# ANNUAL REPORT 2016

SECURE
energy services

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**NOTICE OF ANNUAL MEETING:**

SECURE Energy Services Inc. is pleased to invite its shareholders and other interested parties to the Corporation's Annual General Meeting which will be held at the Metropolitan Centre, 333 – 4th Avenue SW, Calgary, AB on **Wednesday, May 3rd, 2017** at **3:00p.m.**

# CORPORATE PROFILE

SECURE Energy Services Inc. ("SECURE" or the "Corporation") is a leading North American energy services company providing safe and environmentally responsible fluids and solids solutions to energy companies operating in the Western Canadian Sedimentary Basin ("WCSB") and North Dakota.

Driven by providing customer focused solutions for the energy industry, we are dedicated to adding value to our customers' programs and operations from start to finish. SECURE offers specialized capabilities throughout the energy lifecycle, from the initial drilling phase, to completions, production and final reclamation.

SECURE consists of three divisions that provide our customers with more than 90 services: Processing, Recovery & Disposal ("PRD"), Drilling & Production Services ("DPS") and OnSite Services ("OS"). Integrating services for the three divisions provides our customers a unique and tailored integrated services package that helps them achieve their operational goals efficiently while staying on budget, and on time.

# HEALTH & SAFETY

SECURE is committed to inspiring, motivating and supporting a corporate health and safety culture that aligns with our vision, mission and values. We continued to build upon our industry leading safety program in 2016 by tracking proactive efforts and recognizing behaviour-based actions.

In 2016, all three of our divisions successfully completed the annual Certificate of Recognition (COR) audits and each scored well above the mandated requirements. We also saw a significant increase in proactive safety efforts through the year doubling our target of obtaining at least 30 proactive safety efforts from each employee. These efforts include training, participation in safety meetings, and identifying and reporting hazards. SECURE also launched a new online program in 2016 for reporting and tracking hazard IDs increasing accessibility and ease of use for employees.

All levels of the organization are committed to safety. This is demonstrated through consistent communication with leadership tours, safety bulletins and at town hall meetings.

# ENVIRONMENT & REGULATORY LEADERSHIP

SECURE helps our clients operate in a more sustainable way, by going above and beyond to ensure that the industry and communities we serve are enriched and protected for future generations. With a focus on protecting the environment, SECURE is proud of our commitment to exceed regulatory requirements with our products and services. Environmental responsibility is at the forefront of everything we do.

In 2016, SECURE's Pembina landfill location became the only Class I landfill in Alberta designed and approved to accept Naturally Occurring Radioactive Materials ("NORM"). With on-site NORM radiation safety officers and trained NORM technicians, our customers can feel secure in letting us handle their waste and liabilities. We provide all radiological support and have the capability to handle all necessary radiological testing, waste characterization and transport.

To align with Alberta's new Climate Leadership Plan, SECURE established standard operating procedures for managing fugitive emissions at all Canadian facilities. The standard operating procedure is based on the Canadian Association of Petroleum Producers' ("CAPP") Best Management Practice for Fugitive Emissions Management at Upstream Oil and Gas Facilities, Directive 058, and Directive 060, as guided by the Alberta Energy Regulator ("AER"). The AER has reviewed and approved SECURE's plans and SECURE is implementing them across all of our Full Service Terminals and Stand-Alone Water Disposal facilities by the end of the first quarter of 2017.

In Partnership with British Columbia Oil and Gas Commission, UBC Okanagan and the MITACS acceleration program, SECURE participated in the Natural Gas Strategic Research Initiative studying the water life cycle for the hydraulic fracturing operations in the northeast B.C. Montney play. In the fourth quarter, we hosted a joint academic, industry and intergovernmental educational forum and field tour. This session advanced government understanding of the water use demands and repurposing opportunities in the Montney and other shale based plays in the WCSB. In addition, SECURE participated in the Alberta Water Policy discussion with Alberta Environment and Parks and the AER with the end goal of reducing the amount of freshwater used for hydraulic fracturing.

Based on the work completed with regulators around the storage risks associated with engineered c-rings, SECURE aided a key customer in response to a major pipeline spill clean-up in west central Alberta. At the culmination of this clean-up project, the AER authorized the continued use of these c-rings for the storage and repurposing of frac flowback fluids thereby reducing the use of freshwater for hydraulic fracturing and conserving finite disposal resources in the Duvernay area.

# PARTNERS IN THE COMMUNITY

SECURE supports the enrichment of local communities in the areas where we live and work. This is accomplished through charitable giving, sponsorships and employee volunteerism. The act of giving back is ingrained in the SECURE culture, and we strive to be active members in areas where we have and plan to have operations.

Whether SECURE is donating time or resources, we believe in giving back to the communities where we live and work. Supporting local food banks, animal rescue societies, youth clubs, hockey teams and health care facilities are just some of the ways we give back in the communities where we have operations. In addition, SECURE hosted events to raise money for KidSport, the Alberta Children's Hospital Foundation, Women In Need Society, and United Way in 2016.

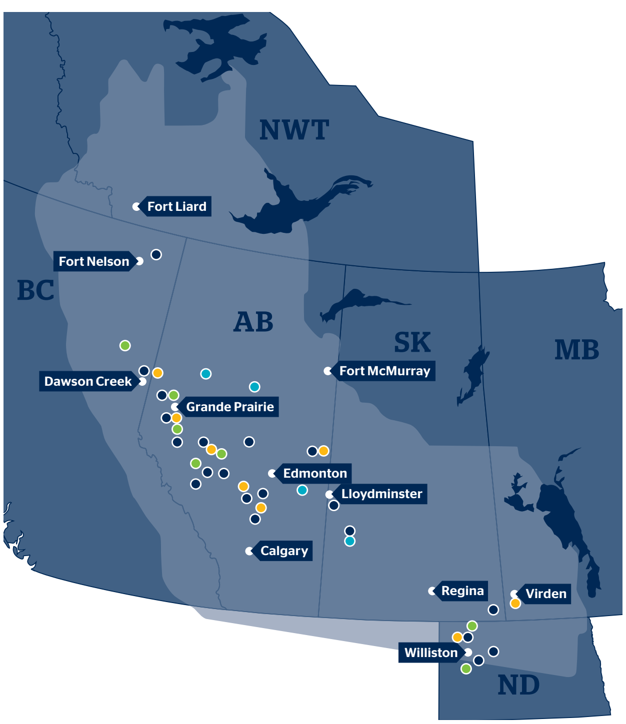
In its third year, SECURE's employee led community volunteerism group, GenC: Caring for our Communities, participated in twelve events throughout the year. GenC's mandate is to help break the cycle of poverty for the next generation and bettering the lives of those in need. This group helps facilitate employee volunteerism in communities where SECURE operates. GenC was created to increase SECURE's scope of caring, build and strengthen community in the workplace, and help position SECURE as a socially responsible organization both internally and externally.

# PROCESSING, RECOVERY & DISPOSAL

The PRD Division offers services to treat, handle and dispose of crude oil and by-products generated throughout the lifecycle of oil and gas exploration, production and reclamation. SECURE designs, builds and operates its facilities with the environment and public health and safety in mind. There are currently four different types of facilities: Full Service Terminals ("FST"), Stand Alone Water Disposal ("SWD") wells, Class I & II Landfills and Full Service Rail Terminals ("FSR"). The PRD division has grown to operate 39 facilities in the WCSB and North Dakota. Our expanding facility footprint has created the opportunity to provide many waste disposal solutions for conventional and unconventional oil and gas exploration, remediation and reclamation.

**2016 Highlights:**

- Kakwa FST: Custom treating and terminalling facility opened to serve customers in the area south of Grande Prairie
- Big Mountain Creek SWD: Increased disposal capacity
- Kaybob SWD: Increased disposal capacity
- Keene FST: Oil pipeline connection completed and shipped first oil in April
- Pembina Landfill: The only landfill in Alberta accepting NORM
- Kindersley FST: Increased throughput capacity
- Alida FST: Acquired a clean dry oil blending terminal in Alida, Saskatchewan
- Judy Creek and La Glace FST: Increased ownership to 100% of both facilities
- South Grande Prairie Landfill: Completed cell expansion




**Full Service Terminals**

- Dawson Creek, BC
- Kotcho, BC
- Brazeau, AB
- Drayton Valley, AB
- Edson, AB
- Fox Creek, AB
- Judy Creek, AB
- Kakwa, AB
- La Glace, AB
- Nosehill, AB
- Obed, AB
- Rocky Mountain House, AB
- South Grande Prairie, AB
- Tulliby Lake, AB
- Alida, SK
- Kindersley, SK
- Silverdale, SK
- 13 Mile Corner, ND, USA
- Keene, ND, USA
- Stanley, ND, USA

**Landfills**

- Fox Creek, AB
- Pembina, AB
- Saddle Hills, AB
- South Grande Prairie, AB
- Tulliby Lake, AB
- Willesden Green, AB
- Virden, MB
- Williston, ND, USA

**Full Service Rail Terminals**

- High Prairie, AB
- Mannville, AB
- Rycroft, AB
- Kindersley, SK

**Stand-Alone Water Disposal Facilities**

- Big Mountain Creek, AB
- Emerson, AB
- Kaybob, AB
- Wild River, AB
- Wonowon, BC
- Crosby, ND, USA
- Watford City, ND, USA


# DRILLING & PRODUCTION SERVICES

The DPS division offers equipment and product solutions through five service lines that provide SECURE's customers in Western Canada with drilling fluids, fluids and solids control equipment, completion fluids, production chemicals and chemical Enhanced Oil Recovery ("EOR") products and equipment. This division is committed to providing innovative products and services to enhance the performance and productivity of drilling, completions, and production operations.

**2016 Highlights:**

- Maintained a 29% drilling fluids market share
- Growing production chemicals and chemical EOR product offering


# ONSITE SERVICES

The OS division provides fully integrated services supporting the energy, resource, pipeline and civil construction industries throughout Canada. SECURE owns and maintains over 100 pieces of equipment, along with technical attachments for specialized projects. The OS division offers a full spectrum of services which consist of pipeline integrity projects including watercourse crossing services, facility demolition and decommissioning; reclamation and remediation of former well sites, facilities and environmental construction projects; integrated fluid solutions which includes water management, recycling, pumping and storage solutions; environmental services; waste container services; and NORM management.

**2016 Highlights:**

- Providing services outside of the oil and gas industry in new geographic regions – Saskatchewan and Manitoba
- Expanding NORM service offering by accepting disposal at the Pembina Landfill
- Increased the number of waste containers on customers locations by 32%
- Furthering the development of the full-cycle water management service


# MESSAGE TO SHAREHOLDERS

On behalf of the employees and the Board of Directors of SECURE Energy Services Inc. ('SECURE'), I am pleased to report on the Corporation's 2016 financial and operating results. 2016 was another challenging year for the oil and gas sector as commodity prices remained depressed and producer activity remained low. In addition, our industry was impacted by continued market volatility and political changes, adding more uncertainty to the business climate. As an organization, we chose to use this time to take a step back and evaluate our business processes, identify continuous improvement strategies and work with industry partners to reduce the industry's overall cost structure. The results have not only had a positive financial impact for SECURE, but they have also improved relationships with our customers, increased the safety of our employees, and reduced our environmental footprint. I am very proud to say that despite the prolonged downturn in the commodity cycle, SECURE demonstrated its financial resilience by achieving EBITDA of $94.1 million during these challenging times. As an organization, we continue to live and breathe leadership at all levels, having the right people in the right place, and operating with integrity and passion while delivering results that exceed expectations.

Given the continued deterioration of the business environment in 2016, our objective for the year was to continue to focus and deliver on what was within our control. We continued to realize positive results from continuous improvement initiatives while simultaneously providing exceptional service to our customers, growing our service offerings and strengthening our balance sheet. We achieved numerous financial and operational successes through the year, which generated positive cash flows for the Corporation. We invested in key infrastructure in areas to keep up with customer demand, gained traction with customers in new service lines, expanded our geographic footprint in new strategic markets, and improved our financial flexibility.

Maintaining a strong balance sheet in 2016 continued to be a priority for SECURE. A strong balance sheet provided us with the ability to react quickly to customer demand and take advantage of acquisition opportunities presented by the depressed business climate.

During the first quarter, SECURE strengthened its balance sheet and improved its financial flexibility by raising $150 million through a bought deal equity financing. The financing allowed us to take advantage of both organic and acquisition opportunities throughout the year and to reduce debt. We made strategic investments in midstream infrastructure and capacity expansions in key markets and completed two acquisitions. The investments and acquisitions completed during the year improved service offerings to our customers and expanded our market presence.

We reduced the amount drawn on our credit facility by 20 percent, year over year from $262 million in 2015 to $209 million in 2016. Our year-end net debt of $73.2 million and debt to EBITDA ratio of 2.2 to 1 was well within the Corporation's debt covenants. As part of our vision of growing shareholder value, we continued to maintain our $0.24/share annual dividend. SECURE is entering 2017 in a strong financial position to be able to make investments and grow the business where and when we feel necessary.

Our ability to service and support our customers though all stages of the energy life cycle – from drilling and completions to production and final abandonment was maintained in 2016.

At the end of the year, SECURE operated 39 strategically located facilities in the PRD division (33 in Canada and 6 in North Dakota). During the year, we added to and expanded our facility network in response to customer demand, completed a joint venture acquisition and completed a significant corporate acquisition. The acquisition of PetroLama provided SECURE with an attractive entry point into a new market and enhanced its current service offerings for continued midstream growth. Crude-by-rail differentials remained narrow in 2016, which reduced the demand for crude-by-rail services; however, with the political and environmental debates surrounding transportation of the crude oil, we remain confident that rail is a viable solution for Canadian producers to get their oil to market in times of reduced pipeline capacity.

Revenue in the DPS division has been directly correlated with oil and gas drilling activity, and was therefore the most impacted by the extended downturn in commodity prices and associated activity levels in 2016. Revenue per operating day decreased slightly compared to 2015; however, the division was able to maintain market share of 29%. Additionally, DPS continued to gain traction with customers in two new service lines during the year: production chemicals and chemical EOR. We believe there is a significant opportunity to capture market share in these two new service lines given our current relationships with customers and our ability to leverage off existing infrastructure. These new products complement the existing suite of services in this division without relying on fluctuating drilling activity, and therefore should provide more consistent operating cash flow in 2017 and beyond.

Although the OS division was negatively impacted by wet weather conditions in the latter half of the year, it achieved several operational successes in 2016. The division enhanced its reputation by completing successful projects in different areas (pipeline integrity, demolition, reclamation, remediation, etc.) and began working with customers on water recycling, storage and logistics. Expansion into new geographic areas and the addition of new service lines position this division for continued growth in the future.

Looking ahead, we anticipate that the recent stability in commodity prices will result in increased producer capital spending in 2017. These larger budgets will begin to drive higher activity levels in the WCSB and benefit all three of SECURE's divisions. We have already seen evidence of increased activity through the latter part of the fourth quarter of 2016 and into the first quarter of 2017, providing us with a more positive outlook for the year ahead. Although we anticipate 2017 to be more active than 2016 and 2015, we will remain cautious and continue to operate the business with a focus on cost controls and generating long-term sustainable returns.

SECURE is well positioned for growth in 2017 and beyond. We have three integrated divisions that we will continue to leverage to provide "cradle to grave" services to support our customers, a solid balance sheet that allows for significant financial flexibility and the ability to respond quickly to our customers' needs. In the near-term, we will continue to invest in infrastructure and midstream assets, evaluate accretive acquisition opportunities and grow our new service lines. Longer-term growth is supported by increasing activity levels in areas where we have PRD facilities (Deep Basin, Montney, Viking, etc.), increasing producer outsourcing, increasing environment and regulatory standards, the increasing use of pad drilling, and the increasing complexity and length of wells being drilled in the WCSB. Overall, opportunities in the markets we service, as well as new service lines, ensure that SECURE is in a great position to generate long-term sustainable returns and create shareholder value.

We are incredibly proud of SECURE's achievements over the past nine years. We have realized tremendous growth and success, while also proving our ability to not only overcome challenging economic times, but to find opportunities during them. Our unique culture, which is driven by entrepreneurial spirit, motivation, and hard work has resulted in new innovative ideas, strategies and continuous improvement methods that make our organization stronger and better able to serve our customers. The shared values of our employees have created a culture that defines who we are today and will lead us to continued success in the future. I would like to take a moment to thank all shareholders, clients, vendors, and other stakeholders who have supported us over the past nine years. Finally, a very special thank you to all our employees for their contributions and commitment to SECURE, especially during a challenging time in the industry. Your hard work and continual strive to achieve exceptional results have been crucial to our success. We continue to be proud of our accomplishments and look forward to the new challenges and opportunities ahead.

R. Amirault

**Rene Amirault**
President & CEO

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Three and Twelve Months ended December 31, 2016 and 2015

The following management's discussion and analysis ("MD&A") of the financial position and results of operations of Secure Energy Services Inc. ("Secure" or the "Corporation") has been prepared by management and reviewed and approved by the Board of Directors of Secure on March 1, 2017. The discussion and analysis is a review of the financial results of the Corporation prepared in accordance with International Financial Reporting Standards ("IFRS"), which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada.

The MD&A's primary focus is a comparison of the financial performance for the three and twelve months ended December 31, 2016 to the three and twelve months ended December 31, 2015 and should be read in conjunction with the Corporation's annual audited consolidated financial statements and notes thereto for the years ended December 31, 2016 and 2015 ("Consolidated Financial Statements").

All amounts are presented in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except share amounts or as otherwise noted. Certain comparative figures have been reclassified to conform to the MD&A presentation adopted for the current year.

## CORPORATE OVERVIEW

Secure is a TSX publicly traded energy services company that provides safe, innovative, efficient and environmentally responsible fluids and solids solutions to the oil and gas industry. The Corporation owns and operates midstream infrastructure and provides environmental services and innovative products to upstream oil and natural gas companies operating in western Canada and certain regions in the United States ("U.S.").

The Corporation operates three divisions:

## PROCESSING, RECOVERY AND DISPOSAL DIVISION ("PRD")

The PRD division owns and operates midstream infrastructure that provides processing, storing, shipping and marketing of crude oil, oilfield waste disposal and recycling. More specifically these services are clean oil terminalling and rail transloading, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal, and oil purchase/resale service. Secure currently operates a network of facilities throughout western Canada and in North Dakota, providing these services at its full service terminals ("FST"), landfills, stand-alone water disposal facilities ("SWD"), full service rail facilities ("FSR") and a crude oil terminalling facility.

## DRILLING AND PRODUCTION SERVICES DIVISION ("DPS")

The DPS division, formerly referred to as the Drilling Services or DS division, provides equipment and product solutions for drilling, completion and production operations for oil and gas producers in western Canada. The drilling service line currently comprises the majority of the revenue for the division which includes the design and implementation of drilling fluid systems for producers drilling for oil, bitumen and natural gas. The drilling service line focuses on providing products and systems that are designed for more complex wells, such as medium to deep wells, horizontal wells and horizontal wells drilled into the oil sands. The production services line focuses on providing equipment and chemical solutions that optimize production, provide flow assurance and maintain the integrity of production assets.

## ONSITE SERVICES DIVISION ("OS")

The operations of the OS division include Projects which include pipeline integrity (inspection, excavation, repair, replacement and rehabilitation), demolition and decommissioning, and reclamation and remediation of former wellsites, facilities, commercial and industrial properties, and environmental construction projects (landfills, containment ponds, subsurface containment walls, etc.); Environmental services which provide pre-drilling assessment planning, drilling waste management, remediation and reclamation assessment services, Naturally Occurring Radioactive Material ("NORM") management, waste container services and emergency response services; and Integrated Fluid Solutions ("IFS") which include water management, recycling, pumping and storage solutions.

For a complete description of services provided in the PRD, DPS and OS divisions, please refer to the headings '*Secure Energy Services Inc.*', '*Description of Business*' in the Corporation's annual information form for the year ended December 31, 2016 ("AIF").

## ANNUAL OPERATIONAL AND FINANCIAL HIGHLIGHTS

2016 was another challenging year for the oil and gas industry. The steep and rapid deterioration in commodity prices beginning in late 2014 impacted industry cash flows, resulting in reduced capital investment and drilling activity across the Western Canadian Sedimentary Basin ("WCSB").

However, the Corporation has continued to demonstrate resilience during this period of reduced oil and gas activity levels on the back of production related volumes in the PRD division, the addition of new facilities in underserved markets, both through organic growth and acquisitions, a focus on cost controls, and diversification of services offered across the Corporation. As a result, during the year ended December 31, 2016, Secure realized Adjusted EBITDA[1] of $94.1 million.

In 2016, Secure demonstrated its ability to achieve numerous operational successes and generate positive cash flows during an extended downturn in oil and gas activity and in a relatively poor commodity price environment. Furthermore, the Corporation was also able to expand its market presence and enhance its service offerings by taking advantage of accretive acquisition opportunities throughout the year. Operational highlights for 2016 include:

- Completing construction of the Kakwa FST, a facility that was designed and constructed to meet specific customer requirements in a capacity constrained region;
- Expanding Secure's midstream facility network in Saskatchewan through the acquisition of PetroLama Energy Canada Inc. ("PetroLama") and the expansion of the Corporation's Kindersley FST to increase capacity and throughput;
- Increased ownership from 50 to 100 percent at its La Glace and Judy Creek facilities, which relieved Secure from administrative requirements under a joint venture structure while adding cash flow;
- Increasing capacity to meet demand at various existing facilities by adding additional tanks and disposal wells, and expanding landfill cells;
- Performing various drilling, completion, production and remediation services for ten of the most active drillers in western Canada;
- Gaining customer traction with the DPS division's new production chemicals and enhanced oil recovery ("EOR") service line;
- Enhancing the OS division's reputation for completing successful projects on pipeline integrity, demolition and decommissioning, and reclamation and remediation of contaminated sites;
- Working with customers operating in the Alberta Deep Basin and Duvernay Formation on water recycling, storage and logistics.

The equity offering completed in the first quarter of 2016 further strengthened the Corporation's balance sheet and provided significant financial flexibility to pursue accretive acquisitions and continue to invest in organic capital projects in capacity constrained regions. At December 31, 2016, Secure's net debt[1] was $73.2 million. The Corporation continues its disciplined approach to maintaining a strong balance sheet to effectively manage the business through a period of deteriorating commodity prices and industry activity. As a result of this approach, Secure has maintained a debt to EBITDA ratio, as defined by the Corporation's credit facility, of 2.2 to 1 at December 31, 2016, well below many other oilfield service providers during the extended downturn in oil and gas activity.

[1] Refer to the '*Non-GAAP Measures*' section herein.

