SECURE energy services

# MANAGEMENT'S DISCUSSION AND ANALYSIS

### Three Months ended March 31, 2017 and 2016

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 May 2, 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 months ended March 31, 2017 to the three months ended March 31, 2016 and should be read in conjunction with the Corporation's condensed consolidated financial statements and notes thereto for the three months ended March 31, 2017 and 2016 ("Interim Financial Statements") and the Corporation's annual audited consolidated financial statements and notes thereto for the years ended December 31, 2016 and 2015.

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 provides equipment, product solutions and chemicals 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").

## OPERATIONAL AND FINANCIAL HIGHLIGHTS

### *ADJUSTED EBITDA INCREASE OF 68%*

A more stable commodity price environment during the first quarter of 2017 resulted in increased oil and gas producer activity across the Western Canadian Sedimentary Basin ("WCSB") which had a positive impact on all three of the Corporation's divisions. Industry rig counts and metres drilled in the WCSB increased by 86% and 116% respectively over the first quarter of 2016, driven primarily by a 49% increase in average crude oil prices, as well as improved weather conditions compared to the first quarter of 2016 which saw an early spring break-up. Higher drilling activity levels, along with the addition of new facilities and expansions in underserviced markets subsequent to March 2016, and ongoing production related volumes from existing facilities in the PRD division, resulted in Adjusted EBITDA[1] of $42.2 million during the three months ended March 31, 2017, a 68% increase over the comparative period.

### *OPERATING MARGIN IMPROVEMENTS*

During the quarter, Secure continued to exercise caution by maintaining its current cost structures which have enabled the Corporation to achieve strong operating margins[1] of 59% in PRD, 23% in DPS and 25% in OS in part by minimizing overhead costs and streamlining operations to enhance customer service through the integrated services provided.

### *STRONG BALANCE SHEET MAINTAINED*

The Corporation continues its disciplined approach to maintaining a strong balance sheet to effectively manage the business through this period of volatile commodity prices and industry activity. The Corporation's balance sheet provides significant financial flexibility to pursue accretive acquisitions and continue to invest in organic capital projects in capacity constrained regions. At March 31, 2017, Secure's net debt[1] was $54.2 million, and debt to EBITDA ratio, as defined by the Corporation's credit facility, was 1.7 to 1.

### *INCREASED DIVIDEND BY 6%*

On May 2, 2017, Secure announced a 6.25% increase to its monthly dividend rate from $.02 to $.02125 per common share commencing with the June 15, 2017 dividend payment date for shareholders of record on June 1, 2017.

### *CONTINUING TO ADD PRODUCTION RELATED SERVICES*

Subsequent to quarter end, Secure completed an asset acquisition in the DPS division for cash consideration of $29.8 million, subject to any post-closing adjustments (the "Production Chemicals Acquisition"). The acquired assets will provide Secure with a complete suite of over 100 fully formulated proprietary production chemical products, along with key infrastructure across the WCSB. The addition of advanced chemical products is expected to bolster the Corporation's ability to help customers optimize production, provide flow assurance and maintain the integrity of their production assets. The research lab facility acquired demonstrates the Corporation's commitment to innovation for customers and is intended to design customized chemical solutions for customers. The Corporation expects the Production Chemicals Acquisition to be accretive to funds from operations, Adjusted EBITDA and net income.

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

The operating and financial highlights for the three month periods ending March 31, 2017 and 2016 can be summarized as follows:

