

Consolidated Financial Statements

**For the years ended December 31, 2018 and 2017**

*(Expressed in Canadian Dollars)*



KPMG LLP  
205 5th Avenue SW  
Suite 3100  
Calgary AB T2P 4B9  
Tel (403) 691-8000  
Fax (403) 691-8008  
www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Secure Energy Services Inc.

### **Opinion**

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

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for Opinion**

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

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

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

### **Other Information**

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2018 Annual Report".



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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

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

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to



those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

*KPMG LLP*

Chartered Professional Accountants

February 26, 2019

Calgary, Canada

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

(\$000's)	Notes	2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash		7,928	9,730
Accounts receivable and accrued receivables		242,528	308,690
Inventories	6	70,097	72,225
Prepaid expenses and other current assets		10,868	14,763
		<b>331,421</b>	<b>405,408</b>
Property, plant and equipment	7	1,203,382	1,088,151
Intangible assets	8	36,258	51,212
Goodwill	9	11,127	11,127
Deferred tax assets	16	1,313	6,848
<b>Total Assets</b>		<b>1,583,501</b>	<b>1,562,746</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		168,121	257,837
Asset retirement obligations	12	2,978	3,055
Finance lease liabilities		7,223	5,111
		<b>178,322</b>	<b>266,003</b>
Long-term borrowings	11	412,919	298,408
Asset retirement obligations	12	87,707	74,262
Finance lease and other liabilities		9,464	7,813
Deferred tax liabilities	16	50,773	41,768
<b>Total Liabilities</b>		<b>739,185</b>	<b>688,254</b>
<b>Shareholders' Equity</b>			
Issued capital	13	1,031,189	1,057,505
Share-based compensation reserve		64,413	56,524
Foreign currency translation reserve		33,982	21,618
Deficit		(285,268)	(261,155)
<b>Total Shareholders' Equity</b>		<b>844,316</b>	<b>874,492</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,583,501</b>	<b>1,562,746</b>

*Approved by the Board of Directors:*

"SIGNED"  
Rene Amirault

"SIGNED"  
Kevin Nugent

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

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

<i>(\$000's except per share and share data)</i>	Notes	2018	2017
Revenue	22	2,937,453	2,328,208
Cost of sales	17	2,782,307	2,223,550
<b>Gross margin</b>		<b>155,146</b>	104,658
General and administrative expenses	17	99,593	89,560
<b>Operating income</b>		<b>55,553</b>	15,098
Interest, accretion and finance costs		19,464	12,425
Impairment and other expense	10	-	30,523
<b>Income (loss) before tax</b>		<b>36,089</b>	(27,850)
Current tax expense (recovery)	16	1,320	(4,816)
Deferred tax expense	16	14,840	11,168
<b>Net income (loss)</b>		<b>19,929</b>	(34,202)
Other comprehensive income (loss)			
Foreign currency translation adjustment		12,364	(10,431)
<b>Total comprehensive income (loss)</b>		<b>32,293</b>	(44,633)
Basic and diluted income (loss) per common share		0.12	(0.21)
Weighted average shares outstanding - basic	15	163,008,356	162,827,541
Weighted average shares outstanding - diluted	15	165,425,609	162,827,541

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

**SECURE ENERGY SERVICES INC.**  
**Consolidated Statements of Changes in Shareholders' Equity**

(\$000's)	Note	Issued capital	Share-based compensation reserve	Foreign currency translation reserve	Deficit	Total Shareholders' Equity
<b>Balance at January 1, 2018</b>		<b>1,057,505</b>	<b>56,524</b>	<b>21,618</b>	<b>(261,155)</b>	<b>874,492</b>
Net income		-	-	-	19,929	19,929
Dividends declared	13	-	-	-	(44,042)	(44,042)
Foreign currency translation adjustment		-	-	12,364	-	12,364
Exercise of options and share units	13	14,816	(14,761)	-	-	55
Share-based compensation		-	22,650	-	-	22,650
Shares cancelled under normal course issuer bid ("NCIB")	13	(41,132)	-	-	-	(41,132)
<b>Balance at December 31, 2018</b>		<b>1,031,189</b>	<b>64,413</b>	<b>33,982</b>	<b>(285,268)</b>	<b>844,316</b>
<b>Balance at January 1, 2017</b>		<b>1,030,033</b>	<b>51,441</b>	<b>32,049</b>	<b>(186,476)</b>	<b>927,047</b>
Net loss		-	-	-	(34,202)	(34,202)
Dividends declared		-	-	-	(40,477)	(40,477)
Shares issued through dividend reinvestment plan ("DRIP")		3,353	-	-	-	3,353
Foreign currency translation adjustment		-	-	(10,431)	-	(10,431)
Issue of share capital for business acquisition		1,789	-	-	-	1,789
Exercise of options and share units		22,330	(17,968)	-	-	4,362
Share-based compensation		-	23,051	-	-	23,051
<b>Balance at December 31, 2017</b>		<b>1,057,505</b>	<b>56,524</b>	<b>21,618</b>	<b>(261,155)</b>	<b>874,492</b>

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

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

(\$000's)	Notes	2018	2017
<b>Cash flows from (used in) operating activities</b>			
Net income (loss)		19,929	(34,202)
Adjustments for non-cash items:			
Depreciation, depletion and amortization	17	115,608	118,611
Interest, accretion and finance costs		19,464	12,425
Current and deferred tax expense	16	16,160	6,352
Other non-cash income		(4,276)	(990)
Impairment	10	-	29,237
Share-based compensation	14	22,963	23,257
Interest paid		(16,401)	(11,161)
Income taxes recovered		5,545	13,657
Asset retirement costs incurred	12	(4,946)	(982)
Funds flow from operations		174,046	156,204
Change in non-cash working capital		12,469	(47,332)
<b>Net cash flows from operating activities</b>		<b>186,515</b>	<b>108,872</b>
<b>Cash flows (used in) from investing activities</b>			
Purchase of property, plant and equipment		(177,076)	(137,268)
Business acquisition	5	-	(54,569)
Change in non-cash working capital		(33,289)	41,944
<b>Net cash flows used in investing activities</b>		<b>(210,365)</b>	<b>(149,893)</b>
<b>Cash flows (used in) from financing activities</b>			
Shares issued, net of share issue costs	13	55	4,362
Repurchase and cancellation of shares under NCIB	13	(41,132)	-
Draw on credit facilities		113,450	91,000
Financing fees		-	(2,123)
Capital lease obligation		(7,639)	(8,722)
Dividends paid	13	(44,042)	(37,124)
<b>Net cash flows from financing activities</b>		<b>20,692</b>	<b>47,393</b>
<b>Effect of foreign exchange on cash</b>		<b>1,356</b>	<b>(74)</b>
(Decrease) increase in cash		(1,802)	6,298
Cash, beginning of period		9,730	3,432
<b>Cash, end of period</b>		<b>7,928</b>	<b>9,730</b>

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



**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

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

**Nature of Business**

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

The Midstream Infrastructure division (formerly the Processing, Recovery and Disposal division) owns and operates a network of facilities throughout western Canada and in North Dakota. The Midstream Infrastructure division services include clean oil terminalling, rail transloading, pipeline transportation, crude oil marketing, custom treating of crude oil, produced and waste water disposal, oilfield waste processing, and oil purchase/resale service. Secure provides these services at its full service terminals, full service rail facilities, crude oil pipelines, crude oil terminalling facilities, water disposal facilities, and landfills.

The Environmental Solutions division (formerly the OnSite division) provides comprehensive environmental solutions, from initial project assessment and planning, to reclamation and remediation. The Environmental Solutions division also offers integrated fluid solutions which includes water management, recycling, pumping and storage solutions.

The Technical Solutions division (formerly Drilling and Production Services division) provides customer focused product solutions for drilling, completion and production operations for oil and gas producers in western Canada.

The following entities have been consolidated within Secure's consolidated financial statements for the year ended December 31, 2018.