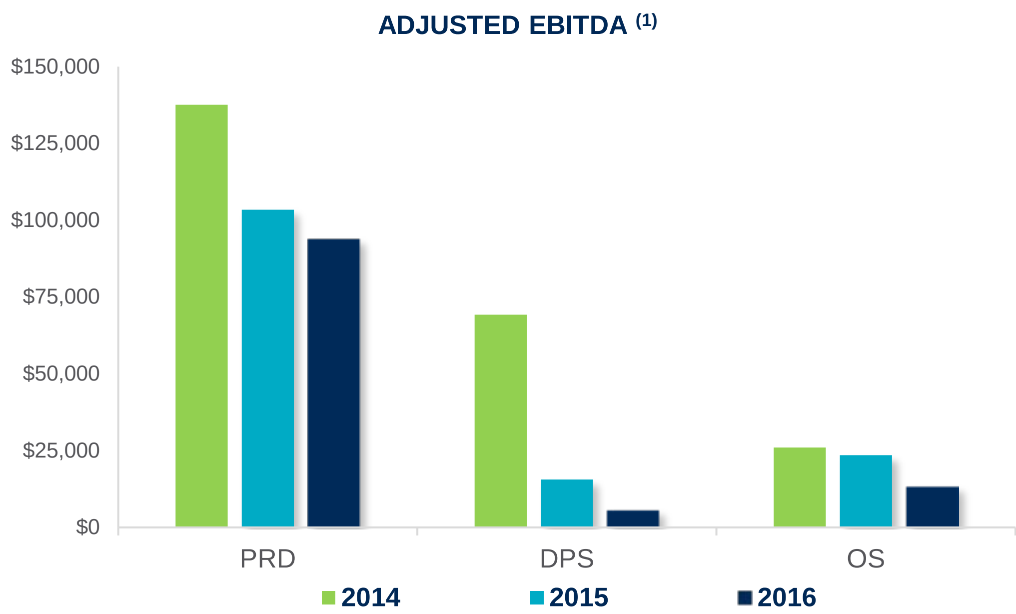
The operating and financial highlights for the year ended December 31, 2016 and each of the previous two years can be summarized as follows:

| ($000's except share and per share data) | Twelve months ended Dec 31, 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue (excludes oil purchase and resale) | **393,159** | 560,898 | 794,590 |
| Oil purchase and resale | **1,016,904** | 785,527 | 1,477,061 |
| Total revenue | **1,410,063** | 1,346,425 | 2,271,651 |
| Adjusted EBITDA [(1)] | **94,100** | 126,652 | 208,990 |
| Per share ($), basic | **0.61** | 0.95 | 1.75 |
| Per share ($), diluted | **0.61** | 0.95 | 1.71 |
| Net (loss) earnings | **(48,943)** | (159,870) | 30,651 |
| Per share ($), basic | **(0.32)** | (1.20) | 0.26 |
| Per share ($), diluted | **(0.32)** | (1.20) | 0.25 |
| Adjusted net (loss) earnings [(1)] | **(48,111)** | (30,166) | 59,246 |
| Per share ($), basic | **(0.31)** | (0.23) | 0.50 |
| Per share ($), diluted | **(0.31)** | (0.23) | 0.48 |
| Funds from operations [(1)] | **97,291** | 89,905 | 184,624 |
| Per share ($), basic | **0.63** | 0.67 | 1.55 |
| Per share ($), diluted | **0.63** | 0.67 | 1.51 |
| Dividends per common share | **0.24** | 0.24 | 0.19 |
| Capital expenditures [(1)] | **150,877** | 117,518 | 400,806 |
| Total assets | **1,425,250** | 1,315,420 | 1,496,117 |
| Long-term liabilities | **336,830** | 393,774 | 522,557 |
| Net debt [(1)] | **73,176** | 153,263 | 309,706 |
| Common Shares - end of period | **160,652,221** | 137,708,127 | 121,367,451 |
| Weighted average common shares | | | |
| basic | **154,625,869** | 133,380,634 | 119,272,994 |
| diluted | **154,625,869** | 133,380,634 | 122,364,419 |

**[(1)] Refer to "*Non-GAAP measures*", "*Additional subtotals*" and "*Operational definitions*" for further information.**

- REVENUE OF $1,410.1 MILLION FOR THE YEAR ENDED DECEMBER 31, 2016
  - Total processing, recovery and disposal volumes at PRD facilities for the year ended December 31, 2016 decreased from the 2015 comparative periods as poor weather conditions during the second and third quarters and continued low oil prices during the year negatively impacted volumes at PRD facilities from drilling and completion related activities. The impact of the above to the PRD division's revenue was partially mitigated by ongoing production related volumes and the addition of facilities in 2015 and 2016, which included the construction and commissioning of Tulliby Lake FST, Kakwa FST, Big Mountain SWD, and Wonowon SWD, the conversion of the Rycroft FSR to include water disposal services, the conversion of the 13 Mile facility from an SWD to an FST, the acquisition of the Alida crude oil terminalling facility from PetroLama in June 2016, and the increased ownership in the La Glace and Judy Creek FSTs from 50% to 100% in July 2016. Overall, this resulted in the PRD division achieving revenue (excluding oil purchase and resale) of $198.8 million in 2016, down 18% from 2015;
  - Oil purchase and resale revenue in the PRD division for the year ended December 31, 2016 increased by 29% from the 2015 comparative period to $1,016.9 million due primarily to additional oil purchase and resale volumes related to the newly acquired Alida crude oil terminalling facility, the Kakwa FST commissioned in 2016 and the increased ownership in the La Glace and Judy Creek FSTs;
  - Activity in the DPS division is strongly correlated with oil and gas drilling activity in the WCSB, which experienced a 33% decline in active rig count in 2016 from 2015 levels. As a result of these decreased activity levels and pricing pressures, DPS division revenue decreased by 42% to $111.3 million in 2016;
  - OS division revenue decreased 34% in 2016 primarily due to reduced Projects revenue resulting from two significant jobs in 2015 for which there was no equivalents in 2016, wet weather conditions in the second and third quarters restricting site access and delaying job starts, and lower completion activities given the poor weather conditions and relatively low oil price during the year. The impact to revenue was partially mitigated by new service offerings and geographic expansion.

- ADJUSTED EBITDA OF $94.1 MILLION FOR THE YEAR ENDED DECEMBER 31, 2016
  - Adjusted EBITDA of $94.1 million, a 26% decrease from 2015 and comparable to the decline in revenue as Secure has streamlined operations decreasing fixed costs across the Corporation's cost structure, resulting in strong operating margin percentages.
  - The following graph demonstrates the divisional impacts to Adjusted EBITDA, excluding Corporate costs, for the years ended December 31, 2016, 2015, and 2014.




(1) Refer to "Non-GAAP measures", "Additional subtotals" and "Operational definitions" for further information.

  - Adjusted EBITDA in 2016 was impacted by unseasonable weather conditions in the middle of the year causing a reduction in drilling and completion activity throughout the WCSB which most heavily impacted the DPS division as the majority of operations are tied directly to drilling operations. The decrease in the PRD division was partially offset by ongoing production related volumes, the construction of new facilities in 2015 and 2016 and expansions at certain of the Corporation's existing facilities in the past year, two acquisitions, and cost saving initiatives implemented in 2015 and 2016 which have resulted in a strong operating margin and reduced general and administrative costs. The decrease in the OS division due to project work delays resulting from wet weather, and reduced services correlated to completions activity was somewhat mitigated by geographic expansion, new and diversified service lines and integrated service offerings.
- NET LOSS OF $48.9 MILLION FOR THE YEAR ENDED DECEMBER 31, 2016
  - For the year ended December 31, 2016, Secure's net loss of $48.9 million improved by 69% compared to the net loss of $159.9 million in 2015. The decrease in net loss is primarily a result of non-cash impairments of non-current assets totaling $157.7 million recorded in the second half of 2015 in response to the decrease in commodity prices and industry activity levels.

- ADJUSTED NET LOSS OF $48.1 MILLION FOR THE YEAR ENDED DECEMBER 31, 2016
  - For the year ended December 31, 2016, Secure's adjusted net loss of $48.1 million increased from $30.2 million in 2015 primarily as a result of the factors discussed above impacting Adjusted EBITDA, partially offset by lower general and administrative expenses and business development expenses as the Corporation is realizing the benefit of the cost saving initiatives implemented in 2015 and 2016. Secure has reduced personnel levels to match current industry activity levels, as well as reduced discretionary spending and streamlined and consolidated support functions where possible.
- 2016 CAPITAL EXPENDITURES OF $150.9 MILLION FOR THE YEAR ENDED DECEMBER 31, 2016
  - Excluding business acquisitions, capital expenditures for the year ended December 31, 2016 of $62.6 million include:
    - Construction of the Kakwa FST, which opened in August 2016;
    - Disposal well additions at the Kaybob and Big Mountain SWD facilities;
    - Cell expansions at the South Grande Prairie and Fox Creek landfills;
    - Expansion of the Kindersley FST to increase storage and throughput capacity; and
    - Sustaining capital expenditures at existing facilities required to maintain ongoing business operations.
- PETROLAMA ACQUISITION
  - On June 1, 2016, Secure closed the acquisition of all the operating assets (excluding working capital) of PetroLama ("PetroLama Acquisition"). The main asset acquired by the Corporation from PetroLama is a crude oil terminal in Alida, Saskatchewan which is connected to the Tundra Energy Marketing Limited (formerly Enbridge Pipelines (Saskatchewan) Inc.) pipeline system and includes truck unload risers and storage tanks. Secure also acquired various marketing contracts relating to the purchase, sale and transportation of propane, butane and condensate.
  - The PetroLama Acquisition provides Secure with an attractive entry point into the southeast Saskatchewan midstream market. Secure has expanded its market presence and enhanced its service offering for continued midstream growth. The Alida terminal, a facility constructed in 2013, is uniquely positioned for sustainable cash flow generation in a new market area. Secure expects to leverage PetroLama's existing business into further growth opportunities and build upon PetroLama's relationships with oil producers, marketers and refiners with its breadth of oil and gas services. Secure expects its size and strong history of operational expertise in the PRD division will allow the Corporation to achieve additional operating efficiencies.
  - The purchase price was paid with $61.7 million in cash and the balance of $5.9 million through the issuance of 664,972 common shares of the Corporation ("Common Shares"), and included $13.8 million of crude oil inventory stored at Cushing, Oklahoma. The value of the oil inventory fluctuates with oil prices and the U.S. dollar. At December 31, 2016, the oil inventory was valued at $15.6 million and is hedged with futures contracts. Subsequent to December 31, 2016 the oil inventory was sold and the storage lease expired on January 31, 2017.
- JV ACQUISITION
  - On July 12, 2016, Secure completed the acquisition of the outstanding 50% interest in all of the joint venture assets of the La Glace and Judy Creek facilities (the "JV Acquisition"), increasing Secure's interest in these facilities to 100%.
  - The purchase price of $26.6 million included working capital and was funded through existing capacity under the Corporation's credit facility. The JV Acquisition relieves Secure of the administrative requirements of operating the facilities under a joint venture structure, while adding additional cash flow from an increase in ownership in the facilities.

- FINANCIAL FLEXIBILITY
    - On March 22, 2016, the Corporation completed a bought deal common share financing (the "Offering"), issuing a total of 19,550,000 Common Shares at a price of $7.65 per Common Share for gross proceeds of $149.6 million. Proceeds of the Offering have been used to repay outstanding debt and fund the cash portion of the PetroLama Acquisition and JV Acquisition, with the remaining balance expected to be used to fund capital expenditures, for other strategic acquisition opportunities, and/or general working capital purposes.
    - The total amount drawn on Secure's credit facility as at December 31, 2016 decreased by 20% to $209.0 million compared to $262.0 million at December 31, 2015. The Corporation strengthened its balance sheet and increased its financial flexibility to take advantage of opportunities during the current low commodity price environment.
    - Secure is in compliance with all covenants related to its credit facility at December 31, 2016. Secure's debt to trailing twelve month EBITDA ratio, where EBITDA is defined in the lending agreement as 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, was 2.2 to 1 as at December 31, 2016 (2015 – 2.2 to 1).

## FOURTH QUARTER OPERATIONAL AND FINANCIAL HIGHLIGHTS

| ($000's except share and per share data) | Three months ended Dec 31, 2016 | 2015 | % change |
|---|---|---|---|
| Revenue (excludes oil purchase and resale) | **124,584** | 129,770 | (4) |
| Oil purchase and resale | **405,939** | 160,203 | 153 |
| Total revenue | **530,523** | 289,973 | 83 |
| Adjusted EBITDA [1] | **33,046** | 31,808 | 4 |
| Per share ($), basic | **0.21** | 0.23 | (9) |
| Net loss | **(10,075)** | (86,825) | (88) |
| Per share ($), basic and diluted | **(0.06)** | (0.63) | (90) |
| Adjusted net loss [1] | **(11,430)** | (14,650) | (22) |
| Per share ($), basic | **(0.07)** | (0.11) | (36) |
| Funds from operations [1] | **33,978** | 25,631 | 33 |
| Per share ($), basic | **0.21** | 0.19 | 11 |
| Dividends per common share | **0.06** | 0.06 | - |
| Capital expenditures [1] | **15,408** | 29,359 | (48) |
| Total assets | **1,425,250** | 1,315,420 | 8 |
| Net debt [1] | **73,176** | 153,263 | (52) |
| Common Shares - end of period | **160,652,221** | 137,708,127 | 17 |
| Weighted average common shares - basic and diluted | **160,314,786** | 137,500,242 | 17 |

[1] **Refer to "*Non-GAAP measures*", "*Additional subtotals*" and "*Operational definitions*" for further information.**

- REVENUE OF $530.5 MILLION FOR THE THREE MONTHS ENDED DECEMBER 31, 2016
  - Total processing, recovery and disposal volumes at PRD facilities for the three months ended December 31, 2016 increased approximately 6% from the 2015 comparative period due primarily to the addition of new facilities subsequent to December 31, 2015 and contributions from the PetroLama and JV Acquisitions in 2016. The increased volumes, combined with an average crude oil pricing increase of 17% from the comparative period of 2015, resulted in the PRD division achieving revenue (excluding oil purchase and resale) for the three months ended December 31, 2016 of $62.0 million, an increase of 12% from the 2015 comparative period;
  - Oil purchase and resale revenue in the PRD division for the three months ended December 31, 2016 increased by 153% from the 2015 comparative period to $405.9 million, primarily due to additional oil purchase and resale volumes related to the newly acquired Alida facility and the increased ownership in the La Glace and Judy Creek FSTs;
  - DPS division revenue for the three months ended December 31, 2016 was $38.1 million, a 10% decrease from the 2015 comparative period. Reduced pricing to customers, shifts in the product mix between oil and non-oil based product, and the wind down of the DPS U.S. operations in the fourth quarter of 2015 were partially offset by an 8% increase in active rig count in the WCSB;
  - OS division revenue of $24.5 million in the three months ended December 31, 2016 decreased 24% from the 2015 comparative period. Reduced revenues across all three OS service lines was a result of decreased large scale Projects revenues from two significant jobs in 2015 for which there was no equivalents in 2016, wet weather conditions continuing into the fourth quarter restricting site access and delaying job starts, and lower completion activities given the poor weather conditions and relatively low oil price during the year. Many reclamation and remediation projects were reduced or deferred into 2017 as capital budgets were revised.

- ADJUSTED EBITDA OF $33.0 MILLION FOR THE THREE MONTHS ENDED DECEMBER 31, 2016
    - Diversification across Secure's three divisions has contributed to Adjusted EBITDA for the three months ended December 31, 2016 of $33.0 million, a 4% increase from the 2015 comparative period. The fourth quarter of 2016 saw a 17% increase in average crude oil pricing from the 2015 comparative period and benefitted from ongoing production related volumes, new facilities, facility expansions, and the PetroLama and JV acquisitions in the PRD division in 2016, partially offset by certain service lines which were still negatively impacted by reduced drilling and completion activity.
- Q4 2016 CAPITAL EXPENDITURES
    - Total capital expenditures for the three months ended December 31, 2016 of $15.4 million relate primarily to various expansion and sustaining projects at existing PRD facilities, including the addition of a cell at the Fox Creek landfill, and expansion at the Kindersley FST to increase capacity and throughput.

## OUTLOOK

Crude oil prices remained depressed in 2016, with an average crude oil price decrease of 8% from 2015, driven by the continued imbalance of global oil supply and demand. However, since The Organization of the Petroleum Exporting Countries' (OPEC) announcement on November 30, 2016 to cut production by 1.2 million barrels per day commencing in January 2017, there has been an upward shift on crude oil prices and the oil and gas industry is cautiously anticipating a more stable commodity price environment to operate in.

Because of the increased stability in commodity prices over the past number of months, Secure anticipates an increase in oil and gas producers' capital budgets for 2017 over 2016, which will drive higher activity levels in the WCSB and benefit all three of the Corporation's divisions. In January 2017, industry rig counts increased by 27% from January 2016 evidencing increased activity levels during the first quarter of 2017, primarily driven by the stabilized commodity environment, but also due to an improvement of weather conditions from the fourth quarter of 2016, which delayed projects until early 2017. Secure will continue to exercise caution and demonstrate the ability to operate profitably in this climate by maintaining its current cost structures which have enabled the Corporation to improve margins, reduce overhead costs and streamline operations to enhance customer service through the integrated services provided.

Secure anticipates 2017 capital spending of approximately $50 million primarily focused in PRD and directed towards high rate of return organic growth and expansion projects. The Corporation will spend approximately $15 million on sustaining and maintenance expenditures for the year. Total capital spending of $65 million is well within the Corporation's forecasted cash flow and is comparable to organic spending levels in 2016. Secure's strong balance sheet and financial flexibility positions the company to be able to increase capital spending levels above $65 million for the right opportunities.

Secure's key priorities for success throughout 2017 include:

- Working with industry partners to continue to reduce the overall cost structure, gain efficiencies and provide new services;
- Leveraging on all three operating divisions to provide benefits to customers for drilling, completion, production and remediation services;
- Gaining further traction on new services and products associated with production chemicals and chemical EOR;
- Working with customers on water recycling, storage and logistics. This market continues to expand as producers understand the need to access water sources and reuse fluids during completion activities;
- Expanding Secure's midstream facility network;
- Continuing a prudent approach to acquisitions and organic capital spending while maintaining financial flexibility;
- Continue to evaluate and assess further acquisition opportunities and/or partnership opportunities that provide strategic advantages;
- Focus on innovative technologies that help our customers achieve operational efficiencies while also reducing their overall impact on the environment.

Secure has a solid balance sheet and significant financial flexibility to continue to meet customer and market demands. The Corporation will continue to work with its customers to support their requirements relating to new facilities, disposal wells, landfill expansions and specialized equipment. Market share growth and new service lines will ensure that Secure is well positioned for future growth.

## NON-GAAP MEASURES

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

### *Adjusted EBITDA*

Adjusted EBITDA is defined as earnings before finance costs, taxes, depreciation, depletion, and amortization, non-cash impairments on the Corporation's non-current assets, unrealized gains or losses on mark to market transactions, share-based compensation, other income/expenses, and any other items that the Corporation considers appropriate to adjust given the irregular nature and relevance to comparable operations. In this MD&A, the Corporation has added back the following items: severance payments to terminated employees, specific inventory impairments, and Restructuring, as defined in the '*Operational Definitions*' section. Adjusted EBITDA is not a recognized measure under IFRS.

Management believes that in addition to net earnings, Adjusted EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how those activities are financed, how the results are taxed, non-cash charges, and charges that are irregular in nature or outside of the normal course of business. Management believes that these specific items are not reflective of the Corporation's underlying operations and calculates these adjustments consistently from period to period to enhance comparability of this MD&A. The following table reconciles the Corporation's net loss to Adjusted EBITDA.

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| **Net loss** | **(10,075)** | (86,825) | (88) | **(48,943)** | (159,870) | (69) |
| **Add (deduct):** | | | | | | |
| Depreciation, depletion and amortization | **36,834** | 43,526 | (15) | **113,012** | 126,161 | (10) |
| Current tax recovery | **(1,476)** | (3,766) | (61) | **(13,169)** | (10,110) | 30 |
| Deferred tax expense (recovery) | **(567)** | (6,334) | (91) | **5,399** | (13,950) | (139) |
| Share-based compensation | **7,559** | 3,954 | 91 | **25,158** | 19,829 | 27 |
| Impairment | **-** | 81,013 | (100) | **-** | 139,752 | (100) |
| Other income | **-** | (6,529) | (100) | **-** | (6,529) | (100) |
| Interest, accretion and finance costs | **2,627** | 2,464 | 7 | **11,503** | 12,098 | (5) |
| Unrealized gain on mark to market transactions [1] | **(1,856)** | - | 100 | **(1,444)** | - | 100 |
| Restructuring (Drilling Services U.S.) [1] | **-** | 2,673 | (100) | **-** | 10,897 | (100) |
| Inventory impairment [1] | **-** | - | - | **-** | 1,970 | (100) |
| Severance and related costs [1][2] | **-** | 1,632 | (100) | **2,584** | 6,404 | (60) |
| **Adjusted EBITDA** | **33,046** | 31,808 | 4 | **94,100** | 126,652 | (26) |

**[1] These charges are included in various captions within the Corporation's Consolidated Statements of Comprehensive Loss, including revenue, direct expenses and general and administrative expenses.**

**[2] Severance and related costs are included in several captions within the Corporation's Consolidated Statements of Comprehensive Loss, as shown in the table below.**

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| Direct expenses - PRD Division | **-** | 917 | (100) | **583** | 1,224 | (52) |
| Direct expenses - DPS Division | **-** | 38 | (100) | **803** | 945 | (15) |
| Direct expenses - OS Division | **-** | - | - | **228** | 116 | 97 |
| General and administrative expenses | **-** | 646 | (100) | **779** | 3,135 | (75) |
| Business development expenses | **-** | 31 | (100) | **191** | 984 | (81) |
| **Severance and related costs** | **-** | 1,632 | (100) | **2,584** | 6,404 | (60) |

## *Operating margin*

Operating margin is calculated as the difference between revenue and direct expenses. Operating margin is not a recognized measure under IFRS. Management analyzes operating margin as a percentage of revenue excluding oil purchase and resale by division as a key indicator of financial performance, cost control and operating efficiency. The following table reconciles the Corporation's operating loss per the Consolidated Financial Statements to operating margin.

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| **Operating loss** | **(9,491)** | (19,977) | (52) | **(45,210)** | (38,609) | 17 |
| **Add:** | | | | | | |
| Depreciation, depletion and amortization | **36,834** | 43,526 | (15) | **113,012** | 126,161 | (10) |
| General and administrative expenses | **11,301** | 14,139 | (20) | **44,482** | 63,411 | (30) |
| Share-based compensation | **7,559** | 3,954 | 91 | **25,158** | 19,829 | 27 |
| Business development expenses | **1,265** | 2,411 | (48) | **5,401** | 11,649 | (54) |
| **Operating Margin** | **47,468** | 44,053 | 8 | **142,843** | 182,441 | (22) |

Please refer to the divisional discussions within '*Results of operations for the three and twelve months ended December 31, 2016*' for reconciliations of these non-GAAP measures to the nearest GAAP measure. These non-GAAP measures do not have standardized meanings under IFRS.

## *Adjusted net loss*

Adjusted net loss is a measure of profitability. Adjusted net loss provides an indication of the results generated by the principal business activities prior to recognizing certain charges that are considered by management to be outside of the Corporation's comparable operations. Management believes that these specific items are not reflective of the Corporation's underlying operations and calculates these adjustments consistently from period to period to enhance comparability of this MD&A. Adjusted net loss is not a recognized measure under IFRS. The following table outlines these adjusted items, which have been tax effected accordingly and reconciles the Corporation's net loss to Adjusted net loss.

