

SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

(Expressed in Canadian Dollars)

SECURE ENERGY SERVICES INC.
Condensed Consolidated Interim Statements of Financial Position

<i>(\$000's) (unaudited)</i>	Notes	March 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and short term deposits		6,024	11,368
Accounts receivable and accrued receivables		140,695	145,481
Prepaid expenses and deposits		1,896	2,257
Inventories	4	36,591	34,476
		185,206	193,582
Assets under construction	5	54,590	37,796
Property, plant and equipment	6	230,618	221,524
Intangible assets		73,865	72,361
Goodwill		77,820	77,820
Total Assets		622,099	603,083
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		89,582	93,316
Asset retirement obligations	8	420	420
Current income tax liability		2,515	1,083
Finance lease liabilities	11	3,159	2,693
		95,676	97,512
Long term borrowings	7	119,002	119,070
Asset retirement obligations	8	14,547	14,585
Finance lease liabilities	11	2,770	2,229
Deferred income tax liability		23,644	20,650
Total Liabilities		255,639	254,046
Shareholders' Equity			
Issued capital	9	323,584	321,498
Reserves	10	6,129	5,558
Accumulated other comprehensive income		19	231
Retained earnings		36,728	21,750
Total Shareholders' Equity		366,460	349,037
Total Liabilities and Shareholders' Equity		622,099	603,083
Commitments, Contingencies and Guarantees	11		
Subsequent Events	13		

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

SECURE ENERGY SERVICES INC.
Condensed Consolidated Interim Statements of Comprehensive Income

<i>(\$000's except per share and share data) (unaudited)</i>	Notes	For the three months ended March 31,	
		2012	2011
Revenue	12	277,712	67,998
Operating expenses	6	244,251	59,128
General and administrative	10	10,964	2,701
Business development		405	187
Interest, accretion and finance costs		1,513	150
Total Expenses		257,133	62,166
Profit for the period before income taxes		20,579	5,832
Current income tax expense		2,834	-
Deferred income tax expense		2,768	1,602
		5,602	1,602
Profit for the period		14,977	4,230
Other comprehensive income			
Foreign currency translation adjustment		(212)	-
Total comprehensive income for the period		14,765	4,230
Earnings per share			
Basic, profit for the period per common share		0.17	0.07
Diluted, profit for the period per common share		0.16	0.06
Weighted average shares outstanding - basic	9	90,658,046	63,829,714
Weighted average shares outstanding - diluted	9	94,179,644	67,855,436

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

SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

<i>(\$000's) (unaudited)</i>	Notes	Issued capital	Reserves	Accumulated other comprehensive income	Retained earnings (deficit)	Total Shareholders' Equity
Balance at December 31, 2011		321,498	5,558	231	21,750	349,037
Profit for the period		-	-	-	14,977	14,977
Foreign currency translation adjustment		-	-	(212)	-	(212)
Exercise of options and warrants	9	2,086	(456)	-	-	1,630
Share-based payments	10	-	1,027	-	-	1,027
Balance at March 31, 2012		323,584	6,129	19	36,728	366,460
Balance at December 31, 2010		152,983	2,999	-	(634)	155,348
Profit for the period		-	-	-	4,230	4,230
Exercise of options and warrants		322	(56)	-	-	266
Share-based payments		-	502	-	-	502
Balance at March 31, 2011		153,305	3,445	-	3,596	160,346

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

SECURE ENERGY SERVICES INC.
Condensed Consolidated Interim Statements of Cash Flows