<b>Subsidiaries</b>	<b>Country</b>	<b>Functional Currency</b>	<b>% Interest Dec 31, 2018 and 2017</b>
Secure Energy Services Inc. (parent company)	Canada	Canadian Dollar	
True West Energy Ltd.	Canada	Canadian Dollar	100%
Chaleur Terminals Inc.	Canada	Canadian Dollar	100%
Secure Energy (Drilling Services) Inc.	Canada	Canadian Dollar	100%
Alliance Energy Services International Ltd.	Canada	Canadian Dollar	100%
Secure Energy (OnSite Services) Inc.	Canada	Canadian Dollar	100%
Secure Energy (Logistics Services) Inc.	Canada	Canadian Dollar	100%
SES USA Holdings Inc.	USA	US Dollar	100%
Secure Energy Services USA LLC	USA	US Dollar	100%
Secure Drilling Services USA LLC	USA	US Dollar	100%
Secure Minerals USA LLC	USA	US Dollar	100%
Secure OnSite Services USA LLC	USA	US Dollar	100%

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

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

**Basis of Presentation**

The consolidated financial statements of Secure have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at the closing date of December 31, 2018.

These consolidated financial statements are recorded and presented in Canadian dollars (\$), which is Secure's functional currency, and have been prepared on a historical cost basis, except for certain financial instruments and share-based compensation transactions that have been measured at fair value. All values are rounded to the nearest thousand dollars (\$000's), except where otherwise indicated. The accounting policies described in Note 2 have been applied consistently to all periods presented in these consolidated financial statements, except as noted herein. Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

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

These consolidated financial statements were approved by Secure's Board of Directors on February 26, 2019. The head office of the Corporation is located at 3600, 205 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 2V7. The registered office of the Corporation is located at 4500, 855 – 2nd Street S.W., Calgary, Alberta, Canada, T2P 4K7.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of consolidation**

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

**b) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. If the acquisition meets the definition of a business combination, the assets acquired and liabilities assumed are classified or designated based on the contractual terms, economic conditions, the Corporation's operating and accounting policies, and other factors that exist on the acquisition date. Goodwill is measured at the acquisition date as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and the liabilities assumed. The measurement of goodwill is inherently imprecise and requires judgment in the determination of the fair value of assets and liabilities.

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

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

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

### **c) Revenue recognition**

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

- Revenue associated with services provided in the Midstream Infrastructure division such as processing, disposal, transportation, terminalling and rail transloading are recognized when the services are rendered.
- Revenue from the sale of crude oil and natural gas liquids is recorded when title to the product transfers to the customer and Secure has fulfilled its performance obligation of delivery of product.
- Revenue from pipeline tariffs and fees are based on volumes and rates as the pipeline is being used.
- Revenue from drilling fluid services is recognized when services are provided and materials are utilized. Materials that are delivered and not utilized are shown as drilling fluid inventory.
- Revenue from the sale of production chemicals and minerals is recognized at the point of sale, when the customer takes ownership of the products.
- Revenue from rental equipment is recognized once the asset is delivered to the customer, over the term of the rental agreement at pre-determined rates.
- Revenue from Environmental Solutions Projects is typically recognized when services are provided. For related projects where a performance obligation is satisfied over time, revenue may be recognized based on an appropriate input method determined by the physical portion of work performed depending on the nature of the project.
- Revenue is measured net of trade discounts and volume rebates as they are incurred in relation to the goods and services provided.

### **d) Inventories**

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

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

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

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

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

All other repair and maintenance costs are recognized in net income (loss) as incurred. The present value of the expected cost for the asset retirement obligation of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

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

An item of property, plant and equipment and any significant part is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income (loss) when the asset is derecognized.

### **f) Intangible assets**

Intangible assets acquired outside business combinations are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

Intangible assets resulting from a business combination are initially recorded at fair value. Fair value is estimated by management taking into account its highest and best use associated with the intangible asset. Intangible assets with a finite life are amortized over the estimated useful life and intangible assets with an indefinite life are not subject to amortization and are tested for impairment at least annually.

### **g) Depreciation, depletion and amortization**

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

#### ***Depreciation and depletion***

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

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

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

#### ***Amortization***

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

Non-competition agreements	2 to 5 years
Customer relationships	5 to 10 years
Licenses and patents	3 to 20 years

### **h) Impairment of non-financial assets**

The non-financial assets of the Corporation are comprised of property, plant and equipment, goodwill and intangible assets.

The Corporation assesses at each reporting date whether there is an indication that an asset or cash-generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Corporation estimates the CGU's recoverable amount. An asset or CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in net income (loss).

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

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. Goodwill impairment is tested at either the individual or group CGU level and is determined based upon the amount of future discounted cash flows generated by the individual CGU or group of CGUs compared to the individual CGU or group of CGUs' respective carrying amount(s).

For non-financial assets other than goodwill and intangible assets with an indefinite useful life, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the non-financial asset's or CGU's recoverable amount.

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

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

**i) Leases**

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

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

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

**j) Financial instruments**

***Classification***

Financial instruments within the scope of IFRS 9: Financial Instruments are classified upon initial recognition into one of the following categories: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost.

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

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

### ***Measurement***

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

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

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

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

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

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

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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

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

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

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

### ***Offsetting of financial instruments***

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in net earnings. The asset, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

### ***Derecognition***

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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in net earnings.

## **k) Provisions**

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



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

### **l) Asset retirement obligations**

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

### **m) Shareholders' equity**

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

### **n) Share-based compensation**

#### ***Equity-settled transactions***

The Corporation has a share option plan for eligible employees and consultants of the Corporation. The Corporation follows the fair-value method to record share-based compensation expense with respect to share options granted. The fair value of each option granted is estimated on the date of grant and that value is recorded as share-based compensation expense over the vesting period of those grants, with a corresponding increase to share-based compensation reserve less an estimated forfeiture rate. The consideration received by the Corporation on the exercise of share options is recorded as an increase to issued capital together with corresponding amounts previously recognized in the share-based compensation reserve. Forfeitures are estimated based on historical information for each reporting period, and adjusted as required to reflect actual forfeitures that have occurred in the period.

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

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

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

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

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

In 2016, the Corporation allowed employees to elect to reduce the cash compensation paid to them in exchange for a grant of CSUs. CSUs granted vested in January of the following calendar year from which they were issued and were equity settled. The Corporation contributed an additional 20% to 35% of the CSU award in recognition of the time value of money of the delayed compensation. The fair value of the CSUs issued was equal to the Corporation's five day weighted average share price on the grant date. The fair value was expensed over the vesting term. If an employee ceased to be employed by the Corporation prior to the CSU vesting date, the employee's earned portion of the contribution automatically vested and the Corporation's additional contribution was forfeited.

***Cash-settled transactions***

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

**o) Per share amounts**

The Corporation calculates basic income per share by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if in-the-money share options and other equity awards were exercised or converted into common shares. Diluted earnings per share is calculated by dividing net earnings available to common shareholders by the total of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding, utilizing the treasury method, arising from the exercise of in-the-money share options and other equity awards. The treasury method for outstanding options assumes that the use of proceeds that could be obtained upon exercise of options in computing diluted earnings per share are used to purchase the Corporation's common shares at the average market price during the period. For RSUs, PSUs and CSUs, the treasury stock method assumes that the deemed proceeds related to unrecognized share-based compensation are used to repurchase shares at the average market price during the period.

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

### **p) Taxes**

#### ***Current income tax***

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

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

#### ***Deferred income tax***

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is expected to be settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

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

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

Entities who transact in currencies that are not their functional currency translate monetary assets and liabilities at period-end exchange rates and non-monetary items at historical rates. Income and expense accounts are translated at the average rates in effect during the period. Gains or losses from changes in exchange rates are recognized in net income (loss) in the period of occurrence.

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

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

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

### **r) Segment reporting**

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

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

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

The key estimates and judgments concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below. Readers are cautioned that the following list is not exhaustive and other items may also be affected by estimates and judgments.

### **Significant judgments**

#### ***Determining CGUs***

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

Management has determined that the appropriate CGUs for the Corporation are the Technical Solutions division, each service line in the Environmental Solution division, and each facility type within the Midstream Infrastructure division.

### **Significant estimates and assumptions**

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

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

#### ***Recoverability of assets***

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

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

Goodwill is tested annually for impairment or when an indicator is present. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The required valuation methodology and underlying financial information that is used to determine value in use requires significant estimates to be made by management. The key estimates the Corporation normally applies in determining the recoverable amount of an individual asset, CGU or group of CGUs include expected levels of activity within the oil and gas industry, future sustaining capital costs, discount rates, tax rates, and operating margins. Assumptions that are valid at the time of preparing the cash flow models may change significantly when new information becomes available. Changes to these estimates may affect the recoverable amounts of an individual asset, CGU or group of CGUs which may then require a material adjustment to their related carrying value.