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| **Net loss** | **(10,075)** | (86,825) | (88) | **(48,943)** | (159,870) | (69) |
| **Adjustments, net of estimated tax effect:** | | | | | | |
| Impairment | **-** | 73,820 | (100) | **-** | 120,275 | (100) |
| Unrealized gain on mark to market transactions | **(1,355)** | - | 100 | **(1,054)** | - | 100 |
| Restructuring (Drilling Services U.S.) | **-** | 1,978 | (100) | **-** | 8,064 | (100) |
| Inventory impairment | **-** | - | - | **-** | 1,458 | (100) |
| Other income | **-** | (4,831) | 100 | | (4,831) | (100) |
| Severance and related costs | **-** | 1,208 | (100) | **1,886** | 4,738 | (60) |
| **Adjusted net loss** | **(11,430)** | (14,650) | (22) | **(48,111)** | (30,166) | 59 |

## *Net debt*

Net debt is a measure of the Corporation's overall debt situation and is utilized by management as a key measure to assess the liquidity of the Corporation and monitor availability under its credit facilities. Net debt is calculated as the sum of total debt, which includes the principal amount of long-term borrowings plus finance lease liabilities, less the working capital surplus. Working capital surplus is calculated as current assets less current liabilities.

| **($000's)** | **Dec 31, 2016** | **Dec 31, 2015** | **% Change** |
|---|---|---|---|
| Long-term borrowings (principal amount) | **209,000** | 262,000 | (20) |
| Long-term finance lease liabilities | **4,000** | 7,041 | (43) |
| Current liabilities | **161,373** | 97,134 | 66 |
| Current assets | **(301,197)** | (212,912) | 41 |
| **Net debt** | **73,176** | 153,263 | (52) |

## ADDITIONAL SUBTOTALS

The additional subtotal described below does not have a standardized meaning and therefore may not be comparable with the calculation of similar measures for other entities.

### *Funds from operations*

Funds from operations refers to net cash flows from operating activities before changes in non-cash working capital, and asset retirement obligations incurred and represents the Corporation's after tax operating cash flows. Secure's management views funds from operations as a key measure of liquidity and believes this is a metric used by many investors to assess the financial performance and leverage of the Corporation. The following table reconciles net cash flows from operating activities to funds from operations.

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| Net cash flows from operating activities | **15,361** | 39,767 | (61) | **96,682** | 131,018 | (26) |
| **Add:** | | | | | | |
| Changes in non-cash working capital | **18,552** | (15,484) | (220) | **11** | (42,760) | (100) |
| Asset retirement obligations incurred | **65** | 1,348 | (95) | **598** | 1,647 | (64) |
| **Funds from operations** | **33,978** | 25,631 | 33 | **97,291** | 89,905 | 8 |

## OPERATIONAL DEFINITIONS

Certain operational definitions used by the Corporation throughout this MD&A are further explained below.

### *Average crude oil prices*

Average crude oil prices are calculated using West Texas Intermediate benchmark oil prices, translated from U.S. to Canadian dollars.

### *Operating days*

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

### *DPS division market share*

The DPS division market share is calculated by comparing active rigs the DPS division provides drilling fluids services to total active rigs in western Canada. The Canadian Association of Oilwell Drilling Contractors publishes total active rigs in western Canada on a semi-weekly basis.

### *Restructuring*

Restructuring in the comparative period includes the operating results related to drilling services operations in the U.S. as these operations were wound down in the latter part of 2015.

### *Capital expenditures*

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

## RESULTS OF OPERATIONS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

In order to discuss the factors that have caused period to period variations in operating activities, the Corporation has divided the business into three reportable operating segments, as outlined in the '*Corporate Overview*' above. Total general and administration expenses by division excludes share-based compensation and corporate expenses, as senior management looks at each division's earnings before corporate expenses and non-cash items such as share-based compensation as an important measure of performance. The table below outlines the results by operating segment for the three and twelve months ended December 31, 2016 and 2015:

($000's)

| Three months ended December 31, 2016 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | 467,927 | 38,063 | 24,533 | - | 530,523 |
| Direct expenses | (431,744) | (31,776) | (19,535) | - | (483,055) |
| **Operating margin** | **36,183** | **6,287** | **4,998** | **-** | **47,468** |
| General and administrative expenses | (2,856) | (2,640) | (1,892) | (3,913) | (11,301) |
| Share-based compensation | - | - | - | (7,559) | (7,559) |
| Business development expenses | - | - | - | (1,265) | (1,265) |
| Depreciation, depletion and amortization | (28,506) | (4,865) | (3,156) | (307) | (36,834) |
| Interest, accretion and finance costs | (349) | - | - | (2,278) | (2,627) |
| **Earnings (loss) before tax** | **4,472** | **(1,218)** | **(50)** | **(15,322)** | **(12,118)** |

| Year ended December 31, 2016 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | 1,215,717 | 111,329 | 83,017 | - | 1,410,063 |
| Direct expenses | (1,108,524) | (95,516) | (63,180) | - | (1,267,220) |
| **Operating margin** | 107,193 | 15,813 | 19,837 | - | **142,843** |
| General and administrative expenses | (12,821) | (10,995) | (6,520) | (14,146) | (44,482) |
| Share-based compensation | - | - | - | (25,158) | (25,158) |
| Business development expenses | - | - | - | (5,401) | (5,401) |
| Depreciation, depletion and amortization | (77,231) | (21,288) | (13,286) | (1,207) | (113,012) |
| Interest, accretion and finance costs | (1,632) | - | - | (9,871) | (11,503) |
| **Earnings (loss) before tax** | **15,509** | **(16,470)** | **31** | **(55,783)** | **(56,713)** |

($000's)

| Three months ended December 31, 2015 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | 215,374 | 42,153 | 32,446 | - | 289,973 |
| Direct expenses | (186,058) | (36,248) | (23,614) | - | (245,920) |
| **Operating margin** | **29,316** | **5,905** | **8,832** | **-** | **44,053** |
| General and administrative expenses | (5,195) | (5,294) | (2,382) | (1,268) | (14,139) |
| Share-based compensation | - | - | - | (3,954) | (3,954) |
| Business development expenses | - | - | - | (2,411) | (2,411) |
| Depreciation, depletion and amortization | (27,884) | (11,954) | (3,538) | (150) | (43,526) |
| Interest, accretion and finance costs | (412) | - | - | (2,052) | (2,464) |
| Impairment | (10,888) | (70,125) | - | - | (81,013) |
| Other (expense) income | (3,680) | 10,209 | - | - | 6,529 |
| **(Loss) earnings before tax** | **(18,743)** | **(71,259)** | **2,912** | **(9,835)** | **(96,925)** |

| Year ended December 31, 2015 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | 1,028,261 | 192,076 | 126,088 | - | 1,346,425 |
| Direct expenses | (904,042) | (165,981) | (93,961) | - | (1,163,984) |
| **Operating margin** | **124,219** | **26,095** | **32,127** | **-** | **182,441** |
| General and administrative expenses | (23,948) | (25,564) | (8,707) | (5,192) | (63,411) |
| Share-based compensation | - | - | - | (19,829) | (19,829) |
| Business development expenses | - | - | - | (11,649) | (11,649) |
| Depreciation, depletion and amortization | (81,379) | (30,621) | (13,616) | (545) | (126,161) |
| Interest, accretion and finance costs | (1,581) | - | - | (10,517) | (12,098) |
| Impairment | (65,098) | (74,654) | - | - | (139,752) |
| Other (expense) income | (3,680) | 10,209 | - | - | 6,529 |
| **(Loss) earnings before tax** | **(51,467)** | **(94,535)** | **9,804** | **(47,732)** | **(183,930)** |

## PRD DIVISION OPERATIONS

The PRD division has two separate service lines: processing, recovery and disposal services; and oil purchase and resale services.

### Processing, recovery and disposal:

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

### Oil purchase and resale:

The purpose of providing oil purchase and resale services is to enhance the service offering associated with Secure's business of produced water disposal, crude oil emulsion treating, terminalling, and marketing. By offering this service, Secure's customers gain efficiencies in transportation and handling of their crude oil to the pipeline or via rail. At Secure FSTs, Secure will meter the crude oil volumes and purchase the crude oil directly from customers. The Corporation will then process, transport to a pipeline connected FST if necessary, and handle the shipment of crude oil down the pipeline. Secure's four rail terminals situated across Alberta and Saskatchewan, which carry crude by rail to virtually all North American markets, offer producers an alternative solution to get their product to market. The Corporation may also purchase and resale crude oil to take advantage of marketing opportunities and increase profitability.

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| **Revenue** | | | | | | |
| PRD services (a) | 61,988 | 55,171 | 12 | 198,813 | 242,734 | (18) |
| Oil purchase and resale service | 405,939 | 160,203 | 153 | 1,016,904 | 785,527 | 29 |
| **Total PRD division revenue** | 467,927 | 215,374 | 117 | 1,215,717 | 1,028,261 | 18 |
| **Direct expenses** | | | | | | |
| PRD services (b) | 25,805 | 25,855 | - | 91,620 | 118,515 | (23) |
| Oil purchase and resale service | 405,939 | 160,203 | 153 | 1,016,904 | 785,527 | 29 |
| **Total PRD division direct expenses** | 431,744 | 186,058 | 132 | 1,108,524 | 904,042 | 23 |
| **Operating Margin (1) (a-b)** | 36,183 | 29,316 | 23 | 107,193 | 124,219 | (14) |
| **Operating Margin (1) as a % of revenue (a)** | 58% | 53% | | 54% | 51% | |

(1) Refer to "*Non-GAAP measures*" for further information.

### Revenue (PRD division)

Processing, recovery and disposal services revenue of $62.0 million for the three months ended December 31, 2016 increased by 12% from the 2015 comparative period, driven by a 28% increase in recovery volumes contributed from the new facilities added in 2016, expansions at certain of the Corporation's existing facilities in 2016, and the PetroLama and JV Acquisitions. Increased volumes and production activity in the quarter was further strengthened by the increase in average crude oil prices by 17% from the 2015 comparative period.

Processing, recovery and disposal services revenue of $198.8 million for the twelve months ended December 31, 2016 decreased by 18% from the 2015 comparative period. With an average crude oil price decrease of 8% year over year, the continued low crude oil price impacted oil and gas producers' capital spending resulting in a 33% drop in industry rig counts in the WCSB and North Dakota, respectively, in 2016 from 2015. This resulted in a significant decline in volumes associated with drilling and completion activities in the Corporation's service areas. Production related services have been impacted to a much lesser extent in the twelve months ended December 31, 2016 compared to the same periods in 2015 due to ongoing production related volumes, the construction of new facilities in 2015 and 2016, expansions at certain of the Corporation's existing facilities in the past year, and the PetroLama and JV Acquisitions.

The addition of new facilities, both organically and through acquisitions, accounted for $7.0 million and $25.9 million of revenue in the three and twelve months ended December 31, 2016, an impact of 13% and 11% when comparing to the same periods of 2015.

Processing volumes remained relatively stable in the three months ended December 31, 2016 and decreased by 12% in the twelve months ended December 31, 2016 from the comparative periods due to decreases in emulsion and waste processing volumes.

Disposal volumes remained stable in the three months ended December 31, 2016 and decreased by 13% in the twelve months ended December 31, 2016 from the comparative periods due mainly to a decrease in flow back water from less completion activities and less disposal of drilling waste in Secure's landfills.

Recovery revenues increased 35% in the three months ended December 31, 2016 from the comparative period. The increase was driven by crude oil marketing activities at the Corporation's pipeline connected FSTs and the Alida crude oil terminalling facility, combined with the average crude oil price increase of 17% from the comparative period. The strong crude oil marketing revenues were partially offset by decreased recovered oil volumes and revenues from lower drilling and completion activity.

Recovery revenues decreased 16% in the twelve months ended December 31, 2016 from the comparative 2015 period due to lower recovered oil sales as a result of the factors described above, compounded by an 8% decrease in average crude oil prices. The impact on recovery revenues from recovered oil sales was partially mitigated by the Corporation's ability to capitalize on crude oil marketing opportunities at its pipeline connected FSTs and the Alida crude oil terminalling facility.

Oil purchase and resale revenue in the PRD division for the three and twelve months ended December 31, 2016 increased by 153% and 29% from the 2015 comparative periods to $405.9 million and $1,016.9 million. The increase is primarily due to additional oil and purchase resale volumes related to the newly acquired Alida facility and the increased ownership in the La Glace and Judy Creek FSTs, which in total accounted for 48% and 43% of oil purchase and resale revenue in the three and twelve months ended December 31, 2016.

### *Direct expenses (PRD division)*

Direct expenses from PRD services remained consistent for the three months ended December 31, 2016, and decreased by 23% for the twelve months ended December 31, 2016, from the comparative periods of 2015. The decrease in direct expenses relates primarily to the Corporation's ability to respond to higher activity levels while managing its fixed and variable costs, fewer fixed costs associated with Secure's rail operations as the Corporation has reduced the cost structure associated with the rail transloading facilities to best match current activity levels, upfront commissioning costs incurred in 2015 associated with the 13 Mile and Tulliby Lake FSTs, the Wonowon and Big Mountain SWDs, and the Rycroft FSR (only the Kakwa FST was commissioned in 2016), and a decrease in employment and other costs resulting from cost saving initiatives implemented by the Corporation in 2015 and 2016. In addition, the Corporation incurred $0.9 million and $1.2 million of severance and related costs in the three and twelve months ended December 31, 2015 as part of the cost saving initiatives discussed above which have contributed to the direct expense decrease from the twelve month comparative period. In the twelve months ended December 31, 2016, the Corporation incurred $0.6 million of severance and related costs, a 52% decrease from 2015.

Operating margin as a percentage of PRD services revenue for the three and twelve months ended December 31, 2016 increased to 58% and 54% from 53% and 51% in the comparative periods of 2015. The increase in operating margin as a percentage of revenue over 2015 is due to the cost saving initiatives implemented in 2015 and 2016, including reducing employment costs, reduced costs associated with the Corporation's rail transloading facilities, and the elimination of start-up costs associated with new facilities commissioned, partially offset by lower drilling and completion volumes, and reduced recovered oil sales. The Corporation's revised cost management structure has resulted in improved operating margins realized across various facilities including FSTs, SWDs and landfills. In the three and twelve months ended December 31, 2015, the PRD division incurred $0.9 million and $1.2 million of severance and related costs which impacted the comparative operating margin percentages by 2% and 1%, respectively. Severance costs of $0.6 million were incurred in the twelve months ended December 31, 2016, which impacted the operating margin percentage by 0.5%.

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

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| **Depreciation, depletion and amortization** | **28,506** | 27,884 | 2 | **77,231** | 81,379 | (5) |

Depreciation, depletion and amortization expense relates primarily to the PRD division's facilities and landfills and includes non-cash impairment as well as any gains or losses on sale or disposal of equipment. Included in expense for the three and twelve months ended December 31, 2016 is $8.0 million ($11.6 million and $11.8 million for the three and twelve months ended December 31, 2015, respectively) of impairment related to certain projects where the significant decline in commodity prices left uncertainty in the timing of their development plans, and for equipment withdrawn from active use in instances where they could not be repurposed or otherwise deployed.

Excluding the impairment noted above, for the three and twelve months ended December 31, 2016, depreciation, depletion and amortization expense has increased from the comparative periods in the prior year as a result of an increase to intangible assets and property, plant and equipment balances as a result of the 2016 PetroLama and JV acquisitions, new facilities commissioned or acquired, and other equipment put into use since the start of 2016.

### *General and Administrative Expenses (PRD division)*

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| **General and administrative expenses** | **2,856** | 5,195 | (45) | **12,821** | 23,948 | (46) |
| **% of PRD services revenue** | **5%** | 9% | | **6%** | 10% | |

General and administrative ("G&A") expenses for the three and twelve months ended December 31, 2016 decreased 45% and 46% from the 2015 comparative periods to $2.9 million and $12.8 million as cost saving initiatives undertaken during 2015 and 2016 are being realized. In the three and twelve months ended December 31, 2016, the Corporation incurred $nil and $0.5 million, respectively, in severance and related costs as part of its cost saving initiatives, compared to $0.4 million and $1.9 million in the three and twelve months ended December 31, 2015. The Corporation continues to minimize future costs by streamlining operations resulting in certain costs in the current year being re-allocated to the Corporate division.

## *DPS DIVISION OPERATIONS*

The DPS division consists of five complementary service lines that provide oil and gas producers with drilling fluids, fluids and solids control equipment, completion fluids, production chemicals and chemical EOR products.

Drilling fluid products are designed to optimize the efficiency of customer drilling operations through engineered solutions that improve drilling performance and penetration, while reducing non-productive time. Increasingly complex horizontal and directional drilling programs require experienced drilling fluid technical personnel who design adaptable drilling programs to meet the needs of drilling fluid customers. These programs can save customers significant amounts of money by proactively anticipating the drilling challenges the customers may encounter. The fluids and solids equipment service line works with the drilling fluids service line to ensure that the quality of drilling fluids used through the drilling cycle is maintained by continually processing and recycling the drilling fluids as they return to the surface. Fluids and solids equipment ensures the continual removal of drill cuttings and solids from the drilling fluid as well as provides a safe and more efficient way of storing oil based products in the "Target Tanks™", the Corporation's proprietary horizontal dual containment storage tanks. The current equipment fleet of high speed centrifuges, drying shakers, bead recovery units, "Target Tanks™", and ancillary equipment are offered as a stand-alone package or as part of an integrated drilling fluids and rentals package. The Corporation's production services, comprised of the completion fluids, production chemicals and chemical EOR service lines, provide equipment and chemical solutions that optimize production, provide flow assurance and maintain the integrity of production assets. Secure's production solutions help solve customer production issues by providing tailored solutions at both the field level and at the Corporation's 7,000 sq. ft. fully equipped, state of the art research laboratory in Calgary, Alberta. The focus on testing, research and new product development conducted at the laboratory allows Secure to provide unique and tailored products to customers.

| ($000's) | Three months ended Dec 31, 2016 | 2015 | % Change | Twelve months ended Dec 31, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Drilling and production services (a) | 38,063 | 42,153 | (10) | 111,329 | 192,076 | (42) |
| **Direct expenses** | | | | | | |
| Drilling and production services (b) | 31,776 | 36,248 | (12) | 95,516 | 165,981 | (42) |
| **Operating Margin [(1)] (a-b)** | 6,287 | 5,905 | 6 | 15,813 | 26,095 | (39) |
| **Operating Margin [(1)] as a % of revenue (a)** | 17% | 14% | | 14% | 14% | |

[(1)] **Refer to "*Non-GAAP measures*" for further information.**

## *Revenue (DPS division)*

Revenue in the DPS division correlates with oil and gas drilling activity in the WCSB, most notably active rig counts and metres drilled. Commodity pricing, weather conditions and the resulting drop off in activity levels from oil and gas producers had a significant impact on the DPS division in 2016. For the three months ended December 31, 2016, industry rig counts in the WCSB increased 8% and metres drilled increased 32% from the 2015 comparative periods. For the twelve months ended December 31, 2016, industry rig counts and metres drilled in the WCSB declined 33% and 23% from the 2015 comparative periods, respectively. With compressed industry activity throughout the year combined with pricing pressures on services and rental rates, revenue from the DPS division for the three and twelve months ended December 31, 2016 decreased 10% and 42% to $38.1 million and $111.3 million from the comparative periods of 2015. Average crude oil prices increases and improved weather conditions during the three months ended December 31, 2016 compared to the 2015 comparative period drove increased industry activity strengthening the DPS division's revenue in the latter part of the fourth quarter of 2016.

Revenue per operating day decreased slightly to $6,877 and $7,279 during the three and twelve months ended December 31, 2016 compared to the same periods in 2015 which generated revenue of $7,171 and $7,481 per operating day. The variance is a result of the proportion of type of rigs serviced, which typically fluctuates quarter over quarter, and location of wells which impacts the type of fluid used and depth of well. In general, the DPS division has experienced increasing drilling fluids revenue per operating day over the past few years as a result of the industry trend towards drilling longer and more challenging wells which require specialty drilling fluids.

The DPS division's market share decreased slightly to 29% in the three and twelve months ended December 31, 2016 from the comparative periods in 2015 (31% and 30%, respectively). During periods when the total rig count is low, the timing of one customer's drilling activities can have a significant impact on market share.

Secure continues diversification efforts in the DPS division through expansion of the Production Chemicals and Chemical EOR service lines which will benefit the Corporation in the medium to long-term. Strategic relationships with key suppliers and ongoing product development has resulted in a significant expansion to Secure's product offering resulting in multiple commercial projects in 2016.

## *Direct expenses (DPS division)*

The DPS division's direct expenses for the three and twelve months ended December 31, 2016 decreased by 12% and 42% to $31.8 million and $95.5 million from the 2015 comparative periods. Overall, the decrease in direct expenses from the 2015 periods was primarily due to decreased activity levels and the realization of cost saving initiatives implemented in 2015 and 2016.

The DPS division's operating margin for the three months ended December 31, 2016 increased 6% from the 2015 comparative period to $6.3 million. Operating margin for the twelve months ended December 31, 2016 decreased 39% from 2015 to $15.8 million. In the 2015 three and twelve month comparative periods the Corporation incurred $1.8 million and $5.9 million in restructuring costs related to the wind down of the DPS operations in the U.S., and $0.1 million and $2.9 million in severance and related costs and inventory impairment. The DPS division incurred $0.8 million in comparable charges in the twelve months ended December 31, 2016.

Operating margin as a percentage of revenue increased to 17% in the three months ended December 31, 2016 from 14% in the comparative period, and remained consistent at 14% for the twelve months ended December 31, 2016. Offsetting the impact of the restructuring and severance charges discussed above, 2016 operating margins as a percentage of revenue were negatively impacted by reduced equipment utilization, the economies of scale required to operate the division's barite plant and price discounts provided to customers.

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

| ($000's) | Three months ended Dec 31, 2016 | 2015 | % Change | Twelve months ended Dec 31, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| Depreciation and amortization | 4,865 | 11,954 | (59) | 21,288 | 30,621 | (30) |

Depreciation and amortization expense relates primarily to intangible assets resulting from acquisitions, and rental equipment, and includes non-cash impairment as well as any gains or losses on sale or disposal of equipment. In the fourth quarter of 2015, the Corporation recorded impairment of $6.2 million on projects in the DPS division where the industry activity levels left uncertainty in the timing of their development plans. No further impairment was recorded in 2016.

Excluding the prior year impairment charge, depreciation and amortization expense decreased 15% and 13% in the three and twelve months ended December 31, 2016 from the 2015 comparative periods primarily as a result of asset disposals from the U.S. operations in 2015 which has reduced the asset carrying balance and the resulting depreciation expense, partially offset by increased amortization expense resulting from an acquisition completed in the third quarter of 2015, and a reduction to the useful life of certain customer relationship intangible assets (and the resulting increase in amortization expense) at January 1, 2016 in light of the current economic environment (refer to Note 3 of the Consolidated Financial Statements).

