

The Corporation evaluates its inventory to ensure it is carried at the lower of cost and net realizable value. Allowances are made against slow moving, obsolete, and damaged inventories and are charged to cost of sales. These allowances are assessed at each reporting date for adequacy. The reversal of any write-down of inventory arising from an increase in net realizable value is recognized as a reduction in cost of sales in the period in which the reversal occurred.

#### *Share-based compensation*

The Corporation has a Unit Incentive Plan under which the Corporation may grant awards to certain employees in the form of restricted share units and performance share units (collectively, the "Awards"). The Corporation follows the fair-value method to record share-based compensation expense with respect to these Awards granted. To record share-based compensation expense, the Corporation estimates the fair value of the Awards granted using assumptions related to the outcome of performance conditions. Accounting for the Awards within shareholder's equity requires management's judgment with respect to the future settlement. Management has assumed the Awards will be settled in equity based on past practice and current intentions.

#### *Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

#### *Provision for expected credit losses*

The Corporation uses a provision matrix based upon historical default rates and forward-looking assumptions to calculate expected credit losses, which is reviewed by management on a monthly basis. Management makes these assessments after taking into consideration the differing loss patterns in its customer base grouping's while also considering payment history, credit worthiness and the current economic environment. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

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

The Corporation reflects the fair value of derivative financial instruments based on third party valuation models and methodologies that utilize observable market data, including forward commodity prices and foreign exchange rates. As a result of changes in key assumptions, the actual amounts may vary significantly from estimated amounts.

**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

*Purchase price equations*

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

*Net investments in foreign subsidiaries*

Determination of whether an advance to a foreign subsidiary constitutes a net investment involves judgments about the outcomes of future events, specifically related to the timing and amount of repayment of the advance by the foreign subsidiary. Unrealized foreign gains and losses from advances classified as net investments are recorded as foreign currency translation adjustments in other comprehensive loss. The accumulated foreign currency translation adjustments are reclassified to net income when the foreign subsidiary is disposed of, or the advance is repaid.

**4. BUSINESS ACQUISITIONS**

- a) The Corporation did not complete any significant acquisitions in the year ended December 31, 2020.
- b) On April 11, 2019, the Corporation acquired a 27% interest in a crude oil storage business which owns a crude oil storage facility located in Cushing, Oklahoma. The facility is comprised of four above-ground 175,000 barrel tanks. The total purchase price of US\$9.9 million was paid in cash at closing.

Within two years of the acquisition, SECURE has the option to purchase the remaining 73% interest in the business for US\$26.6 million. As the call option provides SECURE with control due to substantive potential voting rights, SECURE has applied the acquisition method of accounting for business combinations and consolidated the statements of financial position and comprehensive loss of the acquired business for the period subsequent to the acquisition date.

The following summarizes management’s purchase price equation:

<b>Balance at acquisition date</b>	<b>Amount (\$000's)</b>
Cash paid	13,184
	<b>13,184</b>
Net working capital	143
Property, plant and equipment (Note 6)	31,338
Intangible assets <sup>(1)</sup> (Note 8)	17,616
Asset retirement obligations	(267)
Non-controlling interest	(35,646)
	<b>13,184</b>

<sup>(1)</sup> Consists of interconnection and terminalling agreements.

SECURE also acquired a 51% interest in 80 acres of undeveloped land located adjacent to the crude oil storage facility. The purchase price of US\$0.5 million was paid in cash at closing and has been included in property, plant and equipment on the consolidated statements of financial position.

**SECURE ENERGY SERVICES INC.**  
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**5. INVENTORIES**

<b>(\$000's)</b>	<b>Dec 31, 2020</b>	<b>Dec 31, 2019</b>
Crude oil and natural gas liquids	7,625	9,210
Production chemicals	14,742	15,726
Drilling fluids	15,054	21,769
Minerals	6,583	14,069
Spare parts and supplies	4,186	4,384
<b>Total inventories</b>	<b>48,190</b>	<b>65,158</b>

Production chemicals, drilling fluids and minerals inventory recognized as cost of sales in the consolidated statements of comprehensive loss for the year ended December 31, 2020 were \$104.5 million (2019: \$124.3 million).

**6. PROPERTY, PLANT AND EQUIPMENT**

The amounts included in assets under construction consist of assets associated with a variety of ongoing projects. During the year ended December 31, 2020, \$2.9 million (2019: \$5.5 million) of directly attributable capitalized salaries and overhead were added to property, plant and equipment.

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**6. PROPERTY, PLANT AND EQUIPMENT (continued)**

(\$000's)	Assets Under Construction	Land and Buildings	Plant Equipment, Pipelines, Landfill Cells and Disposal Wells	Rental and Mobile Equipment	Office and Computer Equipment	Total
<b>Cost:</b>						
<b>December 31, 2018</b>	68,126	147,877	1,352,233	141,637	48,341	1,758,214
Capital leases reclassified	-	-	-	(28,789)	(273)	(29,062)
Additions from business acquisitions (Note 4)	-	168	29,099	90	1,981	31,338
Additions <sup>(1)</sup>	121,928	8,038	122,449	2,225	2,172	256,812
Change in asset retirement cost	-	-	7,125	-	-	7,125
Disposals	-	(645)	(10,349)	(8,849)	(2,238)	(22,081)
Transfers <sup>(1)</sup>	(135,808)	-	-	-	-	(135,808)
Foreign exchange effect	(451)	(951)	(6,950)	(421)	(110)	(8,883)
<b>December 31, 2019</b>	53,795	154,487	1,493,607	105,893	49,873	1,857,655
Additions <sup>(1)</sup>	73,452	2,989	85,133	591	14,633	176,798
Change in asset retirement cost	-	-	13,058	-	-	13,058
Disposals	(5,056)	(2,484)	(22,416)	(2,954)	(287)	(33,197)
Transfers <sup>(1)</sup>	(102,206)	-	64	(564)	-	(102,706)
Foreign exchange effect	617	(454)	(5,135)	(31)	(67)	(5,070)
<b>December 31, 2020</b>	20,602	154,538	1,564,311	102,935	64,152	1,906,538
<b>Accumulated depreciation and depletion:</b>						
<b>December 31, 2018</b>	-	(31,891)	(430,126)	(64,486)	(28,329)	(554,832)
Capital leases reclassified	-	-	-	11,140	238	11,378
Depreciation and depletion	-	(4,722)	(77,022)	(8,694)	(6,224)	(96,662)
Disposals	-	246	4,498	5,438	2,218	12,400
Foreign exchange effect	-	198	2,283	310	45	2,836
<b>December 31, 2019</b>	-	(36,169)	(500,367)	(56,292)	(32,052)	(624,880)
Depreciation and depletion	-	(6,410)	(93,093)	(6,774)	(6,030)	(112,307)
Impairment (Note 9)	(2,202)	(4,183)	(26,999)	(853)	(164)	(34,401)
Disposals	-	336	14,888	2,475	277	17,976
Foreign exchange effect	-	140	2,330	271	96	2,837
<b>December 31, 2020</b>	(2,202)	(46,286)	(603,241)	(61,173)	(37,873)	(750,775)
<b>Net book value:</b>						
<b>December 31, 2020</b>	18,400	108,252	961,070	41,762	26,279	1,155,763
<b>December 31, 2019</b>	53,795	118,318	993,240	49,601	17,821	1,232,775

<sup>(1)</sup> Costs related to assets under construction are transferred to property, plant and equipment and classified by nature of the asset when available for use in the manner intended by management.