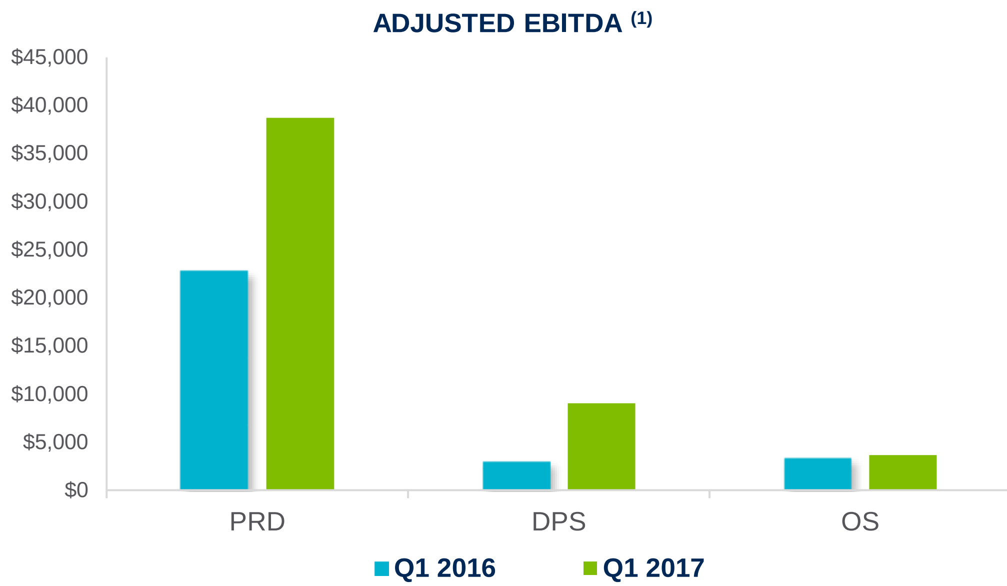
| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's except share and per share data)** | **2017** | **2016** | **% change** |
| Revenue (excludes oil purchase and resale) | **140,713** | 102,267 | 38 |
| Oil purchase and resale | **309,876** | 106,865 | 190 |
| Total revenue | **450,589** | 209,132 | 115 |
| Adjusted EBITDA [(1)] | **42,170** | 25,083 | 68 |
| Per share ($), basic | **0.26** | 0.18 | 44 |
| Per share ($), diluted | **0.25** | 0.18 | 39 |
| Net earnings (loss) | **3,440** | (10,066) | 134 |
| Per share ($), basic and diluted | **0.02** | (0.07) | 129 |
| Adjusted net earnings (loss) [(1)] | **3,502** | (8,598) | 141 |
| Per share ($), basic and diluted | **0.02** | (0.06) | 133 |
| Funds from operations [(1)] | **40,052** | 18,700 | 114 |
| Per share ($), basic | **0.25** | 0.13 | 92 |
| Per share ($), diluted | **0.24** | 0.13 | 85 |
| Dividends per common share | **0.06** | 0.06 | - |
| Capital expenditures [(1)] | **12,096** | 21,489 | (44) |
| Total assets | **1,403,328** | 1,267,835 | 11 |
| Net debt [(1)] | **54,237** | 16,723 | 224 |
| Common shares - end of period | **162,580,599** | 157,932,560 | 3 |
| Weighted average common shares | | | |
| basic | **162,049,821** | 140,015,143 | 16 |
| diluted | **165,944,906** | 140,015,143 | 19 |

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

- REVENUE OF $450.6 MILLION FOR THE THREE MONTHS ENDED MARCH 31, 2017
  - Total processing, recovery and disposal volumes at PRD facilities for the three months ended March 31, 2017 increased from the 2016 comparative period due to increased drilling activity levels across the WCSB, ongoing production related volumes and the addition of facilities in 2016, which included the acquisition of the Alida crude oil terminalling facility in June 2016, the increased ownership in the La Glace and Judy Creek FSTs from 50% to 100% in July 2016, and the commissioning of the Kakwa FST in August 2016. Overall, this resulted in the PRD division achieving revenue (excluding oil purchase and resale) of $67.5 million in the three months ended March 31, 2017, up 39% from the comparative period in 2016;
  - Oil purchase and resale revenue in the PRD division for the three months ended March 31, 2017 increased by 190% from the 2016 comparative period to $309.9 million due primarily to additional oil purchase and resale volumes from new facilities in 2016, which included the Alida crude oil terminalling facility, the increased ownership in the La Glace and Judy Creek FSTs, and the Kakwa FST;
  - Activity in the DPS division is strongly correlated with oil and gas drilling activity in the WCSB, which experienced an 86% increase in active rig count in the three months ended March 31, 2017 from the 2016 comparable period. As a result of these improved activity levels, DPS division revenue increased by 43% to $50.5 million in the three months ended March 31, 2017;
  - OS division revenue increased 24% to $22.8 million in the three months ended March 31, 2017 primarily due to revenue from new service lines and increased activity related to increased oil prices and industry activity compared to the three months ended March 31, 2016.
- ADJUSTED EBITDA OF $42.2 MILLION FOR THE THREE MONTHS ENDED MARCH 31, 2017
  - Adjusted EBITDA of $42.2 million, a 68% increase from the 2016 comparative period, resulted from increased average crude oil prices of 49% in the first quarter of 2017 which positively impacted all three of the Corporations divisions. Increased drilling and completion activity positively impacted the DPS and OS

divisions while ongoing production related volumes and increased volumes from acquisitions and facility expansions in the second and third quarters of 2016 drove both PRD revenues and operating margins.

- The following graph demonstrates the divisional impacts to Adjusted EBITDA, excluding Corporate costs, for the three months ended March 31, 2017 and 2016.




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

- NET EARNINGS OF $3.4 MILLION FOR THE THREE MONTHS ENDED MARCH 31, 2017
  - For the three months ended March 31, 2017, Secure generated net earnings of $3.4 million, a $13.5 million increase from the three months ended March 31, 2016. This positive impact to net earnings is a result of increased activity, new facilities and expansions and the Corporation's continued focus on managing costs.
- ADJUSTED NET EARNINGS OF $3.5 MILLION FOR THE THREE MONTHS ENDED MARCH 31, 2017
  - For the three months ended March 31, 2017, Secure's adjusted net earnings of $3.5 million increased by $12.1 million from an adjusted net loss of $8.6 million in the three months ended March 31, 2016. The positive variance is primarily a result of the factors discussed above impacting Adjusted EBITDA offset by increased total income tax expense in the three months ended March 31, 2017.
- CAPITAL EXPENDITURES OF $12.1 MILLION FOR THE THREE MONTHS ENDED MARCH 31, 2017
  - Total capital expenditures for the three months ended March 31, 2017 of $12.1 million include:
    - Equipment upgrades at various PRD facilities to increase capacity including additional tanks and pumps;
    - Long lead items for various projects expected to commence in the 2nd and 3rd quarters of 2017; and
    - Sustaining capital expenditures at existing facilities required to maintain ongoing business operations.
- FINANCIAL FLEXIBILITY
  - The total amount drawn on Secure's credit facility as at March 31, 2017 decreased by 10% to $188.0 million compared to $209.0 million at December 31, 2016. The reduction in the amount drawn on Secure's credit facility is a result of funds flow from operations exceeding capital expenditures and dividend payments. The Corporation continues to strengthen its balance sheet and increase its financial flexibility to take advantage of accretive opportunities that may arise.