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

The amounts recorded for asset retirement obligations and the related accretion expenses are based on management's best estimate of the costs to abandon and reclaim the wells, facilities, pipelines and landfills, and the estimated time period in which these costs are expected to be incurred in the future. In determining the asset retirement obligation, assumptions and estimates are made in relation to discount rates, the expected cost for the reclamation, the expected cost to recover the asset and the expected timing of those costs. The Corporation's operations are affected by federal, provincial and local laws and regulations concerning environmental protection. The Corporation's provisions for future site restoration and reclamation are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

#### ***Other provisions and contingent liabilities***

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

#### ***Inventories***

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

#### ***Share-based compensation***

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

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

#### ***Income taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

#### ***Provision for expected credit losses (formerly termed provision for doubtful accounts)***

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

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

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

#### ***Purchase price equations***

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

#### ***Net investments in foreign subsidiaries***

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

#### **4. RECENT ACCOUNTING PRONOUNCEMENTS**

##### ***Standards issued but not yet effective***

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published and are in effect for periods beginning on or after January 1, 2019. Information on new standards, amendments and interpretations that are relevant to the Corporation's consolidated financial statements beginning in 2019 are provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements.

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

Secure has elected to use the modified retrospective approach for transition to IFRS 16. Lease liabilities will be measured at the present value of the future lease payments under each contract, discounted using the incremental borrowing rate for the corresponding legal entity. The right-of-use assets will be measured at amounts equal to respective lease liabilities, subject to certain adjustments allowed under IFRS 16. The right-of-use assets will be amortized on a straight-line basis over the remaining term of each related lease contract.

The Corporation has completed its review of existing contracts that will be classified as leases under IFRS 16 and is currently finalizing its analysis to quantify the impact of the adoption of IFRS 16 on its consolidated financial statements. Secure expects to record a material adjustment on its consolidated statement of financial position at January 1, 2019 for operating leases related to office space, warehouses, surface land, rail cars and certain heavy equipment. The ongoing impact of the application of IFRS 16 to the Corporation's lease contracts on the consolidated statements of comprehensive income is not expected to be material as the amortization of right-of-use assets and interest and finance costs related to the lease liabilities recognized under IFRS 16 will mostly be offset by reductions in operating lease expense, which are currently recognized in net income

As a result of the adoption of the new standard, the Corporation will be required to include significant disclosures in the consolidated financial statements based on the prescribed requirements. The Corporation will include required disclosures in its 2019 first quarter condensed consolidated interim financial statements.



**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**5. BUSINESS ACQUISITIONS**

- a) The Corporation did not complete any significant acquisitions in the year ended December 31, 2018.
- b) On April 13, 2017, the Corporation acquired the Canadian division of a production chemicals business from a U.S. based multi-national company for an aggregate purchase price of \$30.3 million with consideration paid in cash (the "Production Chemicals Acquisition"). The acquired assets have been integrated into the Technical Solutions division's Production Chemicals service line.

On August 1, 2017, the Corporation acquired all of the issued and outstanding common shares of Ceiba Energy Services Inc. (the "Ceiba Acquisition") and added ten facilities that fit within, and add capacity to, Secure's existing Midstream Infrastructure facility network. The acquired facilities will provide customers with additional options to reduce their overall transportation for custom treating of crude oil, crude oil marketing, produced and waste water disposal and oilfield waste processing.

Pursuant to the Ceiba Acquisition, the Corporation paid approximately \$24.3 million in cash and issued 189,965 common shares for total purchase consideration of approximately \$26.1 million.

From the date of acquisitions to December 31, 2017, the assets of the acquisitions contributed an estimated \$44.3 million of revenue and \$1.2 million of loss before tax for the Corporation. If the business combinations had been completed on January 1, 2017, Secure's estimated revenue and loss before tax for the year ended December 31, 2017 would have been \$2.4 billion and \$33.4 million, respectively.

The Corporation incurred costs related to the acquisitions of \$0.5 million relating to due diligence and external legal fees. These costs have been included in general and administrative expenses on the consolidated statement of comprehensive income.

The following summarizes the purchase price equations for the 2017 acquisitions:

<b>Balance at acquisition date</b>	<b>Amount (\$000's)</b>
Cash paid	54,569
Shares issued	1,789
	<b>56,358</b>
<b>Balance at acquisition date</b>	<b>Amount (\$000's)</b>
Inventory	8,909
Prepaid expenses and deposits	2,851
Property, plant and equipment	47,701
Intangible assets <sup>(1)</sup>	13,074
Net working capital	(804)
Debt assumed	(12,601)
Asset retirement obligations	(6,531)
Finance lease liabilities	(2,688)
Deferred tax assets	6,447
	<b>56,358</b>

<sup>(1)</sup> Consists of customer relationships of \$7.5 million and intellectual property of \$5.6 million.



**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**6. INVENTORIES**

(\$000's)	Dec 31, 2018	Dec 31, 2017
Drilling fluids	34,540	35,266
Minerals	12,421	12,414
Crude oil and natural gas liquids	6,470	12,346
Production chemicals	14,387	10,579
Spare parts and supplies	2,279	1,620
<b>Total inventories</b>	<b>70,097</b>	<b>72,225</b>

Drilling fluids, minerals and production chemicals inventory recognized as cost of sales in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2018 were \$142.1 million (2017: \$128.6 million).

**7. PROPERTY, PLANT AND EQUIPMENT**

The amounts included in assets under construction consist of assets associated with a variety of ongoing projects. During the year ended December 31, 2018, \$7.3 million (2017: \$5.9 million) of directly attributable capitalized salaries and overhead were added to property, plant and equipment. The amount of borrowing costs capitalized to property, plant and equipment for the year ended December 31, 2018 was \$1.3 million (2017: \$0.2 million) based on a capitalized borrowing rate of 3.9% (2017: 2.9%) incurred only on facilities and projects that have a construction period longer than one year.

During the year ended December 31, 2018, \$223.0 million (2017: \$76.5 million) was transferred from assets under construction to property, plant and equipment for completed projects.

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of \$19.7 million at December 31, 2018 (2017: \$15.3 million).

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

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

(\$000's)	Assets Under Construction	Land and Buildings	Plant Equipment, Pipelines, Landfill Cells and Disposal Wells	Rental and Mobile Equipment	Office and Computer Equipment	Total
<b>Cost:</b>						
<b>December 31, 2016</b>	36,838	108,687	1,080,473	129,552	36,762	<b>1,392,312</b>
Additions from business acquisition (Note 5b)	-	5,142	39,090	2,786	683	<b>47,701</b>
Additions <sup>(1)</sup>	144,597	2,010	62,381	10,368	5,723	<b>225,079</b>
Change in asset retirement cost	-	-	(9,107)	-	-	<b>(9,107)</b>
Disposals	-	(1,059)	(4,525)	(6,478)	(27)	<b>(12,089)</b>
Transfers <sup>(1)</sup>	(76,524)	-	-	-	-	<b>(76,524)</b>
Foreign exchange effect	(16)	(1,379)	(9,588)	(982)	(75)	<b>(12,040)</b>
<b>December 31, 2017</b>	<b>104,895</b>	<b>113,401</b>	<b>1,158,724</b>	<b>135,246</b>	<b>43,066</b>	<b>1,555,332</b>
Additions <sup>(1)</sup>	185,821	32,541	174,425	14,172	6,398	<b>413,357</b>
Change in asset retirement cost	-	-	15,625	-	-	<b>15,625</b>
Disposals	-	(403)	(8,415)	(8,728)	(1,223)	<b>(18,769)</b>
Transfers <sup>(1)</sup>	(222,952)	-	-	-	-	<b>(222,952)</b>
Foreign exchange effect	362	2,338	11,874	947	100	<b>15,621</b>
<b>December 31, 2018</b>	<b>68,126</b>	<b>147,877</b>	<b>1,352,233</b>	<b>141,637</b>	<b>48,341</b>	<b>1,758,214</b>
<b>Accumulated depreciation and depletion:</b>						
<b>December 31, 2016</b>	-	(23,583)	(290,010)	(47,761)	(18,968)	<b>(380,322)</b>
Depreciation and depletion	-	(4,255)	(73,039)	(13,898)	(5,543)	<b>(96,735)</b>
Disposals	-	131	1,609	5,154	26	<b>6,920</b>
Foreign exchange effect	-	194	2,318	395	49	<b>2,956</b>
<b>December 31, 2017</b>	-	(27,513)	(359,122)	(56,110)	(24,436)	<b>(467,181)</b>
Depreciation and depletion	-	(4,277)	(75,608)	(14,815)	(4,755)	<b>(99,455)</b>
Disposals	-	241	8,097	6,964	941	<b>16,243</b>
Foreign exchange effect	-	(342)	(3,493)	(525)	(79)	<b>(4,439)</b>
<b>December 31, 2018</b>	-	<b>(31,891)</b>	<b>(430,126)</b>	<b>(64,486)</b>	<b>(28,329)</b>	<b>(554,832)</b>
<b>Net book value:</b>						
<b>December 31, 2018</b>	<b>68,126</b>	<b>115,986</b>	<b>922,107</b>	<b>77,151</b>	<b>20,012</b>	<b>1,203,382</b>
<b>December 31, 2017</b>	<b>104,895</b>	<b>85,888</b>	<b>799,602</b>	<b>79,136</b>	<b>18,630</b>	<b>1,088,151</b>