(\$000's) (unaudited)	Notes	For the three months ended March 31,	
		2012	2011
Cash flows from operating activities			
Profit for the period		14,977	4,230
Adjustments for non-cash items:			
Depreciation, depletion and amortization		9,440	4,251
Accretion	8	84	71
Deferred income tax expense		2,768	1,602
Amortization of financing fees	7	107	-
Unrealized foreign exchange gain		144	-
Share-based payments	10	1,027	502
		28,547	10,656
Change in accounts receivable and accrued receivables, other receivables, and prepaids and deposits		4,794	(5,400)
Change in inventories		(2,010)	1,867
Change in accounts payable, accrued liabilities and current income tax liability related to operating activities		(7,415)	(1,602)
Net cash flows from operating activities		23,916	5,521
Cash flows used in investing activities			
Purchase of property, plant and equipment		(32,428)	(16,635)
Business combination	3b	(3,405)	-
Change in non-cash working capital		5,115	(1,447)
Net cash flows used in investing activities		(30,718)	(18,082)
Cash flows from financing activities			
Shares issued		1,630	266
Financing fees		(175)	-
Change in non-cash financing activities		-	(6)
Net cash flows from financing activities		1,455	260
Effect of exchange rate changes on cash		3	-
Decrease in cash and short term deposits		(5,344)	(12,301)
Cash and short term deposits, beginning of period		11,368	22,518
Cash and short term deposits, end of period		6,024	10,217
Taxes paid		1,560	-
Interest paid		942	59

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

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) For the three months ended March 31, 2012 and 2011

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 two reportable segments. The processing, recovery and disposal services division ("PRD") is primarily engaged in providing services relating to clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale service. The drilling services division ("DS") is primarily engaged in providing services relating to drilling fluid systems, solids control and environmental services.

The following entities have been consolidated within Secure's condensed consolidated interim financial statements for the period ended March 31, 2012:

Subsidiary	Country	Segment	% Interest	
			Mar 31, 2012	Dec 31, 2011
Secure Energy Services Inc. (parent company)	Canada	PRD		
Marquis Alliance Energy Group Inc.	Canada	DS	100%	100%
Marquis Alliance Energy Group USA Inc.	USA	DS	100%	100%
Alliance Energy Services International Ltd.	Canada	DS	100%	100%
1658774 Alberta Inc.	Canada	DS	100%	0%

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

Basis of Presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the international accounting standards board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements and notes thereto in the Corporation's 2011 Annual Report.

The condensed consolidated interim financial statements of the Corporation are stated in and recorded in Canadian dollars (\$) which is the Corporation's presentation currency and have been prepared on a historical cost basis, except for financial instruments and share-based payment transactions that have been measured at fair value.

Management is required to make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to depreciation, depletion and amortization, income tax, asset retirement obligations, recoverability of assets, and share-based payments. Actual results may differ from these estimates. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed interim consolidated financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 10, 2012. The address of the Corporation's registered office is Suite 4500, 855 - 2nd Street S.W. Calgary, Alberta, T2P 4K7.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in Note 3 to the Consolidated Financial Statements for the fiscal year ended December 31, 2011, except as below.

Future Accounting Pronouncement

In December 2011, the IASB issued amendments to IFRS 7, “*Financial Instruments: Disclosures*” and IAS 32, “*Financial Instruments: Presentation*” to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IFRS 7 are effective for the Corporation on January 1, 2013 with required retrospective application and early adoption permitted. Amendments to IAS 32 are effective for the Corporation on January 1, 2014 with required retrospective application and early adoption permitted. The adoption of these amended standards is not expected to have a material impact on the Corporation’s consolidated financial statements.

3. BUSINESS COMBINATIONS

a) On June 1, 2011, Secure, through a series of transactions, acquired all of the issued and outstanding shares of Marquis Alliance Energy Group Inc. (“Marquis Alliance”) for a total cash and share consideration of \$130.9 million. The acquisition of Marquis Alliance allows Secure to provide an integrated drilling fluid service and expanded products and services to its customers. The Corporation paid \$64.1 million in cash and issued 10,015,291 common shares of the Corporation at a closing price per share of \$8.62 for consideration of \$86.3 million, which was adjusted to fair value consideration for accounting purposes to \$66.8 million. The fair value for accounting purposes was determined using a discounted cash flow analysis and was adjusted after considering such factors as the escrow period (shares to be released over a five year period) and liquidity of the Corporation’s shares in the market place. Accordingly, the \$66.8 million used in the purchase price allocation below is the difference between the \$86.3 million at closing and the fair value adjustment of \$19.5 million.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of June 1, 2011, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair value of the identifiable net assets allocated to goodwill.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) For the three months ended March 31, 2012 and 2011