- Secure is in compliance with all covenants related to its credit facility at March 31, 2017. 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, improved to 1.7 to 1 at March 31, 2017 compared to 2.2 to 1.0 at December 31, 2016.

## OUTLOOK

The first quarter of 2017 has demonstrated that activity levels in western Canada and North Dakota are continuing to trend higher as oil and gas producers gain confidence in commodity prices which facilitates an increase in capital spending. Secure anticipates an increase in oil and gas producers' capital budgets for the remainder of 2017 over 2016, which will continue to drive higher activity levels in the WCSB in subsequent quarters and benefit all three of the Corporation's divisions.

During the second quarter, results are typically impacted by seasonality as wet weather and road bans can significantly affect activity in certain areas. In the prior year, the second quarter was severely impacted by weather and the instability of commodity prices as oil and gas producers were unwilling to incur additional costs due to weather related issues if the oil and gas activity could be delayed into the third quarter where weather is more predictable. However, following a more robust first quarter 2017, Secure expects activity levels in the second quarter to outpace that of 2016, which is currently supported by a higher year over year rig count.

In April, Secure announced the completion of a Production Chemicals Acquisition. Over the next few months, Secure will complete the integration into the existing production chemicals business and begin to assess new areas for growth and new opportunities to help customers. Secure has added a highly qualified group of experienced and dedicated employees to the business with a complete suite of over 100 fully formulated proprietary production chemical products. In addition, a first class blending facility will provide opportunities to vertically integrate existing operations and provide additional capacity to grow Secure's market share.

As activity levels ramp up, Secure continues to respond to customer demand by evaluating multiple opportunities relating to new infrastructure and expansion of existing facilities. In previous guidance Secure had anticipated spending organic growth and expansion capital of $50 million in 2017, however depending on the timing of obtaining regulatory approvals, development permits, and other operating agreements, the Corporation may increase organic spending within PRD up to $100 million. The Corporation will also spend approximately $15 million on sustaining and maintenance expenditures for the year.

Secure's strong balance sheet gives the Corporation flexibility to continue growing organically and to execute on strategic acquisition opportunities. Secure's focus remains on increasing production related services with a diverse asset base that lessens dependence on drilling related revenue streams. This diversification provides Secure with greater certainty on re-occurring cash flows and ensures the Corporation can optimize its capital structure to be 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 severance payments to terminated employees in 2016. 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 earnings (loss) to Adjusted EBITDA.

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Net earnings (loss)** | **3,440** | (10,066) | 134 |
| **Add (deduct):** | | | |
| Depreciation, depletion and amortization | **25,692** | 26,059 | (1) |
| Current tax recovery | **(25)** | (2,690) | (99) |
| Deferred tax expense | **3,920** | 1,025 | 282 |
| Share-based compensation | **6,174** | 4,894 | 26 |
| Interest, accretion and finance costs | **2,884** | 3,850 | (25) |
| Unrealized loss on mark to market transactions (1) | **85** | - | 100 |
| Severance and related costs (1)(2) | **-** | 2,011 | (100) |
| **Adjusted EBITDA** | **42,170** | 25,083 | 68 |

(1) These charges are included in various captions within the Corporation's Consolidated Statements of Comprehensive Income (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 Income (Loss), as shown in the table below.

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| Direct expenses - PRD Division | **-** | 535 | (100) |
| Direct expenses - DPS Division | **-** | 628 | (100) |
| Direct expenses - OS Division | **-** | 77 | (100) |
| General and administrative expenses | **-** | 580 | (100) |
| Business development expenses | **-** | 191 | (100) |
| **Severance and related costs** | **-** | 2,011 | (100) |

### *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 earnings (loss) per the Consolidated Financial Statements to operating margin.

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Operating earnings (loss)** | **10,219** | (7,881) | 230 |
| **Add:** | | | |
| Depreciation, depletion and amortization | **25,692** | 26,059 | (1) |
| General and administrative expenses | **13,282** | 11,230 | 18 |
| Share-based compensation | **6,174** | 4,894 | 26 |
| Business development expenses | **1,640** | 1,648 | - |
| **Operating margin** | **57,007** | 35,950 | 59 |

### *Adjusted net earnings (loss)*

Adjusted net earnings (loss) is a measure of profitability. Adjusted net earnings (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 earnings (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 earnings (loss) to Adjusted net earnings (loss).

