

SECURE ENERGY SERVICES INC.

Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2012 and 2011

(Expressed in Canadian Dollars)

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

(\$000's) (unaudited)	Notes	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and short term deposits		3,913	11,368
Accounts receivable and accrued receivables		98,817	145,481
Prepaid expenses and deposits		2,264	2,257
Inventories	4	33,461	34,476
Current income tax asset		568	-
		139,023	193,582
Deposit on asset acquisition	13a	21,227	-
Assets under construction	5	41,101	37,796
Property, plant and equipment	6	267,906	221,524
Intangible assets		71,659	72,361
Goodwill		77,820	77,820
Total Assets		618,736	603,083
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		64,891	93,316
Asset retirement obligations	8	420	420
Current income tax liability		-	1,083
Finance lease liabilities	11	3,721	2,693
		69,032	97,512
Long term borrowings	7	135,109	119,070
Asset retirement obligations	8	16,960	14,585
Finance lease liabilities	11	3,574	2,229
Deferred income tax liability		23,986	20,650
Total Liabilities		248,661	254,046
Shareholders' Equity			
Issued capital	9	325,073	321,498
Reserves	10	7,176	5,558
Accumulated other comprehensive income		12	231
Retained earnings		37,814	21,750
Total Shareholders' Equity		370,075	349,037
Total Liabilities and Shareholders' Equity		618,736	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

		For the three months ended June 30,		For the six months ended June 30,	
(\$000's except per share and share data) (unaudited)	Notes	2012	2011	2012	2011
Revenue	12	223,662	93,744	501,375	161,742
Operating expenses	6	209,820	88,572	454,072	147,700
General and administrative	10	10,558	3,805	21,522	6,506
Business development		503	767	908	954
Interest, accretion and finance costs		1,008	249	2,521	399
Total Expenses		221,889	93,393	479,023	155,559
Profit for the period before income taxes		1,773	351	22,352	6,183
Current income tax expense		191	261	3,025	261
Deferred income tax expense		495	80	3,263	1,682
		686	341	6,288	1,943
Profit for the period		1,087	10	16,064	4,240
Other comprehensive income					
Foreign currency translation adjustment		10	2	(219)	2
Total comprehensive income for the period		1,097	12	15,845	4,242
Earnings per share					
Basic, profit for the period per common share		0.01	0.00	0.18	0.07
Diluted, profit for the period per common share		0.01	0.00	0.17	0.06
Weighted average shares outstanding - basic	9	91,527,556	71,207,964	91,092,801	67,539,221
Weighted average shares outstanding - diluted	9	94,210,135	75,851,337	94,194,889	71,875,475

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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		-	-	-	16,064	16,064
Foreign currency translation adjustment		-	-	(219)	-	(219)
Exercise of options and warrants	9	3,575	(846)	-	-	2,729
Share-based payments	10	-	2,464	-	-	2,464
Balance at June 30, 2012		325,073	7,176	12	37,814	370,075
Balance at December 31, 2010		152,983	2,999	-	(634)	155,348
Profit for the period		-	-	-	4,240	4,240
Foreign currency translation adjustment		-	-	2	-	2
Shares issued as consideration for business combination	3	66,789	-	-	-	66,789
Issue of share capital, net of tax		86,250	-	-	-	86,250
Exercise of options and warrants		650	(127)	-	-	523
Share issue costs, net of tax		(3,583)	-	-	-	(3,583)
Share-based payments	10	-	988	-	-	988
Balance at June 30, 2011		303,089	3,860	2	3,606	310,557