3. BUSINESS COMBINATIONS (continued)

(\$000's)	
Common shares issued (10,015,291 shares)	66,789
Cash	64,083
Total consideration	130,872
Assets acquired (\$000's)	
Cash and short term deposits	1,516
Accounts receivable and accrued receivables	39,973
Inventories	14,878
Prepaid expenses and deposits	683
Assets under construction	451
Property, plant and equipment	17,649
Intangible assets	50,906
Goodwill	61,437
Total assets	187,493
Liabilities acquired (\$000's)	
Accounts payable and accrued liabilities	(18,049)
Bank indebtedness	(21,359)
Finance lease liabilities	(1,275)
Long term borrowings	(1,659)
Deferred income tax liability	(14,279)
Total liabilities	(56,621)
Net assets acquired	130,872

The fair value of the accounts receivable and accrued receivables acquired was \$40.0 million. The gross amount of accounts receivable and accrued receivables is \$40.1 million. A \$0.1 million allowance for uncollectable receivables was included in the fair value of accounts receivable and accrued receivables.

Pursuant to the Marquis Alliance acquisition agreement (the "Agreement"), \$7.0 million of the cash consideration was held under trust conditions to account for any potential material environmental liabilities, accounts receivable allowances and inventory obsolescence. \$3.0 million was held under trust conditions to account for any potential working capital adjustments. The \$3.0 million was released from trust as at December 31, 2011 in conjunction with the settlement of the working capital deficiency. On closing, Marquis Alliance was required to have an adjusted working capital surplus of \$19.8 million, net of outstanding bank debt. Under the provisions of the Agreement, the working capital requirement was adjusted down by \$0.6 million to \$19.2 million, for deposits paid by Marquis Alliance on real property prior to the closing of the Agreement. Actual working capital received on closing was \$18.3 million. The \$0.9 million difference between the \$19.2 million working capital requirement in the Agreement and the \$18.3 million in actual working capital was settled in cash as at December 31, 2011, and was deducted from the \$3.0 million held in trust prior to being released. The \$0.9 million cash settlement resulted in a reduction of total consideration paid by \$0.9 million and a corresponding reduction to accounts receivable and accrued receivables. The remaining amounts held in trust were released March 29, 2012, which resulted in a reduction of total consideration paid by \$0.6 million and a corresponding reduction to accounts receivable and accrued receivables and inventories. The \$0.6 million adjustment was a result of final agreements on the amounts of accounts receivable allowance and inventory obsolescence recorded at the acquisition date. As at March 31, 2012, there are no remaining amounts held in trust.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

3. BUSINESS COMBINATIONS (continued)

The goodwill arises as a result of the assembled workforce, the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining Marquis Alliance with the rest of the Corporation. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Corporation incurred acquisition-related costs of \$0.5 million relating to due diligence costs and legal fees which were expensed in the period of acquisition.

b) On January 25, 2012, the Corporation closed an asset purchase agreement with New West Drilling Fluids Inc. ("New West"), a wholly owned subsidiary of New West Energy Services Inc. to acquire the operating assets of New West (excluding working capital) for aggregate cash consideration of \$3.4 million. New West specializes in providing drilling fluid systems and products for the oil sands industry, and is most well known for a patented Steam Assisted Gravity Drainage system ("SAGD") called "BITUDRIL", the first bitumen encapsulating polymer based system on the market. The acquisition of New West allows the Corporation, through its subsidiary Marquis Alliance, to expand its existing patented and propriety SAGD product line and to increase Marquis Alliance's ability to provide cost effective drilling fluid solutions in the SAGD market.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of January 25, 2012, whereby the assets acquired and the liabilities assumed are recorded at their fair values.

(\$000's)

Cash	3,405
Total consideration	3,405
Assets acquired (\$000's)	
Inventories	105
Property, plant and equipment	21
Intangible assets	3,498
Total assets acquired	3,624
Liabilities acquired (\$000's)	
Deferred income tax liability	(219)
Total liabilities	(219)
Net assets acquired	3,405

The amounts recorded on the New West acquisition above are based upon preliminary information available to management as of the date of this report and the preparation of these condensed consolidated interim financial statements. The above amounts are subject to change upon final adjustments.

