SECURE ENERGY SERVICES INC.

Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

To the Directors of Secure Energy Services Inc:

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

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

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

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

March 3, 2011

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

To the Shareholders of Secure Energy Services Inc.:

We have audited the accompanying consolidated financial statements of Secure Energy Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income (loss), deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes 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 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 financial position of the Company as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter – Commitments & Contingencies

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 20 of the financial statements concerning litigation involving the Company. This matter, explained in note 20 of the financial statements, indicates the existence of a material contingency. No adjustment has been made to record this contingency.

Meyers Norris Penny LLP

Calgary, Alberta
March 3, 2011

Chartered Accountants

SECURE ENERGY SERVICES INC.
Consolidated Balance Sheets

($000's)	**December 31, 2010**	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	**22,518**	235
Accounts receivable and accruals (note 5)	**25,394**	5,694
Prepaid expenses and deposits	**600**	320
Inventories (note 6)	**3,184**	682
Other assets	**-**	38
	51,696	6,969
Notes receivable (note 7)	**482**	459
Future income tax asset (note 16)	**404**	1,645
Assets under construction (note 8)	**30,818**	7,345
Property, plant and equipment (note 9)	**104,439**	78,383
Intangible assets (note 10)	**3,231**	272
Goodwill	**1,906**	1,906
Total Assets	**192,976**	96,979
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	**29,801**	3,326
Current portion of capital lease obligations	**807**	347
	30,608	3,673
Long term debt (note 12)	**-**	4,788
Capital lease obligations (note 20)	**1,035**	217
Asset retirement obligation (note 13)	**7,559**	3,145
	39,202	11,823
Guarantees (note 12)		
Commitments & Contingencies (note 20)		
Shareholders' Equity		
Share capital (note 14)	**152,983**	89,992
Contributed surplus (note 14)	**1,847**	694
Deficit	**(1,056)**	(5,530)
	153,774	85,156
Total Liabilities and Shareholders' Equity	**192,976**	96,979

Approved by the Board of Directors:

"SIGNED"
Rene Amirault

"SIGNED"
Kevin Nugent

See accompanying notes to consolidated financial statements

SECURE ENERGY SERVICES INC.
Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

	For the year ended December 31,	
($000's except per share data)	**2010**	2009
Revenue	**72,759**	22,377
Expenses		
Operating expenses	**40,617**	10,083
General and administrative	**5,833**	4,427
Stock-based compensation (note 14)	**1,170**	459
Business development (note 8)	**2,297**	64
Interest and financing (note 12)	**491**	105
Depletion, depreciation and accretion	**15,567**	10,657
	65,975	25,795
Other Revenue		
Interest	**234**	67
Income (loss) for the year before taxes	**7,018**	(3,351)
Future income tax expense (recovery) (note 16)	**2,544**	(593)
Net income (loss) and comprehensive income (loss)	**4,474**	(2,758)
Deficit, beginning of year	**(5,530)**	(2,772)
Deficit, end of year	**(1,056)**	(5,530)
Earnings (loss) per share (note 15)		
Basic and diluted	**0.07**	(0.07)

See accompanying notes to consolidated financial statements

SECURE ENERGY SERVICES INC.
Consolidated Statements of Cash Flows

	For the year ended December 31,	
($000's)	**2010**	2009
Cash provided by (used in)		
Operating activities		
Net Income (loss) for the year	**4,474**	(2,758)
Items not affecting cash:		
Depletion, depreciation and accretion	**15,567**	10,657
Future income tax expense (recovery) (note 16)	**2,544**	(593)
Stock-based compensation (note 14)	**1,170**	459
Amortization of financing fees (note 12)	**112**	192
Write down of assets under construction (note 8)	**1,288**	-
Loss on disposal of property, plant and equipment	**59**	1
	25,214	7,958
Net change in non-cash working capital	**(6,220)**	668
	18,994	8,626
Financing activities		
Issue of capital, net of issuance costs (note 14)	**61,519**	4,482
Issue of common shares from exercise of options (note 14)	**153**	-
Increase (decrease) in long term debt (note 12)	**(4,900)**	4,788
Deferred fees	**-**	(38)
Net change in non-cash financing activities working capital	**(23)**	(22)
	56,749	9,210
Investing activities		
Purchase of property, plant and equipment	**(51,993)**	(22,686)
Acquisition (note 3)	**(11,750)**	-
Proceeds from the sale of property, plant and equipment	**33**	46
Net change in non-cash investing activities working capital	**10,250**	(9,853)
	(53,460)	(32,493)
Increase (decrease) in cash and cash equivalents	**22,283**	(14,657)
Cash and cash equivalents, beginning of year	**235**	14,892
Cash and cash equivalents, end of year	**22,518**	235
Taxes paid	**-**	-
Interest paid	**59**	137

See accompanying notes to consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

Secure Energy Services Inc. (the "Corporation") is incorporated under the Business Corporations Act (Alberta) and is primarily engaged in clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and the purchase and resale of crude oil. The Corporation provides a range of these services in each of its operating facilities throughout Alberta and British Columbia.

In March 2010, the Corporation filed a long form prospectus (the "Prospectus") which constituted the Corporation's initial public offering ("IPO") of common shares. In connection with the filing of the Prospectus and the IPO, the Corporation offered 19,166,667 common shares at a price of $3.00 per common share. On March 23, 2010, the Corporation received approval to list its common shares on the Toronto Stock Exchange ("TSX") and commenced trading under the symbol "SES" on March 30, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

(b) Summary of Significant Accounting Polices

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and the Corporation's proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint venture.

Presentation

Prior period results have been reclassified where necessary to conform to current year presentation.

Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the year. Management reviews these estimates on an ongoing basis, including those related to depreciation and depletion, asset retirement obligations, fair values of net buy or net sell crude oil derivative contracts, recoverability of assets, goodwill valuation, stock based compensation, and income taxes. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be material.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and investments in highly liquid money market instruments, which are convertible to known amounts of cash in less than three months.