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Net earnings (loss)** | **3,440** | (10,066) | 134 |
| **Adjustments, net of estimated tax effect:** | | | |
| Unrealized loss on mark to market transactions | **62** | - | 100 |
| Severance and related costs | **-** | 1,468 | (100) |
| **Adjusted net earnings (loss)** | **3,502** | (8,598) | 141 |

### *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)** | **Mar 31, 2017** | **Dec 31, 2016** | **% Change** |
|---|---|---|---|
| Long-term borrowings (principal amount) | **188,000** | 209,000 | (10) |
| Long-term finance lease liabilities | **4,004** | 4,000 | - |
| Current liabilities | **168,334** | 161,373 | 4 |
| Current assets | **(306,101)** | (301,197) | 2 |
| **Net debt** | **54,237** | 73,176 | (26) |

## 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 Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| Net cash flows from operating activities | **43,028** | 38,746 | 11 |
| **Add:** | | | |
| Changes in non-cash working capital | **(2,990)** | (20,094) | (85) |
| Asset retirement obligations incurred | **14** | 48 | (71) |
| **Funds from operations** | **40,052** | 18,700 | 114 |

## 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.

### *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 MONTHS ENDED MARCH 31, 2017

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 months ended March 31, 2017 and 2016:

**($000's)**

| **Three months ended March 31, 2017** | **PRD division** | **DPS division** | **OS division** | **Corporate** | **Total** |
|---|---|---|---|---|---|
| Revenue | 377,346 | 50,468 | 22,775 | - | 450,589 |
| Direct expenses | (337,529) | (38,867) | (17,186) | - | (393,582) |
| **Operating margin** | **39,817** | **11,601** | **5,589** | **-** | **57,007** |
| General and administrative expenses | (3,962) | (3,449) | (2,078) | (3,793) | (13,282) |
| Share-based compensation | - | - | - | (6,174) | (6,174) |
| Business development expenses | - | - | - | (1,640) | (1,640) |
| Depreciation, depletion and amortization | (17,397) | (4,874) | (3,044) | (377) | (25,692) |
| Interest, accretion and finance costs | (422) | - | - | (2,462) | (2,884) |
| **Earnings (loss) before tax** | **18,036** | **3,278** | **467** | **(14,446)** | **7,335** |

**($000's)**

| **Three months ended March 31, 2016** | **PRD division** | **DPS division** | **OS division** | **Corporate** | **Total** |
|---|---|---|---|---|---|
| Revenue | 155,571 | 35,207 | 18,354 | - | 209,132 |
| Direct expenses | (129,688) | (29,727) | (13,767) | - | (173,182) |
| **Operating margin** | **25,883** | **5,480** | **4,587** | **-** | **35,950** |
| General and administrative expenses | (3,252) | (3,323) | (1,316) | (3,339) | (11,230) |
| Share-based compensation | - | - | - | (4,894) | (4,894) |
| Business development expenses | - | - | - | (1,648) | (1,648) |
| Depreciation, depletion and amortization | (16,200) | (5,851) | (3,683) | (325) | (26,059) |
| Interest, accretion and finance costs | (575) | - | - | (3,275) | (3,850) |
| **Earnings (loss) before tax** | **5,856** | **(3,694)** | **(412)** | **(13,481)** | **(11,731)** |

## 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 Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Revenue** | | | |
| PRD services (a) | **67,470** | 48,706 | 39 |
| Oil purchase and resale service | **309,876** | 106,865 | 190 |
| **Total PRD division revenue** | **377,346** | 155,571 | 143 |
| **Direct expenses** | | | |
| PRD services (b) | **27,653** | 22,823 | 21 |
| Oil purchase and resale service | **309,876** | 106,865 | 190 |
| **Total PRD division direct expenses** | **337,529** | 129,688 | 160 |
| **Operating Margin [(1)] (a-b)** | **39,817** | 25,883 | 54 |
| **Operating Margin [(1)] as a % of revenue (a)** | **59%** | 53% | |

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

| | Three months ended Mar 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **% Change** |
| **Average Benchmark Prices and Volumes** | | | |
| WTI (US$/bbl) | **$ 53.22** | $ 33.51 | 59 |
| Canadian Light Sweet ($/bbl) | **$ 64.74** | $ 41.48 | 56 |
| Processing volumes (in 000's $m^3$) | **529** | 434 | 22 |
| Recovery and terminalling volumes (in 000's $m^3$) | **396** | 250 | 58 |
| Disposal volumes (in 000's $m^3$) | **1,591** | 1,366 | 16 |
| Oil purchased and resale volumes (in 000's $m^3$) | **706** | 506 | 40 |

### Revenue (PRD division)

Processing, recovery and disposal services revenue of $67.5 million for the three months ended March 31, 2017 increased by 39% from the 2016 comparative period, driven by higher facility volumes, largely contributed from the new facilities added in 2016 and expansions at certain of the Corporation's existing facilities in 2016 and the first quarter of 2017, and higher drilling and completion related volumes resulting from the increase in average crude oil prices by 49% from the 2016 comparative period, which also directly improved recovered oil revenues.