The Corporation incurred acquisition-related costs of \$0.1 million relating to due diligence costs and legal fees. These costs have been expensed and included in business development costs on the condensed consolidated interim statements of comprehensive income.

New West was acquired and integrated with the Corporation's existing operations and therefore specific income information in respect of New West is not included in these condensed consolidated interim financial statements.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) For the three months ended March 31, 2012 and 2011

4. INVENTORIES

	Mar 31, 2012	Dec 31, 2011
(\$000's)		
Crude oil and natural gas liquids	2,695	2,505
Drilling fluids	33,614	31,665
Spare parts and supplies	282	306
Total inventories	36,591	34,476

Inventories are shown at the lower of cost and net realizable value. Crude oil, natural gas liquids and drilling fluids inventories recognized as operating expenses in the consolidated statements of comprehensive income for the three months ended March 31, 2012 were \$206.6 million (three months ended March 31, 2011 – \$46.3 million).

Inventories are included in the general security agreements held by the banks as security for the Corporation's revolving credit facility (Note 7).

5. ASSETS UNDER CONSTRUCTION

Assets under construction or refurbishment are not depreciated until they are complete and available for use. When this occurs, the asset is transferred to property, plant and equipment and classified by the nature of the asset.

	Mar 31, 2012	Dec 31, 2011
(\$000's)		
Projects under construction	53,554	32,682
Equipment (under refurbishment)	1,036	5,114
Total assets under construction	54,590	37,796

The amounts included in the categories above consist of assets associated with a variety of ongoing projects. \$0.3 million of capitalized salaries were added to assets under construction for the three months ended March 31, 2012 (\$0.2 million for the three months ended March 31, 2011).

6. PROPERTY, PLANT AND EQUIPMENT

Included in operating expenses on the condensed consolidated interim statements of comprehensive income for the three months ended March 31, 2012 is \$9.4 million of depreciation, depletion and amortization expense (three months ended March 31, 2011 - \$4.3 million), which includes \$7.4 million of depreciation and depletion expense (three months ended March 31, 2011 - \$4.1 million) for the Corporation's property, plant and equipment.

The Corporation's policy is to capitalize borrowing costs on projects with a substantial time to completion. Typically, borrowing costs are only capitalized on the construction of the Corporation's full-service terminals. The amount of borrowing costs capitalized during the three months ended March 31, 2012 was nil (three months ended March 31, 2011 - Nil). During the three months ended March 31, 2012, \$14.9 million was transferred from assets under construction to property, plant and equipment for completed projects (three months ended March 31, 2011 - \$24.9 million).

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of \$8.1 million at March 31, 2012 (December, 31 2011 - \$6.7 million). The finance lease commitments over the next five years are disclosed in Note 11.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

6. PROPERTY, PLANT AND EQUIPMENT (continued)

(\$000's)	Land	Buildings	Plant, Infrastructure, Equipment, and Landfill Cells	Rental Equipment	Mobile Equipment	Disposal Wells	Furniture and Fixtures	Computer Equipment and Software	Total
Cost:									
December 31, 2011	3,114	21,622	178,140	15,073	3,519	41,268	1,673	2,941	267,350
Additions from business combination (Note 3b)	-	-	20	-	-	-	-	1	21
Additions	421	2,522	8,183	2,303	1,459	1,563	377	476	17,304
Change in asset retirement cost	-	-	(28)	-	-	(198)	-	-	(226)
Disposals	-	-	(434)	-	(237)	-	-	-	(671)
Foreign exchange effect	(5)	(6)	(10)	(73)	-	-	-	(1)	(95)
March 31, 2012	3,530	24,138	185,871	17,303	4,741	42,633	2,050	3,417	283,683
Accumulated depreciation and depletion:									
December 31, 2011	-	(1,875)	(34,472)	(1,128)	(1,266)	(5,625)	(276)	(1,184)	(45,826)
Depreciation and depletion	-	(392)	(5,332)	(576)	(233)	(671)	(56)	(186)	(7,446)
Disposals	-	-	105	-	100	-	-	-	205
Foreign exchange effect	-	-	-	2	-	-	-	-	2
March 31, 2012	-	(2,267)	(39,699)	(1,702)	(1,399)	(6,296)	(332)	(1,370)	(53,065)
Net book value:									
March 31, 2012	3,530	21,871	146,172	15,601	3,342	36,337	1,718	2,047	230,618
December 31, 2011	3,114	19,747	143,668	13,945	2,253	35,643	1,397	1,757	221,524