### *General and Administrative Expenses (DPS division)*

| ($000's) | Three months ended Dec 31, 2016 | 2015 | % Change | Twelve months ended Dec 31, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| General and administrative expenses | 2,640 | 5,294 | (50) | 10,995 | 25,564 | (57) |
| % of DPS division revenue | 7% | 13% | | 10% | 13% | |

G&A expense for the three and twelve months ended December 31, 2016 decreased 50% and 57% from the comparative periods of 2015 as a result of cost saving initiatives undertaken during 2015 and 2016. In the three and twelve month 2015 comparative periods, the Corporation incurred $1.1 million and $6.2 million including severance costs, and restructuring costs related to the wind down of DPS operations in the U.S.

The Corporation continues to minimize future costs by streamlining operations in the current oil and gas price environment. As part of these initiatives, certain costs in the current year have been re-allocated to the Corporate division.

## *OS DIVISION OPERATIONS*

The OS division has three main service lines: Projects; Environmental services; and Integrated Fluids Solutions.

### *Projects:*

Projects provide pipeline integrity (inspection, excavation, repair, replacement and rehabilitation), demolition and decommissioning, and remediation and reclamation of former wellsites, facilities, commercial and industrial properties, and environmental construction projects (landfills, containment ponds, subsurface containment walls, etc.).

### *Environmental services:*

Environmental services provides pre-drilling assessment planning, drilling waste management, remediation and reclamation assessment services, NORM management, waste container services and emergency response services.

### *Integrated fluid solutions:*

Integrated fluid solutions include fluid management and treatment, recycling, pumping and storage solutions.

| ($000's) | Three months ended Dec 31, 2016 | 2015 | % Change | Twelve months ended Dec 31, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| OnSite services (a) | 24,533 | 32,446 | (24) | 83,017 | 126,088 | (34) |
| **Direct expenses** | | | | | | |
| OnSite services (b) | 19,535 | 23,614 | (17) | 63,180 | 93,961 | (33) |
| **Operating Margin (1) (a-b)** | 4,998 | 8,832 | (43) | 19,837 | 32,127 | (38) |
| **Operating Margin (1) as a % of revenue (a)** | 20% | 27% | | 24% | 25% | |

(1) **Refer to "*Non-GAAP measures*" for further information.**

### *Revenue (OS division)*

Diversified service lines, integrated service offerings and organic growth partially mitigated reduced activity driven by wet weather conditions and low commodity prices, resulting in a 24% and 34% decrease in revenue to $24.5 million and $83.0 million in the three and twelve months ended December 31, 2016.

Projects revenue during the three and twelve months ended December 31, 2016 decreased 17% and 39% from the 2015 comparative periods. Projects revenue is dependent on the type and size of jobs which can vary quarter to quarter. Projects completed significant demolition and remediation jobs during 2015; similar scale jobs were not repeated in 2016 and weather and site conditions postponed several projects into 2017 that were scheduled for the fourth quarter of 2016. Partially offsetting the decrease was revenue generated from new services which include non-oil and gas related industries and abandonment services, geographic expansion, and a 31% increase in pipeline integrity activity in the three months ended December 31, 2016 from the comparative period. The Projects service line is continuing to bid on the larger scale jobs as producers revise their capital spending due to increased commodity prices.

Environmental services revenue for the three and twelve months ended December 31, 2016 decreased 44% and 37% from the 2015 comparative periods primarily due to reduced reclamation and remediation revenue resulting from deferred customer spending created by low commodity prices. Drilling waste revenue has also decreased due to lower drilling activity combined with pricing reductions. This lack of activity has produced a competitive pricing environment for drill waste services. These decreases were partially offset by revenue generated from an emergency response job managed by the drill waste group, and by increased bin revenue in the three and twelve months ended December 31, 2016 compared to the same periods in 2015 resulting from geographic expansion and growth in NORM related solution services.

Integrated fluids solutions revenue for the three and twelve months ended December 31, 2016 decreased approximately 50% and 31% from the 2015 comparative periods. Revenue decreased primarily due to lower customer field activity from continued depressed commodity prices. Wet weather conditions limiting field access in the third quarter and lower than anticipated activity during spring break-up decreased rental equipment utilization. Revenue has also been impacted in 2016 from competitive pricing pressure as a result of lower industry activity.

### *Direct expenses (OS division)*

Direct expenses for the three and twelve months ended December 31, 2016 decreased 17% and 33% to $19.5 million and $63.2 million from the 2015 comparative periods. Overall, the variance in direct expenses was a direct result of the change in activity levels from the 2015 comparative periods. Additionally, operating overhead expenses have been reduced in order to match activity levels. These reductions were partially offset by operating expenses associated with new service lines offered by the OS division this year.

The three and twelve months ended December 31, 2016 operating margin in the OS division of $5.0 million and $19.8 million was lower than the prior year comparative periods due primarily to decreased revenues. The operating margin as a percentage of revenue for the OS division in the three and twelve months ended December 31, 2016 was 20% and 24%, a decrease from 27% and 25% in the comparative 2015 periods. The OS division’s operating margin as a percentage of revenue fluctuates depending on the volume and type of projects undertaken and the blend of business between remediation and reclamation projects, demolition projects, pipeline integrity projects, site clean-up, and other services in any given period. As a percentage of revenue, the decreased operating margin in the three and twelve months ended December 31, 2016 resulted from reduced large scale work in the Projects service line, an overall mix of lower margin projects, and costs to add or expand services within the division.

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

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Depreciation and amortization | 3,156 | 3,538 | (11) | 13,286 | 13,616 | (2) |

Depreciation and amortization expense relates primarily to heavy duty field and rental equipment required to execute the OS division’s services, and intangible assets arising from acquisitions. Depreciation and amortization expense for the three and twelve months ended December 31, 2016 was relatively consistent with the 2015 comparative periods.

## General and Administrative Expenses (OS division)

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| General and administrative expenses | 1,892 | 2,382 | (21) | 6,520 | 8,707 | (25) |
| % of OnSite services revenue | 8% | 7% | | 8% | 7% | |

G&A expenses for the three months and twelve months ended December 31, 2016 decreased 21% and 25% from the 2015 comparative periods to $1.9 million and $6.5 million due to re-allocating certain costs to the Corporate division and cost saving initiatives.

## CORPORATE INCOME AND EXPENSES

### Corporate General and Administrative Expenses

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| General and administrative expenses | 3,913 | 1,268 | 209 | 14,146 | 5,192 | 172 |

Included in corporate G&A expenses are all public company costs, salaries, and office costs relating to corporate employees and officers, as well as additional support services that are shared across all three operational business units. Compared to the same periods in 2015, corporate G&A expenses increased $2.6 million and $9.0 million in the three and twelve months ended December 31, 2016 as a result of consolidating certain support functions from the divisions to the Corporate division following restructuring efforts in response to the reduction in oil and gas activity levels to reduce costs across the organization as a whole. During 2015, these costs were allocated to the three operating segments, but have been aggregated under the Corporate division for 2016. On a consolidated basis, the Corporation's G&A expenses have been reduced by 20% and 30% in the three and twelve months ended December 31, 2016 compared to the same periods in 2015 as a result of reducing the head count, reductions in employment costs, including employee's discretionary reductions in salary in lieu of Compensation Share Units ("CSUs"), and reduced spending on non-essential expenses.

### Share-based Compensation

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Share-based compensation | 7,559 | 3,954 | 91 | 25,158 | 19,829 | 27 |

Share-based compensation for the three and twelve months ended December 31, 2016 was $7.6 million and $25.2 million compared to $4.0 million and $19.8 million in the comparative periods of 2015. Share-based compensation fluctuates based on timing of grants and any forfeitures of share-based awards, the effects of vesting, and changes in share price.

The increase in share-based compensation for the three and twelve months ended December 31, 2016 was driven by the addition of CSU awards in 2016, the effects of vesting and changes in the Corporation's share price. The Corporation received shareholder approval in the second quarter of 2016 to grant CSUs to employees who elected to forego a portion of their cash compensation in exchange for CSUs. Refer to Note 14 of the Consolidated Financial Statements for more information related to these awards.

## Business Development Expenses

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Business development | 1,265 | 2,411 | (48) | 5,401 | 11,649 | (54) |

Business development expenses for the three and twelve months ended December 31, 2016 decreased 48% and 54% to $1.3 million and $5.4 million from the comparative periods of 2015. Business development expenses include prospect costs associated with organic growth and acquisition opportunities in Canada and the U.S. and research and development costs. Business development expenses decreased for the three and twelve months ended December 31, 2016 due to the realization of cost reduction measures taken in 2015 as a response to the reduction in oil and gas activity levels, partially offset by costs associated with the PetroLama and JV Acquisitions. In addition, the twelve month period ended December 31, 2016 included severance and related costs of $0.2 million compared to $1.0 million in 2015.

Secure's business development team has continued to advance certain organic projects and regulatory approvals to ensure they are project ready to position Secure for continued market share growth and an expanded geographical presence. As discussed in the '*Operational and Financial Highlights*', Secure continues to actively pursue various acquisition opportunities as the current economic environment has enabled Secure to identify prospects that would complement Secure's existing service lines, increase market share, and expand geographical presence. Secure also continues to focus on research and development projects to expand the value chain of services offered to customers, and to provide innovative and cost effective solutions to reduce waste in the drilling and production processes.

## Interest and Finance Costs

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Interest and finance costs | 2,278 | 2,052 | 11 | 9,871 | 10,517 | (6) |

Interest and finance costs includes interest expense, amortization of financing fees, accretion expense realized with the passage of time on onerous lease contracts, and all realized and unrealized foreign exchange differences arising from translation gains and losses that are not recorded to other comprehensive loss. Excluding the foreign exchange impact included in interest and finance costs, the variance in the balance in the three and twelve months ended December 31, 2016 compared to the same periods in 2015 is a direct result of the fluctuation in the average balance drawn on the credit facility. The average long-term borrowings balance decreased 21% and 29% in the three and twelve months ended December 31, 2016 from the 2015 comparative periods.

## Foreign Currency Translation Adjustment

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| ($000's) | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| Foreign currency translation gain (loss), net of tax | 4,013 | (837) | (579) | (4,354) | 21,774 | (120) |

Included in other comprehensive loss is income of $4.0 million and a loss of $4.4 million for the three and twelve months ended December 31, 2016 related to foreign currency translation adjustments resulting from the conversion of the assets, liabilities and financial results of the Corporation's ongoing U.S. operations as at December 31, 2016. The foreign currency translation adjustment included in the consolidated statements of comprehensive loss does not impact net loss for the period.

## *Income Taxes*

| ($000's) | Three months ended Dec 31, 2016 | 2015 | % Change | Twelve months ended Dec 31, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| **Income taxes** | | | | | | |
| Current tax recovery | **(1,476)** | (3,766) | (61) | **(13,169)** | (10,110) | 30 |
| Deferred tax expense (recovery) | **(567)** | (6,334) | (91) | **5,399** | (13,950) | (139) |
| **Total income tax recovery** | **(2,043)** | (10,100) | (80) | **(7,770)** | (24,060) | (68) |

Income taxes for the three and twelve months ended December 31, 2016 was a recovery of $2.0 million and $7.8 million compared to $10.1 million and $24.1 million in the 2015 comparative periods. The change in overall income tax recovery is due primarily to a lower net loss before tax in the three and twelve months ended December 31, 2016 compared to the 2015 comparative periods.

## *Impairment*

| ($000's) | Three months ended Dec 31, 2016 | 2015 | % Change | Twelve months ended Dec 31, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| **Impairment** | **-** | 81,013 | (100) | **-** | 139,752 | (100) |

With the significant decline in oil and natural gas prices beginning in late 2014 and the resulting decrease in industry activity throughout 2015, the Corporation realized impairment in the three months ended December 31, 2015 on the goodwill carried in the DPS division ($70.1 million) and goodwill related to the acquisition of two U.S. PRD facilities in 2012 ($10.9 million).

For the year ended December 31, 2015, Secure recorded total impairment related to intangible assets and goodwill of $139.8 million. In addition to the above, this included impairment recorded in the third quarter of 2015 on the goodwill ($21.2 million) and intangible assets ($33.0 million) originally recorded on the acquisition of a crude by rail company in 2014. Management is of the opinion that the rail facilities remain as a key alternative for pipelines. However, the uncertainty surrounding oil and gas prices and activity created an environment where these assets were considered impaired for accounting purposes. During the year ended December 31, 2015, the Corporation also recorded impairment on intangible assets related to winding down the drilling service operations in the U.S. A summary of the total impairment recorded in the twelve months ended December 31, 2015 is as follows:

| ($000's) | Goodwill | Intangibles | Total |
|---|---|---|---|
| DPS | 70,125 | 4,529 | **74,654** |
| PRD | 32,075 | 33,023 | **65,098** |
| **Total Impairment** | 102,200 | 37,552 | **139,752** |

The Corporation used the value in use method to determine the recoverable amount of its cash generating units ("CGUs") determined by using discounted cash flows. The Corporation used a pre-tax discount rate range of 16.5% to 18.4% and a terminal growth rate of 4%. The estimated cash flows were based on the 2015 run rate with revenue and margins changing in correlation with the anticipated oil and gas industry activity based on oil price projections over the following five years, and a terminal value thereafter was applied.

During 2016, Secure reviewed its CGUs for indicators of impairment at each period end. As a result of improved commodity prices and activity levels, the Corporation determined there were no indications of impairment present. At December 31, 2016, in accordance with IFRS, the Corporation completed its annual impairment assessment for any CGU whose net carrying value includes goodwill, irrespective of whether indications of impairment were present. For the three impairment tests performed in the PRD and OS divisions, the estimated recoverable amount determined using value in use exceeded the carrying value of the CGU; and as such, no impairment resulted.

## *Other Income*

| ($000's) | Three months ended Dec 31, 2016 | 2015 | % Change | Twelve months ended Dec 31, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| **Other income** | **-** | 6,529 | 100 | **-** | 6,529 | 100 |

Other income for the three and twelve months ended December 31, 2015 of $6.5 million is comprised of a $12.3 million gain related to the transfer of cumulative foreign exchange differences from accumulated other comprehensive loss to net loss upon substantial liquidation of the DPS U.S. operations in the fourth quarter of 2015, partially offset by a provision of $5.8 million recorded for onerous office lease contracts. The Corporation reviewed the provision recorded for onerous office lease contracts at each period end during 2016 and determined no revisions were required.

## SUMMARY OF QUARTERLY RESULTS

### Seasonality

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

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

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue (excluding oil purchase and resale) | 124,584 | 100,160 | 66,148 | 102,267 | 129,770 | 148,943 | 112,533 | 169,652 |
| Oil purchase and resale | 405,939 | 301,640 | 202,460 | 106,865 | 160,203 | 184,393 | 244,036 | 196,895 |
| **Total Revenue** | 530,523 | 401,800 | 268,608 | 209,132 | 289,973 | 333,336 | 356,569 | 366,547 |
| Net loss for the period | (10,075) | (8,121) | (20,681) | (10,066) | (86,825) | (53,042) | (16,780) | (3,223) |
| Loss per share - basic and diluted | (0.06) | (0.05) | (0.13) | (0.07) | (0.63) | (0.39) | (0.12) | (0.03) |
| Adjusted net (loss) earnings [1] | (11,430) | (7,617) | (20,467) | (8,598) | (14,650) | (1,563) | (14,809) | 856 |
| Loss (earnings) per share adjusted - basic | (0.07) | (0.05) | (0.13) | (0.06) | (0.11) | (0.01) | (0.11) | 0.01 |
| Weighted average shares - basic and diluted | 160,314,786 | 159,618,869 | 158,437,296 | 140,015,143 | 137,500,242 | 136,944,300 | 136,186,284 | 122,689,850 |
| Adjusted EBITDA [1] | 33,046 | 27,431 | 8,540 | 25,083 | 31,808 | 35,362 | 19,446 | 40,036 |

**(1) Refer to "*Non-GAAP measures*" for further information.**

### Quarterly Review Summary

As illustrated above, quarterly performance is affected by seasonal variation; however, with Secure's historical growth and acquisitions, variations in quarterly results extend beyond seasonal factors. The significant decrease in the price of crude oil and natural gas commencing in the fourth quarter of 2014 and the continued volatility in pricing has significantly reduced oil and gas industry activity. During 2015 and 2016, the Corporation's customers have significantly reduced capital budgets in response to uncertainty in the price of crude oil and natural gas. The reductions have impacted the results in 2015 and 2016 which are further explained in the commentary provided under '*Results of operations for the three and twelve months ended December 31, 2016*'.

Each previous quarter was also impacted by the date at which an acquisition occurred or any one of the constructed or acquired FSTs, SWDs or landfills commenced operations. For a complete description of Secure's PRD, DPS, and OS division business assets and operations, please refer to the headings '*Secure Energy Services Inc.*', and '*Description of Business*' in the AIF which includes a description of the date of acquisitions or on which each of Secure's facilities commenced operations.

The following summarizes the facilities commissioned and acquisitions completed in 2015 and 2016 that have impacted the quarterly results for the past two years: In the first quarter of 2015, the Corporation commissioned the Tulliby Lake FST, the 13 Mile FST conversion and the Rycroft FSR. In the second quarter of 2015, the Corporation commissioned the Big Mountain and Wonowon SWDs, and expanded the Rycroft FSR to include water disposal services. During the third quarter of 2015, the Corporation acquired the assets of a private drilling fluids company. During the second quarter of 2016, Secure completed the acquisition of all the operating assets of PetroLama, including the Alida terminal. During the third quarter of 2016, Secure acquired the outstanding 50% interest in the La Glace and Judy Creek joint ventures, and opened the Kakwa FST.

In addition to when the facility commenced operating activities or was acquired, the quarters were also impacted by the length of time required for several oil and natural gas producers to conduct their own individual audits of the facilities to ensure Secure meets all required internal specifications for disposal of oilfield waste. This process is conducted at all landfills, FSTs and SWDs before a producer will begin sending waste. Depending on the producer, this process can take several months.

By offering the oil purchase and resale service, Secure's customers gain efficiencies in transportation and handling of their crude oil to the pipeline. Revenue from this service has been directly impacted by the decrease in oil prices and resulting decrease in volumes purchased and sold.

## LIQUIDITY AND CAPITAL RESOURCES

The Corporation's objective in capital program management is to ensure adequate sources of capital are available to carry out its capital plan, while maintaining operational growth, payment of dividends and stable cash flow so as to sustain future development of the business.

Management considers capital to be the Corporation's net debt and shareholders' equity. The Corporation's overall capital management strategy remains unchanged from prior periods. Management controls its capital structure through detailed forecasting and budgeting, as well as established policies and processes over monitoring planned capital and operating expenditures. This includes the Board of Directors reviewing the Corporation's results on a monthly basis, and capital costs to budget and approved authorizations for expenditures on a quarterly basis. The key measures management uses to monitor its capital structure are actual capital expenditures compared to authorized budgets, Adjusted EBITDA on all of its operations, and return on investment.

The amount drawn on Secure's credit facility decreased by 20% to $209.0 million at December 31, 2016 compared to $262.0 million at December 31, 2015. The decrease is primarily related to the bought deal offering completed during the first quarter of 2016 for gross proceeds of $149.6 million, offset by the cash consideration related to the PetroLama and JV Acquisitions. Refer to the '*Financing Activities*' section below for further information with regards to net debt.

Issued capital increased by 21% to $1.0 billion at December 31, 2016 compared to $851.5 million at December 31, 2015, primarily as a result of the bought deal offering discussed above.

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. The Corporation manages its liquidity risk through cash and debt management. Management's assessment of the Corporation's liquidity reflects estimates, assumptions and judgments relating to current market conditions. The Corporation intends to fund its operations, working capital requirements, dividends and capital program primarily with cash flow from operations and its credit facility. At December 31, 2016, the Corporation had $455.3 million available under its credit facility, subject to covenant restrictions.

The Corporation's credit facility requires that Secure maintain certain coverage ratios, as follows:

- The Senior Debt to EBITDA Ratio shall not exceed 3.5:1;
- The Total Debt to EBITDA Ratio shall not exceed 5.0:1; and
- The Interest Coverage Ratio, defined as EBITDA divided by interest expense on Total Debt, shall not be less than 2.5:1.

As per the Corporation's credit facility at December 31, 2016, Senior Debt includes amounts drawn on the revolving credit facility and finance leases. Total Debt is equal to Senior Debt plus any unsecured debt, excluding any convertible debentures. EBITDA is adjusted for non-recurring losses, any non-cash impairment charges, any other non-cash charges, and acquisitions on a pro-forma trailing twelve month basis. The Corporation did not have any unsecured debt at December 31, 2016 and as a result, Total Debt was equal to Senior Debt. At December 31, 2016, Secure was in compliance with all covenant requirements under the Corporation's credit facility. The following table outlines the Corporation's coverage ratios as at December 31, 2016 and 2015.

| | Dec 31, 2016 | Dec 31, 2015 | % Change |
|---|---|---|---|
| Senior debt to EBITDA | 2.2 | 2.2 | - |
| Total debt to EBITDA | 2.2 | 2.2 | - |
| Interest coverage | 8.5 | 10.2 | (17) |

Management expects that the Corporation has sufficient liquidity and capital resources to meet the Corporation's obligations and commitments while managing within these covenants. However, current oil and gas prices and industry activity have created a significant level of uncertainty in our industry which may challenge the assumptions and estimates used in the Corporation's forecasts. In light of this uncertainty, Secure will continue its prudent approach to capital spending and reduce operating costs where it does not impact safety, operations and environmental performance. To meet financial obligations, the Corporation may also adjust its dividends, draw on its existing credit facility up to the covenant restrictions, divest assets, issue subordinated debt, or obtain equity financing. While the Corporation has had success in obtaining financing in the past, access to capital may be more difficult in the current economic and operating environment. Refer to the '*Access to Capital*' discussion in the '*Business Risks'* section of this MD&A.

The following provides a summary and comparative of the Corporation's operating, investing and financing cash flows for the three and twelve months ended December 31, 2016 and 2015.

### *Funds from Operations*

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| Funds from operations (1) | **33,978** | 25,631 | 33 | **97,291** | 89,905 | 8 |

(1) **Refer to "*Additional subtotals*" for further information.**

Funds from operations for the three and twelve months ended December 31, 2016 increased to $34.0 million and $97.3 million from $25.6 million and $89.9 million in the 2015 comparative periods. Funds from operations for the three and twelve month periods ended December 31, 2016 were positively impacted compared to the 2015 comparative periods primarily due to income tax instalments recovered, while lower Adjusted EBITDA partially offset this increase in the twelve month period.

### *Investing Activities*

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| Capital expenditures (1) | | | | | | |
| Growth and expansion capital expenditures | **11,237** | 25,085 | (55) | **46,623** | 103,180 | (55) |
| Business acquisitions | **-** | - | - | **88,228** | 3,272 | 2,596 |
| Sustaining capital expenditures | **4,171** | 4,274 | (2) | **16,026** | 11,066 | 45 |
| Total capital expenditures | **15,408** | 29,359 | (48) | **150,877** | 117,518 | 28 |

(1) **Refer to "*Operational definitions*" for further information.**

The Corporation's growth and expansion capital expenditures for the three months ended December 31, 2016 decreased 55% to $11.2 million from the comparative period of 2015. Secure employs a prudent approach to capital spending and will continue to evaluate and allocate capital to projects which will generate the highest rates of return. The decrease in growth and expansion capital expenditures compared to the previous period is a result of Secure's careful management of capital expenditures and maintenance of prudent debt levels in response to the current oil and gas price environment.