The addition of new facilities, both organically and through acquisitions, accounted for $6.4 million of the PRD services revenue in the three months ended March 31, 2017, an impact of 13% when comparing to the same period of 2016.

Processing volumes increased 22% in the three months ended March 31, 2017 from the comparative period due to higher waste processing and emulsion, offset partially by fewer completions processing volumes.

Recovery revenues increased 58% in the three months ended March 31, 2017 from the comparative period which is consistent with a 58% increase in recovery and terminalling volumes. The increase was driven by the average crude oil price increase of 49% from the comparative period and crude oil marketing activities at the Corporation's pipeline connected FSTs and the Alida crude oil terminalling facility.

Disposal volumes increased in the three months ended March 31, 2017 from the comparative period due primarily to increased disposal of waste at Secure's landfills resulting from higher drilling activity levels. Further driving the increase in disposal volumes is increased produced and waste water volumes across Secure's facilities from the comparative period.

Oil purchase and resale revenue in the PRD division for the three months ended March 31, 2017 increased by 190% from the 2016 comparative period to $309.9 million due primarily to additional oil purchase and resale volumes from new facilities in 2016, which included the Alida crude oil terminalling facility, the increased ownership in the La Glace and Judy Creek FSTs, and the Kakwa FST. The new facilities added in 2016 accounted for 39% of oil purchase and resale revenue in the three months ended March 31, 2017, or 112% of the increase.

### *Direct expenses (PRD division)*

Direct expenses from PRD services increased by 21% in the three months ended March 31, 2017 from the comparative period of 2016. The increase in direct expenses relates primarily to the increased revenue as the Corporation maintains its ability to respond to higher activity levels while managing its fixed and variable costs.

Operating margin as a percentage of PRD services revenue for the three months ended March 31, 2017 increased to 59% from 53% in the comparative period of 2016. The increase in operating margin as a percentage of revenue over 2016 is due to increased revenues while minimizing fixed costs. The Corporation's revised cost management structure has resulted in improved operating margins realized across various facilities including FSTs, SWDs and landfills.

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

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Depreciation, depletion and amortization** | **17,397** | 16,200 | 7 |

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. For the three months ended March 31, 2017, depreciation, depletion and amortization expense has increased by 7% from the comparative period as a result of an increase to intangible assets and property, plant and equipment balances from the 2016 acquisitions, new facilities commissioned or acquired, and other equipment put into use since the first quarter of 2016.

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

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **General and administrative expenses** | **3,962** | 3,252 | 22 |
| **% of PRD services revenue** | **6%** | 7% | |

General and administrative ("G&A") expenses of $4.0 million for the three months ended March 31, 2017 increased by 22% from the comparative period. Although the Corporation continues to minimize G&A costs by streamlining operations, PRD G&A expenses have increased primarily due to the acquisitions completed in 2016 and the overhead requirements to support new facilities and expansions. As a percentage of PRD revenue, G&A costs have decreased from 7% to 6%.

## *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 as well as the recently acquired lab in Edmonton, Alberta through the Production Chemicals Acquisition. The focus on testing, research and new product development conducted at the laboratory allows Secure to provide unique and tailored products to customers.

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Revenue** | | | |
| Drilling and production services (a) | **50,468** | 35,207 | 43 |
| **Direct expenses** | | | |
| Drilling and production services (b) | **38,867** | 29,727 | 31 |
| **Operating Margin (1) (a-b)** | **11,601** | 5,480 | 112 |
| **Operating Margin (1) as a % of revenue (a)** | **23%** | 16% | |

(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 activity levels from oil and gas producers has a significant impact on the DPS division. For the three months ended March 31, 2017, industry rig counts in the WCSB increased 86% and metres drilled increased 116% from the 2016 comparative period. Revenue from the DPS division for the three months ended March 31, 2017 increased 43% to $50.5 million from the comparative period of 2016. Average crude oil price increases and improved weather conditions during the three months ended March 31, 2017 compared to the 2016 comparative period drove increased industry activity strengthening the DPS division's revenue in the first quarter of 2017.

Revenue per operating day decreased 23% to $5,803 during the three months ended March 31, 2017 compared to the same period in 2016 which generated revenue of $7,507 per operating day. The variance is a result of the geographic location and depth of wells which impacts the type of fluid used.

The DPS division's market share decreased slightly to 29% in the three months ended March 31, 2017 from 31% in the 2016 comparative period. The timing, type and location of one customer's drilling activities can create fluctuations in the market share from period to period.

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 2017. The Production Chemicals Acquisition completed on April 13, 2017 is expected to strengthen Secure's position in the market by adding over 100 fully formulated proprietary products, as well as key infrastructure related to the product offering and an experienced and dedicated employee base.

### *Direct expenses (DPS division)*

The DPS division's direct expenses for the three months ended March 31, 2017 increased by 31% to $38.9 million from the 2016 comparative period. Overall, the increase in direct expenses from the 2016 period was primarily due to increased activity levels.