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**7. RIGHT-OF-USE ASSETS**

(\$000's)	Buildings	Rail Cars	Vehicles & Equipment	Other	Total
<b>Cost</b>					
IFRS 16 transition entry <sup>(1)</sup>	18,672	11,892	248	2,708	33,520
Reclass capital leases	-	-	28,789	273	29,062
<b>January 1, 2019</b>	<b>18,672</b>	<b>11,892</b>	<b>29,037</b>	<b>2,981</b>	<b>62,582</b>
Additions	8,025	2,433	11,184	579	22,221
Disposals	(63)	(3,244)	(4,525)	-	(7,832)
Foreign exchange effect	(11)	-	(142)	-	(153)
<b>December 31, 2019</b>	<b>26,623</b>	<b>11,081</b>	<b>35,554</b>	<b>3,560</b>	<b>76,818</b>
Additions	435	23	3,557	-	4,015
Disposals	(423)	(2,498)	(5,879)	(1,018)	(9,818)
Foreign exchange effect	(11)	-	(13)	-	(24)
<b>December 31, 2020</b>	<b>26,624</b>	<b>8,606</b>	<b>33,219</b>	<b>2,542</b>	<b>70,991</b>
<b>Accumulated depreciation</b>					
Reclass capital leases <sup>(1)</sup>	-	-	(11,140)	(238)	(11,378)
<b>January 1, 2019</b>	<b>-</b>	<b>-</b>	<b>(11,140)</b>	<b>(238)</b>	<b>(11,378)</b>
Depreciation	(6,177)	(5,888)	(8,170)	(27)	(20,262)
Disposals	32	1,280	3,248	-	4,560
Foreign exchange effect	(47)	-	(67)	-	(114)
<b>December 31, 2019</b>	<b>(6,192)</b>	<b>(4,608)</b>	<b>(16,129)</b>	<b>(265)</b>	<b>(27,194)</b>
Depreciation	(6,087)	(2,724)	(9,631)	(10)	(18,452)
Disposals	354	1,682	4,511	-	6,547
Foreign exchange effect	17	-	90	-	107
<b>December 31, 2020</b>	<b>(11,908)</b>	<b>(5,650)</b>	<b>(21,159)</b>	<b>(275)</b>	<b>(38,992)</b>
<b>Net book value:</b>					
<b>December 31, 2020</b>	<b>14,716</b>	<b>2,956</b>	<b>12,060</b>	<b>2,267</b>	<b>31,999</b>
<b>December 31, 2019</b>	<b>20,431</b>	<b>6,473</b>	<b>19,425</b>	<b>3,295</b>	<b>49,624</b>

<sup>(1)</sup> As at January 1, 2019, Secure adopted International Financial Reporting Standard 16, Leases ("IFRS 16"), resulting in the reclassification of capital leases previously presented with Property, plant and equipment to right-of-use assets.

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**8. INTANGIBLE ASSETS**

(\$000's)	Non-competition agreements	Customer relationships	Licenses & Patents	Total
<b>Cost:</b>				
<b>December 31, 2018</b>	<b>71,221</b>	<b>117,543</b>	<b>24,597</b>	<b>213,361</b>
Additions through business acquisitions (Note 4)	-	17,616	-	17,616
Additions	-	-	537	537
Disposals	(1)	-	-	(1)
Foreign exchange effect	(251)	(781)	-	(1,032)
<b>December 31, 2019</b>	<b>70,969</b>	<b>134,378</b>	<b>25,134</b>	<b>230,481</b>
Additions	-	-	922	922
Foreign exchange effect	(125)	(470)	(13)	(608)
<b>December 31, 2020</b>	<b>70,844</b>	<b>133,908</b>	<b>26,043</b>	<b>230,795</b>
<b>Accumulated amortization:</b>				
<b>December 31, 2018</b>	<b>(70,122)</b>	<b>(92,300)</b>	<b>(14,681)</b>	<b>(177,103)</b>
Amortization	(431)	(11,378)	(2,834)	(14,643)
Disposals	1	-	365	366
Foreign exchange effect	251	312	7	570
<b>December 31, 2019</b>	<b>(70,301)</b>	<b>(103,366)</b>	<b>(17,143)</b>	<b>(190,810)</b>
Amortization	(668)	(5,017)	(881)	(6,566)
Impairment (Note 9)	-	(7,830)	(7,893)	(15,723)
Foreign exchange effect	125	158	14	297
<b>December 31, 2020</b>	<b>(70,844)</b>	<b>(116,055)</b>	<b>(25,903)</b>	<b>(212,802)</b>
<b>Net book value:</b>				
<b>December 31, 2020</b>	<b>-</b>	<b>17,853</b>	<b>140</b>	<b>17,993</b>
<b>December 31, 2019</b>	<b>668</b>	<b>31,012</b>	<b>7,991</b>	<b>39,671</b>

## **9. IMPAIRMENT**

The Corporation's non-current assets are tested for impairment in accordance with the accounting policy stated in note 2(h). Regardless if any indicators of impairment are present, the Corporation must complete an annual impairment assessment for any CGU, or group of CGUs, whose net carrying value includes indefinite-life intangible assets or an allocation of goodwill. SECURE completed this review as at December 31, 2020 for two CGUs carrying goodwill within the Environmental and Fluid Management segment. No impairment was recorded as a result of these impairment tests.

The Corporation also assesses at each reporting date whether there is an indication that an asset or CGU may be impaired. The impact of macroeconomic conditions, including the COVID-19 pandemic, on crude oil and liquids demand and supply fundamentals and the resulting commodity pricing outlook resulted in a significant pullback in customer activity levels in 2020 as producers managed cash flows. Near-term crude oil and liquids pricing at December 31, 2020 remained well below recent year averages and considerable uncertainty existed with respect to short and medium-term activity levels. SECURE determined that triggers existed in 2020 for the following CGUs:

- Rail facilities
- Drilling and production services
- Canadian processing and disposal facilities
- North Dakota operations
- Landfills
- Water management

Excluding rail facilities, the Corporation used the value in use method to determine the recoverable amount of these CGUs for the purpose of impairment testing, determined by using discounted cash flows. Inherent in the value in use approach are key assumptions that are subjective and represent reasonable estimates with respect to factors affecting operations including economic, operational and market conditions. These conditions are sensitive to change and could affect fair value.

The cash flow projections included specific estimates for five years and a terminal valuation. Cash flows for the next fiscal year are based on the Corporation's latest forecast and budget. The forecast is based on past performance as well as management's assessment of economic conditions, including commodity prices, expected market trends, and growth strategy. For future years not included in the latest forecast or budget, assumptions are made based on past performance, anticipated oil and gas industry activity, and the unique market characteristics of the CGU. The terminal valuation is determined based on management's estimate of the long-term compound growth rate of annual net earnings excluding depreciation, depletion, amortization, accretion, share-based compensation, interest, and taxes. The discount rate used to calculate the net present value of cash flows is based on estimates of the Corporation's weighted average cost of capital, adjusted to consider the nature of the assets being valued and their specific risk profile. Changes in the general economic environment could result in significant changes to this estimate. The Corporation used after-tax discount rates ranging from 13.5% - 16.3% (pre-tax discount rate range of 15.4% - 24.3%) and a terminal growth rate of 2%.