Accounts receivable

Accounts receivable are recorded based on the Corporation's revenue recognition policy. The allowance for doubtful accounts provides for specific doubtful receivables included in the Corporation's trade accounts receivables. See note 17 for a discussion on how the Corporation manages risks associated with accounts receivable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories, other than inventories classified as held for trading purposes, are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value represents the estimated selling price less estimated selling costs. The reversal of previous net realizable value write-downs to inventories is permitted when there is a subsequent increase to the value of inventories. The volume of oil held in inventory at the Corporation's facilities and the value of the oil inventory will fluctuate based on the normal capacity of the facility and the market price of oil in any given month.

Inventories classified as held for trading are carried at fair value and relate to oil volumes carried on the pipeline that trade into the subsequent period. Fair value is measured by the one month forward price less any costs to sell. Any changes in fair value are included in the statement of operations during the period of change.

Property, plant and equipment

The Corporation records property, plant and equipment at cost. Such costs include land acquisition, geological and geophysical, drilling of wells, contracted services, interest expense during the course of construction, production equipment and facilities. These capitalized costs are depreciated and/or depleted based on the following rates:

Buildings	- 4 to 10% declining balance
Landfill cells	- units of total capacity utilized in the period
Mobile equipment	- 30% declining balance
Plant infrastructure and equipment	- 10% to 45% declining balance
Disposal wells	- Straight-line over estimated life of well
Furniture and fixtures	- 20% declining balance
Leasehold improvements	- Straight-line over lease term
Computer equipment	- 30% declining balance

Long lived assets

Management assesses the carrying value of long lived assets for impairment when events or circumstances indicate that the carrying value of those assets may not be recoverable. Such events or circumstances include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, management tests for impairment by comparing the carrying value of the asset to its net recoverable amount. Impairment is recognized if the carrying value of the asset exceeds the sum of the undiscounted cash flows expected to result from that asset. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

Intangible assets

Intangible assets resulting from an acquisition are recorded at fair value. Fair value is estimated by management based on the expected discounted future cash flows associated with the intangible asset. Intangible assets with a finite life are amortized over the estimated useful life and intangible assets with an indefinite life are not subject to amortization and are tested for impairment annually. Any impairment is identified by comparing the fair value of the indefinite life intangible assets to its carrying value. Any excess of the carrying value of the intangible asset over the implied fair value is

the impairment amount and will be charged to earnings in the period of the impairment. Amortization of intangibles is calculated on straight-line basis over the estimated life of the intangible asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Combinations & Goodwill
Acquisitions are accounted for using the purchase method in accordance with Canadian Institute of Chartered Accountants (''CICA'') Handbook section 1582, which was applicable for the Corporation on January 1, 2010. Under this new method, the purchase consideration of the combination is allocated to the identifiable assets, liabilities and contingent liabilities on the basis of fair value as of the date of acquisition. The majority of acquisition-related costs are expensed in the period they occur. The adoption of this new guidance applicable in 2010 did not result in a significant impact to the statement of operations.

Goodwill, at the time of acquisition, represents the excess of purchase price of a business over the fair value of net assets acquired. Goodwill is assessed by the Corporation for impairment at least at each year end. If the fair value of the business is less than the book value, a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the business' assets and liabilities from the fair value of the business to determine the implied fair value of goodwill and comparing that amount to the book value of goodwill. Any excess of the book value of goodwill over the implied fair value is the impairment amount and will be charged to earnings in the period of the impairment.

Asset retirement obligations
Estimated future costs relating to asset retirement obligations associated with well sites and facilities are recognized as a liability, at fair value. The asset retirement cost, equal to the fair value of the retirement obligation, is capitalized at inception as part of the cost of the related asset. These capitalized costs are amortized consistent with depletion and depreciation of the underlying asset. The liability is adjusted at each reporting period to reflect the passage of time, with the accretion charged to the statement of operations. Actual costs incurred upon settlement of the obligations are charged against the liability.

Future income taxes
The Corporation follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Financial Instruments - recognition, measurement, disclosure and presentation
On initial recognition, financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. All financial instruments are classified into one of the following categories: held for trading, held to maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Held for trading financial assets are measured at their fair value and changes in fair value are recognized in the statement of operations. Changes in fair value that are recognized in the statement of operations include interest income and unrealized gains or losses. Held to maturity and loans and receivables are measured at amortized cost which is generally the initially recognized amount. Available for sale assets are reported at fair market value with unrealized gains or losses excluded from the statement of operations and reported as other comprehensive income or loss, unless any impairment in their value is other than temporary, in which case the loss is charged against earnings. Other financial liabilities are measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability upon initial recognition. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation has designated its financial instruments as follows:

- **Held for trading** - amounts classified as held for trading are cash and cash equivalents which are recorded at fair value under level 1. Included in accounts receivable and accounts payable are crude oil derivative contracts related to trading activities which are also classified as held for trading. The Corporation uses net buy or net sell crude oil derivative contracts for the marketing and trading of crude oil or natural gas liquids ("crude oil"). The contracts are settled with physical delivery of crude oil on a monthly basis. The contracts are recorded at fair value at the balance sheet date under level 2. The observable inputs under level 2 are based on inputs including quoted forward prices for commodities, time value, volatility factors, and broker quotations, which can be substantially observed or supported in the marketplace. Changes in fair value are recorded within the statement of operations in the period of change. See note 17 for further discussion.

- **Loans and receivables** - amounts classified as loans and receivables are trade accounts receivable and accruals and notes receivable. After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less any allowance for doubtful accounts. For the Corporation, the measurement amount generally corresponds to cost.

- **Other financial liabilities** - amounts classified as other financial liabilities are accounts payable and accruals and long term debt. Initial measurement is at fair value with any transaction costs added to the fair value amount. Subsequently, they are measured at amortized cost using the effective interest method. For the Corporation, the measurement amount generally corresponds to cost.