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

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**8. INTANGIBLE ASSETS**

(\$000's)	Non-competition agreements	Customer relationships	Licenses & Patents	Total
<b>Cost:</b>				
<b>December 31, 2016</b>	<b>71,133</b>	<b>109,999</b>	<b>18,118</b>	<b>199,250</b>
Additions through business acquisitions (Note 5b)	-	7,480	5,594	<b>13,074</b>
Additions	-	-	403	<b>403</b>
Foreign exchange effect	(384)	(277)	(75)	<b>(736)</b>
<b>December 31, 2017</b>	<b>70,749</b>	<b>117,202</b>	<b>24,040</b>	<b>211,991</b>
Additions	-	-	535	<b>535</b>
Foreign exchange effect	472	341	22	<b>835</b>
<b>December 31, 2018</b>	<b>71,221</b>	<b>117,543</b>	<b>24,597</b>	<b>213,361</b>
<b>Accumulated amortization:</b>				
<b>December 31, 2016</b>	<b>(63,146)</b>	<b>(59,426)</b>	<b>(8,640)</b>	<b>(131,212)</b>
Amortization	(4,981)	(12,987)	(2,401)	<b>(20,369)</b>
Impairment (Note 10)	(986)	(8,735)	-	<b>(9,721)</b>
Foreign exchange effect	384	137	2	<b>523</b>
<b>December 31, 2017</b>	<b>(68,729)</b>	<b>(81,011)</b>	<b>(11,039)</b>	<b>(160,779)</b>
Amortization	(921)	(11,084)	(3,633)	<b>(15,638)</b>
Foreign exchange effect	(472)	(205)	(9)	<b>(686)</b>
<b>December 31, 2018</b>	<b>(70,122)</b>	<b>(92,300)</b>	<b>(14,681)</b>	<b>(177,103)</b>
<b>Net book value:</b>				
<b>December 31, 2018</b>	<b>1,099</b>	<b>25,243</b>	<b>9,916</b>	<b>36,258</b>
<b>December 31, 2017</b>	<b>2,020</b>	<b>36,191</b>	<b>13,001</b>	<b>51,212</b>

**9. GOODWILL**

(\$000's)	Dec 31, 2018	Dec 31, 2017
<b>Balance - beginning of year</b>	<b>11,127</b>	30,643
Impairment of goodwill (Note 10)	-	(19,516)
<b>Balance - end of year</b>	<b>11,127</b>	<b>11,127</b>

The remaining carrying amount of goodwill at both December 31, 2018 and December 31, 2017 is allocated to the Environmental Solutions division.

## **10. IMPAIRMENT**

The Corporation's non-financial assets are tested for impairment in accordance with the accounting policy stated in note 2(h). Secure completed this review as at December 31, 2018, and no impairment was recorded as a result of these assessments.

In the year ended December 31, 2017, as a result of lower than forecasted results, the Corporation completed an impairment test on the assets acquired from PetroLama Energy Canada Inc. ("PetroLama") in 2016. As a result of the impairment test performed, the Corporation recognized an impairment expense of \$29.2 million against the Midstream Infrastructure division's goodwill (\$19.5 million) and intangible assets (\$9.7 million). The recoverable amount of the assets tested were assessed at \$17.3 million, supporting the carrying value of the Alida facility's property, plant and equipment. The impairment charge was recorded in the impairment and other expense line on the consolidated statements of comprehensive income.

The Corporation used the value in use method to determine the recoverable amount of the assets acquired from PetroLama, including the crude oil terminal in Alida, Saskatchewan, and associated intangibles assets and goodwill. The cash flow projections included specific estimates for five years and a terminal valuation. The estimated cash flows were based on the 2017 run rate with revenue and margins increasing in correlation with anticipated oil and gas industry activity and oil price differentials over the following five years, and a terminal value thereafter was applied. The terminal valuation is determined based on management's estimate of the long-term compound growth rate of annual net earnings excluding depreciation, depletion, amortization and accretion, share-based compensation expense, interest, and taxes, consistent with the assumption that a market participant would make. The Corporation used a terminal growth rate of 3%. The discount rate used to calculate the net present value of cash flows is based on estimates of the Corporation's weighted average cost of capital, taking into account the nature of the assets being valued and their specific risk profile. The Corporation used a pre-tax discount rate of 16.8%.

Assumptions that are valid at the time of preparing the cash flow projections may change significantly when new information becomes available. The estimated value in use for the assets tested are particularly sensitive to the following estimates:

- An increase of 1% in the pre-tax discount rate and a 1% decrease in the terminal growth rate would have increased the impairment by approximately \$1.0 million and \$0.7 million, respectively.

Regardless if any indicators of impairment are present, the Corporation must complete an annual impairment assessment for any CGU, or group of CGUs, whose net carrying value includes indefinite-life intangible assets or an allocation of goodwill. Secure completed this review as at December 31, 2018 and 2017, which included impairment tests for the Corporation's Environmental Solutions division projects and integrated fluid solutions CGUs. No impairment was recorded as a result of these assessments.

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**11. LONG-TERM BORROWINGS**

(\$000's)	Dec 31, 2018	Dec 31, 2017
Amount drawn on credit facilities	413,450	300,000
Unamortized transaction costs	(531)	(1,592)
<b>Total long-term borrowings</b>	<b>412,919</b>	<b>298,408</b>
Credit facilities	600,000	600,000
Amount drawn on credit facilities	(413,450)	(300,000)
Letters of credit	(38,133)	(39,713)
<b>Available amount</b>	<b>148,417</b>	<b>260,287</b>

On June 30, 2017, Secure entered into a \$470 million first lien credit facility ("First Lien Facility") with a syndicate of ten financial institutions and Canadian Chartered banks. In addition, the Corporation entered into a \$130 million second lien credit facility ("Second Lien Facility") with a syndicate of three financial institutions and Canadian Chartered banks.

The First Lien Facility consists of a four year \$445 million revolving credit facility and a \$25 million revolving operating facility with a maturity date of June 30, 2021. The First Lien Facility is secured by a \$1 billion floating charge debenture and negative pledge from the Corporation creating a security interest over all of the Corporation's present and after acquired personal property and floating charge over all of its present and after acquired real property.

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

- the senior debt to EBITDA ratio is not to exceed 3.5 to 1.0. 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.
- the total debt to EBITDA ratio is not to exceed 5.0 to 1.0, and
- the interest coverage ratio is not less than 2.5 to 1.0.

Senior debt includes amounts drawn under the First Lien Facility and financial leases entered into by the Corporation, less cash balances in excess of \$5 million. Total debt includes senior debt plus amounts drawn under the Second Lien Facility, and should the Corporation issue any unsecured notes in the future total debt would also include the principal amount of the notes. Financing charges are defined to include interest expense on total debt.

At December 31, 2018 and 2017, the Corporation was in compliance with all covenants. The following table outlines the Corporation's covenant ratios as at December, 31, 2018 and 2017.

	Dec 31, 2018	Dec. 31, 2017
Senior debt to EBITDA	1.6	1.1
Total debt to EBITDA	2.2	1.9
Interest coverage	9.2	12.5

The Corporation is also subject to the following covenants:

- the aggregate principal amount of unsecured notes, if any, will not exceed \$500 million, and
- the aggregate principal amount of any unsecured notes, principal amount outstanding under the First Lien Facility and the principal amount outstanding under Second Lien Facility will not exceed \$800 million.

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

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

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

The Second Lien Facility is a four year plus one month \$130 million term credit facility with a maturity date of July 31, 2021. The Second Lien Facility is subject to customary terms, conditions and covenants, including financial covenants consistent with the First Lien Facility.