As a result of the impairment testing performed, the recoverable amount of the drilling and production services CGU was estimated to be \$120.0 million, resulting in \$15.7 million recognized as impairment for the year ended December 31, 2020, against the carrying value of intangible assets. The recoverable amounts of the remaining CGUs tested were determined to be in excess of their carrying values. The estimated value in use for all CGUs are sensitive to changes in the discount rate. An increase of 1% in the after-tax discount rate would have increased the impairment by \$11.0 million. A decrease of 1% in the after-tax discount rate would have decrease the impairment by \$9.8 million.

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**9. IMPAIRMENT (continued)**

For the rail facilities CGU, the Corporation determined the recoverable amount using the fair value less costs of disposal method. The Corporation utilized Level 3 inputs, including internal estimates based on market indicators and onsite assessments in determining FVLCS as there has been limited market transactions with assets of this nature. Internal estimates are subject to significant judgment; assumptions that were valid at the time of the impairment test may change significantly when new information becomes available. As a result of the impairment testing performed, the recoverable amount of the rail assets was estimated to be \$20.0 million, resulting in \$31.4 million recognized as impairment for the year ended December 31, 2020, against the carrying value.

The Corporation also completed testing of certain equipment withdrawn from active use in the year where it had not been repurposed or otherwise deployed. As a result, an additional \$3.0 million was recognized for the year ended December 31, 2020, against the carrying value of property, plant and equipment.

The macro economic conditions present at December 31, 2020, continue to present considerable uncertainty as to the level of exploration and development activity that will be undertaken by the Corporation's customers and increases the estimation uncertainty associated with the future cash flows and fair value less cost to disposal estimates used in the impairment tests. Assumptions that are valid at the time of preparing the cash flow models may change significantly when new information becomes available.

**10. LONG-TERM BORROWINGS**

(\$000's)	Dec 31, 2020	Dec 31, 2019
Amount drawn on first lien credit facility	269,463	324,322
Amount drawn on second lien credit facility	130,000	130,000
Unamortized transaction costs	(394)	(908)
<b>Total long-term borrowings</b>	<b>399,069</b>	<b>453,414</b>
Credit facilities	805,000	805,000
Amount drawn on first and second lien credit facilities	(399,463)	(454,322)
Letters of credit	(39,993)	(38,562)
<b>Available amount <sup>(1)</sup></b>	<b>365,544</b>	<b>312,116</b>

<sup>(1)</sup> Subject to covenant restrictions discussed below.

SECURE's credit facilities at December 31, 2020, consist of a \$600 million first lien credit facility ("First Lien Facility") with a syndicate of ten financial institutions and chartered banks (with a maturity date of June 30, 2023), a \$130 million second lien credit facility ("Second Lien Facility") with a syndicate of three financial institutions and Canadian Chartered banks (with a maturity date of July 31, 2022), and a \$75 million bilateral Letter of Credit Facility ("LC Facility") with a syndicate of two financial institutions and Chartered banks (collectively, the "Credit Facilities").

The First Lien Facility consists of a four-year \$565 million revolving credit facility and a \$35 million revolving operating facility with a maturity date of June 30, 2023. The First Lien Facility also includes an accordion feature, which, if exercised and approved by the Corporation's lenders, would increase the First Lien Facility by \$100 million. The First Lien Facility is secured by a \$1 billion floating charge debenture and negative pledge from the Corporation creating a security interest over all of the Corporation's present and after acquired personal property and floating charge over all of its present and after acquired real property.

The First Lien Facility is subject to customary terms, conditions and covenants, including the following financial covenants:

- the Senior Debt to EBITDA ratio is not to exceed 3.5 to 1.0;
- the Total Debt to EBITDA ratio is not to exceed 5.0 to 1.0; and
- the EBITDA to Financing Charges ratio is not less than 2.5 to 1.0.

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**10. LONG-TERM BORROWINGS (continued)**

Senior Debt is defined in the lending agreement to include amounts drawn under the First Lien Facility and finance leases entered into by the Corporation as defined by IAS 17, less cash balances in excess of \$5 million. Total Debt includes Senior Debt plus amounts drawn under the Corporation's Second Lien Facility. Should the Corporation issue any unsecured notes in the future, Total Debt would also include the principal amount of the notes. EBITDA is defined in the lending agreement as trailing twelve months earnings before interest, taxes, depreciation, depletion and amortization, and is adjusted for non-recurring losses, any non-cash impairment charges and any other non-cash charges, and acquisitions on a pro-forma basis. Financing Charges are defined to include interest expense on Total Debt.

The Corporation also covenants the following:

- the aggregate principal amount of unsecured notes, if any, will not exceed \$500 million; and
- the aggregate principal amount of any unsecured notes, principal amount outstanding under the First Lien Facility and the principal amount outstanding under second lien credit facility will not exceed \$1 billion.

The Corporation manages its First Lien Facility through a combination of bankers' acceptance loans and US dollar London Inter-bank Offered Rate ("LIBOR") loans. During the year ended December 31, 2020, concurrent with the drawdown of US dollar LIBOR loans, the Corporation entered into short-term cross currency swaps ("CCS") to fix the foreign exchange on the US dollar loan amounts for purposes of interest and principal repayments. At December 31, 2020, the Corporation had drawn US\$200.7 million, fixed at notional amounts of \$257.6 million through various CCS:

(\$000's)	Amount Drawn	Notional Amount
December 11, 2020 - January 8, 2021	US 65,000	84,000
December 18, 2020 - January 15, 2021	US 60,800	77,600
December 24, 2020 - January 22, 2021	US 17,900	23,000
December 31, 2020 - January 29, 2021	US 57,000	73,000
<b>Total cross currency swaps</b>	<b>US 200,700</b>	<b>257,600</b>

Amounts borrowed under the First Lien Facility bear interest at the Corporation's option of either the Canadian prime rate plus 0.45% to 2.00% or the banker acceptance or LIBOR rate plus 1.45% to 3.00%, depending, in each case, on the ratio of senior funded debt to EBITDA.

The Second Lien Facility is a four year plus one month \$130 million term credit facility with a maturity date of July 31, 2022. The Second Lien Facility is subject to customary terms, conditions and covenants, including financial covenants consistent with the First Lien Facility. Interest on the Second Lien Facility has been fixed at 5.5% through the use of interest rate swaps. At December 31, 2020, the full amount of the \$130 million Second Lien Facility was drawn.

SECURE also has a \$75 million bilateral Letter of Credit Facility ("LC Facility") with two major financial institutions. The Corporation has \$40.0 million of letters of credit issued against the LC Facility at December 31, 2020.

At December 31, 2020 and 2019, the Corporation was in compliance with all financial covenants contained in the lending agreements. The following table outlines the Corporation's covenant ratios as at December 31, 2020 and 2019.

	Dec 31, 2020	Dec 31, 2019	Covenant
Senior debt to EBITDA	2.2	2.0	3.5
Total debt to EBITDA	3.2	2.8	5.0
Interest coverage	6.4	7.4	2.5

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**11. ASSET RETIREMENT OBLIGATIONS**

(\$000's)	Dec 31, 2020	Dec 31, 2019
<b>Balance - beginning of year</b>	<b>94,392</b>	90,685
Arising during the year through acquisitions and development activities	2,317	4,273
Revisions during the year	(1,605)	8,125
Accretion	1,084	1,791
Change in discount rate	12,045	(6,703)
Asset retirement obligations incurred	(123)	(2,855)
Foreign exchange effect	(160)	(924)
<b>Balance - end of year</b>	<b>107,950</b>	<b>94,392</b>
Current portion	3,294	3,060
Non-current portion	104,656	91,332

The Corporation's asset retirement obligations were estimated either by a third-party specialist or management based on the Corporation's estimated costs to remediate, reclaim and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at December 31, 2020 to be \$108.0 million (December 31, 2019: \$94.4 million) based on a total future liability of \$118.2 million as at December 31, 2020 (December 31, 2019: \$112.0 million). The Corporation used a risk-free interest rate ranging from 0.2% to 1.2% (December 31, 2019: 1.5% to 1.9%) and an inflation rate of 1.5% to calculate the net present value of its asset retirement obligations at December 31, 2020 (December 31, 2019: 1.4%).