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

7. LONG TERM BORROWINGS

On January 16, 2012 the Corporation increased its existing revolving credit facility from \$150.0 million to \$200.0 million by exercising the accordion feature in its revolving credit facility agreement. The revolving credit facility that consists of a \$190.0 million extendible revolving term credit facility and a \$10.0 million revolving operating facility provided to the Corporation and all of its subsidiaries. The Corporation can borrow by way of Canadian dollar advances through Canadian Prime Rate Loans or Bankers Acceptances or United States dollar advances through US Base Rate Loans or Libor or letters of credit denominated in Canadian or U.S. dollars. The revolving credit facility provides that the Corporation may borrow, repay, draw on and convert between types of borrowings at any time. The revolving credit facility bears interest ranging from 1.0% to 2.0% above the prime rate or Bankers Acceptances ranging from 2.0% to 3.0% above the Bankers Acceptance rate depending on the Corporation's prevailing funded debt to EBITDA ratio, with any unused amounts subject to standby fees ranging from 0.5% to 0.75%. Funded debt includes all outstanding debt, including finance leases, and any outstanding letters of credit. The revolving credit facility is to be used for working capital, to refinance existing debt, for capital expenditures including permitted acquisitions, and for general corporate purposes. The revolving credit facility is due July 29, 2014 (the "maturity date"), and includes an option for the Corporation to extend the maturity date (once per annum) to a maximum of three years from the extension request date, subject to the approval of the Corporation's lenders. Repayment of any amounts drawn on the facility would therefore be repayable on the maturity date if the revolving credit facility was not extended. As at March 31, 2012, the Corporation has drawn \$120.0 million on its revolving credit facility (December 31, 2011 - \$120.0 million).

	Mar 31, 2012	Dec 31, 2011
(\$000's)		
Amount drawn on revolving credit facility	120,000	120,000
Unamortized transaction costs	(998)	(930)
Total long term borrowings	119,002	119,070

In conjunction with obtaining the revolving credit facility, the Corporation incurred transaction costs in the amount of \$1.1 million, of which the unamortized amount has been offset against the outstanding principle balance of the debt. Amortization of the transaction costs recognized in interest, accretion and finance costs on the condensed consolidated interim statements of comprehensive income for the three months ended March 31, 2012 is \$0.1 million (three months ended March 31, 2011 – nil).

The following covenants apply to the revolving credit facility:

- The Funded Debt to EBITDA Ratio shall not exceed 3:00:1; where EBITDA is adjusted for acquisitions on a pro-forma trailing twelve month basis;
- The ratio of Senior Debt to Senior Debt plus Equity shall not exceed 40%; and,
- The Fixed Charge Coverage Ratio shall not be less than 1:00:1.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

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7. LONG TERM BORROWINGS (continued)

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

The available revolving facility is reduced by any outstanding letters of credit. As at March 31, 2012, the Corporation has \$7.3 million in letters of credit issued by the Corporation's banker (December 31, 2011 - \$6.3 million). The letters of credit are issued to various government authorities for potential reclamation obligations in accordance with applicable regulations (Note 8).