The security provided by the Corporation under the Second Lien Facility is the same as the First Lien Facility but is subordinate to the First Lien Facility lenders. As at December 31, 2018, the full amount of the \$130 million (2017: \$130 million) Second Lien Facility was drawn.

The Corporation has entered into interest rate swaps (see note 18) to fix the interest rate at 5% for the first three years and 5.5% thereafter under the Second Lien Facility.

The two credit facilities are to be used for working capital, refinance pre-existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes.

In connection with obtaining the two credit facilities, the Corporation incurred transaction costs in the amount of \$2.1 million, of which the unamortized amount is offset against the outstanding principal balance of the long-term borrowings.

**12. ASSET RETIREMENT OBLIGATIONS**

(\$000's)	Dec 31, 2018	Dec 31, 2017
<b>Balance - beginning of year</b>	<b>77,317</b>	80,114
Arising during the year through acquisitions and development activities	10,359	10,052
Revisions during the year	5,215	(11,077)
Accretion	1,767	1,513
Change in discount rate	51	(1,552)
Asset retirement obligations incurred	(4,946)	(982)
Foreign exchange effect	922	(751)
<b>Balance - end of year</b>	<b>90,685</b>	<b>77,317</b>

The Corporation's asset retirement obligations were estimated either by a third party specialist or management based on the Corporation's estimated costs to remediate, reclaim and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at December 31, 2018 to be \$90.7 million (December 31, 2017: \$77.3 million) based on a total future liability of \$120.6 million as at December 31, 2018 (December 31, 2017: \$117.1 million). The Corporation used a risk-free interest rate of 1.9% to 2.7% (December 31, 2017: 1.7% to 2.7%) and an inflation rate of 2.0% to calculate the net present value of its asset retirement obligations at December 31, 2018 (December 31, 2017: 2.0%).

The Corporation expects to incur the majority of the costs over the next 25 years. The amount expected to be incurred within the next 12 months is related to the capping of a number of the Corporation's landfill cells and retirement of wells.

The Corporation has issued \$33.6 million (December 31, 2017: \$30.7 million) of performance bonds and \$9.9 million (December 31, 2017: \$9.2 million) for letters of credit issued by the Corporation's lenders in relation to the Corporation's asset retirement obligations.

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**13. SHAREHOLDERS' EQUITY**

**Authorized**

Unlimited number of common voting shares of no par value.

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

	Number of Shares	Amount (\$000's)
<b>Balance at December 31, 2016</b>	160,652,221	1,030,033
Options exercised	547,524	4,362
RSUs, PSUs and CSUs exercised	1,635,864	-
Transfer from reserves in equity	-	17,968
Shares issued through DRIP	326,998	3,353
Shares issued as consideration for business acquisition	189,965	1,789
<b>Balance at December 31, 2017</b>	163,352,572	1,057,505
Options exercised	6,666	55
RSUs and PSUs exercised	1,461,590	-
Transfer from reserves in equity	-	14,761
Shares repurchased and cancelled under NCIB	(5,546,681)	(41,132)
<b>Balance at December 31, 2018</b>	<b>159,274,147</b>	<b>1,031,189</b>

As at December 31, 2018, there were 305,538 common shares of the Corporation held in escrow in conjunction with the Corporation's business combinations (2017: 1,508,564).

The Corporation declared dividends to holders of common shares for the year ended December 31, 2018 of \$44.0 million (2017: \$40.5 million). Commencing with the April 2017 dividend declaration, the Corporation suspended its Dividend Reinvestment Plan ("DRIP"). Shareholders participating in the DRIP at that time received cash dividends starting with the April 17, 2017 dividend payment date. As a result, there were no dividends declared for the year ended December 31, 2018 that were reinvested in additional common shares through the DRIP (2017: \$3.4 million).

Subsequent to December 31, 2018, the Corporation paid dividends to holders of common share of record on January 1, 2019 and February 1, 2019 in the amount of \$0.0225 per common share and declared dividends to holders of common shares in the amount of \$0.0225 per common share which is payable on March 15, 2019 for shareholders of record on March 1, 2019.

On May 28, 2018, the Corporation commenced an NCIB, under which the Corporation may purchase for cancellation up to a maximum of 8,227,359 common shares of the Corporation. The NCIB will terminate on May 27, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or terminated at the Corporation's election. For the year ended December 31, 2018, a total of 5,546,681 common shares at a cost of \$41.1 million were purchased, cancelled and removed from share capital under the terms of the NCIB, representing an average purchase price of \$7.42 per common share. Subsequent to December 31, 2018, the Corporation purchased 131,500 additional shares at a weighted average price per share of \$6.79 for a total \$0.9 million.

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**14. SHARE-BASED COMPENSATION PLANS**

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

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

At December 31, 2018, a total of 15.9 million common shares were reserved for issuance under the Corporation's Share Option Plan and Unit Incentive Plan ("UIP").

**Share Option Plan**

The exercise price of options granted under the Share Option 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 Share Option Plan have a term of five years to expiry and vest over a three year period starting one year from the date of the grant.

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

	Dec 31, 2018		Dec 31, 2017	
	Outstanding options	Weighted average exercise price (\$)	Outstanding options	Weighted average exercise price (\$)
Balance - beginning of year	6,153,925	13.71	7,209,139	13.17
Granted	-	-	50,000	11.48
Exercised	(6,666)	8.23	(547,524)	7.97
Expired	(1,537,398)	12.93	(337,778)	9.49
Forfeited	(306,838)	16.91	(219,912)	16.11
<b>Balance - end of period</b>	<b>4,303,023</b>	<b>13.75</b>	<b>6,153,925</b>	<b>13.71</b>
<b>Exercisable - end of period</b>	<b>3,707,355</b>	<b>14.47</b>	<b>4,534,175</b>	<b>15.07</b>

The following table summarizes information about share options outstanding as at December 31, 2018:

Options outstanding					Options exercisable	
Exercise price (\$)	Outstanding options	Weighted average exercise price (\$)	Weighted average remaining term (years)		Outstanding options	Weighted average exercise price (\$)
7.86 - 15.18	308,105	12.45	1.63	268,106	12.67	
15.19 - 16.52	1,077,195	15.54	1.02	1,077,195	15.54	
16.53 - 19.40	545,339	18.50	0.32	545,339	18.50	
19.41 - 25.51	767,051	19.84	0.40	767,051	19.84	
	<b>4,303,023</b>	<b>13.58</b>	<b>1.23</b>		<b>3,707,355</b>	<b>14.47</b>

**Unit Incentive Plan**

The Corporation has a UIP which allows the Corporation to issue RSUs, CSUs and PSUs that are redeemable for the issuance of common shares.

Unless otherwise directed by the Board of Directors, one third of each RSU grant vests and is redeemed on each of the first, second, and third anniversaries of the date of grant. RSUs terminate and cease to be redeemable on December 31<sup>st</sup> of the third year following the year in which the grant of the RSU was made.

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



**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

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

**DSU Plan**

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

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

	RSUs	PSUs	DSUs
<b>Balance at December 31, 2016</b>	<b>2,408,844</b>	<b>853,590</b>	<b>175,666</b>
Granted	1,961,950	835,082	75,990
Reinvested dividends	86,637	41,536	6,649
Redeemed for common shares	(999,986)	(27,231)	-
Forfeited	(331,650)	(8,761)	-
<b>Balance at December 31, 2017</b>	<b>3,125,795</b>	<b>1,694,216</b>	<b>258,305</b>
Granted	2,085,317	756,676	97,872
Reinvested dividends	123,836	77,867	11,313
Redeemed for common shares	(1,352,580)	(109,010)	-
Forfeited	(414,710)	(47,489)	-
<b>Balance at December 31, 2018</b>	<b>3,567,658</b>	<b>2,372,260</b>	<b>367,490</b>

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

As at December 31, 2018, \$2.6 million (2017: \$2.3 million) was included in accounts payable and accrued liabilities for outstanding DSUs and share-based compensation included in the statements of comprehensive income relating to DSUs was an expense of \$0.3 million for the year ended December 31, 2018 (2017: expense of \$0.2 million).

**Employee Share Ownership Plan**

The Employee Share Ownership Plan ("ESOP") allows employees to contribute up to 20% of their base salaries to purchase common shares of Secure. The Corporation will match contributions, up to a maximum of 5%. Shares purchased for both the employee contributions and Corporation's matching contributions are purchased on the open market. The Corporation's matching expense for the year ended December 31, 2018 was \$3.2 million (2017: \$1.2 million) and is recognized in either cost of sales or general and administrative expenses on the consolidated statements of comprehensive income.