Growth and expansion capital expenditures for the three months ended December 31, 2016 related primarily to expansions at the Fox Creek landfill and Kindersley FST. In the comparative period of 2015, the Corporation incurred costs at existing PRD facilities to increase capacity and progressed construction of the Kakwa FST.

Growth and expansion capital expenditures for 2016 related primarily to the construction of the Kakwa FST and expansions at existing PRD facilities to increase capacity, which included adding disposal wells at the Kaybob and Big Mountain SWDs, expanding the Kindersley FST, and cell capacity at the South Grande Prairie and Fox Creek landfills. In the comparative period, the Corporation completed and commissioned the Tulliby Lake FST, 13 Mile FST conversion, Wonowon and Big Mountain SWDs, and the Rycroft FSR, commenced construction of the Kakwa FST, progressed pre-development for new facilities, expanded certain existing facilities, drilled two disposal wells, and acquired rental equipment for specific OS division projects.

During 2016, the Corporation completed the PetroLama and JV Acquisitions for total cash consideration of $88.2 million. During the comparative period, the Corporation completed one small acquisition in the DPS division for total cash consideration of $3.3 million.

During the three and twelve months ended December 31, 2016, sustaining capital was $4.2 million and $16.0 million compared to $4.3 million and $11.1 million for the 2015 comparative periods. Sustaining capital in the period related primarily to maintenance on Secure's disposal wells. Sustaining capital is typically minimal in the first two years of operation of a facility because each facility is constructed with new or refurbished equipment. Sustaining capital typically relates to pump and riser replacements or upgrades, and disposal well maintenance. As a facility matures, the amount of sustaining capital required increases.

### *Financing Activities*

| | Three months ended Dec 31, | | | Twelve months ended Dec 31, | | |
|---|---|---|---|---|---|---|
| **($000's)** | **2016** | **2015** | **% Change** | **2016** | **2015** | **% Change** |
| Shares issued, net of share issue costs | **2,290** | 615 | 272 | **147,785** | 198,501 | (26) |
| Draw (repayment) on credit facility | **7,000** | 4,000 | 75 | **(53,000)** | (136,500) | (61) |
| Financing fees | **-** | - | - | **-** | (525) | (100) |
| Capital lease obligation | **(1,974)** | (4,004) | (51) | **(11,076)** | (12,937) | (14) |
| Dividends paid | **(5,861)** | (5,903) | (1) | **(23,444)** | (24,810) | (6) |
| Net cash flow from financing activities | **1,455** | (5,292) | (127) | **60,265** | 23,729 | 154 |

On March 22, 2016, the Corporation closed a bought deal financing with a syndicate of underwriters for the purchase of 19,550,000 Common Shares (including overallotment) at a price of $7.65 per Common Share for gross proceeds of $149.6 million. In connection with the Offering, the Corporation incurred approximately $6.6 million in underwriter fees and transaction costs.

In addition, the Corporation has issued Common Shares related to the PetroLama Acquisition, the exercise of stock options, and vesting of Restricted Share Units and CSUs issued by the Corporation. Refer to Note 14 in the Consolidated Financial Statements for more information on the Corporation's share-based awards.

As at December 31, 2016, the Corporation had drawn $209.0 million on its credit facility compared to $262.0 million as at December 31, 2015. The decrease in the amount drawn primarily relates to the bought deal offering completed in the first quarter and funds generated from operations over funds required for acquisitions, capital expenditures, working capital requirements, interest, taxes and dividends. As at December 31, 2016, the Corporation had $455.3 million available under its credit facility, subject to covenant restrictions. The Corporation is well positioned, based on the available amount of its Revolver and expected funds from operations, to pursue further accretive acquisition opportunities and execute on the 2017 capital program. At December 31, 2016, the Corporation was in compliance with all covenants.

During the three and twelve months ended December 31, 2016, the Corporation declared dividends of $9.6 million and $37.0 million to holders of common shares. Of the dividends declared for the three and twelve months ended December 31, 2016, $3.7 million and $13.5 million were reinvested in additional common shares through the Corporation's Dividend Reinvestment Plan ("DRIP"). Management and the Board of Directors of the Corporation will monitor the Corporation's dividend policy with respect to forecasted Adjusted EBITDA, total and net debt, capital expenditures and other investment opportunities.

Subsequent to December 31, 2016, the Corporation declared dividends to holders of common shares in the amount of $0.02 per common share payable on January 15, February 15, and March 15, 2017, for shareholders of record on January 1, February 1, and March 1, 2017, respectively.

Commencing with the April 1, 2017 dividend declaration, the Corporation will suspend its DRIP. Shareholders participating in the DRIP at that time will receive cash dividends starting with the April 17, 2017 dividend payment date.

### *Contractual Obligations*

Refer to Note 22 of the Consolidated Financial Statements for disclosure related to contractual obligations.

## BUSINESS RISKS

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

### Volatility of Industry Activity and Oil and Natural Gas Prices

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

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

### Market Conditions

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

### Global Financial Conditions

Global financial conditions include the commodity and equity markets that have been volatile as investors react to changes in the global economy. As a result of these global conditions, the Corporation is subject to increased counterparty risk and liquidity risk. The Corporation is exposed to various counterparty risks including, but not limited to: (i) financial institutions that hold the cash of the Corporation or provide available funding on the credit facility; and (ii) the insurance providers of the Corporation. As a result, the cash of the Corporation may become exposed to credit related losses in the event of non-performance by counterparties to these financial instruments. In the event that a counterparty fails to complete its obligations, the Corporation would bear the risk of loss of the amount expected to be received under these financial instruments in the event of the default or bankruptcy of a counterparty.

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

### Governmental Regulation

In addition to environmental regulations, the Corporation's operations are subject to a variety of other federal, provincial, state and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, and the manufacture, management, transportation including the shipment of crude oil by rail, storage, and disposal of certain materials used in the Corporation's operations. In addition, the Corporation's securities are being sold in

Canada and are listed on the TSX, and the Corporation is accordingly subject to regulation by Canadian securities regulators and Canadian federal and provincial laws and regulations. Although regulatory expenditures have not, historically, been material to the Corporation, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for the Corporation to predict the cost or effect of such laws, regulations or guidelines on the Corporation's future operations.

### *Transportation of Dangerous Goods*

The Corporation transports various petroleum products by rail and truck. These petroleum products are considered dangerous goods under transportation of dangerous goods legislation. When Secure loads petroleum products, it may be considered the consignor, in which case it has specific responsibilities under the applicable laws, including the responsibility to ensure that the product is properly classified, the shipment is properly labelled and the product is loaded in an appropriate tank. Secure also owns and operates rail infrastructure and must comply with applicable laws relating to the maintenance and inspection of these facilities. Secure may face liability for personal injuries, damage to property, environmental damage, lost product in the event of an incident involving rail cars or trucks loaded by Secure, where Secure is the consignor or importer of the product, where Secure owns the product that is involved in an incident, or where an incident occurs on Secure's rail infrastructure. In addition, Secure may be exposed to regulatory action in the event that it fails to comply with transportation of dangerous goods laws.

### *Competitive Conditions*

The Corporation competes with a number of outsourcing companies, and oil and gas producers. The western Canadian market for the PRD division includes a few smaller competitors with less than 15 locations and two larger competitors with greater than 15 locations, Tervita Corporation and Newalta Corporation. There can be no assurance that competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of the Corporation, or that new or existing competitors will not enter the various markets in which the Corporation is active. In addition, reduced levels of activity in the oil and natural gas industry could intensify competition and the pressure on competitive pricing and may result in lower revenues or margins to the Corporation in all divisions. The Corporation's customers may elect not to purchase its services if they view the Corporation's financial viability as unacceptable, which would cause the Corporation to lose customers.

### *Merger and Acquisition Activity*

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

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

### *Commodity Price Risk – Non-Trading*

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

### *Crude Oil Marketing and Commodity Price Risk – Trading*

The Corporation is exposed to operating and commodity price risk at its FSTs that purchase and sell crude oil, the Alida crude oil terminalling facility, and at its rail facilities. Operating risk relates to factors that include but are not limited to pipeline apportionment, pipeline specifications regarding the quality of crude that is shipped down the pipeline, pipeline breaks at the Corporation's facility, and crude oil volumes actually received versus forecast. In addition, the Corporation's ability to generate crude oil marketing profits is also based on the type of crude oil type entering the facility and the associated commodity price of that crude oil. Any change to differentials can have a positive or negative impact to the Corporation's ability to generate crude oil marketing and rail transloading profits in the future. In order to maximize on crude oil marketing opportunities, the Corporation enters into crude oil contracts. The physical trading activities related to crude oil marketing contracts exposes the Corporation to the risk of profit or loss depending on a variety of factors including: changes in the commodity price; 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; unauthorized trading; and counterparty performance as a result of disagreements over terms of deals and/or contracts. The oil and gas producer forecasts or nominates crude oil volumes expected to be delivered to the Corporation's facilities in advance of the production month as part of normal oil and gas operations. As part of the Corporation's processing and facility operations, Secure will use net buy and net sell crude oil contracts for marketing and trading of crude oil. The volume purchased or sold relates to physical volumes only. Through this process, the Corporation may hold open positions. The Corporation defines an "open position" as the difference between physical deliveries of all net buy crude oil contracts offset against physical delivery of all net sell crude oil contracts. The open position is subject to commodity price risk. The Corporation may choose to do this based on energy commodity pricing relationships, time periods or qualities.

### *Credit Risk*

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

### *Regulation and Taxation of Energy Industry*

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

### *Provincial Royalty Rate Changes*

The provincial governments of Alberta, British Columbia, Manitoba, Quebec and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

### *Expansion of the Corporation's Business into New Jurisdictions*

The Corporation may expand its business into new operating jurisdictions. The expansion of the business will depend upon the ability of management to successfully implement the strategy of Secure. There is no guarantee that this expansion of the business will be successful. Secure will need to comply with the laws of these new jurisdictions, which may be significantly different than those the Corporation is accustomed to, and there can be no assurance that it will be able to obtain necessary approvals to facilitate the expansion of its business into these new jurisdictions. Any failure to comply with applicable laws could result in the imposition of significant restrictions on the ability of Secure to do business in these jurisdictions, and could also result in fines and other sanctions, any or all of which could adversely affect its results of operations or financial condition. In addition, any changes in laws and regulation in these new jurisdictions could materially adversely affect the business, results of operations and financial condition of the Corporation.

### *Performance of Obligations*

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

### *Development of New Technology and Equipment*

The technology used in the PRD division for waste treatment, recovery and disposal business is not protected by intellectual property rights. As such, there are no significant technological barriers to entry within the industry. The technology used in the DPS division for drilling fluids systems and drilling and completion fluid and production chemicals is in some instances protected by intellectual property rights, but not in every instance; in addition, new technological advances could occur within the drilling fluids system and drilling and completion fluids and production chemicals industry at any time.

### *Cyber Security Risk*

The Corporation has become increasingly dependent upon the development and maintenance of information technology systems that support the general operating aspects of the business. Exposure of the Corporation's information technology infrastructure to external threats poses a risk to the security of these systems. Such cyber security threats include unauthorized access to information technology systems due to hacking, viruses and other deliberate or inadvertent causes that can result in service disruptions, system failures and the disclosure of confidential business information.

The Corporation applies risk management controls in line with industry-accepted standards to protect its information assets and systems; however, these controls may not adequately protect against cyber security breaches. There is no assurance that the Corporation will not suffer losses associated with cyber security breaches in the future, including with respect to negative effects on the Corporation's operational performance and earnings, the incurrence of regulatory penalties, reputational damage and costs required to investigate, mitigate and remediate any potential vulnerabilities.

### *Oil and Natural Gas Market*

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

### *Equipment Risks*

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

### *Potential Replacement or Reduced Use of Products and Services*

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

### *Sources, Pricing and Availability of Products and Third Party Services*

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

The ability of the Corporation to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, many of whom are located in Canada or the U.S. In periods of high industry activity, periodic industry shortages of certain materials have been experienced and costs are sometimes affected. In contrast, periods of low industry activity levels may cause financial distress on a supplier, thus limiting their ability to continue to operate and provide the Corporation with necessary services and supplies. Management maintains relationships with a number of suppliers in an attempt to mitigate this risk and has entered into fixed price and quantity purchase contracts for various raw materials. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the clients of the Corporation could have a material adverse effect on the Corporation’s results of operation and cash flows. Further, in periods of low activity, the Corporation could be subject to a loss on fixed price and quantity contracts that could have a material adverse effect on the Corporation’s results of operations and cash flows. Additionally, a portion of the Corporation’s raw materials are sourced from the U.S. and are denominated in U.S. dollars; a weakening Canadian dollar relative to the U.S. dollar will have a negative impact on these input costs.

### *Contract Bidding Success and Renewal of Existing Contracts*

The Corporation’s business depends on the ability to successfully bid on new contracts and renew existing contracts with private and public sector clients. Contract proposals and negotiations are complex and could involve a highly lengthy bidding and selection process, which are affected by a number of factors, such as market conditions, financing arrangements and required government approvals. If negative market conditions arise, or if there is a failure to secure adequate financial arrangements or the required governmental approval, the Corporation may not be able to pursue particular projects which could adversely reduce or eliminate profitability.

### *Seasonal Nature of the Industry*

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

### *Foreign Currency Risk*

A significant portion of the Corporation’s activities relate to the purchase and sale of crude oil or drilling fluids products which are transacted in or referenced to U.S. dollars. The risk is mitigated as the majority of the activities occur in the same period and/or through the use of financial contracts to mitigate exposure; therefore foreign currency risk exposure is limited to crude oil or drilling fluids products held in inventory. The Corporation does not maintain an active hedge program to mitigate this risk, however financial contracts are used to mitigate risk in some cases. The Corporation is exposed to foreign currency fluctuations as revenues, expenses and working capital derived from its foreign operations are denominated in U.S.

dollars. In addition, the Corporation's U.S. subsidiaries are subject to translation gains and losses on consolidation. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Corporation's ongoing foreign operations are included in the foreign currency translation reserve.

Some of the Corporation's current operations and related assets are located in the U.S. Risks of foreign operations include, but are not necessarily limited to, changes of laws affecting foreign ownership, government participation, taxation, royalties, duties, rates of exchange, inflation, repatriation of earnings, social unrest or civil war, acts of terrorism, extortion or armed conflict and uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation. While the impact of these factors cannot be accurately predicted, if any of the risks materialize, they could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

### *Key Personnel*

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

### *Environmental Activism*

Environmental activism and opposition to Secure's operations may adversely affect the business of the Corporation by decreasing revenues and increasing remedial costs. The Corporation's operations, equipment and infrastructure could be vulnerable to unforeseen problems relating to environmental activism including, but not limited to, vandalism and theft which could interrupt the Corporation's operations for an extended period of time, result in significant delays to the Corporation's plans and result in increased costs to the Corporation. As a result of such interruption, the Corporation's business, financial condition and results of operations could be materially adversely affected. The Corporation's operations are dependent upon its ability to protect its operating equipment against damage from fire, vandalism, theft or a similar catastrophic event. Theft, vandalism and other disruptions could jeopardize the Corporation's operations and infrastructure and could result in significant set-backs, potential liabilities and deter future customers. While the Corporation has systems, policies, practices and procedures designed to prevent or limit the effect of the failure or interruptions of its infrastructure there can be no assurance that these measures will be sufficient and that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed in a timely manner.

### *Terrorist Activities*

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

### *Economic Dependence*

The top ten customers of the Corporation accounted for approximately 37% of revenue for fiscal 2016 (2015 – 34%), of which no single customer accounted for more than 10%. The Corporation does not generally enter into long term contracts with its customers and there can be no assurance that the current customers will continue their relationships with the Corporation. The loss of one or more major customers, any significant decrease in services provided to a customer, or prices paid or any other changes to the terms of service with customers, could have a material adverse affect on the financial results, cash flows, and the overall financial condition of the Corporation.

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

A material portion of Secure's PRD division current and future revenue is generated from pipeline connected FST facilities. As significant revenue is generated from each pipeline connected FST facility, any single event that interrupts one of these operations could result in the loss of revenues.

### *Failure to Timely Complete, Miss a Required Performance Standard or Otherwise Fail to Adequately Perform on a Project*

Client commitments are made to complete a project by a scheduled time. If the project is not completed by the scheduled date, the Corporation may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion. In addition, performance of projects can be affected by a number of factors beyond the Corporation's control, including unavoidable delays from governmental inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in project scope of services requested by clients, industrial accidents, environmental hazards, labour disruptions and other factors. To the extent these events occur, the total cost of the project could exceed estimates and the Corporation could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate overall profitability.

### *Landfill Closure Costs*

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

### *Environmental Protection & Health and Safety*

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

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

The Corporation may incur substantial costs, including fines, damages, criminal or civil sanctions, and remediation costs, or experience interruptions in the Corporation's operations for violations or liabilities arising under these laws and regulations. The Corporation may have the benefit of insurance maintained by the Corporation, its customers or others, but such insurance may be subject to coverage limits and exclusions and may not be available. In addition, the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons such as fires, blowouts, freeze-ups, equipment failures, pipeline breaks, unplanned and extended pipeline shutdowns, leakage of landfill cell liners, and other similar events affecting the Corporation or other parties whose operations or assets directly or indirectly affect the Corporation.

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

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

### *Availability of Qualified Employees*

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

### *Proprietary Technology*

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

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

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

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

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

### *Risk of Third Party Claims for Infringement*

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

### *Operating Risks and Insurance*

The Corporation's operations are subject to risks inherent in the oilfield services industry, such as equipment defects, malfunctions, failures, pipeline leaks (both detected and undetected), accidents, spills, shut down or loss of a disposal well, and natural disasters. These risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution, and other environmental damages.

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

### *Financing Future Growth or Expansion*

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

### *Raising Additional Capital*

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

### *Access to Capital*

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

The agreements governing the Corporation's credit facilities contain covenants that restrict the Corporation's ability to take various actions. In addition, such credit facilities require the Corporation to comply with specified financial ratios. The Corporation's ability to comply with these covenants will likely be affected by events beyond its control, and the Corporation cannot assure that it will satisfy those requirements. If the Corporation's financial performance results in a breach of any existing or future financial covenants, access to financing could be restricted and/or all or a portion of the Corporation's debt could become due on demand.

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

***First Nations Consultation and Claims***

Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of lands in the WCSB. The interpretation of aboriginal and treaty rights continue to evolve and government policy (including the requirements that are imposed on industry) continues to change. In many circumstances in Alberta, aboriginal people are entitled to be consulted prior to resource development on Crown lands. The consultation processes and expectations of parties involved can vary considerably from project to project (and from first nation to first nation), which can contribute to process uncertainty, increased costs, delay in receiving required approvals, and potentially, an inability to secure the required approvals for some projects. Additionally, some types of claims may affect or limit Secure's ability to secure locations for capital projects.

***Volatility of Market Price of Common Shares***

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

***Dividend Payout***

The decision to implement dividends and the amount paid is at the discretion of the Board. The amount of cash available to the Corporation to pay dividends, if any, can vary significantly from period to period for a number of reasons, including, among other things: the Corporation's operational and financial performance; the amount of cash required or retained for debt service or repayment; amounts required to fund capital expenditures and working capital requirements; access to equity markets; foreign currency exchange rates and interest rates; and the risk factors set forth in this MD&A.

The decision whether or not to pay dividends and the amount of any such dividends are subject to the discretion of the Board, which regularly evaluates the Corporation's proposed dividend payments. In addition, the level of dividends per Common Share will be affected by the number of outstanding Common Shares and other securities that may be entitled to receive cash dividends or other payments. Dividends may be increased, reduced or suspended depending on the Corporation's operational success and the performance of its assets.

***Leverage and Restrictive Covenants***

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

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

### *Interest Rates*

The Corporation's revolving banking facilities have interest rates which float with the lender's prime rate ranging from 0.45% to 2.00% above the prime rate or 1.45% to 3.00% above the Bankers' Acceptance rate depending on the Corporation's prevailing consolidated Senior Debt to EBITDA ratio and as such, as these revolving banking facilities are drawn, the Corporation will be exposed to higher interest costs if the Canadian prime rate and Bankers' Acceptance rate should increase.

### *Legal Proceedings*

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

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

### *Information Security*

The efficient operation of Secure's business is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyber terrorists. Secure has implemented security measures to maintain confidential and proprietary information stored on the Corporation's information systems. However, there is a risk these measures may not adequately prevent security breaches which could result in business disruption, decreased performance, or increased costs, and could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

### *Breach of Confidential Information*

The Corporation's efforts to protect confidential information may prove unsuccessful due to the actions of third parties, software bugs, technical malfunctions, employee error, or other factors. Should any of these events occur, this information could be accessed or disclosed improperly. Any incidents involving a breach of confidential information could damage the Corporation's reputation and expose competitive positioning of future growth strategy of the Corporation. Should this occur, it could have a material adverse effect on the Corporation's business, financial condition, and reputation.

### *Disclosure Controls & Procedures*

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

### *Internal Controls Over Financial Reporting*

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

### *Conflict of Interest*

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

### *Forward-Looking Statements may Prove Inaccurate*

Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this MD&A under the heading "*Forward-Looking Statements*".

## OUTSTANDING SHARE CAPITAL

As at March 1, 2017, there were 162,233,564 Common Shares issued and outstanding. In addition, as at March 1, 2017, the Corporation had the following share-based awards outstanding and exercisable or redeemable:

| Balance as at March 1, 2017 | Issued | Exercisable |
|---|---|---|
| Share Options | 7,091,539 | 4,854,479 |
| Restricted Share Units | 3,195,040 | - |
| Performance Share Units | 1,460,074 | - |
| Compensation Share Units | 1,123 | - |

## OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2016 and 2015, the Corporation did not have any off-balance sheet arrangements.

## ACCOUNTING POLICIES

Secure's significant accounting policies are set out in Note 2 of the Consolidated Financial Statements.

## FINANCIAL AND OTHER INSTRUMENTS

As at December 31, 2016, the Corporation's financial instruments include cash, accounts receivables and accrued receivables, accounts payable and accrued liabilities, long-term borrowings and derivative instruments. The fair values of these financial instruments approximate their carrying amount due to the short term maturity of these instruments except long-term borrowings and derivative instruments. Long-term borrowings approximate their fair values due to the variable interest rates applied, which approximate market interest rates. Derivative instruments are fair valued at each period end in accordance with their classification of fair value through profit or loss. The Corporation utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices and foreign currency exchange rates. Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity price curves and foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data. The use of financial instruments exposes the Corporation to credit, liquidity, foreign currency, and market risk. A discussion of how these and other risks are managed can be found under the heading '*Business Risks*'. Further information on how the fair value of financial instruments is determined is included in the '*Critical Accounting Estimates and Judgments*' section of this MD&A.