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 June 30,		For the six months ended June 30,	
		2012	2011	2012	2011
Cash flows from operating activities					
Profit for the period		1,087	10	16,064	4,240
Adjustments for non-cash items:					
Depreciation, depletion and amortization		9,347	4,739	18,787	8,990
Accretion	8	92	87	176	158
Deferred income tax expense		495	80	3,263	1,682
Amortization of financing fees	7	107	-	214	-
Unrealized foreign exchange loss (gain)		(205)	2	(61)	2
Share-based payments	10	1,661	485	2,688	988
		12,584	5,403	41,131	16,060
Change in accounts receivable and accrued receivables and prepaids and deposits		41,712	20,015	46,506	14,624
Change in inventories		3,130	(796)	1,120	1,071
Change in accounts payable, accrued liabilities and current income tax related to operating activities		(30,979)	(2,001)	(38,394)	(3,612)
Net cash flows from operating activities		26,447	22,621	50,363	28,143
Cash flows used in investing activities					
Purchase of property, plant and equipment		(27,404)	(20,838)	(59,832)	(37,473)
Business combination, net of cash acquired	3	-	(63,985)	(3,405)	(63,985)
Deposit on asset acquisition	13	(21,227)	(18,475)	(21,227)	(18,475)
Change in non-cash working capital		2,979	(699)	8,094	(2,146)
Net cash flows used in investing activities		(45,652)	(103,997)	(76,370)	(122,079)
Cash flows from financing activities					
Shares issued		1,099	81,731	2,729	81,996
Draws (repayments) on revolving credit facility		16,000	(6,479)	16,000	(6,479)
Financing fees		-	-	(175)	-
Change in non-cash financing activities		-	(6)	-	(12)
Net cash flows from financing activities		17,099	75,246	18,554	75,505
Effect of exchange rate changes on cash		(5)	-	(2)	-
Decrease in cash and short term deposits		(2,111)	(6,130)	(7,455)	(18,431)
Cash and short term deposits, beginning of period		6,024	10,217	11,368	22,518
Cash and short term deposits, end of period		3,913	4,087	3,913	4,087
Taxes paid		3,274	-	4,834	-
Interest paid		1,182	18	2,124	23

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 and six months ended June 30, 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 June 30, 2012:

Subsidiary	Country	Segment	% Interest	
			June 30, 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/PRD	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 available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com.

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, contingent obligations 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 consolidated interim financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 13, 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 and six months ended June 30, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim 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:

Presentation

Comparative period amounts have been reclassified where necessary to conform with current period presentation.

Share-based payments

Cash-settled transactions

The Corporation has implemented a deferred share unit (“DSU”) plan for its non-employee directors. The DSU’s vest immediately and the fair value of the liability and the corresponding expense is charged to profit or loss on 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 profit or loss for the period on the consolidated statements of comprehensive income. When the awards are surrendered for cash, the cash settlement paid reduces the outstanding liability.

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 share 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 and six months ended June 30, 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.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 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 proprietary 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	3,347
Total assets acquired	3,473

Liabilities acquired (\$000's)

Deferred income tax liability	(68)
Total liabilities	(68)

Net assets acquired	3,405
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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 and six months ended June 30, 2012 and 2011

4. INVENTORIES

	June 30, 2012	Dec 31, 2011
(\$000's)		
Crude oil and natural gas liquids	3,662	2,505
Drilling fluids	29,394	31,665
Spare parts and supplies	405	306
Total inventories	33,461	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 condensed consolidated interim statements of comprehensive income for the three and six months ended June 30, 2012 were \$174.9 million and \$381.5 million, respectively (three and six months ended June 30, 2011 – \$72.0 million and \$118.3 million, respectively). 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.

	June 30, 2012	Dec 31, 2011
(\$000's)		
Projects under construction	37,292	32,682
Equipment (under refurbishment)	3,809	5,114
Total assets under construction	41,101	37,796

The amounts included in the categories above consist of assets associated with a variety of ongoing projects. \$0.3 million and \$0.6 million of capitalized salaries were added to assets under construction for the three and six months ended June 30, 2012, respectively (\$0.2 million and \$0.2 million for the three and six months ended June 30, 2011, respectively).

6. PROPERTY, PLANT AND EQUIPMENT

Included in operating expenses on the condensed consolidated interim statements of comprehensive income for the six months ended June 30, 2012 is \$18.8 million of depreciation, depletion and amortization expense (six months ended June 30, 2011 - \$9.0 million). Included in these amounts is \$14.7 million of depreciation and depletion expense for the six months ended June 30, 2012 (six months ended June 30, 2011 - \$8.4 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 and six months ended June 30, 2012 was \$0.2 million and \$0.2 million, respectively (three and six months ended June 30, 2011 – Nil and Nil, respectively). During the three and six months ended June 30, 2012, \$40.1 million and \$55.0 million, respectively, was transferred from assets under construction to property, plant and equipment for completed projects (three and six months ended June 30, 2011 - \$1.5 million and \$26.4 million, respectively).