	Mar 31, 2012	Dec 31, 2011
(\$000's)		
Revolving credit facility	200,000	150,000
Amount drawn on revolving credit facility	(120,000)	(120,000)
Letters of credit issued	(7,266)	(6,316)
Available amount	72,734	23,684

8. ASSET RETIREMENT OBLIGATIONS

(\$000's)	
Current December 31, 2011	420
Non-current December 31, 2011	14,585
December 31, 2011	15,005
Arising during the year through development activities	112
Accretion	84
Change in discount rate	(234)
March 31, 2012	14,967
Current March 31, 2012	420
Non-current March 31, 2012	14,547

The Corporation's asset retirement obligations were estimated by management based on the Corporation's estimated costs to remediate, reclaim and abandon the Corporation's facilities and estimated timing of the costs to be incurred in future periods. The Corporation has estimated the net present value of its asset retirement obligations at March 31, 2012 to be \$15.0 million (December 31, 2011 - \$15.0 million) based on a total future liability of \$20.2 million as at March 31, 2012 (December 31, 2011 - \$20.1 million). These costs are expected to be incurred over the next one to 24 years. The Corporation used its risk-free interest rates of 1.20% to 2.66% (December 31, 2011 - 0.95% to 2.49%) and an inflation rate of 3.00% (December 31, 2011 - 3.00%) to calculate the net present value of its asset retirement obligations at March 31, 2012. The Corporation has letters of credit issued by the Corporation's banker in relation to the Corporation's asset retirement obligations (Note 7).

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9. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares of no par value

	Number of Shares	Amount (\$000's)
December 31, 2011	90,156,688	321,498
Options exercised	419,200	699
Warrants exercised	620,997	931
Transfer from reserves in equity	-	456
March 31, 2012	91,196,885	323,584

As at March 31, 2012, there were 12,249,269 (December 31, 2011 – 12,249,269) common shares of the Corporation held in escrow in conjunction with the Corporation's business combinations.

The basic and diluted number of common shares used to calculate earnings per share amounts are as follows:

	Mar 31, 2012	Mar 31, 2011
Weighted average number of shares for basic earnings per share	90,658,046	63,829,714
Effect of dilution:		
Options and warrants	3,521,598	4,025,722
Weighted average number of shares for diluted earnings per share	94,179,644	67,855,436

10. SHARE-BASED PAYMENT PLAN

The Corporation has a share-based payment plan (the "Plan") under which the Corporation may grant share options to its employees, directors, and consultants for up to 10% of the issued and outstanding common shares of the Corporation calculated on a non-diluted basis at the time of grant. The exercise price of options granted under the Plan is calculated as the five-day weighted average trading price of the common shares for the five trading days immediately preceding the date the options are granted. Options issued under the Plan have a term of five years to expiry and vest over a three year period starting one year from the date of the grant. A summary of the status of the Corporation's share-based payment plan is as follows:

	Mar 31, 2012		Dec 31, 2011	
	Outstanding options	Weighted average exercise price (\$)	Outstanding options	Weighted average exercise price (\$)
Balance - beginning of period	6,788,685	4.25	5,627,450	2.50
Granted	428,578	8.40	2,095,975	8.49
Exercised	(419,200)	1.67	(679,267)	1.72
Forfeited	(91,938)	8.66	(255,473)	7.09
Balance - end of period	6,706,125	4.62	6,788,685	4.25
Exercisable - end of period	3,233,051	2.51	3,045,255	2.26

Subsequent to March 31, 2012 the Corporation granted 1,112,675 share options to its employees as a part of its annual grant of share options. (Note 13).

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10. SHARE-BASED PAYMENT PLAN (continued)

The following table summarizes information about share options outstanding as at March 31, 2012:

Exercise price (\$)	Options outstanding			Options exercisable	
	Outstanding options	Weighted average exercise price (\$)	Weighted average remaining term (years)	Outstanding options	Weighted average exercise price (\$)
1.00 - 2.00	854,000	1.39	0.52	854,000	1.39
2.01 - 3.00	3,123,725	2.79	2.42	2,205,078	2.77
3.01 - 4.00	287,467	3.73	3.18	72,334	3.69
4.01 - 5.00	74,550	4.57	3.62	24,850	4.57
5.01 - 6.00	119,300	5.33	3.68	39,767	5.33
6.01 - 7.00	112,415	6.11	3.94	37,022	6.10
7.01 - 8.00	426,525	7.75	4.55	-	-
8.01 - 9.00	1,673,118	8.79	4.41	-	-
9.01 - 10.00	35,025	9.35	4.24	-	-
	6,706,125	4.62	2.91	3,233,051	2.51