Of the Corporation’s financial instruments, cash, accounts receivable, and derivative instruments contain credit risk. The credit risk associated with cash is minimized as all cash is held at a major Canadian financial institution. The Corporation provides credit to customers in the normal course of operations. The Corporation’s credit risk policy includes performing credit evaluations of its customers. Substantially all of the Corporation’s accounts receivable are due from companies in the oil and natural gas industry and are subject to normal industry credit risks. Given the policies and procedures in place, management views the credit risk related to accounts receivable as low. The Corporation’s exposure to losses in the event that counterparties to derivative instruments are unable to meet the terms of the contracts is considered very low as trades are all done with a large commodity futures exchange, and the receivable balance at any given time is insignificant. Funds drawn under the revolving credit facility bear interest at a floating interest rate. Therefore, to the extent that the Corporation borrows under this facility, the Corporation is at risk to rising interest rates.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the Corporation’s Consolidated Financial Statements, management has made judgments, estimates and assumptions that affect the recorded amounts of revenues, expenses, assets, liabilities and the disclosure of commitments, contingencies and guarantees. Estimates and judgments used are based on management’s experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the condensed consolidated financial statements are prepared. Actual results could differ from these estimates. The most significant estimates and judgments used in the preparation of the Corporation’s Consolidated Financial Statements have been set out in Note 3 of the Corporation’s Consolidated Financial Statements.

## FUTURE ACCOUNTING PRONOUNCEMENTS

For the year ended December 31, 2016, there were no revised standards or amendments to IFRS issued. Refer to Note 4 of the Corporation’s Consolidated Financial Statements for a description of IFRS standards issued but not yet effective that are expected to have an impact on the Corporation’s Consolidated Financial Statements in the years adopted. The Corporation has formed a team of qualified employees to evaluate the effects of IFRS 9 and IFRS 18, effective on January 1, 2018, on its consolidated financial statements and related disclosures. This assessment will commence in 2017 and will include a review of customer contracts and financial instruments in relation to the new standards, as well as a transition method to apply if applicable.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of Secure are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”) for the Corporation.

DC&P are designed to provide reasonable assurance that material information relating to the Corporation is made known to the CEO and CFO by others, particularly in the period in which the annual filings are being prepared, and that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified in securities legislation, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the Corporation’s management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Corporation follows the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) 2013 framework.

In accordance with the requirements of National Instrument 52-109 “Certification of Disclosure in Issuers Annual and Interim Filings”, an evaluation of the effectiveness of DC&P and ICFR was carried out under the supervision of the CEO and CFO at December 31, 2016. Based on this evaluation, the CEO and CFO have concluded that the Corporation’s DC&P and ICFR were effective as at December 31, 2016. Management, including the CEO and CFO, does not expect that the Corporation’s DC&P and ICFR will prevent or detect all misstatements or instances of fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues, misstatements or instances of fraud, if any, within the Corporation have been detected. There was no change to the Corporation's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Refer to Note 22 of the Corporation's Consolidated Financial Statements for disclosure related to legal proceedings and regulatory actions.

## RELATED PARTIES

Refer to Note 21 of the Corporation's Consolidated Financial Statements for disclosure related to related parties.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements" and/or "forward-looking information" within the meaning of applicable securities laws (collectively referred to as forward-looking statements). When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to Secure, or its management, are intended to identify forward-looking statements. Such statements reflect the current views of Secure with respect to future events and operating performance and speak only as of the date of this document. In particular, this document contains or implies forward-looking statements pertaining to: key priorities for the Corporation's success; the oil and natural gas industry; activity levels in the oil and gas sector, drilling levels, commodity prices for oil, natural gas liquids and natural gas; industry fundamentals for 2017; capital forecasts and spending by producers; demand for the Corporation's services and products; expansion strategy; the impact of oil and gas activity on 2017 activity levels; the Corporation's proposed 2017 capital expenditure program including growth, sustaining and maintenance capital expenditures; debt service; acquisition strategy and timing of potential acquisitions; the impact of new facilities, potential acquisitions, the PetroLama Acquisition, and JV Acquisition on the Corporation's financial and operational performance and growth opportunities; future capital needs and how the Corporation intends to fund its operations, working capital requirements, dividends and capital program; access to capital; and the Corporation's ability to meet obligations and commitments and operate within any credit facility restrictions.

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

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. Readers are cautioned not to place undue reliance on these statements as a number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, including but not limited to those factors referred to and under the heading "*Business Risks*" and under the heading "*Risk Factors*" in the AIF for the year ended December 31, 2016 and also includes the risks associated with the possible failure to realize the anticipated synergies in integrating the assets acquired in the Acquisition with the operations of Secure. Although forward-looking statements contained in this document are based upon what the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements in this document are expressly qualified by this cautionary statement. Unless otherwise required by law, Secure does not intend, or assume any obligation, to update these forward-looking statements.

## ADDITIONAL INFORMATION

Additional information, including the AIF, is available on available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Corporation's website at www.secure-energy.com.

Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

*(Expressed in Canadian Dollars)*

KPMG LLP
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Suite 3100
Calgary AB
T2P 4B9
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www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Secure Energy Services Inc.

We have audited the accompanying consolidated financial statements of Secure Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Secure Energy Services Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 1, 2017
Calgary, Canada

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

| ($000's) | Notes | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash | | 3,432 | 4,863 |
| Accounts receivable and accrued receivables | 19 | 206,154 | 125,358 |
| Current tax assets | | 14,768 | 15,416 |
| Prepaid expenses and deposits | | 8,380 | 8,427 |
| Inventories | 6 | 68,463 | 58,848 |
| | | 301,197 | 212,912 |
| Property, plant and equipment | 7 | 1,011,990 | 1,007,626 |
| Intangible assets | 8 | 68,038 | 70,323 |
| Goodwill | 9 | 30,643 | 11,127 |
| Deferred tax assets | 16 | 13,382 | 13,432 |
| **Total Assets** | | 1,425,250 | 1,315,420 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 156,107 | 86,785 |
| Asset retirement obligations | 12 | 102 | 1,476 |
| Finance lease liabilities | | 5,164 | 8,873 |
| | | 161,373 | 97,134 |
| Long-term borrowings | 11 | 208,042 | 260,683 |
| Asset retirement obligations | 12 | 80,012 | 84,511 |
| Finance lease liabilities | | 4,000 | 7,041 |
| Onerous lease liabilities | 18 | 1,930 | 3,644 |
| Deferred tax liabilities | 16 | 42,846 | 37,895 |
| **Total Liabilities** | | 498,203 | 490,908 |
| **Shareholders' Equity** | | | |
| Issued capital | 13 | 1,030,033 | 851,490 |
| Share-based compensation reserve | 14 | 51,441 | 37,194 |
| Foreign currency translation reserve | | 32,049 | 36,403 |
| Deficit | | (186,476) | (100,575) |
| **Total Shareholders' Equity** | | 927,047 | 824,512 |
| **Total Liabilities and Shareholders' Equity** | | 1,425,250 | 1,315,420 |

*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,

| *($000's except per share and share data)* | **Notes** | **2016** | **2015** |
|---|---|---|---|
| **Revenue** | | **1,410,063** | 1,346,425 |
| **Operating expenses:** | | | |
| Direct expenses | **17** | **1,267,220** | 1,163,984 |
| Depreciation, depletion and amortization | | **113,012** | 126,161 |
| | | **1,380,232** | 1,290,145 |
| General and administrative expenses | | **44,482** | 63,411 |
| Share-based compensation | | **25,158** | 19,829 |
| Business development expenses | | **5,401** | 11,649 |
| | | **75,041** | 94,889 |
| **Operating loss** | | **(45,210)** | (38,609) |
| Interest, accretion and finance costs | | **11,503** | 12,098 |
| Impairment | **10** | **-** | 139,752 |
| Other income | **18** | **-** | (6,529) |
| **Loss before tax** | | **(56,713)** | (183,930) |
| Current tax recovery | **16** | **(13,169)** | (10,110) |
| Deferred tax expense (recovery) | **16** | **5,399** | (13,950) |
| | | **(7,770)** | (24,060) |
| **Net loss** | | **(48,943)** | (159,870) |
| Other comprehensive (loss) income | | | |
| Foreign currency translation adjustment | | **(4,354)** | 21,774 |
| **Total comprehensive loss** | | **(53,297)** | (138,096) |
| Basic and diluted loss per common share | **15** | **(0.32)** | (1.20) |
| Weighted average shares outstanding - basic and diluted | **15** | **154,625,869** | 133,380,634 |

*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 | (Deficit) retained earnings | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2016** | | **851,490** | **37,194** | **36,403** | **(100,575)** | **824,512** |
| Net loss | | - | - | - | (48,943) | **(48,943)** |
| Dividends declared | **13** | - | - | - | (36,958) | **(36,958)** |
| Shares issued through dividend reinvestment plan ("DRIP") | **13** | 13,514 | - | - | - | **13,514** |
| Foreign currency translation adjustment | | - | - | (4,354) | - | **(4,354)** |
| Bought deal equity financing | **13** | 149,513 | - | - | - | **149,513** |
| Share issue costs, net of tax | **13** | (4,906) | - | - | - | **(4,906)** |
| Issue of share capital for business acquisition | **13** | 5,932 | - | - | - | **5,932** |
| Exercise of options and Restricted Share Units ("RSUs") | **13** | 14,490 | (9,536) | - | - | **4,954** |
| Share-based compensation | | - | 23,783 | - | - | **23,783** |
| **Balance at December 31, 2016** | | **1,030,033** | **51,441** | **32,049** | **(186,476)** | **927,047** |
| | | | | | | |
| **Balance at January 1, 2015** | | **631,229** | **25,227** | **14,629** | **91,210** | **762,295** |
| Net loss | | - | - | - | (159,870) | (159,870) |
| Dividends declared | | - | - | - | (31,915) | (31,915) |
| Shares issued through DRIP | | 7,105 | - | - | - | 7,105 |
| Foreign currency translation adjustment | | - | - | 21,774 | - | 21,774 |
| Bought deal equity financing | | 198,000 | - | - | - | 198,000 |
| Share issue costs, net of tax | | (6,476) | - | - | - | (6,476) |
| Issue of share capital for business acquisition | | 3,957 | - | - | - | 3,957 |
| Exercise of options and RSUs | | 17,675 | (8,527) | - | - | 9,148 |
| Share-based compensation | | - | 20,494 | - | - | 20,494 |
| **Balance at December 31, 2015** | | **851,490** | **37,194** | **36,403** | **(100,575)** | **824,512** |

*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 | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | |
| Net loss | | **(48,943)** | (159,870) |
| Adjustments for non-cash items: | | | |
| Depreciation, depletion and amortization | | **113,012** | 126,161 |
| Interest, accretion and finance costs | **12** | **11,503** | 12,098 |
| Other income | **18** | **-** | (6,529) |
| Current and deferred tax recovery | | **(7,770)** | (24,060) |
| Other non-cash (income) expense | | **(1,479)** | 4,680 |
| Impairment | **10** | **-** | 139,752 |
| Share-based compensation | | **25,158** | 19,829 |
| Interest paid | | **(7,884)** | (9,874) |
| Income taxes recovered (paid) | | **13,694** | (12,282) |
| **Funds from operations** | | **97,291** | 89,905 |
| Change in non-cash working capital | | **(11)** | 42,760 |
| Asset retirement obligations incurred | **12** | **(598)** | (1,647) |
| **Net cash flows from operating activities** | | **96,682** | 131,018 |
| **Cash flows used in investing activities** | | | |
| Purchase of property, plant and equipment | | **(62,649)** | (114,246) |
| Business acquisitions | **5** | **(88,228)** | (3,272) |
| Change in non-cash working capital | | **(7,744)** | (37,975) |
| **Net cash flows used in investing activities** | | **(158,621)** | (155,493) |
| **Cash flows from (used in) financing activities** | | | |
| Shares issued, net of share issue costs | **13** | **147,785** | 198,501 |
| Repayment on credit facility | | **(53,000)** | (136,500) |
| Financing fees | **11** | **-** | (525) |
| Capital lease obligation | | **(11,076)** | (12,937) |
| Dividends paid | **13** | **(23,444)** | (24,810) |
| **Net cash flows from financing activities** | | **60,265** | 23,729 |
| **Effect of foreign exchange on cash** | | **243** | 727 |
| Decrease in cash | | **(1,431)** | (19) |
| Cash, beginning of year | | **4,863** | 4,882 |
| **Cash, end of year** | | **3,432** | 4,863 |

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

## 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

### Nature of Business

Secure Energy Services Inc. ("Secure") is incorporated under the Business Corporations Act of Alberta. Secure operates through a number of wholly-owned subsidiaries (together referred to as the "Corporation") which are managed through three operating segments which provide innovative, efficient and environmentally responsible fluids and solids solutions to the oil and gas industry. The fluids and solids solutions are provided through an integrated service and product offering that includes midstream services, environmental services, systems and products for drilling, production and completion fluids, and other specialized services and products. The Corporation owns and operates midstream infrastructure and provides services and products to upstream oil and natural gas companies operating in western Canada and in certain regions in the United States ("U.S.").

The processing, recovery and disposal services division ("PRD") owns and operates midstream infrastructure that provides processing, storing, shipping and marketing of crude oil, oilfield waste disposal and recycling. More specifically these services are clean oil terminalling and rail transloading, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal, and oil purchase/resale service. The drilling and production services division ("DPS") provides equipment and product solutions for drilling, completion and production operations for oil and gas producers in western Canada. The OnSite division ("OS") includes Projects which include pipeline integrity, demolition and decommissioning, and reclamation and remediation of former wellsites, facilities, commercial and industrial properties, and environmental construction projects; Environmental services which provide pre-drilling assessment planning, drilling waste management, remediation and reclamation assessment services, Naturally Occurring Radioactive Material ("NORM") management, waste container services and emergency response services; and Integrated Fluid Solutions ("IFS") which include water management, recycling, pumping and storage solutions.

The following entities have been consolidated within Secure's consolidated financial statements for the year ended December 31, 2016:

| Subsidiaries | Country | Functional Currency | Segment | % Interest Dec 31, 2016 and 2015 |
|---|---|---|---|---|
| Secure Energy Services Inc. (parent company) | Canada | Canadian Dollar | PRD/CORP | |
| True West Energy Ltd. | Canada | Canadian Dollar | PRD | 100% |
| Chaleur Terminals Inc. | Canada | Canadian Dollar | PRD | 100% |
| Secure Energy (Drilling Services) Inc. | Canada | Canadian Dollar | DPS | 100% |
| Alliance Energy Services International Ltd. | Canada | Canadian Dollar | DPS | 100% |
| Secure Energy (OnSite Services) Inc. | Canada | Canadian Dollar | OS | 100% |
| Secure Energy (Logistics Services) Inc. | Canada | Canadian Dollar | DPS | 100% |
| SES USA Holdings Inc. | USA | US Dollar | PRD/DPS/OS | 100% |
| Secure Energy Services USA LLC | USA | US Dollar | PRD | 100% |
| Secure Drilling Services USA LLC | USA | US Dollar | DPS | 100% |
| Secure Minerals USA LLC | USA | US Dollar | DPS | 100% |
| Secure OnSite Services USA LLC | USA | US Dollar | OS | 100% |

## 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, 2016.

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 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 March 1, 2017. The head office of the Corporation is located at 3600, 205 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 2V7. 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 and the proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint operations. All inter-company balances and transactions are eliminated on consolidation.

### b) Investments in joint operations

A joint operation is a joint arrangement whereby two or more parties have joint control of the arrangement and have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Corporation as a joint operator recognizes its share of assets and liabilities jointly owned and incurred, and its share of revenue and expenses of the joint operation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### c) 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 loss. If the contingent consideration is classified in equity, it is not remeasured and its final settlement is accounted for within equity.

### d) Revenue recognition

The Corporation has many different business lines offering services, products and integrated solutions to meet customer needs. Revenue is recognized when it is probable that any future economic benefit associated with the item of revenue will flow to the Corporation and the amount of revenue can be measured with reliability.

- Revenue associated with services provided in the PRD division 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 and risk of loss transfers to the customer.
- Revenue from pipeline tariffs and fees are based on volumes and rates as the pipeline is being used.
- Revenue from drilling services is recognized when services are provided and materials are utilized. Materials that are delivered and not utilized are shown as drilling fluids inventory.
- Revenue from rentals is recognized once the equipment is delivered, over the term of the rental agreement at pre-determined rates.
- Revenue from the sale of production chemicals and minerals inventories is recognized at the point of sale, when the customer takes ownership of the products.
- Revenue in the OS division is typically recognized when services are provided. For other projects where costs can be measured reliably, revenue may be recognized based on stage of completion of the contract, determined by the physical portion of work performed.
- Revenue is measured net of trade discounts and volume rebates.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### e) 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 operating expenses. 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 loss. The fair value is determined based on the market price of crude oil and natural gas liquids on the measurement date.

### f) Property, plant and equipment

Land is measured at cost, net of accumulated impairment losses, if any. Property, plant and equipment are 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 loss 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 loss when the asset is derecognized.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### g) 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.

### h) 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 |

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 10 years |
| Licenses and patents | 3 to 20 years |

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) 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 sell and its value in use. In determining fair value less costs to sell, 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 loss.

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

Impairment losses related to assets under construction and property, plant and equipment are included with depreciation, depletion and amortization expense on the consolidated statements of comprehensive loss. Impairment losses related to goodwill and intangible assets are recorded on the impairment line on the consolidated statements of comprehensive loss.

### j) Leases

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

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

Operating lease payments are recognized as an expense on a straight line basis in net loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### k) Financial instruments

***Recognition and Measurement***

Financial instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified upon initial recognition into one of the following categories: fair value through profit or loss ("FVTPL"), available for sale, held-to-maturity investments, loans and receivables, derivatives designated as hedging instruments in an effective hedge, and other financial liabilities. All financial instruments are recognized initially at fair value, net of any transaction costs except for financial instruments classified as FVTPL where transaction costs are expensed as incurred. Subsequent measurement of financial instruments is based on their classification.

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 and foreign exchange rates as part of its overall risk management program. These derivative financial instruments are not used for speculative purposes 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 comprehensive statements of loss over the term of the contracts as they occur.

The Corporation has classified cash and accounts receivable and accrued receivables as loans and receivables; accounts payable and accrued liabilities and long-term borrowings as other financial liabilities, and derivative financial instruments as FVTPL.

***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.

***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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Impairment of financial assets***

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future expected credit losses that have not yet been incurred.

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 loss. 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***

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 loss.

### l) Provisions

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### m) Asset retirement obligations

Asset retirement obligations associated with well sites, facilities 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.

### n) 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.

### o) Share-based compensation

***Equity-settled transactions***

The Corporation has a share option plan for eligible employees and consultants of the Corporation. 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 is 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.

The Corporation also has a unit incentive plan ("UIP") under which the Corporation may grant restricted share units ("RSUs"), performance share units ("PSUs") and compensation share units ("CSUs") 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, in the amount equal to the fair value of the RSU on that date. 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 at the discretion of the Corporation, in the amount equal to the fair value of the PSU on that date. 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In 2016, the Corporation allowed employees to elect to reduce the cash compensation paid to them in exchange for a grant of CSUs. CSUs granted will vest in January of the following calendar year from which they are issued and are equity settled. The Corporation will contribute an additional 20% to 35% of the CSU award in recognition of the time value of money of the delayed compensation. The fair value of the CSUs 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. If an employee ceases to be employed by the Corporation prior to the CSU vesting date, the employee's earned portion of the contribution automatically vests and the Corporation's additional contribution is forfeited.

***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 loss 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 the share-based compensation expense in the consolidated statements of comprehensive loss.

### p) Per share amounts

The Corporation calculates basic loss per share by dividing net loss 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 earnings available to common shareholders by the total of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding, 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, PSUs and CSUs, 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.

### q) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

***Deferred income tax***

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

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

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

### r) 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 loss in the period of occurrence.

For foreign entities whose functional currency is not the Canadian dollar, the Corporation translates assets and liabilities at period-end rates and income and expense accounts at average exchange rates 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.

### s) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Corporation's Chief Executive Officer in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## 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.

### 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 determined that the appropriate CGUs for the Corporation are the DPS division, each service line in the OS division, and each facility type within the PRD division (2015: each facility was considered a CGU within the PRD Division).

### Significant estimates and assumptions

#### *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.

Effective January 1, 2016, Secure reassessed the useful lives of certain intangible assets based on the current economic and operating climate and taking into consideration the operating history of the assets. As a result of this change, there was an increase in amortization expense for the year ended December 31, 2016 of $3.8 million, and Secure anticipates an increase of $3.8 million for each of the next five years, notwithstanding additions during any given year. The revision to useful life related primarily to customer relationships in the DPS division and was reassessed in conjunction with the impairment recorded in the DPS division at December 31, 2015 in response to the decrease in oil and gas activity in 2015.

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

### *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 sell 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 operating margins. 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.

### *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 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.

### *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 direct expenses. 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 direct expenses in the period in which the reversal occurred.

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

### *Share-based compensation*

The Corporation provides share-based awards to certain employees in the form of share options, restricted share units, performance share units, and compensation share units (the "Awards"). The Corporation follows the fair-value method to record share-based compensation expense with respect to the Awards granted. In order to record share-based compensation expense, the Corporation estimates the fair value of the Awards granted using assumptions related to interest rates, expected lives of the Awards, volatility of the underlying security, forfeitures and expected dividend yields.

### *Deferred 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. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

### *Provision for doubtful accounts*

The provision for doubtful accounts is reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates. 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.

### *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.

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

### *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 loss when the foreign subsidiary is disposed of, or the advance is repaid.

## 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

On July 24, 2014, the IASB issued IFRS 9 Financial Instruments, which addresses the classification and measurement of financial assets. The new standard defines two instead of four measurement categories for financial assets, with classification to be based partly on the Corporation's business model and partly on the characteristics of the contractual cash flows from the respective financial asset. The IASB has determined the mandatory effective date of IFRS 9 to be January 1, 2018. The full impact of the standard on the Corporation's consolidated financial statements is still being assessed at this time.

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard replaces the two main recognition standards IAS 18 Revenue, and IAS 11 Construction Contracts. The new standard provides a five step model framework as a core principle upon which an entity recognizes revenue and becomes effective January 1, 2018. The Corporation is assessing the potential impact of the adoption of IFRS 15 on the Corporation's consolidated financial statements and will disclose any impacts as they are determined throughout 2017.

On January 13, 2016, the IASB issued IFRS 16 Leases which replaces IAS 17. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The standard becomes effective January 1, 2019. The full impact of the standard on the Corporation's consolidated financial statements is still being assessed at this time.

## 5. BUSINESS ACQUISITIONS

**a)** On June 1, 2016, the Corporation acquired all of the operating assets (excluding working capital) and inventory of PetroLama Energy Canada Inc. ("PetroLama"), for aggregate consideration of $67.6 million, comprised of $61.7 million in cash and the balance of $5.9 million through the issuance of common shares of the Corporation.

The main asset acquired by the Corporation from PetroLama is a crude oil terminal in Alida, Saskatchewan which is connected to the Tundra Energy Marketing Limited (formerly Enbridge Pipelines (Saskatchewan) Inc.) pipeline system and includes truck unload risers and storage tanks. Secure also acquired various marketing contracts relating to the purchase, sale and transportation of propane, butane and condensate, including access to crude oil storage at Cushing, Oklahoma. With the acquisition of PetroLama's assets, Secure has expanded its market presence and enhances its current service offering for continued midstream growth.