Included in property, plant, and equipment is equipment under finance lease arrangements with a net book value of \$9.5 million at June 30, 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 and six months ended June 30, 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	4,394	42,442	7,319	2,382	3,923	475	816	62,172
Transfers between divisions	-	-	(887)	-	-	-	-	-	(887)
Change in asset retirement cost	-	-	158	-	-	195	-	-	353
Disposals	-	-	(1,070)	-	(237)	-	-	-	(1,307)
Foreign exchange effect	-	2	2	(2)	-	-	-	-	2
June 30, 2012	3,535	26,018	218,805	22,390	5,664	45,386	2,148	3,758	327,704
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	-	(810)	(10,352)	(1,236)	(488)	(1,379)	(121)	(355)	(14,741)
Transfers between divisions	-	-	390	-	-	-	-	-	390
Disposals	-	-	277	-	100	-	-	-	377
Foreign exchange effect	-	-	-	2	-	-	-	-	2
June 30, 2012	-	(2,685)	(44,157)	(2,362)	(1,654)	(7,004)	(397)	(1,539)	(59,798)
Net book value:									
June 30, 2012	3,535	23,333	174,648	20,028	4,010	38,382	1,751	2,219	267,906
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 and six months ended June 30, 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 is 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 June 30, 2012, the Corporation has drawn \$136.0 million on its revolving credit facility (December 31, 2011 - \$120.0 million).

	June 30, 2012	Dec 31, 2011
(\$000's)		
Amount drawn on revolving credit facility	136,000	120,000
Unamortized transaction costs	(891)	(930)
Total long term borrowings	135,109	119,070

In conjunction with obtaining the revolving credit facility, the Corporation incurred transaction costs in the amount of \$1.3 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 and six months ended June 30, 2012 is \$0.1 million and \$0.2 million, respectively (three and six months ended June 30, 2011 – nil and nil, respectively).

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)

For the three and six months ended June 30, 2012 and 2011

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 June 30, 2012, the Corporation has \$8.8 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).

	June 30, 2012	Dec 31, 2011
(\$000's)		
Revolving credit facility	200,000	150,000
Amount drawn on revolving credit facility	(136,000)	(120,000)
Letters of credit issued	(8,776)	(6,316)
Available amount	55,224	23,684

Subsequent to June 30, 2012, the Corporation entered into an agreement on a bought deal basis with a syndicate of underwriters for gross proceeds of approximately \$75.0 million (Note 13b).

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	1,846
Accretion	176
Change in discount rate	353
June 30, 2012	17,380
Current June 30, 2012	420
Non-current June 30, 2012	16,960

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 June 30, 2012 to be \$17.4 million (December 31, 2011 - \$15.0 million) based on a total future liability of \$22.6 million as at June 30, 2012 (December 31, 2011 - \$20.1 million). These costs are expected to be incurred over the next one to 25 years. The Corporation used its risk-free interest rates of 1.03% to 2.33% (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 June 30, 2012. The Corporation has letters of credit issued by the Corporation's banker in relation to the Corporation's asset retirement obligations (Note 7).

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) For the three and six months ended June 30, 2012 and 2011

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	1,020,166	1,790
Warrants exercised	628,497	939
Transfer from reserves in equity	-	846
June 30, 2012	91,805,351	325,073

As at June 30, 2012, there were 9,952,474 (December 31, 2011 – 12,313,176) 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:

	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Weighted average number of shares for basic earnings per share	91,527,556	71,207,964	91,092,801	67,539,221
Effect of dilution:				
Options and warrants	2,682,579	4,643,373	3,102,088	4,336,254
Weighted average number of shares for diluted earnings per share	94,210,135	75,851,337	94,194,889	71,875,475

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 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. As of April 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 DSU plan to non-employee directors of the Corporation. 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:

	June 30, 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	1,872,112	7.91	2,095,975	8.49
Exercised	(1,020,166)	1.75	(679,267)	1.72
Forfeited	(238,018)	7.52	(255,473)	7.09
Balance - end of period	7,402,613	5.42	6,788,685	4.25
Exercisable - end of period	3,351,027	3.42	3,045,255	2.26

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) For the three and six months ended June 30, 2012 and 2011

10. SHARE-BASED PAYMENT PLAN (continued)

On April 4, 2012 the Corporation granted 1,112,675 share options to its employees as a part of its annual grant of share options.

The following table summarizes information about share options outstanding as at June 30, 2012:

Exercise price (\$)	Options outstanding			Options exercisable	
	Outstanding options	Weighted average exercise price (\$)	Weighted average remaining term (years)	Outstanding options	Weighted average exercise price (\$)
1.50 - 2.00	456,500	1.50	0.43	456,500	1.50
2.01 - 3.00	2,936,259	2.79	2.18	2,287,112	2.74
3.01 - 4.00	233,467	3.72	2.94	111,668	3.72
4.01 - 5.00	70,550	4.57	3.38	22,850	4.57
5.01 - 6.00	119,300	5.33	3.44	39,767	5.33
6.01 - 7.00	112,415	6.11	3.69	37,022	6.10
7.01 - 8.00	1,715,084	7.75	4.66	19,625	7.96
8.01 - 9.00	1,724,013	8.76	4.19	368,808	8.96
9.01 - 10.00	35,025	9.35	3.99	7,675	9.20
	7,402,613	5.42	3.20	3,351,027	3.42