The Corporation expects to incur the majority of the costs over the next 25 years. \$3.3 million classified as a current liability at December 31, 2020 is expected to be incurred within the next 12 months and relates to the capping of a number of the Corporation's landfill cells and retirement of certain wells.

The Corporation has issued \$27.5 million (December 31, 2019: \$35.3 million) of performance bonds and \$9.5 million (December 31, 2019: \$10.2 million) for letters of credit issued by the Corporation's lenders in relation to the Corporation's asset retirement obligations.

**12. LEASE LIABILITIES**

The Corporation incurs lease payments related to corporate and field offices, warehouses, rail cars, vehicles, equipment and surface leases. Leases are entered into and exist in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Corporation has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments, except for short-term leases and leases of low-value assets which have been charged to cost of sales and general and administrative expenses in the consolidated statements of comprehensive loss.

(\$000's)	Dec 31, 2020	Dec 31, 2019
<b>Balance - beginning of year</b>	<b>49,333</b>	<b>51,507</b>
Additions	2,336	19,895
Interest expense	2,038	2,316
Principal and interest payments	(18,624)	(23,836)
Foreign exchange effect	223	(549)
<b>Balance - end of year</b>	<b>35,306</b>	<b>49,333</b>
Current portion	10,235	18,030
Non-current portion	25,071	31,303

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**13. ISSUED CAPITAL**

**Authorized**

Unlimited number of common voting shares of no par value.

Unlimited number of preferred shares of no par value, none of which have been issued.

	Number of Common Shares	Amount (\$000's)
<b>Balance at December 31, 2018</b>	159,274,147	1,031,189
RSUs and PSUs exercised	2,579,403	-
Transfer from reserves in equity	-	21,508
Shares repurchased and cancelled under NCIB	(5,393,392)	(34,707)
<b>Balance at December 31, 2019</b>	<b>156,460,158</b>	<b>1,017,990</b>
RSUs and PSUs exercised	2,576,715	-
Transfer from reserves in equity	-	21,941
Shares repurchased and cancelled under NCIB	(336,500)	(1,531)
<b>Balance at December 31, 2020</b>	<b>158,700,373</b>	<b>1,038,400</b>

The Corporation declared dividends to holders of common shares for the year ended December 31, 2020 of \$17.3 million (2019: \$43.0 million). Following the June 2020 dividend, the Corporation moved to a quarterly dividend, with the first payment of \$0.0075 (0.75 cents) per common share paid on October 15, 2020, to shareholders of record on October 1, 2020.

Subsequent to December 31, 2020, the Corporation paid dividends to holders of common shares of record on January 1, 2021 in the amount of \$0.0075 per common share for the dividend declared December 15, 2020.

In May 2020, SECURE renewed the previous NCIB which ended on May 27, 2020. Under the renewed NCIB, SECURE may purchase for cancellation up to a maximum of 10,796,069 common shares of the Corporation from May 28, 2020, to May 27, 2021, or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or terminated at the Corporation's election. In total, 3,874,500 common shares were repurchased and cancelled under the prior NCIB, representing 48% of the maximum number. The following table outlines the shares repurchased and cancelled during the twelve months ended December 31, 2020 and 2019.

	Twelve months ended Dec 31,	
	2020	2019
Shares repurchased and cancelled under the NCIB	336,500	5,393,392
Total cost	\$ 1,531	\$ 34,707

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**14. SHARE-BASED COMPENSATION PLANS**

The aggregate number of common shares issuable pursuant to the exercise of options, RSUs and PSUs granted under the Plans shall not exceed seven percent of the issued and outstanding common shares of SECURE calculated on a non-diluted basis at the time of the grant.

At December 31, 2020, a total of 11.1 million common shares were reserved for issuance under the Corporation's Option Plan and UIP.

**Share Option Plan**

Options issued under the Option 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. In 2019, SECURE eliminated the Corporation's Option Plan, removing the Corporation's ability to issue new stock options. Outstanding options remain subject to the terms and conditions of the plan in effect at the time of the grant.

A summary of the status of the Corporation's share options is as follows:

	December 31, 2020		December 31, 2019	
	Outstanding options	Weighted average exercise price (\$)	Outstanding options	Weighted average exercise price (\$)
Balance - beginning of year	2,078,586	9.25	4,303,023	13.75
Expired	(1,645,253)	9.51	(1,348,748)	18.85
Forfeited	(370,000)	7.82	(875,689)	15.74
<b>Balance - end of period</b>	<b>63,333</b>	<b>10.80</b>	<b>2,078,586</b>	<b>9.25</b>
<b>Exercisable - end of period</b>	<b>63,333</b>	<b>10.80</b>	<b>2,061,920</b>	<b>9.23</b>

All outstanding options at December 31, 2020 will expire in 2021.

**Unit Incentive Plan**

The Corporation's UIP allows the Corporation to issue RSUs and PSUs that are redeemable for the issuance of common shares. Unless otherwise directed by the Board of Directors, one third of each RSU grant vests and is redeemed on each of the first, second, and third anniversaries of the date of grant. RSUs terminate and cease to be redeemable on December 31<sup>st</sup> of the third year following the year in which the grant of the RSU was made.

The Corporation issues PSUs to senior management and key employees. The Board of Directors shall designate, at the time of grant, the date or dates which all or a portion of the PSUs shall vest and any performance conditions to such vesting.

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**14. SHARE-BASED COMPENSATION PLANS (continued)**

**DSU Plan**

The Corporation has a DSU plan for non-employee members of the Board of Directors. Under the terms of the plan, DSUs awarded will vest immediately and will be settled in cash in the amount equal to the previous five day's weighted average price of the Corporation's common shares on the date the members of the Board of Directors specify upon the holder resigning from the Board of Directors.

The following table summarizes the units outstanding under the UIP and DSU Plan:

	RSUs	PSUs	DSUs
<b>Balance at December 31, 2018</b>	<b>3,567,658</b>	<b>2,372,260</b>	<b>367,490</b>
Granted	1,612,492	968,964	103,626
Reinvested dividends	146,147	107,252	19,526
Redeemed for common shares	(1,684,177)	(895,226)	-
Forfeited	(491,361)	(84,569)	-
<b>Balance at December 31, 2019</b>	<b>3,150,759</b>	<b>2,468,681</b>	<b>490,642</b>
Granted	1,126,579	1,279,817	182,287
Reinvested dividends	141,502	138,712	26,262
Redeemed for common shares	(1,570,285)	(1,006,430)	-
Forfeited	(553,041)	(379,431)	-
<b>Balance at December 31, 2020</b>	<b>2,295,514</b>	<b>2,501,349</b>	<b>699,191</b>

The fair value of the RSUs, PSUs and DSUs issued is determined using the five day volume weighted average share price at the grant date.

As at December 31, 2020, \$2.1 million (2019: \$3.3 million) was included in accounts payable and accrued liabilities for outstanding DSUs and share-based compensation included in the statements of comprehensive loss relating to DSUs was a recovery of \$0.1 million for the year ended December 31, 2020 (2019: recovery of \$0.1 million).