**15. PER SHARE AMOUNTS**

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

	Dec 31, 2018	Dec 31, 2017
Weighted average number of shares - basic	163,008,356	162,827,541
Effect of dilution:		
Options, RSUs, and PSUs	2,417,253	-
<b>Weighted average number of shares - diluted</b>	<b>165,425,609</b>	<b>162,827,541</b>

The above calculation excludes the effect of 3,581,158 options for the year ended December 31, 2018, as they are considered to be anti-dilutive. For the year ended December 31, 2017 all options, RSUs and PSUs are excluded as they are considered to be anti-dilutive.

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**16. INCOME TAXES**

(\$000's)	Dec 31, 2018	Dec 31, 2017
<b>Current tax expense (recovery)</b>		
Current year	1,643	(4,878)
Adjustments related to prior years	(323)	62
	<b>1,320</b>	<b>(4,816)</b>
<b>Deferred tax expense (recovery)</b>		
Current year	15,429	11,104
Adjustments related to prior years	(589)	64
	<b>14,840</b>	<b>11,168</b>
<b>Total tax expense</b>	<b>16,160</b>	<b>6,352</b>

The income tax expense (recovery) differs from that expected by applying the combined federal and provincial income tax rates of 27% (2017: 27.0%) to income (loss) before tax for the following reasons:

(\$000's)	Dec 31, 2018	Dec 31, 2017
Income (loss) before tax	36,089	(27,850)
Combined federal and provincial income tax rate	27.0%	27.0%
Expected combined federal and provincial income tax expense (recovery)	9,744	(7,520)
Share-based compensation	6,200	6,254
Non-deductible expenses	1,128	841
Foreign and other statutory rate differences	-	5,115
Non-deductible impairments	-	1,536
Adjustments related to prior years	(912)	126
<b>Total tax expense</b>	<b>16,160</b>	<b>6,352</b>

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act significantly revising the U.S. federal income tax law affecting the Corporation's U.S. subsidiary resulting in a \$4.3 million decrease to the Corporation's deferred tax asset at December 31, 2017, and is included in foreign and other statutory rate differences. This is primarily due to the reduction of the U.S. federal statutory tax rate from 35% to 21%.

The components of the net deferred tax asset related to the U.S. and the net liability related to Canada as at December 31, 2018 and 2017 are as follows:

(\$000's)	Dec 31, 2018	Dec 31, 2017
<b>Deferred tax assets (U.S.):</b>		
Non-capital loss carry forwards	14,516	16,619
Property, plant and equipment	(22,180)	(18,082)
Goodwill and intangible assets	5,106	4,785
Asset retirement obligations	3,295	2,875
Other	576	651
	<b>1,313</b>	<b>6,848</b>
<b>Deferred tax liabilities (Canada):</b>		
Property, plant and equipment	(88,593)	(77,208)
Goodwill and intangible assets	16,274	14,512
Non-capital loss carry forwards	13,207	12,706
Asset retirement obligations	6,706	5,777
Share issue costs	1,194	2,132
Other	439	313
	<b>(50,773)</b>	<b>(41,768)</b>
<b>Net deferred tax liabilities</b>	<b>(49,460)</b>	<b>(34,920)</b>

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**16. INCOME TAXES (continued)**

Included above in the deferred tax assets are \$106.2 million (2017: \$114.0 million) of gross non-capital losses that can be carried forward to reduce taxable income in future years. The gross non-capital losses in the U.S. are \$57.3 million (2017: \$66.9 million) and expire between 2032 and 2036. The gross non-capital losses in Canada are \$48.9 million (2017: \$47.1 million) and expire between 2030 and 2038. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. The recognition involves the Corporation assessing when the deferred tax assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable income available to offset the tax assets when they do reverse. This assessment requires assumptions and assessments regarding future taxable income and is therefore inherently uncertain.

The movement in the Corporation's deferred tax balances during the year are as follows:

(\$000's)	Dec 31, 2018	Dec 31, 2017
<b>Movement in deferred tax balances during the year</b>		
Net deferred tax liabilities at beginning of year	(34,920)	(29,464)
Recognized in profit or loss	(14,840)	(11,168)
Deferred tax liabilities from acquisitions	-	6,447
Foreign exchange adjustments and other	300	(735)
<b>Net deferred tax liabilities</b>	<b>(49,460)</b>	<b>(34,920)</b>

**17. COST OF SALES AND GENERAL AND ADMINISTRATIVE EXPENSES**

The below table summarizes the disaggregation of cost of sales and general and administrative expenses for the years ended December 31, 2018 and 2017:

For the year ended December 31, 2018 (\$000's)	Cost of Sales	General and Administrative Expense	Total
Employee compensation and benefits	119,583	53,796	173,379
Share-based compensation	6,914	16,049	22,963
Depreciation, depletion and amortization	110,871	4,737	115,608
Business development expenses <sup>(1)</sup>	-	5,169	5,169
Oil purchase/resale services expense	2,239,281	-	2,239,281
Other <sup>(2)</sup>	305,658	19,842	325,500
<b>Total</b>	<b>2,782,307</b>	<b>99,593</b>	<b>2,881,900</b>

<sup>(1)</sup> Included within business development expenses for the year ended December 31, 2018 is \$3.3 million in additional employee compensation and benefits.

<sup>(2)</sup> Other includes the remaining expenses not listed separately in the table above. The majority of these expenses are cost of products, repairs and maintenance, trucking and disposal, rent and utilities.

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**17. COST OF SALES AND GENERAL AND ADMINISTRATIVE EXPENSES (continued)**

For the year ended December 31, 2017 (\$000's)	Cost of Sales	General and Administrative Expense	Total
Employee compensation and benefits	95,854	36,841	132,695
Share-based compensation	7,203	16,054	23,257
Depreciation, depletion and amortization	111,855	6,756	118,611
Business development expenses <sup>(1)</sup>	-	6,800	6,800
Oil purchase/resale services expense	1,724,787	-	1,724,787
Other <sup>(2)</sup>	283,851	23,109	306,960
<b>Total</b>	<b>2,223,550</b>	<b>89,560</b>	<b>2,313,110</b>

<sup>(1)</sup> Included within business development expenses for the year ended December 31, 2017 is \$2.9 million of additional employee compensation and benefits.

<sup>(2)</sup> Other includes the remaining expenses not listed separately in the table above. The majority of these expenses are cost of products, repairs and maintenance, trucking and disposal, rent and utilities.

**18. FINANCIAL INSTRUMENTS**

***Non-derivative financial instruments***

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

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

The Corporation's long term-borrowings are recorded at amortized cost using the effective interest rate method ("EIR"). Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest, accretion and finance costs on the consolidated statements of comprehensive income. The fair value of long-term borrowings is based on pricing sourced from market data. The carrying value of long-term borrowings (excluding transaction costs) at December 31, 2018 and 2017 of \$413.5 million and \$300.0 million, respectively, approximates fair values due to the variable interest rates applied to these facilities, which approximate market interest rates.

***Derivative financial instruments***

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

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**18. FINANCIAL INSTRUMENTS (continued)**

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

(\$000's)	December 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Commodity futures	3,464	147	2,019	1,309
Commodity options	1,024	-	32	-
Foreign currency forwards	-	68	604	-
Interest rate swaps	1,475	-	1,845	-
	<b>5,963</b>	<b>215</b>	<b>4,500</b>	<b>1,309</b>

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

(\$000's)	Commodity Contracts	Foreign Currency Contracts	Interest Rate Swaps	Total
<b>Fair value of contracts outstanding at December 31, 2016</b>	<b>739</b>	<b>(169)</b>	<b>-</b>	<b>570</b>
Fair value of contracts realized during the year	(3,032)	-	-	(3,032)
Changes in fair value during the year	3,085	773	1,845	5,703
Foreign exchange effect	(50)	-	-	(50)
<b>Fair value of contracts outstanding at December 31, 2017</b>	<b>742</b>	<b>604</b>	<b>1,845</b>	<b>3,191</b>
Fair value of contracts realized during the year	(71)	-	-	(71)
Changes in fair value during the year	3,536	(672)	(370)	2,494
Foreign exchange effect	134	-	-	134
<b>Fair value of contracts outstanding at December 31, 2018</b>	<b>4,341</b>	<b>(68)</b>	<b>1,475</b>	<b>5,748</b>

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

***Fair value hierarchy***

The table below analyses financial instruments by fair value hierarchy:

(\$000's)	December 31, 2018			Total
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Commodity futures	-	3,464	-	3,464
Commodity options	-	1,024	-	1,024
Interest rate swaps	-	1,475	-	1,475
	-	<b>5,963</b>	-	<b>5,963</b>
<b>Financial liabilities:</b>				
Long-term borrowings	-	413,450	-	413,450
Commodity futures	-	147	-	147
Foreign currency forwards	-	68	-	68
	-	<b>413,665</b>	-	<b>413,665</b>

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**18. FINANCIAL INSTRUMENTS (continued)**

(\$000's)	December 31, 2017			Total
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Commodity futures	-	2,019	-	2,019
Commodity options	-	32	-	32
Foreign currency forwards	-	604	-	604
Interest rate swaps	-	1,845	-	1,845
	-	4,500	-	4,500
<b>Financial liabilities:</b>				
Long-term borrowings	-	300,000	-	300,000
Commodity futures	-	1,309	-	1,309
	-	301,309	-	301,309

There were no transfers between levels in the hierarchy in the year ended December 31, 2018 (2017: nil).