The DPS division's operating margin for the three months ended March 31, 2017 increased 112% from the 2016 comparative period to $11.6 million from $5.5 million.

Operating margin as a percentage of revenue increased to 23% in the three months ended March 31, 2017 from 16% in the comparative period. Operating margins as a percentage of revenue were positively impacted by the increased revenues while minimizing fixed costs resulting in improved drilling fluids product margins and achieving economies of scale as activity increases.

### Depreciation and Amortization (DPS division)

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Depreciation and amortization** | **4,874** | 5,851 | (17) |

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. Depreciation and amortization expense decreased 17% in the three months ended March 31, 2017 from the 2016 comparative period primarily as a result of intangibles that have been fully amortized which reduces amortization expense, and asset disposals from the U.S. operations in 2016 which has reduced the asset carrying balance and the resulting depreciation expense.

### General and Administrative Expenses (DPS division)

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **General and administrative expenses** | **3,449** | 3,323 | 4 |
| **% of DPS division revenue** | **7%** | 9% | |

G&A expense for the three months ended March 31, 2017 increased by 4% from the comparative period of 2016. The Corporation continues to manage costs efficiently and proactively while still responding to customer demands and activity levels while expanding the production chemicals and chemical EOR service lines.

## 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.).

### Integrated fluid solutions:

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

### 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.

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Revenue** | | | |
| OnSite services (a) | **22,775** | 18,354 | 24 |
| **Direct expenses** | | | |
| OnSite services (b) | **17,186** | 13,767 | 25 |
| **Operating Margin (1) (a-b)** | **5,589** | 4,587 | 22 |
| **Operating Margin (1) as a % of revenue (a)** | **25%** | 25% | |

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

### Revenue (OS division)

Diversified service lines and integrated service offerings, complemented by increased average oil prices and producer activity in the three months ended March 31, 2017 drove a 24% increase in OS division revenue to $22.8 million from $18.4 million in the three months ended March 31, 2016.

Projects revenue during the three months ended March 31, 2017 increased 33% from the 2016 comparative period. Projects revenue is dependent on the type and size of jobs which can vary quarter to quarter. In the three months ended March 31, 2017, Projects revenue increased primarily as a result of jobs with new customers, new service offerings and geographic expansion. The Projects service line continues to bid on larger scale work as producers increase their capital spending due to stabilizing commodity prices.

Integrated fluids solutions revenue for the three months ended March 31, 2017 increased approximately 26% from the 2016 comparative period. Revenue increased due to a slight increase in customer field activity that was delayed in late 2016 due to producer budgets and wet weather and increased equipment utilization compared to the three months ended March 31, 2016.

Environmental services revenue for the three months ended March 31, 2017 remained consistent with the 2016 comparative period. Reclamation and remediation revenue decreased resulting from deferred customer spending created by relatively low commodity prices. The decrease in reclamation and remediation was offset by increased drilling waste revenue as oil and gas activity increased in the first quarter of 2017. Improving industry activity also resulted in increased bin revenue in the three months ended March 31, 2017 compared to the same period in 2016 resulting from geographic expansion and growth in NORM related solution services.

### *Direct expenses (OS division)*

Direct expenses for the three months ended March 31, 2017 increased 25% to $17.2 million from the 2016 comparative period. Overall, the variance in direct expenses was a direct result of the change in activity levels from the 2016 comparative period. 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 months ended March 31, 2017 operating margin in the OS division of $5.6 million improved by 22% over the prior year comparative period due primarily to increased revenue. The operating margin as a percentage of revenue for the OS division in the three months ended March 31, 2017 was 25%, consistent with the comparative 2016 period. The OS division's operating margin as a percentage of revenue can fluctuate 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 operating margin in the three months ended March 31, 2017 remained consistent primarily due to similar types of customers and work in the Projects service line with the comparative period.

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

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Depreciation and amortization** | **3,044** | 3,683 | (17) |

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 months ended March 31, 2017 decreased by 17% as a result of a reduced property, plant and equipment balance compared to the 2016 comparative period.

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

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **General and administrative expenses** | **2,078** | 1,316 | 58 |
| **% of OnSite services revenue** | **9%** | 7% | |

G&A expenses for the three months ended March 31, 2017 increased by $0.8 million or 58% from the 2016 comparative period to $2.1 million due primarily to increased costs to support geographic expansion of Environmental services including bins and NORM management in the U.S.

## CORPORATE INCOME AND EXPENSES

### Corporate General and Administrative Expenses

| | Three months ended Mar 31, | | |
|---|---|---|---|
| ($000's) | 2017 | 2016 | % Change |
| General and administrative expenses | 3,793 | 3,339 | 14 |

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 period in 2016, corporate G&A expenses increased $0.5 million in the three months ended March 31, 2017 due to slight increases in head count and costs to support the shared services functions. The Corporation has been able to demonstrate a consistent G&A cost structure while being able to respond to industry activity.