Financial instruments disclosure and presentation requires discussions on the significance of financial instruments for the Corporation's financial position and performance and the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the year and at the balance sheet date. See note 17 for how the Corporation manages those risks.

Revenue recognition
Revenue is recognized in the period services are provided or performed and when collectability is reasonably assured. Processing and disposal revenues are recorded at the time of delivery. Revenue from the sale of crude oil and natural gas liquids is recorded when title passes to the customer and collection is reasonably assured.

Stock-based compensation
The Corporation has a stock-based compensation plan. The Corporation follows the fair-value method to record compensation expense with respect to stock options and warrants granted. The fair value of each option or warrant granted is estimated on the date of grant and a provision for the costs is provided for with a corresponding credit to contributed surplus over the vesting period of the option agreement. Compensation expense associated with options issued to employees, consultants, officers and directors of the Corporation are expensed while compensation expense related to broker warrants issued are recorded as share issue costs and deducted from share capital. The consideration received by the Corporation on the exercise of share options and warrants is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation expense.

Financing fees
Transaction costs incurred to obtain short-term borrowings are deferred and amortized on a straight-line basis over the term of the credit agreement. Amortization is a non-cash charge to financing expenses. Transaction costs related to long-term debt are offset against the outstanding principle balance of the debt. The transaction costs are recognized as interest expense over the expected life of the debt using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued*)*

Earnings (loss) per share

The Corporation uses the treasury method for outstanding options and warrants which assumes that the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings (loss) per share are used to purchase the Corporation's common shares at the average market price during the year. The calculation of basic earnings per share has been calculated by dividing net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that would occur if stock options and warrants were exercised. Using the treasury method, the calculation of diluted earnings per share has been 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 arising from the exercise of potentially dilutive stock options outstanding during the year.

Comprehensive income (loss)

Comprehensive income (loss) is comprised of net earnings (loss) plus or minus changes in equity from transactions and other events from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Amounts recognized in other comprehensive income must eventually be recognized in the statement of operations and these reclassifications are to be disclosed separately. Accumulated other comprehensive income ("AOCI") is included on the consolidated balance sheet as a separate component of shareholders' equity, however during the year, the Corporation did not have any adjustments recognized through comprehensive income and therefore has not disclosed AOCI separately.

Capital Disclosures

Capital Disclosures, section 1535, requires management to disclose information about the Corporation's objectives, policies and processes for the management of its capital (note 18).

Joint interests

A portion of the Corporation's operating activities are conducted jointly with others. The joint venture is accounted for using the proportionate consolidation method. These financial statements reflect only the Corporation's proportionate interest in assets, liabilities, revenues, expenses, and cash flows.

(c) International Financial Reporting Standards ("IFRS")

On February 13, 2008, the AcSB confirmed 2011 as the official changeover date from current Canadian GAAP to IFRS. The Corporation will transition to IFRS on January 1, 2011 which will require, for comparative purposes, the restatement of amounts reported on the Corporation's opening IFRS balance sheet as at January 1, 2010 and amounts reported by the Corporation for the year ended December 31, 2010.

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

(a) Property, Plant and Equipment

The basic principles of accounting for property, plant and equipment under Canadian GAAP handbook section 3061 and International Accounting Standards (IAS 16) are similar; however, differences in application do exist. IAS 16 requires the parts or components approach and depreciation is based on the expected useful life of the parts or components. This method of componentizing property, plant and equipment may result in an increased number of component parts that are recorded and depreciated. In addition, the Corporation is changing its method of depreciation from declining balance to the straight-line method. As a result of the change in depreciation methods, the Corporations property, plant and equipment balance will increase upon the transition to IFRS.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Corporation has elected to use the cost model. The capitalization of borrowing costs to the value of an asset in accordance with IAS 23, Borrowing Costs, will not have an impact as the Corporation currently capitalizes borrowing costs under Canadian GAAP.

Under IAS 17, accounting for property, plant and equipment capital leases takes a substance over form approach to classifying leases as either capital or operating, stating that the classification depends on the substance of the transaction rather than the form of the contract (risks and rewards transferred, etc.). Operating leases are recognized in the same manner as Canadian GAAP. As a result, this classification will result in the majority of the Corporation's operating leases becoming capital leases recorded under property, plant and equipment.

(b) Impairment of Assets

Under IAS 36, Impairment of Assets, an asset is impaired when the recoverable amount is less than its carrying amount. Recoverable amount is the higher of fair value less costs to sell or value in use (Present Value of discounted cash flows) derived from the asset or cash generating unit ("CGU"). The use of discounted cash flows under IAS 36 to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. Impairment therefore can be more likely with discounted cash flows when calculating value in use; however IAS 36 does allow reversal of impairment losses. This differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses. The Corporation's assets will be subject to the new application for testing and measuring asset impairments which may result in some impairments being recognized or reversed under IAS 36 that would not have been required or permitted under Canadian GAAP.

(c) Share Based Payments

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

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

The first-time adoption of International Financial Reporting Standards states that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 provides the framework and specifies that, the adjustments that arise on retrospective conversion to IFRS from another GAAP should be recognized directly in retained earnings. There are certain optional exemptions and mandatory exceptions to retrospective application, both of which are clarified under IFRS 1. Below is a list of the IFRS exemptions applied and not applied:

Business combinations - exemption applied: the Corporation will elect not to re-value business combinations performed prior to January 1, 2010.

Fair value or revaluation as deemed cost – exemption applied: The Corporation will elect to use the cost option and restate the property, plant and equipment balance to the historic cost basis that would have existed if IFRS policies had been in place since inception.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Decommissioning liabilities included in the costs of property, plant and equipment - exemption not applied: IFRS 1 provides an optional exemption whereby an entity may measure asset retirement obligations ("ARO") at the transition date using the guidance in IAS 37. The Corporation must then determine the amount that would have been included in property, plant and equipment at the date the ARO first arose by discounting the ARO back to that date using a best estimate of the historical risk-adjusted rate(s) that would have applied for that ARO over the period from when it first arose to the transition date. Furthermore, the Corporation must calculate the accumulated depreciation on the amount included in property, plant and equipment, at the transition date, using the current estimate of the useful life of the property, plant and equipment item and the depreciation policy implemented under IFRS. The Corporation revalued all ARO since inception.