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:

	June 30, 2012	Dec 31, 2011
Volatility factor of expected market price (%)	43.00	45.89
Weighted average risk-free interest rate (%)	1.49	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 (\$)	2.83	3.23
Weighted average forfeiture rate (%)	3.22	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 June 30, 2012, all warrants have vested and been exercised.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2012 and 2011

10. SHARE-BASED PAYMENT PLAN (continued)

	June 30, 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	(628,497)	1.50	(439,997)	1.50
Balance - end of period	-	-	628,497	1.50
Exercisable - end of period	-	-	628,497	1.50

Deferred Share Unit Plan

In April 2012, the Board of Directors of the Corporation approved a DSU plan. Under the terms of the plan, DSU's 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 non-employee director tendering their resignation from the Board of Directors. The specified date must be after the date in which the notice of redemption is filed with the Corporation and within the period from the non-employee director's termination date and December 31 of the first calendar year commencing after the non-employee's termination date. As of June 30, 2012, there were 28,864 DSU's outstanding (December 31, 2011 – nil)

The following table shows the amounts recognized as share-based payment expense for share options, warrants, and DSU's granted. The amounts are included in general and administrative expenses on the condensed consolidated interim statements of comprehensive income.

(\$000's)	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Expense arising from share options and warrants	1,437	485	2,464	988
Expense arising from DSU's	224	-	224	-
Total expense related to share-based payments	1,661	485	2,688	988

Share-based payment expense for DSU's is credited to accounts payable and accrued liabilities on the consolidated statements of financial position. As at June 30, 2012, \$0.2 million (December 31, 2011 – nil) was included in accounts payable and accrued liabilities for outstanding DSU's. Share-based payment expense for share options and warrants is credited to reserves as shown in the following table:

Reserves

	June 30, 2012	Dec 31, 2011
(\$000's)		
Balance - beginning of period	5,558	2,999
Share-based payment expense arising from share options and warrants	2,464	3,029
Transfer to issued capital	(846)	(470)
Balance - end of period	7,176	5,558

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 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)	June 30, 2012	Dec 31, 2011
Within one year	29,282	23,628
After one year but not more than five years	9,691	23,147
More than five years	1,111	1,462
	40,084	48,237

Litigation

In December 2007, the Corporation was named as a co-defendant in a lawsuit on behalf of Tervita Corporation (formally known as 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 counterclaim. The Corporation is currently seeking permission to amend the amount of the counterclaim to \$97.8 million from \$37.9 million. 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 June 30, 2012, the Corporation has approximately \$8.8 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 and six months ended June 30, 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 June 30, 2012			
Revenue	179,771	43,891	-	223,662
Operating expenses	(172,364)	(37,373)	(83)	(209,820)
General and administrative	(2,776)	(6,110)	(1,672)	(10,558)
Business development	-	-	(503)	(503)
Depreciation, depletion and amortization	(6,340)	(2,924)	(83)	(9,347)
Interest, accretion and finance costs	(92)	-	(916)	(1,008)
Total profit (loss) before income taxes	4,539	408	(3,174)	1,773
	As at June 30, 2012			
Current assets	45,860	93,163	-	139,023
Total assets	343,879	272,895	1,962	618,736
Goodwill	-	77,820	-	77,820
Intangible assets	4,282	67,377	-	71,659
Property, plant and equipment and assets under construction	272,510	34,535	1,962	309,007
Current liabilities	46,338	22,694	-	69,032
Total liabilities	75,336	38,216	135,109	248,661

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2012 and 2011

12. OPERATING SEGMENTS (continued)

(\$000's)	PRD division	DS division	Corporate	Total
	Three months ended June 30, 2011			
Revenue	84,238	9,506	-	93,744
Operating expenses	(81,066)	(7,443)	(63)	(88,572)
General and administrative	(1,985)	(1,143)	(677)	(3,805)
Business development	-	-	(767)	(767)
Depreciation, depletion and amortization	(3,826)	(850)	(63)	(4,739)
Interest, accretion and finance costs	(87)	-	(162)	(249)
Total profit (loss) before income taxes	1,100	920	(1,669)	351
	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