**Employee Share Ownership Plan**

The Employee Share Ownership Plan ("ESOP") allows employees to contribute up to 20% of their base salaries to purchase common shares of SECURE. The Corporation will match contributions, up to a maximum of 5%. Shares purchased for both the employee contributions and Corporation's matching contributions are purchased on the open market. Effective April 1, 2020, the Corporation suspended employer matching under the ESOP.

The Corporation's matching expense for the year ended December 31, 2020 was \$0.9 million (2019: \$3.2 million) and is recognized in either cost of sales or general and administrative expenses on the consolidated statements of comprehensive loss.

**15. PER SHARE AMOUNTS**

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

	For the twelve months ended	
	Dec 31, 2020	Dec 31, 2019
Weighted average number of shares - basic	158,561,369	158,984,770
Effect of dilution:		
Options, RSUs, and PSUs	-	2,832,762
Weighted average number of shares - basic and diluted	158,561,369	161,817,532

The effect of all options, RSUs and PSUs for the year ended December 31, 2020 has been excluded as they are considered to be anti-dilutive.

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**16. INCOME TAXES**

(\$000's)	Dec 31, 2020	Dec 31, 2019
<b>Current income tax expense (recovery)</b>		
Current year	1,156	50
Adjustments related to prior years	(5)	(209)
	<b>1,151</b>	<b>(159)</b>
<b>Deferred income tax recovery</b>		
Current year	(23,657)	(571)
Adjustments related to prior years	(148)	(184)
	<b>(23,805)</b>	<b>(755)</b>
<b>Total income tax recovery</b>	<b>(22,654)</b>	<b>(914)</b>

The income tax expense (recovery) differs from that expected by applying the combined federal and provincial income tax rates of 24.9% (2019: 26.6%) to loss before tax for the following reasons:

(\$000's)	Dec 31, 2020	Dec 31, 2019
Loss before tax	(109,841)	(723)
Combined federal and provincial income tax rate	24.9%	26.6%
Expected combined federal and provincial income tax recovery	(27,350)	(193)
Share-based compensation	2,524	4,952
Non-deductible expenses	150	1,083
Tax rate changes and foreign rate differential	1,679	(6,738)
Loss from non-controlling interest	493	375
Adjustments related to prior years	(150)	(393)
<b>Total income tax recovery</b>	<b>(22,654)</b>	<b>(914)</b>

In the second quarter of 2019, the Alberta government enacted a decrease in the Alberta corporate income tax rate from 12% to 11% effective July 1, 2019, with a further reduction of 1% on January 1<sup>st</sup> for each of the years 2020, 2021 and 2022 bringing the provincial rate to 8%. As a result, the Corporation revalued its deferred income tax balances, resulting in a deferred income tax recovery of \$6.7 million. In the fourth quarter of 2020, the Alberta government enacted Bill 35 which reduces the Alberta corporate income tax rate to 8% effective July 1, 2020. Previously, the Alberta corporate tax rate was not scheduled to decrease to 8% until January 1, 2022.

The significant components of the Corporation's deferred income tax assets (liabilities) are comprised of the following:

(\$000's)	Dec 31, 2020	Dec 31, 2019
<b>Movement in deferred income tax balances during the year</b>		
Net deferred tax liabilities at beginning of year	(48,690)	(49,460)
Recognized in profit or loss	23,805	755
Foreign exchange adjustments and other	8	15
<b>Net deferred income tax liabilities</b>	<b>(24,877)</b>	<b>(48,690)</b>

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**16. INCOME TAXES (continued)**

Included above in the deferred tax assets are \$100.1 million (2019: \$116.4 million) of gross non-capital losses that can be carried forward to reduce taxable income in future years. The gross non-capital losses in the U.S. are \$42.7 million (2019: \$43.2 million) and expire between 2033 and 2040. The gross non-capital losses in Canada are \$57.4 million (2019: \$73.2 million) and expire between 2030 and 2039. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. The recognition involves the Corporation assessing when the deferred tax assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable income available to offset the tax assets when they do reverse. This assessment requires assumptions and assessments regarding future taxable income and is therefore inherently uncertain.

The movement in the Corporation's deferred tax balances during the years ended December 31, 2020 and 2019 are as follows:

(\$000's)	Dec 31, 2020	Dec 31, 2019
<b>Deferred income tax balances:</b>		
Non-capital loss carry forwards	(24,282)	(28,966)
Property, plant and equipment	86,119	110,822
Goodwill and intangible assets	(23,673)	(20,920)
Asset retirement obligations	(12,672)	(10,350)
Share issue costs	-	(345)
Other	(615)	(1,551)
<b>Net deferred income tax liabilities</b>	<b>24,877</b>	<b>48,690</b>

**17. EXPENSES**

The below table summarizes the disaggregation of expenses for the years ended December 31, 2020 and 2019:

(\$000's)	General and Administrative Expense		Total
For the twelve months ended December 31, 2020	Cost of Sales	Expense	
Employee compensation and benefits	69,639	30,623	100,262
Share-based compensation	3,486	6,908	10,394
Depreciation, depletion and amortization	132,134	11,984	144,118
Impairment	50,124	-	50,124
Oil purchase/resale services expense	1,363,982	-	1,363,982
Other <sup>(1)</sup>	206,859	16,456	223,315
<b>Total</b>	<b>1,826,224</b>	<b>65,971</b>	<b>1,892,195</b>

(\$000's)	General and Administrative Expense		Total
For the twelve months ended December 31, 2019	Cost of Sales	Expense	
Employee compensation and benefits	112,550	52,445	164,995
Share-based compensation	5,876	13,573	19,449
Depreciation, depletion and amortization	119,838	12,414	132,252
Oil purchase/resale services expense	2,440,071	-	2,440,071
Other <sup>(1)</sup>	249,452	22,865	272,317
<b>Total</b>	<b>2,927,787</b>	<b>101,297</b>	<b>3,029,084</b>

<sup>(1)</sup> Other includes the remaining expenses not listed separately in the table above. The majority of these expenses are cost of products, repairs and maintenance, trucking and disposal and utilities, net of tariff fees associated with oil pipelines.

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**17. EXPENSES (continued)**

During the year ended December 31, 2020, the Corporation qualified for the Canada Emergency Wage Subsidy, assistance offered by the Canadian Federal Government for qualifying entities impacted by the consequences of the novel coronavirus (“COVID-19”) pandemic to keep or rehire their employees. SECURE recorded \$16.6 million and \$6.5 million against cost of sales and general and administrative expenses, respectively, for the year ended December 31, 2020.

During the year ended December 31, 2020, the Corporation recorded \$16.4 million of restructuring costs, primarily associated with severance and related costs as a result of measures taken to reduce the Corporation’s fixed cost structure to align with industry activity declines.

**18. FINANCIAL INSTRUMENTS**

***Non-derivative financial instruments***

Non-derivative financial instruments consist of cash, accounts receivable and accrued receivables, accounts payable and accrued liabilities, and long-term borrowings.

The carrying value of cash, accounts receivable and accrued receivables, and accounts payable and accrued liabilities is estimated to be their fair value. This is due to the fact that transactions which give rise to these balances arise in the normal course of trade, have industry standard payment terms and are of a short-term nature.