3. BUSINESS ACQUISITIONS

On May 1, 2010, the Corporation acquired the operating assets of Pembina Area Landfill Ltd. (the "Pembina landfill") for cash consideration of $11.8 million, excluding transaction costs of $0.2 million. The Pembina landfill is located near Drayton Valley, Alberta.

Consideration:	**($000's)**
Cash	11,750
Total consideration	**11,750**
Assets acquired:	
Property, plant and equipment	10,830
Intangibles	3,245
Total assets	**14,075**
Liabilities acquired:	
Asset retirement obilgations	(2,325)
Total liabilities	**(2,325)**
Net assets acquired	**11,750**

4. JOINT VENTURES

The Corporation has a 50% joint venture interest with Pembina Pipeline Corporation ("Pembina") for the operation of a portion of a full service terminal facility in La Glace, Alberta. The joint venture shares revenues and expenses associated with clean oil terminalling, custom treating of crude oil, crude oil marketing, and produced water disposal.

The following amounts relating to the joint venture are included in the consolidated financial statements:

	Dec 31, 2010	Dec 31, 2009
Balance Sheet ('000's)	**$**	**$**
Cash	1,276	147
Accounts receivable	744	364
Other receivables	176	81
Prepaid expenses	61	43
Inventory	314	222
Assets under construction	321	34
Property plant & equipment	6,003	6,678
Accounts payable	(596)	(299)
Current portion of capital lease	(32)	(35)
Long term capital lease	-	(29)
Asset retirement obligation	(204)	(190)
Statement of Operations		
Full service terminal	5,589	2,709
Operating expenses	(2,381)	(1,577)
Depreciation	(860)	(1,033)
Cash Flows		
Operating activities	2,886	1,035
Financing activities	(1,300)	(311)
Investing activities	(457)	(562)
Increase in Cash	**1,129**	**162**
Cash - beginning of year	147	(15)
Cash - ending of year	1,276	147

5. ACCOUNTS RECEIVABLE AND ACCRUALS

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Trade accounts receivable and accruals	14,974	5,736
Crude oil derivative contracts (note 17)	10,493	-
	25,467	5,736
Allowance for doubtful receivables	(73)	(42)
Total	**25,394**	**5,694**

Included in accounts receivable and accruals are crude oil derivative contracts related to trading activities. The Corporation uses net buy or net sell crude oil derivative contracts for the marketing and trading of crude oil which commenced in December of 2010 as part of the Corporation becoming a single shipper of crude oil on the Pembina pipeline. The contracts are settled with physical delivery of crude oil on a monthly basis. Upon settlement, the contracts are included within trade accounts receivable and are shown on a net receivable basis where the Corporation has a legally enforceable right and intention to offset.

6. INVENTORIES

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Spare parts and supplies	205	87
Crude oil - facility	463	595
Crude oil - pipeline linefill	2,516	-
Total	**3,184**	**682**

Spare parts and supplies are carried as inventory and expensed in the statement of operations when used. Crude oil facility inventory held fluctuates based on the operating capacity of the facility and the facility's ability to ship oil through its pipeline connected facilities at the end of any given period. Crude oil pipeline linefill inventory relates to inventory the Corporation is required to hold by the pipeline as a result of the Corporation becoming a single shipper of crude oil. Subsequent to December 31, 2010, the linefill inventory was liquidated, as the Corporation was no longer required by the pipeline to hold linefill inventory.

7. NOTES RECEIVABLE

In March 2007, the Corporation entered into an interest bearing promissory note and pledge agreement with three of its shareholders, who are also officers or employees of the Corporation. The principle amount is $0.4 million and the notes bear interest at a rate of 5% per annum. The proceeds of the loan were used to purchase shares in the Corporation. As security for the loan, the shareholders have pledged their shares of the Corporation. Total interest accrued to date is $0.08 million (2009: $0.05 million) for a total amount outstanding as at December 31, 2010 of $0.5 million (2009: $0.5 million). The notes are repayable on demand and are due on March 23, 2012.

8. ASSETS UNDER CONSTRUCTION

The Corporation will commence depreciation on the projects under construction when the project is complete and available for use. Equipment under refurbishment will be allocated to an ongoing construction project and will be depreciated when it is available for use. In November 2010, the Corporation expensed $1.3 million as a one time charge associated with the Corporation's Heritage landfill ("Heritage") project. The Heritage project was removed from projects under construction as the Corporation was unable to obtain the necessary regulatory approvals to move the project forward. The expense is included in business development expense for the year ended December 31, 2010.

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Projects under construction	29,655	6,070
Equipment (under refurbishment)	1,163	1,275
Total	**30,818**	**7,345**

9. PROPERTY, PLANT AND EQUIPMENT

December 31, 2010

(000's)	Cost	Accumulated Depreciation and Depletion	Net Book Value
Land	**$ 676**	**$ -**	**676**
Buildings	**$ 8,444**	**$ (1,138)**	**7,306**
Plant Infrastructure, Equipment & Landfill cells	**$ 90,818**	**$ (23,046)**	**67,772**
Mobile Equipment	**$ 3,054**	**$ (763)**	**2,291**
Disposal Wells	**$ 28,212**	**$ (3,170)**	**25,042**
Furniture & Fixtures	**$ 762**	**$ (171)**	**591**
Computer Equipment	**$ 1,380**	**$ (619)**	**761**
	$ 133,346	**$ (28,907)**	**$ 104,439**

December 31, 2009

(000's)	Cost	Accumulated Depreciation and Depletion	Net Book Value
Land	$ 21	$ -	21
Buildings	$ 6,083	$ (529)	5,554
Plant Infrastructure, Equipment & Landfill cells	$ 59,083	$ (11,175)	47,908
Mobile Equipment	$ 1,066	$ (265)	801
Disposal Wells	$ 24,648	$ (1,552)	23,096
Furniture & Fixtures	$ 419	$ (100)	319
Computer Equipment	$ 1,057	$ (373)	684
	$ 92,377	$ (13,994)	$ 78,383

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

During 2010, the Corporation acquired the assets of Pembina landfill (note 3) and completed construction on its full service terminal at Dawson Creek, British Colombia. The Dawson Creek full service terminal commenced operations in July 2010. In addition, the Corporation also completed expansions to the landfill cell capacities at its existing South Grand Prairie and Willesden Green landfill locations. In 2010, the Corporation capitalized interest of nil (2009: $0.03 million) and general and administrative expenses of $0.5 million (2009: $0.1 million) as part of the costs of construction.