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

	Mar 31, 2012	Dec 31, 2011
Volatility factor of expected market price (%)	43.00	45.89
Weighted average risk-free interest rate (%)	1.41	1.82
Weighted average expected life in years	4.2	4.1
Weighted average expected annual dividends per share	Nil	Nil
Weighted average fair value per option (\$)	3.02	3.23
Weighted average forfeiture rate (%)	2.80	1.29

The Corporation's stock has just over two years of trading history, therefore the Corporation has used a weighted average volatility consisting of its own limited historical volatility and the historical volatilities of certain members of its peer group for input into the Black-Scholes Option Pricing Model. The Corporation determines a forfeiture rate by using actual historical forfeiture rates.

Performance warrants

The Corporation has a performance warrant plan, under which the Corporation may grant performance warrants to its employees, officers, directors and consultants to a one-time maximum amount of 1,075,994. As at March 31, 2012, all warrants have vested, and all but 7,500 warrants have been exercised.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

10. SHARE-BASED PAYMENT PLAN (continued)

	Mar 31, 2012		Dec 31, 2011	
	Outstanding warrants	Weighted average exercise price (\$)	Outstanding warrants	Weighted average exercise price (\$)
Balance - beginning of period	628,497	1.50	1,068,494	1.50
Granted	-	-	-	-
Exercised	(620,997)	1.50	(439,997)	1.50
Balance - end of period	7,500	1.50	628,497	1.50
Exercisable - end of period	7,500	1.50	628,497	1.50

The following table summarizes information about performance warrants outstanding as at March 31, 2012:

Warrants outstanding				Warrants exercisable	
Exercise price (\$)	Warrants outstanding	Weighted average exercise price (\$)	Weighted average remaining	Exercisable Warrants	Weighted average exercise price (\$)
			contractual life (years)		
1.50	7,500	1.50	0.18	7,500	1.50

Deferred Share Unit Plan

Subsequent to March 31, 2012, the non-employee directors of the Corporation are no longer granted share options as part of the Corporation's share-based payment plan. In lieu of share options, the Corporation has implemented a deferred share unit ("DSU") plan and has issued 28,864 DSU's to non-employee directors of the Corporation (Note 13).

For the three months ended March 31, 2012, share-based payment expense of \$1.0 million (three months ended March 31, 2011 - \$0.5 million) has been recognized for stock options and warrants granted, and is included in general and administrative expenses on the consolidated statements of comprehensive income. These costs are recorded as share-based payment expense with the offsetting amount being credited to reserves as shown in the following table:

Reserves

	Mar 31, 2012	Dec 31, 2011
(\$000's)		
Balance - beginning of period	5,558	2,999
Share-based payments	1,027	3,029
Transfer to issued capital	(456)	(470)
Balance - end of period	6,129	5,558

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

11. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Corporation has commitments for operating and finance leases, inventory purchases from suppliers for use in the Corporation's DS division, and capital purchases for use in the Corporation's current and future capital projects as follows:

(\$000's)	Mar 31, 2012	Dec 31, 2011
Within one year	11,626	23,628
After one year but not more than five years	8,534	23,147
More than five years	1,294	1,462
	21,454	48,237

Litigation

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

The Corporation is a defendant and plaintiff in 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.

Guarantees

The Corporation indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers. The Corporation may also provide indemnifications in the normal course of business that are often standard contractual terms to counterparties in certain transactions.

Letters of Credit

As at March 31, 2012, the Corporation has approximately \$7.3 million in letters of credit issued by the Corporation's banker (December 31, 2011 - \$6.3 million). All letters of credit are not cash secured and have been deducted from the Corporation's available long term borrowings (Note 7). The letters of credit relate to security for the Corporation's facilities and are held with provincial regulatory bodies (Note 8).

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2012 and 2011

12. OPERATING SEGMENTS

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

The Corporation has two reportable operating segments as follows:

- PRD division provides services relating to clean oil terminalling, custom treating of crude oil, crude oil marketing, produced and waste water disposal, oilfield waste processing, landfill disposal and oil purchase/resale service;
- DS division provides services relating to drilling fluid systems, solids control, equipment rental service, drilling waste management and environmental sciences.
- The Corporate division does not represent an operating segment and is included for informational purposes only. Corporate division expenses consist of public company costs, as well as salaries, share-based compensation and office and administrative costs relating to corporate employees. Comparative period amounts have been reclassified to conform with current period presentation.