### Share-based Compensation

| | Three months ended Mar 31, | | |
|---|---|---|---|
| ($000's) | 2017 | 2016 | % Change |
| Share-based compensation | 6,174 | 4,894 | 26 |

Share-based compensation for the three months ended March 31, 2017 was $6.2 million compared to $4.9 million in the comparative period of 2016. 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. Secure has moved to primarily unit incentives with grants occurring in January of each year resulting in increased share-based compensation expense relating to the Unit Incentive Plan partially offset by reduced options expense.

### Business Development Expenses

| | Three months ended Mar 31, | | |
|---|---|---|---|
| ($000's) | 2017 | 2016 | % Change |
| Business development | 1,640 | 1,648 | - |

Business development expenses of $1.6 million for the three months ended March 31, 2017 were consistent with the comparative period of 2016. Business development expenses include prospect costs associated with organic growth and acquisition opportunities in Canada and the U.S. and research and development costs.

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 Mar 31, | | |
|---|---|---|---|
| ($000's) | 2017 | 2016 | % Change |
| Interest and finance costs | 2,462 | 3,275 | (25) |

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 months ended March 31, 2017 compared to the three months ended March 31, 2016 is a direct result of the fluctuation in the average balance drawn on the credit facility. The average long-term borrowings balance decreased 4% in the three months ended March 31, 2017 from the 2016 comparative period.

## Foreign Currency Translation Adjustment

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Foreign currency translation loss, net of tax** | **(1,804)** | (9,883) | (82) |

Included in other comprehensive income (loss) is $1.8 million for the three months ended March 31, 2017 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 March 31, 2017. The foreign currency translation adjustment included in the consolidated statements of comprehensive income (loss) does not impact net earnings (loss) for the period.

## Income Taxes

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| **Income taxes** | | | |
| Current tax recovery | **(25)** | (2,690) | (99) |
| Deferred tax expense | **3,920** | 1,025 | 282 |
| **Total income tax expense (recovery)** | **3,895** | (1,665) | 334 |

Income tax expense for the three months ended March 31, 2017 was $3.9 million compared to an income tax recovery of $1.7 million in the 2016 comparative period. The change in overall income tax expense (recovery) is due primarily to a net earnings before tax position driven by the increase in operating margin in the three months ended March 31, 2017 compared to a net loss position in the 2016 comparative period.

## 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:

| | 2017 | 2016 | | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** |
| Revenue (excluding oil purchase and resale) | 140,713 | 124,584 | 100,160 | 66,148 | 102,267 | 129,770 | 148,943 | 112,533 |
| Oil purchase and resale | 309,876 | 405,939 | 301,640 | 202,460 | 106,865 | 160,203 | 184,393 | 244,036 |
| Total Revenue | 450,589 | 530,523 | 401,800 | 268,608 | 209,132 | 289,973 | 333,336 | 356,569 |
| Net earnings (loss) for the period | 3,440 | (10,075) | (8,121) | (20,681) | (10,066) | (86,825) | (53,042) | (16,780) |
| Earnings (loss) per share - basic and diluted | 0.02 | (0.06) | (0.05) | (0.13) | (0.07) | (0.63) | (0.39) | (0.12) |
| Adjusted net earnings (loss)[1] | 3,502 | (11,430) | (7,617) | (20,467) | (8,598) | (14,650) | (1,563) | (14,809) |
| Earnings (loss) per share adjusted - basic and diluted | 0.02 | (0.07) | (0.05) | (0.13) | (0.06) | (0.11) | (0.01) | (0.11) |
| Weighted average shares - basic | 162,049,821 | 160,314,786 | 159,618,869 | 158,437,296 | 140,015,143 | 137,500,242 | 136,944,300 | 136,186,284 |
| Weighted average shares - diluted | 165,944,906 | 160,314,786 | 159,618,869 | 158,437,296 | 140,015,143 | 137,500,242 | 136,944,300 | 136,186,284 |
| Adjusted EBITDA [1] | 42,170 | 33,046 | 27,431 | 8,540 | 25,083 | 31,808 | 35,362 | 19,446 |

[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 2016, the Corporation's customers significantly reduced capital budgets in response to uncertainty in the price of crude oil and natural gas. The reductions impacted results in 2016 as explained in the commentary provided under '*Results of operations for the three months ended March 31, 2017*'.

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 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 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 10% to $188.0 million at March 31, 2017 compared to $209.0 million at December 31, 2016. The decrease is primarily related to funds from operations exceeding capital investments and dividend payments during the quarter. Refer to the '*Financing Activities*' section below for further information with regards to net debt.

Issued capital increased by 2% to $1.0 billion at March 31, 2017. The slight increase is a result of capital issued through the exercise of options and the Corporation's Unit Incentive Plan.

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 March 31, 2017, the Corporation had $471.9 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 March 31, 2017, 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 March 31, 2017 and as a result, Total Debt was equal to Senior Debt. At March 31, 2017, 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 March 31, 2017 and December 31, 2016.

| | Mar 31, 2017 | Dec 31, 2016 | % Change |
|---|---|---|---|
| Senior debt to EBITDA | 1.7 | 2.2 | (23) |
| Total debt to EBITDA | 1.7 | 2.2 | (23) |
| Interest coverage | 10.6 | 8.5 | 25 |

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 months ended March 31, 2017 and 2016.