Included in property plant and equipment is computer and mobile equipment under capital lease arrangements with a net book value of $0.04 million and $2.3 million, respectively (2009: nil, $0.8 million). The capital lease obligations over the next five years are disclosed in note 20.

10. INTANGIBLE ASSETS

Intangible assets of $3.2 million were recorded as part of the purchase of the Pembina landfill (note 3), and are amortized on a straight-line basis over the estimated useful life of 10 years. Non-competition agreements and customer relationships are amortized on a straight-line basis over their estimated useful lives of 5 years.

December 31, 2010

($000's)	Cost	Accumulated Amortization	Net Book Value
Non-competition agreements	93	(39)	54
Customer relationships	254	(106)	148
Licence	3,245	(216)	3,029
Total	**3,592**	**(361)**	**3,231**

December 31, 2009

($000's)	Cost	Accumulated Amortization	Net Book Value
Non-competition agreements	93	(20)	73
Customer relationships	254	(55)	199
Total	**347**	**(75)**	**272**

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Trade accounts payable and accrued liabilities	19,308	3,326
Crude oil derivative contracts (note 17)	10,493	-
Total	**29,801**	**3,326**

Included in accounts payable and accrued liabilities are crude oil derivative contracts related to trading activities. The Corporation uses net buy or net sell crude oil derivative contracts for the marketing and trading of crude oil which commenced in December of 2010 as part of the Corporation becoming a single shipper of crude oil on the Pembina pipeline. The contracts are settled with physical delivery of crude oil on a monthly basis. Upon settlement, the contracts are included within trade accounts payable and are shown on a net payable basis where the Corporation has a legally enforceable right and intention to offset.

12. LONG TERM DEBT

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Amount drawn on the secured credit facility	-	4,900
Financing fees	-	(112)
Total	**-**	**4,788**

The secured credit facility (the "credit facility") consists of a $35.0 million committed revolving term facility, renewable on May 31, 2011, bearing interest at 1.5% to 2.5 % above the Bank Prime rate, depending on certain minimum financial ratios to be maintained by the Corporation (note 18). The credit facility is a multi-use facility to provide capital project financing, working capital requirements and letters of guarantee in support of financial security requirements. In December 2009, as part of the issuance of the various credit facilities, the Corporation incurred transaction costs in the amount of $0.1 million, of which the entire amount was deferred and amortized using the effective interest rate method until the outstanding balance on the credit facility was repaid in March 2010. At December 31, 2010, no amounts were drawn on the credit facility.

As security for the credit facility, the Corporation granted lenders a security interest over all of its present and after acquired property. A $200.0 million debenture provides a first fixed charge over the Corporation's real properties and a floating charge over all present and after acquired property not subject to the fixed charge.

The credit facility has an extendible revolving period, followed by a one year non-revolving term period. The initial revolving period is renewable on May 31, 2011. If the credit facility is not renewed prior to May 31, 2011, then a non-revolving term period shall commence immediately thereafter and shall end one year later on May 31, 2012, at which point the Corporation is required to repay in full all amounts owing under the credit facility.

12. LONG TERM DEBT *(continued)*

The available credit facility is reduced by any outstanding letters of guarantee. The following table outlines the available amount under the credit facility:

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Committed secured credit facility	35,000	35,000
Letters of guarantee issued	(8,494)	(8,380)
Available amount	**26,506**	**26,620**

As at December 31, 2010, the Corporation has approximately $8.5 million in letters of guarantee issued by the Corporation's banker. The current fee for the issued guarantees is 1.5%. All guarantees reduce the Corporation's available secured credit facility. The guarantees are issued to various government authorities for potential reclamation obligations in accordance with applicable regulations (note 13).

13. ASSET RETIREMENT OBLIGATIONS

The future asset retirement obligations were estimated by management based on the Corporation's estimated costs to remediate, reclaim and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its total asset retirement obligation to be $7.6 million at December 31, 2010 (December 31, 2009: $3.1 million) based on a total future liability of $14.1 million (December 31, 2009: $7.3 million). These costs are expected to be incurred over the next two to twenty-five years. The Corporation's credit adjusted risk free interest rate of 5% and an inflation rate of 3% were used to calculate the net present value of the asset retirement obligations.

The following table provides a reconciliation of the Corporation's asset retirement obligations:

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Asset retirement obligations, beginning of period	**3,145**	2,370
Obligations added through development activities	**1,852**	991
Obligations added through acquisition	**2,325**	-
Revisions to estimates	**(80)**	(406)
Accretion expense	**317**	190
Asset retirement obligations, end of period	**7,559**	3,145

14. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

b) Issued and outstanding

On March 23, 2010, the Corporation completed an IPO of its common shares. A total of 19,166,667 common shares were issued through a prospectus at a price of $3.00 per common share, resulting in gross proceeds of $57.5 million. On April 16, 2010, the Agents exercised the over-allotment option to purchase an additional 2,875,000 common shares at a price of $3.00 per common share for gross proceeds of approximately $8.6 million. In connection with these offerings, the Corporation incurred approximately $4.6 million in transaction costs which included $3.7 million in agent fees. These costs, net of tax, were applied against the proceeds in share capital during the year ended December 31, 2010.