The Corporation’s long term-borrowings are recorded at amortized cost using the effective interest rate method (“EIR”). 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 interest, accretion and finance costs on the consolidated statements of comprehensive loss. The fair value of long-term borrowings is based on pricing sourced from market data. The carrying value of long-term borrowings (excluding transaction costs) at December 31, 2020 and 2019 of \$399.5 million and \$454.3 million, respectively, approximates fair values due to the variable interest rates applied to these facilities, which approximate market interest rates.

The table below reconciles the movements of financial liabilities to cash flows arising from financing activities:

<i>(\$000's)</i>	<b>Lease Liabilities</b>	<b>Long-Term Borrowings</b>
<b>January 1, 2019</b>	<b>15,564</b>	<b>412,919</b>
<b>Changes from financing cash (outflows) inflows:</b>		
Payment of lease liabilities	(23,836)	-
Draw on credit facilities	-	40,872
<b>Liability related changes:</b>		
Adoption of IFRS 16	35,943	-
Lease additions	19,895	-
Interest expense	2,316	-
Change in unamortized financing costs	-	(377)
Foreign exchange effect	(549)	-
<b>December 31, 2019</b>	<b>49,333</b>	<b>453,414</b>
<b>Changes from financing cash (outflows) inflows:</b>		
Payment of lease liabilities	(18,624)	-
Repayment on credit facilities	-	(54,859)
<b>Liability related changes:</b>		
Lease additions	2,336	-
Interest expense	2,038	-
Change in unamortized financing costs	-	514
Foreign exchange effect	223	-
<b>December 31, 2020</b>	<b>35,306</b>	<b>399,069</b>

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**18. FINANCIAL INSTRUMENTS (continued)**

*Derivative financial instruments*

The Corporation periodically enters into derivative contracts in order to manage exposure to commodity price risk associated with sales, purchases and inventories of crude oil, natural gas liquids and petroleum products. The Corporation may also enter into derivative contracts to manage risk associated with foreign exchange movements on its estimated future net cash inflows denominated in U.S. dollars and interest rate risk. These risk management derivatives are a component of the Corporation's overall risk management program and are captured under accounts payable on the statement of financial position.

The following is a summary of the Corporation's risk management contracts outstanding:

(\$000's)	December 31, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Commodity futures	123	187	-	83
Commodity swaps	47	36	-	-
Commodity options	121	147	79	22
Foreign currency forwards	109	-	336	-
Interest rate swaps	-	4,042	-	3,128
	<b>400</b>	<b>4,412</b>	<b>415</b>	<b>3,233</b>

The derivative financial instruments noted above are measured using Level 2 inputs. There were no transfers between levels in the hierarchy in the year ended December 31, 2020 (2019: nil).

The changes in the fair value of the Corporation's risk management contracts are as follows:

(\$000's)	Commodity Contracts	Foreign Currency Contracts	Interest Rate Swaps	Total
<b>Fair value of contracts outstanding at December 31, 2018</b>	<b>4,341</b>	<b>(68)</b>	<b>1,475</b>	<b>5,748</b>
Changes in fair value during the year	(4,184)	404	(4,603)	(8,383)
Foreign exchange effect	(183)	-	-	(183)
<b>Fair value of contracts outstanding at December 31, 2019</b>	<b>(26)</b>	<b>336</b>	<b>(3,128)</b>	<b>(2,818)</b>
Changes in fair value during the year	(56)	(227)	(914)	(1,197)
Foreign exchange effect	3	-	-	3
<b>Fair value of contracts outstanding at December 31, 2020</b>	<b>(79)</b>	<b>109</b>	<b>(4,042)</b>	<b>(4,012)</b>

The impact of the movement in fair value of commodity derivative financial instruments has been included in revenue. The impact of the movement in fair value of foreign currency derivative financial instruments and interest rate derivative financial instruments have been included in interest, accretion and finance costs.

**18. FINANCIAL INSTRUMENTS (continued)**

***Risk Management***

The Corporation is exposed to a number of different risks arising from financial instruments. These risk factors include market risks (commodity price risk, foreign currency risk and interest rate risk), credit risk, and liquidity risk.

**a) Market Risk**

Market risk is the risk or uncertainty arising from market price movements and their impact on the future performance of the business.

***i) Commodity price risk***

The Corporation is exposed to changes in the price of crude oil, natural gas liquids, and oil related products, such as inventory purchased as base stock for drilling fluids. 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 including market access. 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. As part of the Corporation's fluid management business, the Corporation purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items.

The Corporation may use crude oil and NGL priced futures, options and swaps to manage the exposure to these commodities' price movements. These derivative financial instruments are not generally used for speculative positions and are not designated as hedges.

The following table summarizes the impact to net income from the Corporation's outstanding financial and commodity derivative contracts resulting from a 10% change in crude oil prices, leaving all other variables constant.

(\$000's)	Dec 31, 2020	Dec 31, 2019
Favourable 10% change	5	(15)
Unfavourable 10% change	(5)	15

The Corporation's profit or loss is also exposed to various risks from its physical oil purchase and resale trading activities. These risks depend 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; disagreements over terms of deals and/or contracts; changes in pipeline operating specifications; and pipeline apportionment. These risks are mitigated by the fact that the Corporation trades physical volumes, and the volumes are typically traded over a short period. 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 crude oil buy contracts, offset against the physical deliveries of all crude oil sales contracts. The open position is subject to commodity price risk. As a result, the Corporation's strategy is to reduce all open positions for any given month. The Corporation does hold open positions; however, these positions are closed within a relatively short period after the production month and therefore the overall exposure to the Corporation is significantly reduced. At December 31, 2020, the Corporation's open position was not significant.

**18. FINANCIAL INSTRUMENTS (continued)**

*ii) 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 Corporation also has loans that are considered to form part of the net investment and foreign exchange gains and losses are therefore recognized in the foreign currency translation reserve. The Corporation manages and mitigates foreign currency risk by monitoring exchange rate trends, forecasted economic conditions, and forward currency contracts. Exposure to foreign exchange rate changes is further mitigated using cross currency swaps. The Corporation entered into various CCS to hedge its foreign exchange exposure on U.S. dollar denominated LIBOR loan draws under its First Lien Facility.

The Corporation may also enter into foreign currency forward contracts to manage the foreign currency risk that arises from the purchase and sale of crude oil in the Midstream Infrastructure segment. These derivative financial instruments are not used for speculative purposes and are not designated as hedges.

The following table summarizes the impact to net income resulting from the Corporation's outstanding foreign currency contracts resulting from a 10% change in the Canadian dollar relative to the U.S. dollar, with all other variables held constant.

(\$000's)	Dec 31, 2020	Dec 31, 2019
Favourable 10% change	6	(16)
Unfavourable 10% change	(6)	16

*iii) 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 First Lien credit facility. A 1% increase or decrease is used when management assesses changes in interest rate risk internally. The following table summarizes the impact to net income if interest rates had been 1% higher and lower, with all other variables held constant.

(\$000's)	Dec 31, 2020	Dec 31, 2019
Favourable 1% change	3,415	3,285
Unfavourable 1% change	(3,415)	(3,285)

The Corporation has entered into an interest rate swap to mitigate the Corporation's exposure to interest rate fluctuations. The swap fixes the interest rate at 5.5% on the Second Lien Facility. These derivative financial instruments are not generally used for speculative purposes and are not designated as hedges.