### Funds from Operations

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| Funds from operations (1) | 40,052 | 18,700 | 114 |

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

Funds from operations for the three months ended March 31, 2017 increased to $40.1 million from $18.7 million in the 2016 comparative period. Funds from operations for the three months ended March 31, 2017 were positively impacted compared to the 2016 comparative period primarily due higher revenues resulting from increased activity in the oil and gas sector, new facilities and expansions and improved average oil prices in the three months ended March 31, 2017 from the prior year comparative quarter.

### Investing Activities

| | Three months ended Mar 31, | | |
|---|---|---|---|
| **($000's)** | **2017** | **2016** | **% Change** |
| Capital expenditures (1) | | | |
| Growth and expansion capital expenditures | 7,672 | 17,457 | (56) |
| Sustaining capital expenditures | 4,424 | 4,032 | 10 |
| Total capital expenditures | 12,096 | 21,489 | (44) |

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

The Corporation's growth and expansion capital expenditures for the three months ended March 31, 2017 decreased 56% to $7.7 million from the comparative period of 2016. 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 March 31, 2017 related primarily to equipment upgrades related to the Corporation's existing facilities and long lead items for projects expecting to commence in the second and third quarter of 2017.

During the three months ended March 31, 2017, sustaining capital was $4.4 million compared to $4.0 million in the 2016 comparative period. 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 Mar 31, | | |
|---|---|---|---|
| ($000's) | 2017 | 2016 | % Change |
| Shares issued, net of share issue costs | 2,267 | 143,739 | (98) |
| Repayment on credit facility | (21,000) | (143,000) | (85) |
| Capital lease obligation | (1,489) | (3,519) | (58) |
| Dividends paid | (6,347) | (5,730) | 11 |
| Net cash flows used in financing activities | (26,569) | (8,510) | 212 |

As at March 31, 2017, the Corporation had drawn $188.0 million on its credit facility compared to $209.0 million as at December 31, 2016. The decrease in the amount drawn primarily relates funds from operations exceeding capital investments and dividend payments during the quarter. As at March 31, 2017, the Corporation had $471.9 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 March 31, 2017, the Corporation was in compliance with all covenants.

During the three months ended March 31, 2017, the Corporation declared dividends of $9.7 million to holders of common shares. Of the dividends declared for the three months ended March 31, 2017, $3.4 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 March 31, 2017, the Corporation declared dividends to holders of common shares in the amount of $0.02 per common share payable on April 17 and May 15, 2017, for shareholders of record on April 1 and May 1, 2017, respectively.

Subsequent to the first quarter and commencing with the April 2017 dividend declaration, the Corporation suspended its DRIP. Shareholders participating in the DRIP at that time received cash dividends starting with the April 17, 2017 dividend payment date. On May 2, 2017, Secure announced a 6.25% increase to its monthly dividend rate from $.02 to $.02125 per common share commencing with the June 15, 2017 dividend payment date for shareholders of record on June 1, 2017.

## CONTRACTUAL OBLIGATIONS

Refer to Note 7 of the Interim Financial Statements for disclosure related to contractual obligations.

## BUSINESS RISKS

A comprehensive listing of the Corporation's business risks are set out in the Corporation's AIF under the heading *'Business Risks'*. 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.

## OUTSTANDING SHARE CAPITAL

As at May 2, 2017, there were 162,713,606 common shares issued and outstanding. In addition, as at May 2, 2017, the Corporation had the following share-based awards outstanding and exercisable or redeemable:

| Balance as at May 2, 2017 | Issued | Exercisable |
|---|---|---|
| Share Options | 6,762,927 | 4,690,913 |
| Restricted Share Units | 3,128,202 | - |
| Performance Share Units | 1,449,419 | - |
| Compensation Share Units | 1,123 | - |

## OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2017 and March 31, 2016, 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 Annual Financial Statements.

## FINANCIAL AND OTHER INSTRUMENTS

As at March 31, 2017, 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 in the AIF 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 Interim 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 Interim Financial Statements have been set out in Note 3 of the Corporation's Annual Financial Statements.

## FUTURE ACCOUNTING PRONOUNCEMENTS

For the three months ended March 31, 2017, there were no revised standards or amendments to IFRS issued. Refer to Note 4 of the Corporation's Annual 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 15, effective on January 1, 2018, on its consolidated financial statements and related disclosures. This assessment has commenced in 2017. The team has started a review of customer contracts and financial instruments in relation to the new standards, as well as a transition method to apply if applicable. The team has scoped revenue sources and applied against the model of IFRS 15. At this time, there have been no issues identified that would have a significant impact on the Corporation.

## 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.

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 Annual Financial Statements for disclosure related to legal proceedings and regulatory actions.

## RELATED PARTIES

Refer to Note 21 of the Corporation's Annual 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, and the Production Chemicals 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 Production Chemicals 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 Production Chemicals 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.