	Number of Shares	Amount ($000's)
Balance, December 31, 2008	39,962,075	85,493
Private placement	1,658,217	4,510
Employee share ownership plan	11,699	32
Share issue costs	-	(60)
Future tax effect of share issue costs	-	17
Balance, December 31, 2009	41,631,991	89,992
Initial public offering	19,166,667	57,500
Agent's exercise of over-allotment	2,875,000	8,625
Employee share ownership plan	15,990	44
Options exercised	64,700	153
Transfer from contributed surplus	-	17
Share issue costs	-	(4,649)
Future tax effect of share issue costs	-	1,301
Balance, December 31, 2010	63,754,348	152,983

c) Stock Option Plan

In conjunction with the Corporation's IPO and in order to comply with the rules and policies of the Toronto Stock Exchange ("TSX") and other applicable laws, the Corporation adopted a new stock option plan (the "Plan") effective as of March 23, 2010 (the "effective date"). All options under the previous plan prior to March 23, 2010 were transferred to the new Plan on the effective date. Under the new Plan, the Corporation may grant options to its employees, officers, directors and consultants up to 10% of the issued and outstanding common shares of the Corporation calculated on a non-diluted basis at the time of grant. The exercise price of options granted under the Plan is calculated as the five-day weighted average trading price of the common shares for the five trading days immediately preceding the date the options are granted. Options issued under the plan have a term of five years to expiry and vest over a three year period starting one year from the date of the grant. A summary of the status of the Corporation's stock option plan is as follows:

14. SHARE CAPITAL *(continued)*

	December 31, 2010		December 31, 2009	
	Outstanding Options	Weighted Average Exercise Price $	Outstanding Options	Weighted Average Exercise Price $
Balance - beginning of year	3,447,900	1.98	2,288,500	1.67
Granted	2,317,800	3.28	1,159,400	2.59
Exercised	(64,700)	2.37	-	-
Forfeitures	(73,550)	2.98	-	-
Balance - end of year	5,627,450	**2.50**	3,447,900	**1.98**
Exercisable - end of year	2,325,466	**1.71**	1,266,333	**1.53**

	Options outstanding			Options exercisable	
Exercise price $	Outstanding Options	Weighted Average Exercise Price $	Weighted average remaining term (years)	Exercisable Options	Weighted Average Exercise Price $
1.00 - 1.50	1,591,000	1.28	1.6	1,542,166	1.27
2.00 - 2.60	1,480,300	2.54	2.9	700,466	2.56
2.72 - 3.40	2,011,625	2.95	4.1	82,834	2.74
3.50 - 4.00	328,700	3.74	4.5	-	-
4.00 - 5.00	98,550	4.57	4.9	-	-
5.00 - 5.50	117,275	5.32	4.9	-	-
	5,627,450	**$2.50**	**3.2**	**2,325,466**	**$1.71**

On March 23, 2010 the Corporation, as part of the IPO, granted 1,771,025 options to employees, officers and directors. Subsequent to March 23, 2010, the Corporation granted 546,775 additional options. The fair value of options granted prior to January 1, 2010 was estimated at the date of grant using the minimum value method in the Black-Scholes Option Pricing Model. Subsequent to December 31, 2009, the Corporation has included the following assumptions in the Black-Scholes Option Pricing Model:

	2010	2009
Volatility factor of expected market price (%)	51.53	Nil
Weighted average risk-free interest rate (%)	2.25	2.13
Weighted average expected life in years	5.0	5.0
Weighted average expected annual dividends per share	Nil	Nil
Weighted average fair value per option ($)	1.53	0.21

14. SHARE CAPITAL *(continued)*

d) Performance warrants

The Corporation has a performance warrant plan, under which the Corporation may grant performance warrants to its employees, officers, directors and consultants to a maximum of the amount of 1,075,994 performance warrants available and outstanding at the time of the grant. The number of warrants issued is approved by the Board of Directors at the time of grant. There are currently no remaining performance warrants to be granted. Performance warrants issued under the plan have a term of five years to expiry from the date of the grant and vest 1/3, 1/3, 1/3 based on predetermined threshold amounts of $3.00, $3.50 and $4.25, respectively. The threshold amounts are determined using the weighted average trading price of the common shares of the Corporation for a period of 45 consecutive days. As at December 31, 2010, all warrants have vested.

A summary of the status of the Corporation's performance warrants is shown below:

	December 31, 2010		December 31, 2009	
	Outstanding Warrants	Average Exercise Price $	Outstanding Warrants	Average Exercise Price $
Balance - beginning of year	1,075,994	1.50	1,075,994	1.50
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	7,500	-	-	-
Balance - end of year	1,068,494	**1.50**	1,075,994	**1.50**
Exercisable - end of year	1,068,494	**1.50**	358,664	**1.50**

	Warrants outstanding			Warrants exercisable	
Exercise price $	Outstanding Warrants #	Weighted Average Exercise Price $	Weighted average remaining contractual life in years	Exercisable Warrants	Weighted Average Exercise Price $
1.50	1,068,494	1.50	1.46	1,068,494	1.50

During the year ended December 31, 2010 compensation cost of $1.2 million has been recognized for stock options and warrants granted (December 31, 2009: $0.5 million). These costs are recorded as stock based compensation expense with the offsetting amount being credited to contributed surplus. The amount transferred to share capital due to the exercise of stock options was de minimis for the year ended December 31, 2010 (December 31, 2009: de minimis).

14. SHARE CAPITAL *(continued)*

e) Contributed surplus

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Balance - beginning of period	694	235
Stock-based compensation	1,170	459
Transfer to share capital	(17)	-
Balance - end of period	1,847	694

f) Employee Share Ownership Plan

The Employee Share Ownership Plan ("ESOP") allows employees to become owners of the Corporation's shares. Employees may contribute up to 5% of their base salaries in the ESOP. For the year ended December 31, 2010, employees contributed $0.2 million (2009: $0.1 million) into the plan. The Corporation will match contributions up to 5% based on the employee's years of service with the Corporation. The Corporation's matching expense was $0.1 million (2009: $0.01 million). The program was implemented in 2009.