***Risk Management***

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

**a) Market Risk**

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

***i) Commodity price risk***

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

In addition, changes in the prices of crude oil and natural gas can impact overall drilling activity and demand for the Corporation's products and services. In the Technical Solutions division, the Corporation purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items.

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

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

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**18. FINANCIAL INSTRUMENTS (continued)**

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

(\$000's)	Dec 31, 2018	Dec 31, 2017
Favourable 10% change	317	43
Unfavourable 10% change	(317)	(43)

The Corporation's profit or loss is also exposed to various risks from its physical oil purchase and resale trading activities. These risks depend on a variety of factors, including: changes in the prices of commodities; foreign exchange rates; changes in value of different qualities of a commodity; changes in the relationships between commodity prices and the contracts; physical loss of product through operational activities; disagreements over terms of deals and/or contracts; changes in pipeline operating specifications; and pipeline apportionment. These risks are mitigated by the fact that the Corporation trades physical volumes, and the volumes are typically traded over a short period. The oil and gas producer forecasts or nominates crude oil volumes expected to be delivered to the Corporation's facilities in advance of the production month as part of normal oil and gas operations.

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

The Corporation defines an "open position" as the difference between physical deliveries of all crude oil buy contracts, offset against the physical deliveries of all crude oil sales contracts. The open position is subject to commodity price risk. As a result, the Corporation's strategy is to reduce all open positions for any given month. The Corporation does hold open positions; however, these positions are closed within a relatively short period after the production month and therefore the overall exposure to the Corporation is significantly reduced. At December 31, 2018, the Corporation's open position was not significant.

**ii) Foreign currency risk**

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from its purchase and sale of crude oil, working capital balances denominated in foreign currencies and on the translation of its foreign operations. Foreign currency risk on the purchase and sale of crude oil is mitigated as the majority of the activities occur in the same period, therefore foreign currency risk exposure is limited to crude oil held in inventory. The Corporation also has foreign currency risk arising from the translation of amounts receivable from and payable to its foreign subsidiary.

The Corporation also has loans that are considered to form part of the net investment and foreign exchange gains and losses are therefore recognized in the foreign currency translation reserve. The Corporation manages and mitigates foreign currency risk by monitoring exchange rate trends, forecasted economic conditions, and forward currency contracts.

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

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**18. FINANCIAL INSTRUMENTS (continued)**

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

(\$000's)	Dec 31, 2018	Dec 31, 2017
Favourable 10% change	5	44
Unfavourable 10% change	(5)	(44)

**iii) Interest rate risk**

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk as it has borrowed funds at variable interest rates on its First Lien credit facility. A 1% increase or decrease is used when management assesses changes in interest rate risk internally. The following table summarizes the impact to net income (loss) if interest rates had been 1% higher/lower, and all other variables were held constant.

(\$000's)	Dec 31, 2018	Dec 31, 2017
Favourable 1% change	2,701	1,800
Unfavourable 1% change	(2,701)	1,800

The Corporation has entered into interest rate swaps to mitigate the Corporation's exposure to interest rate fluctuations. The swaps fix the interest rate at 5% for the first three years and 5.5% thereafter on the Second Lien credit facility. These derivative financial instruments are not generally used for speculative purposes and are not designated as hedges.

**b) Credit risk**

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

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, 2018	Dec 31, 2017
Less than 30 days	117,585	167,656
31 to 60 days	38,692	40,081
61 to 90 days	12,344	12,608
Greater than 90 days	7,037	7,762
	<b>175,658</b>	<b>228,107</b>
Provision for expected credit losses	<b>1,567</b>	<b>1,357</b>



**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**18. FINANCIAL INSTRUMENTS (continued)**

The balance of \$117.6 million under 30 days includes \$61.0 million of crude oil contracts settled as part of the trading activities for December 2018. The entire amount of \$61.0 million is due from numerous counterparties and relates to crude oil payments, which as part of industry practice, are settled within 30 days of the production month. The remainder of accounts receivable and accrued receivables not included in the trade accounts receivable schedule above relates to accrued revenue and other non-trade receivables.

The counterparties noted above are approved by the Corporation's risk management committee in accordance with the Corporation's energy marketing risk policy relating to crude oil payments. The Corporation's credit exposure to any crude oil contracts settled is limited to transactions occurring over a 60 day period. Of the receivables relating to crude oil payments, approximately 75% are due from counterparties with a credit rating of B or higher.

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

(\$000's)	Dec 31, 2018	Dec 31, 2017
Balance - beginning of year	1,357	1,253
Additional provision for expected credit losses	1,126	728
Reversal of provision for expected credit losses	(525)	-
Bad debts recognized	(422)	(336)
Foreign exchange effect	31	(288)
<b>Balance - end of year</b>	<b>1,567</b>	<b>1,357</b>

Management uses a provision matrix based upon historical default rates and forward-looking assumptions to calculate expected credit losses and establish a provision for expected credit losses. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. Management also considers the credit worthiness and past payment history as well as any past due amounts. The Corporation considers all amounts greater than 90 days to be past due. As at December 31, 2018, \$7.0 million (2017: \$7.8 million) of accounts receivable are past due and a provision for expected credit losses of \$1.6 million (2017: \$1.4 million) has been established.

The Corporation is also exposed to credit risk with respect to its cash. However, the risk is minimized as cash is held at major financial institutions.

Maximum credit risk is calculated as the total recorded value of cash, and accounts receivable and accrued receivables as at the date of the consolidated statement of financial position.

**c) Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. The Corporation manages its liquidity risk through cash and debt management. Management's assessment of its liquidity reflects estimates, assumptions and judgments relating to current market conditions. As at December 31, 2018, the Corporation has \$7.9 million in cash and \$148.4 million in capacity on its revolving credit facilities (Note 11).

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**18. FINANCIAL INSTRUMENTS (continued)**

The timing of cash outflows relating to financial liabilities, including estimated interest payments, are outlined in the table below:

(\$000's)	Due within 1 year	Between 1-5 years	Greater than 5 years
Accounts payable and accrued liabilities	165,330	-	2,576
Derivative liability	215	-	-
Finance lease obligations	7,223	8,341	-
Long-term borrowings <sup>(1)</sup>	17,186	439,619	-
	<b>189,954</b>	<b>447,960</b>	<b>2,576</b>

<sup>(1)</sup> Interest on First Lien Facility is estimated using Secure's average bankers acceptance rate for 2018. Interest on Second Lien Facility is estimated using rates consistent with the interest rate swaps as outlined in Note 11.

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

**19. CAPITAL MANAGEMENT**

The capital structure of the Corporation consists of the following:

(\$000's)	Dec 31, 2018	Dec 31, 2017
Current assets	331,421	405,408
Current liabilities	(178,322)	(266,003)
Amount drawn on credit facilities	413,450	300,000
Shareholders' equity	844,316	874,492
	<b>1,410,865</b>	<b>1,313,897</b>

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

The Corporation's overall capital management strategy remained unchanged in 2018. 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 on a quarterly basis. The key measures management uses to monitor its capital structure are actual capital expenditures compared to authorized budgets, adjusted EBITDA and senior and total debt to adjusted EBITDA. The Corporation is subject to certain financial covenants in its credit facility. The Corporation is in compliance with all financial covenants. Management will manage its debt to maintain compliance with the various financial covenants contained within its long-term borrowings (Note 11).