(\$000's)	PRD division	DS division	Corporate	Total
	Six Months Ended June 30, 2012			
Revenue	376,124	125,251	-	501,375
Operating expenses	(353,063)	(100,821)	(188)	(454,072)
General and administrative	(5,842)	(12,838)	(2,842)	(21,522)
Business development	-	-	(908)	(908)
Depreciation, depletion and amortization	(12,891)	(5,708)	(188)	(18,787)
Interest, accretion and finance costs	(176)	-	(2,345)	(2,521)
Total profit before income taxes	17,043	11,592	(6,283)	22,352
	As at June 30, 2012			
Current assets	45,860	93,163	-	139,023
Total assets	343,879	272,895	1,962	618,736
Goodwill	-	77,820	-	77,820
Intangibles	4,282	67,377	-	71,659
Property, plant and equipment and assets under construction	272,510	34,535	1,962	309,007
Current liabilities	46,338	22,694	-	69,032
Total liabilities	75,336	38,216	135,109	248,661

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) For the three and six months ended June 30, 2012 and 2011

12. OPERATING SEGMENTS (continued)

(\$000's)	PRD division	DS division	Corporate	Total
	Six Months ended June 30, 2011			
Revenue	152,236	9,506	-	161,742
Operating expenses	(140,126)	(7,443)	(131)	(147,700)
General and administrative	(4,032)	(1,143)	(1,331)	(6,506)
Business development	-	-	(954)	(954)
Depreciation, depletion and amortization	(8,009)	(850)	(131)	(8,990)
Interest, accretion and finance costs	(158)	-	(241)	(399)
Total profit before income taxes	7,920	920	(2,657)	6,183
	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
Intangibles	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 June 30						
Revenue	214,535	93,087	9,127	657	223,662	93,744
Six Months ended June 30						
Revenue	485,588	161,085	15,787	657	501,375	161,742
As at June 30, 2012 and Dec 31, 2011						
Total non-current assets	440,912	397,800	38,801	11,701	479,713	409,501

13. SUBSEQUENT EVENTS

- a) On July 2, 2012, The Corporation closed an asset purchase agreement (the "Acquisition") with DRD Saltwater Disposal LLC ("DRD") to acquire the operating assets of DRD for total cash and share consideration of US\$29.9 million. The operating assets acquired include two recently constructed fully operational stand alone water disposal facilities serving the Bakken oil play. The Acquisition of DRD allows the Corporation to expand its geographical presence of its PRD division into the United States, and to continue to expand on the Corporation's growth strategy in underserved markets. The Corporation paid US\$20.9 million in cash and issued 1,168,519 common shares of the Corporation at a closing price per share of \$7.90 for consideration of US\$9.0 million. Final consideration will be adjusted to fair value for accounting purposes after considering such factors as the escrow period and liquidity of the Corporation's shares in the market place. The Corporation paid a \$21.2 million deposit for the Acquisition of DRD, which is included in deposit on asset acquisition on the condensed consolidated interim statements of financial position as at June 30, 2012.

SECURE ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2012 and 2011

13. SUBSEQUENT EVENTS (continued)

- b) On July 24, 2012, the Corporation entered into an agreement on a bought deal basis (the “Offering”) with a syndicate of underwriters, pursuant to which the underwriters have agreed to purchase for resale to the public 9,554,141 subscription receipts of the Corporation at a price of \$7.85 per subscription receipt for gross proceeds of approximately \$75.0 million. In addition, the underwriters have been granted an over-allotment option, exercisable for a period of 30 days following the closing of the Offering, to purchase an additional 1,433,121 subscription receipts of the Corporation at a price of \$7.85 per subscription receipt for additional gross proceeds of approximately \$11.2 million. The underwriters have given notice that the over-allotment will be exercised in full after the closing of the Offering. Closing of the Offering is expected to occur on or about August 14, 2012 and is subject to customary conditions and regulatory approvals, including the approval of the Toronto Stock Exchange.

- c) On August 13, 2012, the Board of Directors approved an asset purchase agreement to acquire the operating assets of Imperial Drilling Fluids Engineering Inc. (“IDF”) for US\$7.0 million and a series of three annual earn out payments ranging from US\$2.7 million to US\$8.0 million for total maximum consideration of US\$15.0 million. IDF is a private drilling fluids company operating in Greeley, Colorado. IDF specializes in drilling fluids in Colorado, predominately in the Niobrara and Cordell Shale plays.

- d) Subsequent to June 30, 2012, the Corporation entered into a joint venture agreement (the “JV Agreement”) with Pembina Midstream Limited Partnership for 50% of the treating, terminalling and crude oil marketing operations of the Judy Creek Full Service Terminal (“Judy Creek FST”). The Corporation will be the operator of the facility. In addition, the assets associated with waste processing at the Judy Creek FST are excluded from the JV agreement.

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/Operations

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