15. PER SHARE INFORMATION

Basic earnings per share calculations for the year ended December 31, 2010 and 2009 were based on the weighted average number of common shares outstanding of 58,560,338 (2009: 40,857,737). Basic earnings (loss) per share for the year ended December 31, 2010 was $0.07 (2009: ($0.07)). The diluted weighted average number of common shares outstanding during 2010 was 59,163,845 (2009: 41,788,605). Diluted earnings (loss) per share for the year ended December 31, 2010 was $0.07 (2009: ($0.07)). As a result of the net loss recorded in 2009, all dilutive options are considered to be anti-dilutive and have been excluded from the calculation of the diluted earnings (loss) per share.

16. INCOME TAX

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Income (loss) before income taxes	7,018	(3,351)
Combined federal and provincial income tax rate	28.00%	29.00%
Tax effect	1,965	(972)
Stock-based compensation	328	133
Tax effect of rate changes	195	216
Other	56	30
Future income tax expense (recovery)	**2,544**	**(593)**

16. INCOME TAX *(continued)*

The components of the net future income tax asset as at December 31, 2010 were as follows:

(000's)	Dec 31, 2010 $	Dec 31, 2009 $
Future income tax assets:		
Share issue costs	1,230	460
Asset retirement obligations	146	68
Other	445	1
Non-capital losses carried forward	4,256	4,914
	6,077	**5,442**
Future income tax liabilities:		
Intangibles	(37)	(73)
Property, plant and equipment	(5,636)	(3,724)
Net future income tax asset	**404**	**1,645**

The Corporation's non-capital losses of $17.0 million (December 31, 2009: $17.9 million) expire between 2027 and 2030.

17. FINANCIAL INSTRUMENTS

a) Carrying values and fair values

The fair values of financial assets and liabilities, together with the carrying amounts included in the consolidated balance sheets, are as follows:

(000's)	December 31, 2010		December 31, 2009	
	Carrying amount $	Fair value amount $	Carrying amount $	Fair value amount $
Financial Assets:				
Held for trading:				
Cash and cash equivalents	22,518	22,518	235	235
Crude oil derivative contracts	10,493	10,493	-	-
Loans and receivables:				
Accounts receivable	14,901	14,901	5,694	5,694
Notes receivable	482	482	459	459
Financial Liablilties:				
Held for trading:				
Crude oil derivative contracts	10,493	10,493	-	-
Other financial liabilities:				
Accounts payable	19,308	19,308	3,326	3,326
Long term debt	-	-	4,788	4,900

17. FINANCIAL INSTRUMENTS *(continued)*

b) Derivatives

The Corporation uses net buy and net sell crude oil derivative contracts (the "contracts") for marketing and trading of crude oil. Typically, these contracts are entered into in the forecast month which is the month prior to the production or delivery month. 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. There is no initial cash outlay in the month prior to the production month, as both the commodity price the producer will receive and the actual crude oil volume to be delivered are determined in the production month. The contract obligation is settled upon delivery. Therefore, as a result of no initial cash outlay in the forecast month, and given both the commodity price and physical delivery are settled at a future date (the production month) these contracts are defined as derivative instruments within financial instruments. The contracts are carried at fair value on the Corporation's consolidated balance sheet in the forecast month and are included within accounts receivable or accounts payable upon settlement. Changes in fair value are included in the statement of operations during the period of change. The contracts settled in the production month are included in accounts receivable and account payable, and are recorded on a net basis where the Corporation has a legally enforceable right and intention to offset.

c) Risks

Commodity price risk – non-trading

The value of the Corporation's crude oil inventory is impacted by the commodity price of crude oil. Crude oil prices have historically fluctuated widely and are affected by numerous factors outside of the Corporation's control. Crude oil prices are primarily based on Western 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. The Corporation is therefore exposed to commodity price fluctuations. The Corporation has elected not to actively manage commodity price risk associated with crude oil inventory at this time as the exposure to these fluctuations is not considered significant.

Commodity price risk – trading

The Corporation is exposed to commodity price risk on its contracts. The physical trading activities related to the contracts exposes the Corporation to the risk of profit or loss depending on a variety of factors including: changes in the prices of commodities; foreign exchange rates; changes in value of different qualities of a commodity; changes in the relationships between commodity prices and the contracts; physical loss of product through operational activities; and disagreements over terms of deals and/or contracts. These risks are mitigated by the fact that the Corporation only trades physical volumes, the volumes are traded over a short period (forecast and production month), and the Corporation does not currently participate in the long term storage of the commodities. In addition, the Corporation has developed detailed policies, procedures and controls over the trading activities, which include oversight by experienced management.

17. FINANCIAL INSTRUMENTS (continued)

The Corporation defines an "open position" as the difference between physical deliveries of all net buy crude oil derivative contracts offset against physical delivery of all net sell crude oil derivative contracts. The open position is subject to commodity price risk. As a single shipper, the pipeline mandates that any open positions of crude oil remaining at the end of any production month greater than approximately 3,200 barrels of crude oil would be subject to penalties. As a result, the Corporation's strategy is to reduce all opening positions below this threshold for any given month. The Corporation does have open positions throughout the forecast and production month, however those positions are closed within a relatively short period (before the end of the production month) therefore the overall exposure to the Corporation is significantly reduced. If the Corporation holds at or below 3,200 barrels of crude oil in open positions to a subsequent period, the exposure to the Corporation on a 10% increase or decrease in the price of crude oil per barrel would be an increase or decrease in revenue of approximately $0.03 million.