**b) Credit risk**

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

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**18. 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, 2020	Dec 31, 2019
Less than 30 days	74,558	126,041
31 to 60 days	24,340	28,557
61 to 90 days	4,907	12,546
Greater than 90 days	3,186	6,994
	<b>106,991</b>	<b>174,138</b>
Provision for expected credit losses	<b>2,140</b>	1,448

The balance of \$74.6 million under 30 days includes \$35.8 million of crude oil contracts settled as part of the trading activities for December 2020. The entire amount of \$35.8 million is due from numerous counterparties and relates to crude oil payments, which as part of industry practice, are settled within 30 days of the production month. The remainder of accounts receivable and accrued receivables not included in the trade accounts receivable schedule above relates to accrued revenue and other non-trade receivables.

The counterparties noted above are approved by the Corporation's risk management committee in accordance with the Corporation's energy marketing risk 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. Of the receivables relating to crude oil payments, approximately 80% are due from counterparties with a credit rating of B or higher.

The change in the provision for expected credit losses is as follows:

(\$000's)	Dec 31, 2020	Dec 31, 2019
Balance - beginning of year	1,448	1,567
Additional provision for expected credit losses	1,395	184
Bad debts recognized	(696)	(288)
Foreign exchange effect	(7)	(15)
<b>Balance - end of year</b>	<b>2,140</b>	<b>1,448</b>

Management uses a provision matrix based upon historical default rates and forward-looking assumptions to calculate expected credit losses and establish a provision for expected credit losses. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. Management also considers the credit worthiness and past payment history as well as any past due amounts. The Corporation considers all amounts greater than 90 days to be past due. As at December 31, 2020, \$3.2 million (2019: \$7.0 million) of accounts receivable are past due and a provision for expected credit losses of \$2.1 million (2019: \$1.4 million) has been established.

The Corporation is also exposed to credit risk with respect to its cash. However, the risk is minimized as cash is held at major financial institutions. Maximum credit risk is calculated as the total recorded value of cash, and accounts receivable and accrued receivables as at the date of the consolidated statement of financial position.

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**18. FINANCIAL INSTRUMENTS (continued)**

**c) 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, 2020, the Corporation has \$6.8 million in cash and \$330.5 million in capacity on its First Lien Facility (Note 10). The timing of undiscounted cash outflows relating to financial liabilities, including estimated interest payments, are outlined in the table below. Apart from lease liabilities, the undiscounted cash outflows are equal to the carrying value:

(\$000's)	Due within 1 year	Between 1-5 years	Greater than 5 years
Accounts payable and accrued liabilities	137,742	-	1,720
Derivative liability	4,412	-	-
Lease liabilities	10,502	17,782	9,269
Long-term borrowings <sup>(1)</sup>	12,987	416,166	-
	<b>165,643</b>	<b>433,948</b>	<b>10,989</b>

<sup>(1)</sup> Interest on First Lien Facility is estimated using SECURE's average bankers acceptance rate for 2020. Interest on Second Lien Facility is estimated using rates consistent with the interest rate swaps as outlined in Note 10.

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

**19. CAPITAL MANAGEMENT**

The capital structure of the Corporation consists of the following:

(\$000's)	Dec 31, 2020	Dec 31, 2019
Current assets	207,697	314,454
Current liabilities	(157,403)	(210,268)
Amount drawn on credit facilities	399,463	454,322
Shareholders' equity	713,503	812,644
	<b>1,163,260</b>	<b>1,371,152</b>

The Corporation's objective in capital management is to ensure adequate sources of capital are available to carry out its planned capital program, while maintaining operational growth, payment of dividends and stable cash flow so as to sustain the business for the long-term. Management considers the Corporation's current assets less current liabilities, total amounts drawn on debt facilities and shareholders' equity as the components of capital to be managed.

The Corporation's overall capital management strategy remains unchanged from prior periods. Management controls its capital structure through detailed financial and operating budgets and forecasts, as well as established policies and processes over monitoring planned capital and operating expenditures. The forecasts are regularly updated based on various factors that could influence activity levels and cash flows, including, among other things, changes in commodity prices, and drilling, completion and production expectations. In light of recent volatility in commodity prices and higher uncertainty with respect to price forecasts, along with the effect of the COVID-19 pandemic on global crude oil demand, the forecast results, including cash flows, working capital and debt levels, are subject to material changes.

Management will closely monitor changes in the external environment and will continue to adjust the Corporation's operating strategy in a timely manner, maintaining stringent cost controls and reduction initiatives in order to strengthen cash flow and continue the Corporation's stable operation.

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**20. RELATED PARTY DISCLOSURES**

***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 are comprised of its executive officers and the Board of Directors. In addition to the salaries and short-term benefits paid to the executive officers and fees paid to the directors, the Corporation also provides compensation under its share-based compensation plans and ESOP (Note 14).

The compensation related to key management personnel is as follows:

(\$000's)	Dec 31, 2020	Dec 31, 2019
Salaries and short-term employee benefits	7,473	8,235
Share-based compensation	4,838	8,439
	<b>12,311</b>	<b>16,674</b>

**21. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES**

**As at December 31, 2020**

(\$000's)	1 year or less	1-5 years	5 years and thereafter	Total
Crude oil transportation	35,710	122,214	30,722	188,646
Crude oil storage	10,365	41,460	50,962	102,787
Capital commitments	3,264	-	-	3,264
<b>Total contractual obligations</b>	<b>49,339</b>	<b>163,674</b>	<b>81,684</b>	<b>294,697</b>

**Crude oil transportation commitments**

Included in this number are committed crude oil volumes for pipeline throughput at certain of the Corporation's pipeline connected full service terminals. This amount reflects the total payment that would have to be made should the Corporation not fulfill the committed pipeline volumes.

**Crude oil storage commitment**

SECURE has an arrangement for crude oil storage capacity at a major oil hub in western Canada.

**Capital commitments**

The amounts relate to various capital purchases for use in the Corporation's current and future capital projects. All amounts are current and due within one year.

**21. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES (continued)**

**Litigation**

On December 21, 2007, Tervita Corporation ("Tervita") filed a statement of claim (the "claim") in the Court of Queen's Bench of Alberta, (the "Court") against the Corporation and certain of the Corporation's employees who were previously employed by Tervita (collectively, the "SECURE Defendants") alleging the SECURE Defendants breached their employment contracts with Tervita and engaged in other unlawful conduct. A Statement of Defence was filed by the SECURE Defendants on November 10, 2008 denying all of the allegations made against them. The Corporation also filed a counterclaim against Tervita, alleging that Tervita engaged in conduct constituting a breach of the Competition Act (Canada), unlawful interference with the economic relations of the Corporation and conspiracy (the "counterclaim"). This counterclaim includes damages related to the delay of building facilities as a result of the actions of Tervita.

After nearly 12 years of litigation, on December 10, 2019, the claim and counterclaim were amended to \$250.0 million and \$83.0 million, respectively. These claims are scheduled to proceed to trial in 2022.

The matters raised in the claim 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.

## **22. SEGMENT REPORTING**

During 2020, the Corporation realigned its reporting structure to reflect changes in the aggregation of operating segments based on the economic prospects of these operating segments. The results of the Corporation are reported in the following two reportable segments:

1. **Midstream Infrastructure** includes a network of midstream infrastructure assets that includes oil and water pipelines, midstream processing facilities, oil storage terminals, and crude by rail terminals throughout western Canada, North Dakota and Oklahoma. Midstream Infrastructure services include clean oil terminalling and storage, crude oil marketing, pipeline transportation, rail transloading, custom treating of crude oil, produced and waste water disposal, oilfield waste processing, and oil purchase/resale service. The only change to this segment from the audited consolidated financial statements for the year ended December 31, 2019 is the removal of landfills.
2. **Environmental and Fluid Management** includes a network of landfill disposal facilities; onsite abandonment, remediation and reclamation management; a suite of comprehensive environmental management solutions provided by the Corporation to a diversified customer base; and drilling, completion and production fluid operations management for oil and gas producers in western Canada. Environmental and Fluid Management services include secure disposal of oilfield and industrial solid wastes into SECURE's owned or managed landfill network located in western Canada and North Dakota; project assessment and planning; environmental construction projects; demolition and decommissioning; and remediation and reclamation.