On July 12, 2016, Secure acquired the remaining 50% interest in all of the joint venture assets of the La Glace and Judy Creek facilities for aggregate cash consideration of $26.6 million. The La Glace and Judy Creek facilities were initially constructed as a joint operation between Secure and other joint venture participants in 2008 and 2013, respectively, and have been owned and operated in accordance with their respective joint operating agreements since construction. This acquisition relieves Secure of the administrative requirements of operating these facilities under a joint venture structure, while adding additional cash flow from the increased ownership.

From the date of acquisition to December 31, 2016, the assets of the acquisitions contributed an estimated $346.4 million of revenue and $6.4 million of earnings before tax for the Corporation. If the business combinations had been completed on January 1, 2016, Secure's estimated revenue and loss before tax for the year ended December 31, 2016 would have been $1.7 billion and $54.6 million, respectively.

The following summarizes the purchase price equations:

| Balance at acquisition date | Amount ($000's) |
|---|---|
| Cash paid | 88,228 |
| Shares issued | 5,932 |
| | **94,160** |

| Balance at acquisition date | Amount ($000's) |
|---|---|
| Inventory | 14,102 |
| Net working capital | 2,323 |
| Property, plant and equipment | 45,384 |
| Intangible assets (1) | 16,022 |
| Goodwill (2) | 19,516 |
| Asset retirement obligations | (2,069) |
| Finance leases | (36) |
| Deferred tax liabilities | (1,082) |
| | **94,160** |

(1) Consists of customer relationships of $11.3 million and non-compete agreements of $4.7 million.

(2) $13.8 million of the goodwill arising on the acquisitions is deductible for tax purposes.

## 5. BUSINESS ACQUISITIONS (continued)

The goodwill arises as a result of the synergies existing with the acquired business and also the synergies expected to be achieved as a result of combining the acquisitions with the rest of the Corporation.

The Corporation incurred costs related to the acquisitions of $0.2 million relating to due diligence and external legal fees. These costs have been included in business development expenses on the consolidated statement of comprehensive loss.

**b)** The Corporation did not complete any significant acquisitions in the year ended December 31, 2015.

## 6. INVENTORIES

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Drilling fluids | 23,056 | 30,034 |
| Minerals and specialty chemicals | 21,907 | 25,989 |
| Crude oil and natural gas liquids | 21,740 | 1,715 |
| Spare parts and supplies | 1,760 | 1,110 |
| **Total inventories** | 68,463 | 58,848 |

Drilling fluids, minerals and specialty chemical inventories recognized as operating expenses in the consolidated statements of comprehensive loss for the year ended December 31, 2016 were $70.9 million (2015: $126.2 million).

Inventories are included in the general security agreements held by the banks as security for the Corporation's credit facility (Note 11).

Crude oil and natural gas liquids includes $15.6 million of inventory held in storage at Cushing, Oklahoma that is recorded at fair value. The inventory was included in the PetroLama acquisition (Note 5a) and the storage lease expired on January 31, 2017. The inventory was sold at market price subsequent to December 31, 2016.

## 7. 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, 2016, $6.4 million (2015: $13.4 million) of directly attributable capitalized salaries and overhead were added to property, plant and equipment. The amount of borrowing costs capitalized to property, plant and equipment for the year ended December 31, 2016 was $0.2 million (2015: $0.4 million) based on a capitalized borrowing rate of 2.8% (2015: 2.6%) incurred only on facilities that have a longer construction period.

During the year ended December 31, 2016, $93.2 million (2015: $266.7 million) was transferred from assets under construction to property, plant and equipment for completed projects.

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of $14.4 million at December 31, 2016 (2015: $21.7 million).

Included in depreciation, depletion and amortization expense in the consolidated statements of comprehensive loss for the year ended December 31, 2016 is $8.0 million relating to impairment of property, plant and equipment (2015: $18.0 million impairment and $4.4 million relating to the loss on disposal of assets). Impairment losses are incurred on projects where the development plans are uncertain, and where equipment was withdrawn from active use in the year where it could not be repurposed or otherwise deployed.

## 7. PROPERTY, PLANT AND EQUIPMENT (continued)

| ($000's) | Assets Under Construction | Land and Buildings | Plant Equipment, Landfill Cells and Disposal Wells | Rental and Mobile Equipment | Office and Computer Equipment | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| **December 31, 2014** | 210,139 | 71,428 | 721,906 | 116,573 | 27,737 | 1,147,783 |
| Additions [(1)] | 113,818 | 31,539 | 224,272 | 21,614 | 5,974 | **397,217** |
| Change in asset retirement cost | - | - | 10,127 | - | - | **10,127** |
| Disposals | - | (2,316) | (5,611) | (10,713) | (1,383) | **(20,023)** |
| Transfers [(1)] | (266,702) | - | - | - | - | **(266,702)** |
| Foreign exchange effect | 3,002 | 3,233 | 23,367 | 3,864 | 263 | **33,729** |
| **December 31, 2015** | 60,257 | 103,884 | 974,061 | 131,338 | 32,591 | **1,302,131** |
| Additions from business acquisitions (Note 5) | - | 3,051 | 42,233 | 100 | - | **45,384** |
| Additions [(1)] | 69,996 | 4,366 | 79,489 | 5,928 | 4,282 | **164,061** |
| Change in asset retirement cost | - | - | (5,963) | - | - | **(5,963)** |
| Disposals | - | (1,980) | (4,761) | (7,245) | (71) | **(14,057)** |
| Transfers [(1)] | (93,194) | - | - | - | - | **(93,194)** |
| Foreign exchange effect | (221) | (634) | (4,586) | (569) | (40) | **(6,050)** |
| **December 31, 2016** | **36,838** | **108,687** | **1,080,473** | **129,552** | **36,762** | **1,392,312** |
| | | | | | | |
| **Accumulated depreciation and depletion:** | | | | | | |
| **December 31, 2014** | - | (9,204) | (159,424) | (25,583) | (8,237) | **(202,448)** |
| Depreciation and depletion [(2)] | - | (10,964) | (61,540) | (16,821) | (6,284) | **(95,609)** |
| Disposals | - | 156 | 809 | 5,943 | 764 | **7,672** |
| Foreign exchange effect | - | (289) | (2,848) | (1,089) | 106 | **(4,120)** |
| **December 31, 2015** | - | (20,301) | (223,003) | (37,550) | (13,651) | **(294,505)** |
| Depreciation and depletion [(2)] | - | (3,427) | (69,172) | (15,129) | (5,380) | **(93,108)** |
| Disposals | - | 93 | 1,597 | 4,777 | 50 | **6,517** |
| Foreign exchange effect | - | 52 | 568 | 141 | 13 | **774** |
| **December 31, 2016** | **-** | **(23,583)** | **(290,010)** | **(47,761)** | **(18,968)** | **(380,322)** |
| | | | | | | |
| **Net book value:** | | | | | | |
| **December 31, 2016** | **36,838** | **85,104** | **790,463** | **81,791** | **17,794** | **1,011,990** |
| **December 31, 2015** | **60,257** | **83,583** | **751,058** | **93,788** | **18,940** | **1,007,626** |

[(1)] 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.

[(2)] Depreciation and depletion includes amounts relating to impairment of assets under construction and property, plant and equipment.

## 8. INTANGIBLE ASSETS

| ($000's) | Non-competition agreements | Customer relationships | Licenses & Patents | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| **December 31, 2014** | **63,067** | **91,155** | **17,072** | **171,294** |
| Additions | 2,308 | 6,245 | - | **8,553** |
| Foreign exchange effect | 1,201 | 1,437 | 147 | **2,785** |
| **December 31, 2015** | **66,576** | **98,837** | **17,219** | **182,632** |
| Additions through business acquisitions (Note 5a) | 4,733 | 11,289 | - | **16,022** |
| Additions | - | - | 920 | **920** |
| Foreign exchange effect | (176) | (127) | (21) | **(324)** |
| **December 31, 2016** | **71,133** | **109,999** | **18,118** | **199,250** |
| | | | | |
| **Accumulated amortization:** | | | | |
| **December 31, 2014** | **(24,208)** | **(18,948)** | **(4,036)** | **(47,192)** |
| Amortization | (14,130) | (9,827) | (2,151) | **(26,108)** |
| Impairment | (17,705) | (18,825) | (1,022) | **(37,552)** |
| Foreign exchange effect | (1,032) | (425) | - | **(1,457)** |
| **December 31, 2015** | **(57,075)** | **(48,025)** | **(7,209)** | **(112,309)** |
| Amortization | (6,247) | (11,440) | (1,431) | **(19,118)** |
| Foreign exchange effect | 176 | 39 | - | **215** |
| **December 31, 2016** | **(63,146)** | **(59,426)** | **(8,640)** | **(131,212)** |
| | | | | |
| **Net book value:** | | | | |
| **December 31, 2016** | **7,987** | **50,573** | **9,478** | **68,038** |
| **December 31, 2015** | **9,501** | **50,812** | **10,010** | **70,323** |

Refer to Note 10 for discussion of impairment charges.

## 9. GOODWILL

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| **Balance - beginning of year** | **11,127** | 111,650 |
| Additions through business acquisitions (Note 5a) | **19,516** | - |
| Impairment of goodwill | **-** | (102,200) |
| Foreign exchange effect | **-** | 1,677 |
| **Balance - end of year** | **30,643** | **11,127** |

Of the aggregate carrying amount of goodwill at December 31, 2016, $19.5 million is allocated to the PRD Division and $11.1 million is allocated to the OS Division. (2015: $11.1 million allocated to the OS division).

Refer to Note 10 for discussion of impairment charges.

## 10. IMPAIRMENT

The Corporation assesses at each reporting date whether there is an indication that an asset or CGU may be impaired. 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 goodwill. Secure completed this review as at December 31, 2016 and no impairment was recorded.

In the comparative year ended December 31, 2015, as a result of the significant decline in commodity prices in the year and the corresponding decrease in oil and gas industry activity, the Corporation performed impairment tests on its rail transloading facilities and Drilling Services CGUs. As a result of the impairment tests performed in 2015, the Corporation recognized impairment of $54.2 million against the goodwill and intangible assets recorded on the acquisition of three rail transloading facilities in 2014. The Corporation's rail transloading facilities were significantly impacted by lower levels of activity as a result of the severe weakening in crude oil prices and the narrowing of oil price differentials. The Corporation also recorded impairment of $74.7 million related to goodwill and intangible assets in its DPS division for the year ended December 31, 2015. The weakness in commodity pricing had a significant impact on the DPS divisional results as operations are tied directly to drilling activity.

At December 31, 2015, Secure completed an annual impairment assessment on its CGUs and groups of CGUs whose net carrying value included goodwill and as a result recorded impairment equal to the full $10.9 million carrying value of the goodwill related to two PRD facilities located in North Dakota. No impairment was recorded for the year ended December 31, 2015 as a result of the year-end impairment tests performed on the OS CGUs.

For the 2015 impairments recognized, the Corporation used the value in use method to determine the recoverable amount of its CGUs determined by using discounted cash flows. The cash flow projections included specific estimates for five years and a terminal valuation. The estimated cash flows were based on the 2015 run rate with revenue and margins changing in correlation with the anticipated oil and gas industry activity based on oil price projections over the following five years, and a terminal value thereafter was applied. The terminal valuation was determined based on management's estimate of the long-term compound growth rate of annual net earnings excluding depreciation, depletion, amortization and accretion, share-based compensation expense, interest, and taxes ("EBITDA"), consistent with the assumption that a market participant would make. The Corporation used a terminal growth rate of 4%. The discount rate used to calculate the net present value of cash flows was based on estimates of the Corporation's weighted average cost of capital, taking into account the nature of the assets being valued and their specific risk profile. The Corporation used a pre-tax discount rate range of 16.5% to 18.4%.

The commodity price environment in 2015 created considerable uncertainty as to the level of exploration and development activity that would be undertaken by the majority of the Corporation's customers and considerably increased the estimation uncertainty associated with the future cash flows used in the impairment tests.

## 10. IMPAIRMENT (continued)

The estimated value in use for the CGUs that were tested in 2015 are particularly sensitive to the following estimates:

- For the rail transloading facilities CGU, an increase of 1% in the pre-tax discount rate and a 1% decrease in the terminal growth rate would have increased the impairment by approximately $2.6 million and $1.5 million, respectively.
- For the Drilling Services CGUs, an increase of 1% in the pre-tax discount rate and a 1% decrease in the terminal growth rate would have increased the impairment by approximately $11.1 million and $7.6 million, respectively.

The impairment of goodwill and intangible assets is recorded in the impairment line on the consolidated statements of comprehensive loss.

## 11. LONG-TERM BORROWINGS

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Amount drawn on credit facility | 209,000 | 262,000 |
| Unamortized transaction costs | (958) | (1,317) |
| **Total long-term borrowings** | **208,042** | **260,683** |

The Corporation has a $700.0 million syndicated credit facility (the "Credit Facility"), consisting of a $675.0 million extendible revolving term credit facility and a $25.0 million revolving operating facility. The Credit Facility includes an accordion feature which, if exercised and approved by the Corporation's lenders, would increase the Credit Facility by $100.0 million.

Amounts borrowed under the Credit Facility incur interest at the Corporation's option of either the Canadian prime rate plus 0.45% to 2.00% or the Bankers' Acceptance rate plus 1.45% to 3.00%, depending in each case on the ratio of consolidated Senior Debt to EBITDA ratio, with any unused outstanding amounts subject to standby fees ranging from 0.29% to 0.60%. Senior Debt includes amount drawn on the Credit Facility and finance leases. Total Debt is equal to Senior Debt plus any unsecured debt, excluding any convertible debentures. EBITDA is adjusted for non-recurring losses, any non-cash impairment charges, any other non-cash charges, and acquisitions on a pro-forma trailing twelve month basis. As at December 31, 2016 and 2015 the Corporation does not have any unsecured debt and as a result, Total Debt is equal to Senior Debt. The Credit Facility is used for working capital purposes, capital expenditures, acquisitions, and general corporate purposes.

The Credit Facility is due on September 26, 2019 (the "maturity date") and includes an option for the Corporation to extend the maturity date (once per annum) to a maximum of four years from the extension request date, subject to the approval of the Corporation's lenders. Repayment of any amounts drawn on the facility would therefore be repayable on the maturity date if the Credit Facility was not extended.

The following covenants apply to the Credit Facility:

- The Senior Debt to EBITDA Ratio shall not exceed 3.5:1;
- The Total Debt to EBITDA Ratio shall not exceed 5.0:1; and
- The Interest Coverage Ratio, defined as EBITDA divided by interest expense on Total Debt, shall not be less than 2.5:1.

At December 31, 2016 and December 31, 2015, the Corporation was in compliance with all covenants.

## 11. LONG-TERM BORROWINGS (continued)

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

The amount available under the Credit Facility is reduced by any outstanding letters of credit. As at December 31, 2016, the Corporation has $35.7 million (2015: $16.4 million) in letters of credit issued by the Corporation's lenders. The letters of credit are issued to various government authorities for potential reclamation obligations in accordance with applicable regulations and crude oil marketing contracts.

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Credit facility | 700,000 | 700,000 |
| Amount drawn on credit facility | (209,000) | (262,000) |
| Letters of credit | (35,654) | (16,371) |
| **Available amount** | **455,346** | **421,629** |

## 12. ASSET RETIREMENT OBLIGATIONS

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| **Balance - beginning of year** | 85,987 | 72,439 |
| Arising during the period through development activities | 5,064 | 8,800 |
| Revisions during the period | (9,612) | 1,612 |
| Accretion | 1,508 | 1,581 |
| Change in discount rate | (1,415) | (285) |
| Asset retirement obligations incurred | (598) | (1,647) |
| Foreign exchange effect | (820) | 3,487 |
| **Balance - end of year** | **80,114** | **85,987** |

The Corporation's asset retirement obligations were estimated by a third party 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, 2016 to be $80.1 million (December 31, 2015: $86.0 million) based on a total future liability of $125.8 million as at December 31, 2016 (December 31, 2015: $136.0 million). The Corporation used its risk-free interest rates of 0.7% to 2.9% (December 31, 2015: 0.5% to 2.8%) and an inflation rate of 3.0% to calculate the net present value of its asset retirement obligations at December 31, 2016 (December 31, 2015: 3.0%).

The Corporation expects to incur the majority of the costs over the next 25 years. The amount expected to be incurred within the next 12 months is related to the retirement of wells.

The Corporation has issued $21.7 million (December 31, 2015: $17.2 million) of performance bonds and $10.9 million (December 31, 2015: $13.4 million) for letters of credit issued by the Corporation's lenders in relation to the Corporation's asset retirement obligations.

## 13. SHAREHOLDERS' EQUITY

### 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 Shares | Amount ($000's) |
|---|---|---|
| **Balance, December 31, 2014** | 121,367,451 | 631,229 |
| Options exercised | 1,502,471 | 9,148 |
| RSUs exercised | 270,895 | 3,428 |
| Transfer from reserves in equity | - | 5,099 |
| Bought deal equity financing | 13,515,370 | 198,000 |
| Shares issued through DRIP | 686,598 | 7,105 |
| Shares issued as consideration for business acquisition | 365,342 | 3,957 |
| Share issue costs, net of tax | - | (6,476) |
| **Balance at December 31, 2015** | 137,708,127 | 851,490 |
| Options exercised | 597,119 | 4,954 |
| RSUs and CSUs exercised | 502,189 | - |
| Transfer from reserves in equity | - | 9,536 |
| Bought deal equity financing | 19,550,000 | 149,513 |
| Shares issued through DRIP | 1,629,814 | 13,514 |
| Shares issued as consideration for business acquisition | 664,972 | 5,932 |
| Share issue costs, net of tax | - | (4,906) |
| **Balance at December 31, 2016** | **160,652,221** | **1,030,033** |

As at December 31, 2016, there were 3,062,827 common shares of the Corporation held in escrow in conjunction with the Corporation's business combinations (2015: 5,959,456).

On March 22, 2016, the Corporation closed a bought deal financing (the "Offering") with a syndicate of underwriters, pursuant to which the underwriters agreed to purchase for resale to the public 19,550,000 common shares (including overallotment) of the Corporation at a price of $7.65 per common share for gross proceeds of $149.6 million. In connection with the Offering, the Corporation incurred approximately $6.6 million in transaction costs which included $6.0 million in agent fees. Total transaction costs, net of tax, were applied against the proceeds in share capital.

The Corporation has a Dividend Reinvestment Plan ("DRIP") that provides eligible shareholders with the opportunity to reinvest their cash dividends, on each dividend payment date, in additional Common Shares ("Plan Shares"), which are issued from treasury.

Under the terms of the DRIP, Plan Shares issued from treasury are issued on the applicable dividend payment date to eligible shareholders at a 3% discount to the average market price of the Common Shares. Average market price is defined in the DRIP to be the volume weighted average price of the Common Shares on the Toronto Stock Exchange for the five trading days preceding the dividend payment date.

## 13. SHAREHOLDERS' EQUITY (continued)

The Corporation declared dividends to holders of common shares for the year ended December 31, 2016 of $37.0 million (2015: $31.9 million). Of the dividends declared, $13.5 million were reinvested in additional common shares through the DRIP for the year ended December 31, 2015 (2015: $7.1 million). The Corporation has 485,854 common shares reserved for issue under the DRIP as at December 31, 2016 (2015: 415,668).

Subsequent to December 31, 2016, the Corporation declared dividends to holders of common shares in the amount of $0.02 per common share payable on January 15, February 15, and March 15, 2017, for shareholders of record on January 1, February 1, and March 1, 2017, respectively.

Commencing with the April 1, 2017 dividend declaration, the Corporation will suspend its DRIP. Shareholders participating in the DRIP at that time will receive cash dividends starting with the April 17, 2017 dividend payment date.

## 14. SHARE-BASED COMPENSATION PLANS

The Corporation has share-based compensation plans (the "Plans") under which the Corporation may grant share options, RSUs, PSUs and CSUs to its employees and consultants. In addition the Corporation has a DSU plan for non-employee directors of the Corporation.

The aggregate number of common shares issuable pursuant to the exercise of options, RSUs, PSUs and CSUs granted under the Plans shall not exceed ten 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, 2016, a total of 16.1 million common shares were reserved for issuance under the Corporation's Share Option Plan and Unit Incentive Plan ("UIP").

### Share Option Plan

The exercise price of options granted under the Plan is calculated as the five day weighted average trading price of the common shares for the five trading days immediately preceding the date the options are granted. Options issued under the Plan have a term of five years to expiry and vest over a three year period starting one year from the date of the grant.

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

| | Dec 31, 2016 | | Dec 31, 2015 | |
|---|---|---|---|---|
| | Outstanding options | Weighted average exercise price ($) | Outstanding options | Weighted average exercise price ($) |
| Balance - beginning of period | 8,608,870 | 12.88 | 7,665,806 | 12.45 |
| Granted | 20,000 | 8.23 | 3,558,968 | 11.59 |
| Exercised | (597,119) | 8.30 | (1,502,471) | 6.08 |
| Expired | (196,802) | 9.15 | (14,284) | 5.97 |
| Forfeited | (625,810) | 14.93 | (1,099,149) | 15.13 |
| **Balance - end of year** | **7,209,139** | **13.17** | **8,608,870** | **12.88** |
| **Exercisable - end of year** | **4,057,215** | **14.18** | **3,516,903** | **12.06** |

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

The following table summarizes information about share options outstanding as at December 31, 2016:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| **Exercise price ($)** | **Outstanding options** | **Weighted average exercise price ($)** | **Weighted average remaining term (years)** | **Outstanding options** | **Weighted average exercise price ($)** |
| 7.67 - 7.85 | 2,080,763 | 7.81 | 3.26 | 413,763 | 7.75 |
| 7.86 - 13.74 | 1,098,732 | 10.67 | 1.34 | 1,005,988 | 10.75 |
| 13.75 - 15.47 | 1,116,180 | 14.11 | 1.68 | 1,035,585 | 14.06 |
| 15.48 - 17.93 | 1,413,501 | 15.71 | 2.87 | 601,522 | 15.94 |
| 17.94 - 25.51 | 1,499,963 | 19.34 | 2.37 | 1,000,357 | 19.34 |
| | **7,209,139** | **13.17** | **2.46** | **4,057,215** | **14.18** |

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

| For the years ended | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Volatility factor of expected market price (%) | **45.6** | 40.8 |
| Weighted average risk-free interest rate (%) | **0.5** | 0.8 |
| Weighted average expected life in years | **3.9** | 4.0 |
| Weighted average expected annual dividends per share (%) | **2.7** | 2.3 |
| Weighted average fair value per option ($) | **2.35** | 3.15 |
| Weighted average forfeiture rate (%) | **7.7** | 6.5 |

### Unit Incentive Plan

The Corporation has a UIP which allows the Corporation to issue RSUs, PSUs and CSUs 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 31st of the third year following the year in which the grant of the RSU was made.

The Corporation issues PSUs to senior management. 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.

In 2016, the Corporation allowed employees to elect to reduce the cash compensation paid to them in exchange for a grant of CSUs. CSUs granted vest in January of the following calendar year from which they are issued. Secure will contribute an additional 20% to 35% of the CSU award in recognition of the time value of money of the delayed compensation.