Credit risk

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, 2010 $	Dec 31, 2009 $
Under 30 days	11,096	1,959
31-60 days	910	583
61-90 days	309	476
Over 90 days	231	213
Total	**12,546**	**3,231**
Provision for doubtful accounts	**73**	**44**

The balance of $11.1 million under 30 days includes crude oil contracts settled as part of the trading activities that commenced in December of 2010. Of the $11.1 million, 21% of the receivable balance under 30 days is due from one counterparty. The entire amount due from the one counterparty relates to crude oil payments, which as part of industry practice, are settled within 30 days following the production month. As a result, the Corporation's credit exposure to any crude oil contracts settled is therefore limited to transactions occurring over a 60 day period. The Corporation is also exposed to credit risk with respect to its cash and cash equivalents. However, the risk is minimized as cash is held at a major Canadian financial institution.

17. FINANCIAL INSTRUMENTS (continued)

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 was exposed to interest rate risk during 2010 as it had borrowed funds at variable interest rates, however the balance of the credit facility was re-paid prior to March 31, 2010, therefore the Corporation is currently not exposed to interest rate risk on its credit facility. The Corporation is also exposed to interest rate risk on its cash and cash equivalents balance of $22.5 million. A 1% increase or decrease in the interest rate received by the Corporation would potentially increase or decrease revenue by $0.2 million. The Corporation currently does not use interest rate hedges or fixed interest rate contracts to mitigate the Corporation's exposure to interest rate fluctuations.

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 a December 31, 2010, the Corporation has $22.5 million in cash and cash equivalents and an undrawn credit facility of $26.5 million. The timing of cash outflows relating to financial liabilities are outlined in the table below:

(000's)	Less than 1 year $	1 year to 3 years $	4 years to 5 years $	5 years and thereafter $
Accounts payable and accrued liabilities	29,801	-	-	-
Capital and operating lease obligations	1,874	2,801	631	1,282
Long term debt	-	-	-	-
Total	**31,675**	**2,801**	**631**	**1,282**

Foreign currency risk

A significant portion of the Corporation's activities related to the purchase and sale of crude oil are transacted in or referenced to US dollars. Foreign currency risk 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 does not maintain an active hedge program to mitigate this risk as the exposure is limited at this time.

18. CAPITAL MANAGEMENT

The Corporation's objective in capital management is to ensure adequate sources of capital are available to carry out its planned capital program, while maintaining operational growth and increased cash flow so as to sustain future development of the business and to maintain creditor and shareholder confidence. Management considers capital to be the Corporation's current assets less current liabilities, total debt facilities and shareholders' equity as the components of capital to be managed.

Management controls its capital structure through detailed forecasting and budgeting, as well as established policies and processes over monitoring planned capital and operating expenditures.

This includes the Board of Directors, reviewing on a monthly basis, the Corporation's monthly results, capital costs to budget and approved authorizations for expenditure. The key measures management uses to monitor its capital structure are actual capital expenditures compared to authorized budgets, and earnings before interest, taxes, and depreciation ("EBITDA") on all of its operations. The Corporation is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants.

Management will manage its debt to maintain compliance with the various financial covenants contained within its secured credit facility (note 12). Those covenants are as follows:

- the working capital ratio may not be less than 1.25:1;
- the fixed charge coverage ratio may not be less than 1.25:1;
- the ratio of tangible assets to funded debt may not be less than 2.00:1;
- the ratio of funded debt to EBITDA (12 month trailing) may not exceed 3.50:1

19. RELATED PARTY TRANSACTIONS

In March 2007, the Corporation entered into an interest bearing promissory note and pledge agreement with three of its shareholders, who are also officers and/or employees of the Corporation. The notes bear interest at a rate of 5% per annum. The proceeds of the loan were used to purchase shares in the Corporation. As security for the loan, the shareholders have pledged a representative portion of their shares of the Corporation. The notes are repayable on demand and are due on March 23, 2012. As at December 31, 2010, the aggregate amount outstanding under the loans is $0.5 million (note 7).

In addition, during the year ended December 31, 2010 the Corporation incurred approximately $0.6 million of expenses with companies that have common directors, officers, employees and/or shareholders (2009: $0.2 million). $0.1 million of related party transactions are included in accounts payable at December 31, 2010 (2009: nil). These transactions are in the normal course of operations and have been valued at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The nature of the expenses relate to service work on the Corporation's disposal wells and for promotional items.

20. COMMITMENTS & CONTINGENCIES

The Corporation has both capital and operating lease commitments. The future minimum lease payments are as follows:

Year	Capital ($000's)	Operating ($000's)
2011	**807**	**1,067**
2012	**664**	**959**
2013	**369**	**809**
2014	**2**	**629**
Thereafter	**-**	**1,282**
Total	**1,842**	**4,746**

In December 2007, the Corporation was named as a co-defendant in a lawsuit on behalf of CCS Inc., seeking to recover damages in the aggregate of $110 million allegedly sustained by them pertaining to actions by former employees who are now employees of the Corporation. During 2008, the Defendants filed their Statements of Defence and counter claim. The matters raised in the lawsuit are considered by the Corporation to be unfounded and unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. The Corporation believes it has valid defences to this claim and accordingly has not recorded any related liability.

Corporate Information

DIRECTORS
Rene Amirault
Murray Cobbe [(1) (2)]
David Johnson [(2) (3)]
Kevin Nugent [(1) (3)]
Brad Munro [(1) (2) (3)]

OFFICERS
Rene Amirault
President and Chief Executive Officer

Nick Wieler
Chief Financial Officer

Allen Gransch
Vice President, Finance

Gary Perras
Vice President, Operations

Daniel Steinke
Vice President, Business Development

Karen Myrheim
Vice President, Sales and Marketing

STOCK EXCHANGE
Toronto Stock Exchange
Symbol: SES

AUDITORS
Meyers Norris Penny LLP
Calgary, Alberta

LEGAL COUNSEL
Bennett Jones LLP
Calgary, Alberta

BANKERS
Alberta Treasury Branches
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Olympia Trust Company
Calgary, Alberta

[1] Audit Committee
[2] Compensation Committee
[3] Corporate Governance Committee