These reportable segments of the Corporation have been derived because they are the segments: (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the Corporation's chief operating decision maker, identified as the Corporation's Chairman, President and Chief Executive Officer, to make decisions about resources to be allocated to each segment and assess its performance; and (c) for which discrete financial information is available. The Corporation has aggregated certain operating segments into the above noted reportable segments through examination of the Corporation's performance which is based on the similarity of services and goods provided and economic characteristics exhibited by the operating segments.

The Corporation reports activities not directly attributable to an operating segment under Corporate. Corporate division expenses consist of public company costs, share-based compensation, interest and finance costs, and personnel, office and other administrative costs relating to corporate employees and officers.

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Corporation's consolidated financial statements. Comparative information has been recast to conform to the current segmented reporting information. No changes were implemented with respect to the consolidated data as a result of the recast.

The Corporation disaggregates revenue from contracts with customers by type of service or good to reflect how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The following tables present the financial performance by reportable segment and includes a measure of segment profit or loss regularly reviewed by management for the years ended December 31, 2020 and 2019.

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**22. SEGMENT REPORTING (continued)**

(\$000's)	Midstream Infrastructure	Environmental and Fluid Management	Corporate	Total
<b>Year ended December 31, 2020</b>				
Revenue from services	200,724	258,950	-	459,674
Oil purchase and resale service	1,363,982	-	-	1,363,982
<b>Total revenue</b>	<b>1,564,706</b>	<b>258,950</b>	<b>-</b>	<b>1,823,656</b>
Cost of sales excluding items listed separately below	(1,440,335)	(200,145)	-	(1,640,480)
<b>Segment profit margin</b>	<b>124,371</b>	<b>58,805</b>	<b>-</b>	<b>183,176</b>
G&A expenses excluding items listed separately below	(13,680)	(16,769)	(16,630)	(47,079)
Depreciation, depletion and amortization <sup>(1)</sup>	(98,677)	(40,171)	(5,270)	(144,118)
Share-based compensation <sup>(1)</sup>	-	-	(10,394)	(10,394)
Interest, accretion and finance costs	(770)	(331)	(23,775)	(24,876)
Impairment	(34,401)	(15,723)	-	(50,124)
Restructuring costs and other	(4,089)	(9,492)	(2,845)	(16,426)
<b>Loss before tax</b>	<b>(27,246)</b>	<b>(23,681)</b>	<b>(58,914)</b>	<b>(109,841)</b>

(\$000's)	Midstream Infrastructure	Environmental and Fluid Management	Corporate	Total
<b>Year ended December 31, 2019</b>				
Revenue from services	307,431	305,774	-	613,205
Oil purchase and resale service	2,440,071	-	-	2,440,071
<b>Total revenue</b>	<b>2,747,502</b>	<b>305,774</b>	<b>-</b>	<b>3,053,276</b>
Cost of sales excluding items listed separately below	(2,558,694)	(243,379)	-	(2,802,073)
<b>Segment profit margin</b>	<b>188,808</b>	<b>62,395</b>	<b>-</b>	<b>251,203</b>
G&A expenses excluding items listed separately below	(21,994)	(27,136)	(26,180)	(75,310)
Depreciation, depletion and amortization <sup>(1)</sup>	(79,572)	(47,823)	(4,857)	(132,252)
Share-based compensation <sup>(1)</sup>	-	-	(19,449)	(19,449)
Interest, accretion and finance costs	(1,253)	(549)	(23,113)	(24,915)
<b>Income (loss) before tax</b>	<b>85,989</b>	<b>(13,113)</b>	<b>(73,599)</b>	<b>(723)</b>

<sup>(1)</sup> Depreciation, depletion and amortization and share-based compensation have been allocated to cost of sales and general and administrative expenses on the Consolidated Statements of Comprehensive Loss based on function of the underlying asset or individual to which the charge relates.

(\$000's)	Midstream Infrastructure	Environmental and Fluid Management	Corporate	Total
<b>As at December 31, 2020</b>				
Current assets	106,371	101,326	-	207,697
Property, plant and equipment	987,659	163,565	4,539	1,155,763
Right-of-use assets	15,188	16,811	-	31,999
Intangible assets	17,818	175	-	17,993
Goodwill	-	11,127	-	11,127
Total assets	1,127,036	293,004	4,539	1,424,579
Current liabilities	112,325	45,078	-	157,403
Total liabilities	227,270	84,738	399,068	711,076

(\$000's)	Midstream Infrastructure	Environmental and Fluid Management	Corporate	Total
<b>As at December 31, 2019</b>				
Current assets	186,846	127,608	-	314,454
Property, plant and equipment	1,039,439	187,377	5,959	1,232,775
Right-of-use assets	17,664	20,811	11,149	49,624
Intangible assets	20,490	19,181	-	39,671
Goodwill	-	11,127	-	11,127
Total assets	1,264,439	366,104	17,108	1,647,651
Current liabilities	169,078	41,190	-	210,268
Total liabilities	295,171	86,422	453,414	835,007

**Geographical Financial Information**

(\$000's)	Canada		U.S.		Total	
Year ended December 31,	2020	2019	2020	2019	2020	2019
Revenue	1,636,826	2,852,637	186,830	200,639	1,823,656	3,053,276
<b>As at December 31, 2020 and December 31, 2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Total non-current assets	1,047,390	1,152,397	169,492	180,800	1,216,882	1,333,197

## CORPORATE INFORMATION

### DIRECTORS

Rene Amirault – Chairman

Marion Burnyeat <sup>(1) (4)</sup>

Brad Munro <sup>(1) (2) (5)</sup>

Kevin Nugent <sup>(1) (2)</sup>

Shaun Paterson <sup>(3) (4)</sup>

Daniel Steinke <sup>(4)</sup>

Richard Wise <sup>(2) (3)</sup>

Deanna Zumwalt <sup>(1) (3)</sup>

<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

<sup>3</sup> Corporate Governance and Nominating  
Committee

<sup>4</sup> Health, Safety, Sustainability & Environment  
Committee

<sup>5</sup> Lead Director

### STOCK EXCHANGE

Toronto Stock Exchange

Symbol: SES

### AUDITORS

KPMG LLP

Calgary, Alberta

### LEGAL COUNSEL

Bennett Jones LLP

Calgary, Alberta

### LEAD BANKERS

ATB Financial

National Bank of Canada

### TRANSFER AGENT AND REGISTRAR

Odyssey Trust Company

Calgary, Alberta

### OFFICERS

Rene Amirault

*President & Chief Executive Officer*

Michael Callihoo

*Corporate Secretary and VP Commercial  
Operations/Legal*

Dave Engel

*Executive Vice President, New Ventures*

Allen Gransch

*Chief Operating Officer, Midstream*

Corey Higham

*Executive Vice President, Operations*

Chad Magus

*Executive Vice President & Chief Financial Officer*

David Mattinson

*Executive Vice President, Environmental  
Solutions*

Mike Mikuska

*Executive Vice President, Commercial &  
Transportation*