### 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.

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

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

| For the year ended December 31, 2016: | RSUs | PSUs | CSUs | DSUs |
|---|---|---|---|---|
| Balance - beginning of period | 1,348,879 | 154,708 | - | 113,010 |
| Granted | 1,844,850 | 677,850 | 606,282 | 58,070 |
| Reinvested dividends | 66,422 | 21,032 | 8,849 | 4,586 |
| Redeemed for common shares | (500,897) | - | (1,292) | - |
| Forfeited | (350,410) | - | (5,876) | - |
| **Balance - end of year** | 2,408,844 | 853,590 | 607,963 | 175,666 |

| For the year ended December 31, 2015: | RSUs | PSUs | CSUs | DSUs |
|---|---|---|---|---|
| Balance - beginning of period | 843,913 | 21,620 | - | 79,427 |
| Granted | 1,196,718 | 130,000 | - | 31,335 |
| Reinvested dividends | 29,416 | 3,088 | - | 2,248 |
| Redeemed for common shares | (270,895) | - | - | - |
| Forfeited | (450,273) | - | - | - |
| **Balance - end of year** | 1,348,879 | 154,708 | - | 113,010 |

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

As at December 31, 2016, $2.1 million (2015: $0.7 million) was included in accounts payable and accrued liabilities for outstanding DSUs and share-based compensation included in the statements of consolidated loss was an expense of $1.4 million for the year ended December 31, 2016 (2015: recovery of $0.7 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 suspended its matching of employee contributions in March 2015. Prior to the suspension of the employer matching program, the Corporation incurred expense of $0.5 million for 2015 which is recognized in either direct expenses or general and administrative expenses on the consolidated statements of comprehensive loss.

Prior to the suspension of the employer matching program, the Corporation matched contributions, subject to certain limitations, based on the employee's years of service with the Corporation. Shares purchased for both the employee contributions and Corporation's matching contributions are purchased on the open market.

Subsequent to December 31, 2016, the Corporation reinstated the ESOP allowing employees to contribute up to 20% of their base salary with the Corporation matching up to 2.5%.

## 15. EARNINGS PER COMMON SHARE

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

| | For the years ended | |
|---|---|---|
| | **Dec 31, 2016** | **Dec 31, 2015** |
| Weighted average number of shares for basic loss per share | **154,625,869** | 133,380,634 |
| Effect of dilution: | | |
| Options, RSUs, PSUs and CSUs | **-** | - |
| **Weighted average number of shares for diluted loss per share** | **154,625,869** | **133,380,634** |

The above calculation excludes the effect of all options, RSUs, PSUs and CSUs for the year ended December 31, 2016 and December 31, 2015 as they are considered to be anti-dilutive.

## 16. INCOME TAXES

| **($000's)** | **Dec 31, 2016** | **Dec 31, 2015** |
|---|---|---|
| **Current tax (recovery) expense** | | |
| Current year | **(13,145)** | (10,452) |
| Adjustments related to prior years | **(24)** | 342 |
| | **(13,169)** | (10,110) |
| **Deferred tax expense (recovery)** | | |
| Current year | **5,572** | (13,950) |
| Adjustments related to prior years | **(173)** | - |
| | **5,399** | (13,950) |
| | | |
| **Total tax recovery** | **(7,770)** | **(24,060)** |

The income tax recovery differs from that expected by applying the combined federal and provincial income tax rates of 27.0% (2015: 26.10%) to loss before tax for the following reasons:

| **($000's)** | **Dec 31, 2016** | **Dec 31, 2015** |
|---|---|---|
| Loss before taxes | **(56,713)** | (183,930) |
| Combined federal and provincial income tax rate | **27.00%** | 26.10% |
| Expected combined federal and provincial income tax recovery | **(15,313)** | (48,006) |
| Foreign and other statutory rate differences | **640** | (2,030) |
| Non-deductible impairments | **-** | 18,321 |
| Share-based compensation | **6,793** | 5,238 |
| Non-deductible expenses | **307** | 2,075 |
| Adjustments related to prior years | **(197)** | 342 |
| **Total tax recovery** | **(7,770)** | **(24,060)** |

## 16. INCOME TAXES (continued)

The components of the net deferred tax asset related to the U.S. and the net liability related to Canada as at December 31, 2016 and 2015 are as follows:

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| **Deferred tax assets:** | | |
| Non-capital loss carry forwards | 39,061 | 34,990 |
| Property, plant and equipment | (40,636) | (41,308) |
| Goodwill and intangible assets | 8,512 | 9,565 |
| Asset retirement obligations | 5,285 | 8,564 |
| Other | 1,160 | 1,621 |
| | 13,382 | 13,432 |
| **Deferred tax liabilities:** | | |
| Property, plant and equipment | (64,045) | (48,885) |
| Goodwill and intangible assets | 5,297 | 3,504 |
| Non-capital loss carry forwards | 6,918 | 1,224 |
| Asset retirement obligations | 4,593 | 3,294 |
| Share issue costs | 3,123 | 2,721 |
| Other | 1,268 | 247 |
| | (42,846) | (37,895) |
| **Net deferred tax liabilities** | (29,464) | (24,463) |

Included above in the deferred tax assets are $126.7 million (2015: $93.5 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 $101.1 million (2015: $89.0 million) and expire between 2029 and 2036. The gross non-capital losses in Canada are $25.6 million (2015: $4.5 million) and expire between 2028 and 2036. 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 movements in the Corporation's temporary differences are as follows:

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| **Movement in deferred tax balances during the year** | | |
| Net deferred tax liabilities at beginning of year | (24,463) | (42,473) |
| Recognized in profit or loss | (5,399) | 13,950 |
| Deferred tax liabilities from acquisitions | (1,082) | (577) |
| Foreign exchange adjustments and other | 1,480 | 4,637 |
| **Net deferred tax liabilities** | (29,464) | (24,463) |

## 17. DIRECT EXPENSES

Included in direct expenses for the year ended December 31, 2016 is employee compensation and benefits of $74.2 million (2015: $101.2 million).

## 18. OTHER INCOME

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Realized foreign exchange (gain) | - | (12,280) |
| Onerous lease expense | - | 5,751 |
| **Other (income)** | - | (6,529) |

Included in other income is recognition of foreign exchange gains on the translation of the Corporation's interest in its foreign subsidiary and cumulative operating losses of the DPS U.S. division that was included in the foreign currency translation reserve in equity. These operations were substantively liquidated by December 31, 2015.

Onerous lease expense relates to a provision for unused office space as a result of reduced staff levels within the Corporation during the year ended December 31, 2015. The provision for onerous leases is assessed at the end of each reporting period. No revisions to the provision were recognized at December 31, 2016.

## 19. 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, which is considered a level 2 fair value input. The carrying value of long-term borrowings (excluding transaction costs) at December 31, 2016 and 2015 of $209.0 million and $262.0 million approximates fair values due to the variable interest rates applied to these facilities, which approximate market interest rates.

### *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. These risk management derivatives are a component of the Corporation's overall risk management program.

## 19. FINANCIAL INSTRUMENTS (continued)

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

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| **($000's)** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Commodity futures | 1,110 | 689 | - | - |
| Commodity swaps | 477 | 144 | - | - |
| Commodity options | 4 | 19 | - | - |
| Foreign currency forwards | - | 169 | - | 75 |
| | 1,591 | 1,021 | - | 75 |

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

| **($000's)** | **Commodity Contracts** | **Foreign Currency Contracts** | **Total** |
|---|---|---|---|
| Fair value of contracts outstanding at December 31, 2014 | - | (75) | (75) |
| Fair value of contracts realized during the year | - | - | - |
| Changes in fair value during the year | - | - | - |
| Fair value of contracts outstanding at December 31, 2015 | - | (75) | (75) |
| Fair value of contracts realized during the year | 146 | - | 146 |
| Changes in fair value during the year | 593 | (94) | 499 |
| Fair value of contracts outstanding at December 31, 2016 | 739 | (169) | 570 |

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

### *Fair value hierarchy*

The table below analyses financial instruments by fair value hierarchy:

| | December 31, 2016 | | | |
|---|---|---|---|---|
| **($000's)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets:** | | | | |
| Commodity futures | - | 1,110 | - | 1,110 |
| Commodity swaps | - | 477 | - | 477 |
| Commodity options | - | 4 | - | 4 |
| | - | 1,591 | - | 1,591 |
| **Financial liabilities:** | | | | |
| Long-term borrowings | - | 209,000 | - | 209,000 |
| Commodity futures | - | 689 | - | 689 |
| Commodity swaps | - | 144 | - | 144 |
| Commodity options | - | 19 | - | 19 |
| Foreign currency forwards | - | 169 | - | 169 |
| | - | 210,021 | - | 210,021 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| **($000's)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial liabilities:** | | | | |
| Long-term borrowings | - | 262,000 | - | 262,000 |
| Foreign currency forwards | - | 75 | - | 75 |
| | - | 262,075 | - | 262,075 |

There were no transfers between levels in the hierarchy in the year ended December 31, 2016 (2015: nil).

## 19. 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. 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. In the DPS division, 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 used for speculative purposes and are not designated as hedges.

The marketing contracts related to the purchase, sale and transportation of certain NGL products not designated as for 'own use' are considered derivatives for accounting purposes. The fair value of these contracts are initially recorded at fair value as either an asset or liability on the consolidated statement of financial position, and are subsequently remeasured at each period end, with the change in fair value recorded to Revenue.

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

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Favourable 10% change | 4 | - |
| Unfavourable 10% change | (4) | - |

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; 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.

## 19. FINANCIAL INSTRUMENTS (continued)

As part of the Corporation's processing, and facility operations, Secure will use net buy and net sell crude oil contracts for marketing and trading of crude oil. In addition, the Corporation has developed detailed policies, procedures and controls over the trading activities, which include oversight by experienced management.

The Corporation defines an "open position" as the difference between physical deliveries of all net buy crude oil contracts offset against physical delivery of all net sell crude oil contracts. The open position is subject to commodity price risk. As a 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, 2016, the Corporation's open position was not significant.

### *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.

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

The following table summarizes the impact to net loss 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, 2016 | Dec 31, 2015 |
|---|---|---|
| Favourable 10% change | 12 | 6 |
| Unfavourable 10% change | (12) | (6) |

### *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 credit facility. A 1% increase or decrease is used when management assesses changes in interest rate risk internally. If interest rates had been 1% higher/lower, and all other variables were held constant, the Corporation's consolidated net loss for the year would be approximately $1.5 million lower/higher for the year ended December 31, 2016 (2015: $2.0 million).

As at December 31, 2016 and 2015 the Corporation did not use interest rate hedges or fixed interest rate contracts to mitigate the Corporation's exposure to interest rate fluctuations.

## 19. FINANCIAL INSTRUMENTS (continued)

### b) Credit risk

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

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, 2016 | Dec 31, 2015 |
|---|---|---|
| Less than 30 days | 122,503 | 67,130 |
| 31 to 60 days | 19,573 | 18,336 |
| 61 to 90 days | 5,469 | 5,377 |
| Greater than 90 days | 2,093 | 2,507 |
| | 149,638 | 93,350 |
| | | |
| Allowance for doubtful accounts | 1,253 | 1,673 |

The balance of $122.5 million under 30 days includes $87.3 million of crude oil contracts settled as part of the trading activities for December 2016. The entire amount of $87.3 million is due from 40 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 credit policy relating to crude oil payments. The Corporation's credit exposure to any crude oil contracts settled is limited to transactions occurring over a 60 day period. Of the receivables relating to crude oil payments, approximately 67% are due from counter parties with a credit rating of B or higher.

The change in the allowance for doubtful accounts is as follows:

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Balance - beginning of year | 1,673 | 908 |
| Additional allowance | 429 | 1,547 |
| Amounts used | (801) | (807) |
| Foreign exchange effect | (48) | 25 |
| **Balance - end of year** | 1,253 | 1,673 |

## 19. FINANCIAL INSTRUMENTS (continued)

When determining whether amounts that are past due are collectible, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Corporation considers all amounts greater than 90 days to be past due. As at December 31, 2016, $2.1 million (2015: $2.5 million) of accounts receivable are past due and a provision of $1.3 million (2015: $1.7 million) has been established as an allowance for doubtful accounts. All other amounts past due are considered to be collectible.

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.

### 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, 2016, the Corporation has $3.4 million in cash and $455.3 million in capacity on its revolving credit facility (Note 11). The timing of cash outflows relating to financial liabilities, including estimated interest payments, are outlined in the table below:

| ($000's) | Due within 1 year | Between 1-5 years | Greater than 5 years |
|---|---|---|---|
| Accounts payable and accrued liabilities | 155,085 | - | - |
| Derivative liability | 1,021 | - | - |
| Finance lease obligations | 5,279 | 4,094 | - |
| Long-term borrowings | 6,241 | 225,205 | - |
| | **167,627** | **229,299** | **-** |

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.

## 20. CAPITAL MANAGEMENT

The capital structure of the Corporation consists of the following:

| ($000's) | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Current assets | 301,197 | 212,912 |
| Current liabilities | (161,373) | (97,134) |
| Long-term borrowings | 209,000 | 262,000 |
| Shareholders' equity | 927,047 | 824,512 |
| | 1,275,871 | **1,202,290** |

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 increased cash flow so as to sustain future development of the business and to maintain creditor and shareholder confidence. Management considers capital to be the Corporation's current assets less current liabilities, total amounts drawn on debt facilities and shareholders' equity as the components of capital to be managed.

## 20. CAPITAL MANAGEMENT (continued)

The Corporation's overall capital management strategy remains unchanged in 2016. Management controls its capital structure through detailed forecasting and budgeting, as well as established policies and processes over monitoring planned capital and operating expenditures. This includes the Board of Directors, reviewing the Corporation's results on a monthly basis, and capital costs to budget and approved authorizations for expenditures on a quarterly basis. The key measures management uses to monitor its capital structure are actual capital expenditures compared to authorized budgets, EBITDA on all of its operations, and return on investment. The Corporation is subject to certain financial covenants in its credit facility. The Corporation is in compliance with all financial covenants. Management will manage its debt to maintain compliance with the various financial covenants contained within its long-term borrowings (Note 11).

## 21. 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 include 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, 2016 | Dec 31, 2015 |
|---|---|---|
| Salaries and short-term employee benefits | 2,213 | 2,549 |
| Share-based compensation | 7,384 | 3,696 |
| | **9,597** | **6,245** |

## 22. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

### As at December 31, 2016

| | Payments due by period | | | |
|---|---|---|---|---|
| ($000's) | 1 year or less | 1-5 years | 5 years and thereafter | Total |
| Finance leases | 5,279 | 4,094 | - | 9,373 |
| Operating leases | 12,461 | 34,776 | 5,995 | 53,232 |
| Crude oil transportation [1] | 28,244 | 143,380 | 149,956 | 321,580 |
| Inventory purchases | 19,849 | 17,829 | - | 37,678 |
| Capital commitments | 2,489 | - | - | 2,489 |
| **Total contractual obligations** | **68,322** | **200,079** | **155,951** | **424,352** |

[1] Crude oil transportation includes rail car operating lease commitments and crude oil transportation volumes for pipeline throughput at certain pipeline connected full service terminals.

### Finance lease commitments

The Corporation has entered into finance lease agreements for computer equipment, vehicles, and mobile equipment. The average lease term is three years (2015: three years). The Corporation's obligations under finance leases are secured by the related assets. Interest rates underlying finance lease obligations are fixed at respective contract rates ranging from 0.0% to 5.9% (2015: 0.0% to 6.4%) per annum.

### Operating lease commitments

The Corporation has entered into operating land lease agreements for certain of the Corporation's facilities. In addition, the Corporation has entered into operating leases for office and warehouse spaces.

### 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 (FSTs). This amount reflects the total payment that would have to be made should the Corporation not fulfill the committed pipeline volumes. Additionally, the Corporation has certain rail car operating lease commitments.

### Inventory purchase commitments

The Corporation has inventory purchase commitments related to its minerals product plant in order to meet expected operating requirements.

### 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.

### Commodity contract purchase commitments

In addition to the items in the table above, the Corporation is committed to purchasing commodities for use in its normal course of operations.

### Fixed price contracts

In the normal course of operations, the Corporation enters into contracts that contain fixed selling prices within its OS division and therefore the Corporation is exposed to variability in input costs.

## 22. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES (continued)

### Litigation

On December 21, 2007, Tervita Corporation ("Tervita") filed a statement of claim commencing Action No. 0701-13328 (the "Tervita Action") in the Judicial District of Calgary of the Court of Queen's Bench of Alberta (the "Court") against the Corporation, certain of the Corporation's employees who were previously employed by Tervita (collectively, the "Secure Defendants") and others in which Tervita alleges that the defendants misappropriated business opportunities, misused confidential information, breached fiduciary duties owed to Tervita, and conspired with one another. Tervita seeks damages in the amount of $110.0 million, an accounting and disgorgement of all profits earned by the Corporation since its incorporation and other associated relief. The matters raised in the lawsuit are considered by the Corporation to be unfounded and unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. The Corporation believes it has valid defences to this claim and accordingly has not recorded any related liability.

A Statement of Defence was filed by the Secure Defendants on November 10, 2008, after the Court ordered Tervita to provide further particulars of its claim. The Secure Defendants then filed an Amended Statement of Defence (the "Defence"), and the Corporation filed an Amended Counterclaim (the "Counterclaim"), on October 9, 2009. In their Defence, the Secure Defendants deny all of the allegations made against them. In its Counterclaim, the Corporation claims damages in the amount of $97.8 million against Tervita, alleging that Tervita has engaged in conduct constituting a breach of the Competition Act (Canada), unlawful interference with the economic relations of the Corporation and conspiracy, including conduct related to Tervita's acquisition of Complete Environmental Inc., the previous owner of the Babkirk landfill in northeast British Columbia.

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

## 23. OPERATING SEGMENTS

For management purposes, the Corporation is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Corporation has three reportable operating segments, as described in Note 1. The Corporation also reports activities not directly attributable to an operating segment under Corporate. Corporate division expenses consist of public company costs, as well as salaries, share-based compensation, interest and finance costs and office and administrative costs relating to corporate employees and officers.

**($000's)**

| Year ended December 31, 2016 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | 1,215,717 | 111,329 | 83,017 | - | 1,410,063 |
| Direct expenses | (1,108,524) | (95,516) | (63,180) | - | (1,267,220) |
| **Operating margin** | 107,193 | 15,813 | 19,837 | - | **142,843** |
| General and administrative expenses | (12,821) | (10,995) | (6,520) | (14,146) | (44,482) |
| Share-based compensation | - | - | - | (25,158) | (25,158) |
| Business development expenses | - | - | - | (5,401) | (5,401) |
| Depreciation, depletion and amortization | (77,231) | (21,288) | (13,286) | (1,207) | (113,012) |
| Interest, accretion and finance costs | (1,632) | - | - | (9,871) | (11,503) |
| **Earnings (loss) before tax** | **15,509** | **(16,470)** | **31** | **(55,783)** | **(56,713)** |

| Year ended December 31, 2015 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | 1,028,261 | 192,076 | 126,088 | - | 1,346,425 |
| Direct expenses | (904,042) | (165,981) | (93,961) | - | (1,163,984) |
| **Operating margin** | **124,219** | **26,095** | **32,127** | **-** | **182,441** |
| General and administrative expenses | (23,948) | (25,564) | (8,707) | (5,192) | (63,411) |
| Share-based compensation | - | - | - | (19,829) | (19,829) |
| Business development expenses | - | - | - | (11,649) | (11,649) |
| Depreciation, depletion and amortization | (81,379) | (30,621) | (13,616) | (545) | (126,161) |
| Interest, accretion and finance costs | (1,581) | - | - | (10,517) | (12,098) |
| Impairment | (65,098) | (74,654) | - | - | (139,752) |
| Other (expense) income | (3,680) | 10,209 | - | - | 6,529 |
| **(Loss) earnings before tax** | **(51,467)** | **(94,535)** | **9,804** | **(47,732)** | **(183,930)** |

**($000's)**

| As at December 31, 2016 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Current assets | 182,694 | 91,971 | 26,532 | - | 301,197 |
| Total assets | 1,090,849 | 249,876 | 77,652 | 6,873 | 1,425,250 |
| Goodwill | 19,516 | - | 11,127 | - | 30,643 |
| Intangible assets | 17,353 | 43,948 | 6,737 | - | 68,038 |
| Property, plant and equipment | 871,286 | 100,575 | 33,256 | 6,873 | 1,011,990 |
| Current liabilities | 130,343 | 18,827 | 12,203 | - | 161,373 |
| Total liabilities | 239,086 | 36,725 | 14,350 | 208,042 | 498,203 |

| As at December 31, 2015 | PRD division | DPS division | OS division | Corporate | Total |
|---|---|---|---|---|---|
| Current assets | 90,200 | 92,720 | 29,992 | - | 212,912 |
| Total assets | 944,915 | 273,457 | 88,030 | 9,018 | 1,315,420 |
| Goodwill | - | - | 11,127 | - | 11,127 |
| Intangible assets | 4,222 | 55,556 | 10,545 | - | 70,323 |
| Property, plant and equipment | 850,493 | 111,750 | 36,365 | 9,018 | 1,007,626 |
| Current liabilities | 60,905 | 22,078 | 14,151 | - | 97,134 |
| Total liabilities | 168,710 | 44,829 | 16,686 | 260,683 | 490,908 |

## 23. OPERATING SEGMENTS (continued)

### Geographical Financial Information

| ($000's) | Canada | | US | | Total | |
|---|---|---|---|---|---|---|
| **Year ended December 31,** | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Revenue | **1,371,513** | 1,273,383 | **38,550** | 73,042 | **1,410,063** | 1,346,425 |
| **As at December 31,** | | | | | | |
| Total non-current assets | **963,321** | 930,713 | **160,732** | 171,795 | **1,124,053** | 1,102,508 |

## CORPORATE INFORMATION

### DIRECTORS

Rene Amirault - Chairman
Brad Munro [(1) (2) (3)]
David Johnson [(2) (3) (4)]
Daniel Steinke [(4)]
Kevin Nugent [(1) (3)]
Murray Cobbe [(1) (2) (5)]
Shaun Paterson [(1) (4)]

### OFFICERS

Rene Amirault
*President & Chief Executive Officer*

Allen Gransch
*Executive Vice President & Chief Financial Officer*

Brian McGurk
*Executive Vice President, Human Resources & Strategy*

Corey Higham
*Executive Vice President, Midstream*

Daniel Steinke
*Executive Vice President, Corporate Development*

David Engel
*Executive Vice President, Processing, Recovery & Disposal*

David Mattinson
*Executive Vice President, OnSite Services*

George Wadsworth
*Executive Vice President, Drilling & Production Services*

[1] Audit Committee
[2] Compensation Committee
[3] Corporate Governance Committee
[4] Health, Safety & Environment Committee
[5] Lead Director

### STOCK EXCHANGE

Toronto Stock Exchange
Symbol: SES

### AUDITORS

KPMG LLP
Calgary, Alberta

### LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

### BANKERS

Alberta Treasury Branches

### TRANSFER AGENT AND REGISTRAR

Computershare
Calgary, Alberta