(\$000's)	PRD division	DS division	Corporate	Total
	Three months ended Mar 31, 2012			
Revenue	196,352	81,360	-	277,712
Operating expenses	(180,699)	(63,448)	(104)	(244,251)
General and administrative	(3,064)	(6,728)	(1,172)	(10,964)
Business development	-	-	(405)	(405)
Depreciation, depletion and amortization	(6,551)	(2,785)	(104)	(9,440)
Interest, accretion and finance costs	(84)	-	(1,429)	(1,513)
Total profit (loss) before income taxes	12,505	11,184	(3,110)	20,579
	As at March 31, 2012			
Current assets	46,084	139,122	-	185,206
Total assets	302,147	318,246	1,706	622,099
Goodwill	-	77,820	-	77,820
Intangible assets	4,447	69,418	-	73,865
Property, plant and equipment and assets under construction	251,616	31,886	1,706	285,208
Current liabilities	49,693	45,983	-	95,676
Total liabilities	74,174	62,463	119,002	255,639

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) For the three months ended March 31, 2012 and 2011

12. OPERATING SEGMENTS (continued)

(\$000's)	PRD division	DS division	Corporate	Total
	Three months ended March 31, 2011			
Revenue	67,998	-	-	67,998
Operating expenses	(59,060)	-	(68)	(59,128)
General and administrative	(2,047)	-	(654)	(2,701)
Business development	-	-	(187)	(187)
Depreciation, depletion and amortization	(4,183)	-	(68)	(4,251)
Interest, accretion and finance costs	(71)	-	(79)	(150)
Total profit (loss) before income taxes	6,820	-	(988)	5,832
	As at December 31, 2011			
Current assets	54,920	138,662	-	193,582
Total assets	288,503	313,118	1,462	603,083
Goodwill	-	77,820	-	77,820
Intangible assets	4,611	67,750	-	72,361
Property, plant and equipment and assets under construction	228,973	28,885	1,462	259,320
Current liabilities	50,908	46,604	-	97,512
Total liabilities	71,986	62,990	119,070	254,046

Geographical Financial Information

(\$000's)	Canada		International		Total	
	2012	2011	2012	2011	2012	2011
Three Months ended March 31						
Revenue	271,052	67,998	6,660	-	277,712	67,998
As at Mar 31, 2012 and Dec 31, 2011						
Total non-current assets	423,110	397,800	13,783	11,701	436,893	409,501

13. SUBSEQUENT EVENTS

Subsequent to March 31, 2012, the Corporation granted share options to its employees as part of the Corporation's annual grant (Note 10).

Subsequent to March 31, 2012, non-employee directors of the Corporation are no longer granted share options as part of the Corporation's share-based payment plan. In lieu of share options, the Corporation has implemented a DSU plan and has issued 28,864 DSU's to non-employee directors of the Corporation (Note 10).

Corporate Information

DIRECTORS

Rene Amirault
George Wadsworth
Murray Cobbe ^{(1) (2)}
David Johnson ^{(2) (3)}
Kevin Nugent ^{(1) (3)}
Brad Munro ^{(1) (2) (3)}

OFFICERS

Rene Amirault
President and Chief Executive Officer

George Wadsworth
President, Marquis Alliance Energy Group Inc.

Nick Wieler
Chief Financial Officer

Allen Gransch
Vice President, Finance

Gary Perras
Vice President, Engineering and Construction

Dan Steinke
Vice President, Business Development

Karen Myrheim
Vice President, Sales and Marketing

STOCK EXCHANGE

Toronto Stock Exchange
Symbol: SES

AUDITORS

MNP LLP
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

BANKERS

Alberta Treasury Branches

TRANSFER AGENT AND REGISTRAR

Olympia Trust Company
Calgary, Alberta

¹ Audit Committee

² Compensation Committee

³ Corporate Governance Committee