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**20. RELATED PARTY DISCLOSURES**

***Transactions with key management personnel***

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. Key management personnel of the Corporation are comprised of its executive officers and the Board of Directors. In addition to the salaries and short-term benefits paid to the executive officers and fees paid to the directors, the Corporation also provides compensation under its share-based compensation plans and ESOP (Note 14).

The compensation related to key management personnel is as follows:

(\$000's)	Dec 31, 2018	Dec 31, 2017
Salaries and short-term employee benefits	8,150	6,476
Share-based compensation	8,168	7,718
	<b>16,318</b>	<b>14,194</b>

**21. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES**

**As at December 31, 2018**

(\$000's)	Payments due by period			Total
	1 year or less	1-5 years	5 years and thereafter	
Finance leases	7,223	8,341	-	15,564
Operating leases	18,275	27,835	5,245	51,355
Crude oil transportation <sup>(1)</sup>	35,400	143,491	99,936	278,827
Inventory purchases	10,836	-	-	10,836
Capital commitments	19,728	-	-	19,728
<b>Total contractual obligations</b>	<b>91,462</b>	<b>179,667</b>	<b>105,181</b>	<b>376,310</b>

<sup>(1)</sup> Crude oil transportation includes crude oil transportation volumes for pipeline throughput at certain pipeline connected full service terminals.

**Finance lease commitments**

The Corporation has entered into finance lease agreements for computer equipment, vehicles, and mobile equipment. The average lease term is three years (2017: three years). The Corporation's obligations under finance leases are secured by the related assets. Interest rates underlying finance lease obligations are fixed at respective contract rates.

**Operating lease commitments**

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

**Crude oil transportation commitments**

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

**Inventory purchase commitments**

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

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

### **Capital commitments**

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

### **Commodity contract purchase commitments**

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

### **Fixed price contracts**

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

### **Litigation**

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

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

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

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**22. SEGMENT REPORTING**

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

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

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

The following table presents the financial performance by reportable segment and includes a measure of segment profit or loss regularly reviewed by management. Additionally, revenues have been disaggregated by type of service or good.

<b>Year ended December 31, 2018</b>	<b>Midstream Infrastructure</b>	<b>Environmental Solutions</b>	<b>Technical Solutions</b>	<b>Corporate</b>	<b>Total</b>
Revenue from services	356,350	117,060	224,762	-	698,172
Oil purchase and resale service	2,239,281	-	-	-	2,239,281
<b>Total revenue</b>	<b>2,595,631</b>	<b>117,060</b>	<b>224,762</b>	<b>-</b>	<b>2,937,453</b>
Cost of sales excluding items listed separately below	(2,386,048)	(92,242)	(186,232)	-	(2,664,522)
<b>Segment profit margin</b>	<b>209,583</b>	<b>24,818</b>	<b>38,530</b>	<b>-</b>	<b>272,931</b>
G&A expenses excluding items listed separately below	(23,896)	(7,031)	(21,802)	(26,078)	(78,807)
Depreciation, depletion and amortization <sup>(1)</sup>	(82,260)	(9,442)	(22,524)	(1,382)	(115,608)
Share-based compensation <sup>(1)</sup>	-	-	-	(22,963)	(22,963)
Interest, accretion and finance costs	(1,858)	-	-	(17,606)	(19,464)
<b>Earnings (loss) before tax</b>	<b>101,569</b>	<b>8,345</b>	<b>(5,796)</b>	<b>(68,029)</b>	<b>36,089</b>

<b>Year ended December 31, 2017</b>	<b>Midstream Infrastructure</b>	<b>Environmental Solutions</b>	<b>Technical Solutions</b>	<b>Corporate</b>	<b>Total</b>
Revenue from services	274,372	123,216	205,833	-	603,421
Oil purchase and resale service	1,724,787	-	-	-	1,724,787
<b>Total revenue</b>	<b>1,999,159</b>	<b>123,216</b>	<b>205,833</b>	<b>-</b>	<b>2,328,208</b>
Cost of sales excluding items listed separately below	(1,842,442)	(95,482)	(166,568)	-	(2,104,492)
<b>Segment profit margin</b>	<b>156,717</b>	<b>27,734</b>	<b>39,265</b>	<b>-</b>	<b>223,716</b>
G&A expenses excluding items listed separately below	(17,360)	(8,332)	(17,459)	(23,599)	(66,750)
Depreciation, depletion and amortization <sup>(1)</sup>	(83,980)	(11,478)	(22,037)	(1,116)	(118,611)
Share-based compensation <sup>(1)</sup>	-	-	-	(23,257)	(23,257)
Interest, accretion and finance costs	(1,503)	-	-	(10,922)	(12,425)
Impairment and other expense	(29,237)	-	-	(1,286)	(30,523)
<b>Earnings (loss) before tax</b>	<b>24,637</b>	<b>7,924</b>	<b>(231)</b>	<b>(60,180)</b>	<b>(27,850)</b>

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

**SECURE ENERGY SERVICES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**22. SEGMENT REPORTING (continued)**

<b>As at December 31, 2018</b>	<b>Midstream Infrastructure</b>	<b>Environmental Solutions</b>	<b>Technical Solutions</b>	<b>Corporate</b>	<b>Total</b>
Current assets	175,763	37,224	118,434	-	331,421
Property, plant and equipment	1,065,943	26,336	105,258	5,845	1,203,382
Intangible assets	5,255	1,399	29,604	-	36,258
Goodwill	-	11,127	-	-	11,127
Total assets	1,246,961	76,086	254,609	5,845	1,583,501
Current liabilities	138,621	19,016	20,685	-	178,322
Total liabilities	279,068	19,615	27,583	412,919	739,185

<b>As at December 31, 2017</b>	<b>Midstream Infrastructure</b>	<b>Environmental Solutions</b>	<b>Technical Solutions</b>	<b>Corporate</b>	<b>Total</b>
Current assets	239,253	45,008	121,147	-	405,408
Property, plant and equipment	934,896	37,488	109,311	6,456	1,088,151
Intangible assets	6,422	3,423	41,367	-	51,212
Goodwill	-	11,127	-	-	11,127
Total assets	1,180,570	97,046	278,674	6,456	1,562,746
Current liabilities	214,144	22,323	29,536	-	266,003
Total liabilities	319,674	23,762	46,410	298,408	688,254

At December 31, 2018 and 2017, the Corporation did not hold any contract assets or liabilities related to revenue from contracts with customers.

**Geographical Financial Information**

<b>(\$000's)</b>	<b>Canada</b>		<b>U.S.</b>		<b>Total</b>	
<b>Year ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Revenue	2,861,622	2,272,677	75,831	55,531	2,937,453	2,328,208
<b>As at December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Total non-current assets	1,115,747	1,027,962	136,333	129,376	1,252,080	1,157,338

**CORPORATE INFORMATION**

**DIRECTORS**

Rene Amirault - Chairman

Brad Munro <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>

David Johnson <sup>(2)</sup> <sup>(3)</sup> <sup>(4)</sup>

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

Kevin Nugent <sup>(1)</sup> <sup>(3)</sup>

Michele Harradence <sup>(4)</sup>

Murray Cobbe <sup>(1)</sup> <sup>(2)</sup> <sup>(5)</sup>

Shaun Paterson <sup>(1)</sup> <sup>(4)</sup>

Richard Wise

<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

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

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

<sup>5</sup> Lead Director

**STOCK EXCHANGE**

Toronto Stock Exchange

Symbol: SES

**AUDITORS**

KPMG LLP

Calgary, Alberta

**LEGAL COUNSEL**

Bennett Jones LLP

Calgary, Alberta

**LEAD BANKERS**

ATB Financial

National Bank of Canada

**TRANSFER AGENT AND REGISTRAR**

Odyssey Trust Company

Calgary, Alberta

**OFFICERS**

Rene Amirault

*President & Chief Executive Officer*

Allen Gransch

*Executive Vice President, Corporate  
Development*

Chad Magus

*Executive Vice President & Chief Financial  
Officer*

Brian McGurk

*Executive Vice President, Human Resources &  
Strategy*

Corey Higham

*Executive Vice President, Processing, Recovery  
& Disposal*

Mike Mikuska

*Executive Vice President, Commercial &  
Transportation*

George Wadsworth

*Executive Vice President, Drilling & Production  
Services*

David Engel

*Executive Vice President, Technical Services*

David Mattinson

*Executive Vice President, OnSite Services*