

# SECURE Energy Services Announces Operational Highlights and Third Quarter 2018 Adjusted EBITDA of \$53.7 million

CALGARY, Oct. 30, 2018 /CNW/ - Secure Energy Services Inc. ("Secure" or the "Corporation") (TSX – SES) announced today its operational and financial results for the three and nine months ended September 30, 2018. These results should be read in conjunction with the management's discussion and analysis ("MD&A") and the interim consolidated financial statements and notes thereto for the three and nine months ended September 30, 2018 of Secure which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 2018 THIRD QUARTER OPERATIONAL AND FINANCIAL HIGHLIGHTS

In the third quarter, the Corporation continued to execute a disciplined growth strategy, focused on the PRD division which achieved a 36% increase in Adjusted EBITDA<sup>1</sup> over the 2017 comparative period resulting from new and expanded facilities, recurring cash flows generated from oil production processing and disposal, and higher terminalling and crude oil marketing revenue. Additionally, higher crude oil and liquids prices resulted in increased industry activity in the Corporation's core operating regions and increased recovered oil pricing. This, combined with strong contributions from the Corporation's OS and DPS divisions, resulted in an overall Adjusted EBITDA of \$53.7 million for the three months ended September 30, 2018. The Corporation achieved net income during the quarter of \$6.8 million, resulting in income of \$0.04 per weighted average common share.

Secure continues to identify and develop midstream infrastructure to expand capacity and optimize capabilities at existing facilities. These efforts help Secure's customers by increasing their operating netbacks and improving their capital efficiency. The Corporation's Gold Creek and Tony Creek water disposal facilities commenced operations in July 2018 and expand Secure's footprint in the liquids-rich Montney region in Alberta. In total, over half of the Corporation's 51 facilities are now located in the Montney and Duvernay regions where production growth and water disposal requirements are higher than the rest of the Western Canadian Sedimentary Basin ("WCSB"). With a significant presence in areas where customers have been most active in the WCSB, Secure has been able to grow volumes despite overall WCSB activity being relatively flat in the quarter and year to date. Additionally, Secure's footprint of facilities in North Dakota generated a 58% increase in revenue from the U.S. during the three months ended September 30, 2018 over the same period last year as higher oil prices and improved market access continue to attract investment in the Bakken.

During the third quarter, the Corporation completed construction and commissioning of the light oil feeder pipeline system and receipt terminal in the Kindersley-Kerrobert region of Saskatchewan ("Kerrobert Light Pipeline System") at the estimated in-service date of October 1, 2018. The Kerrobert Light Pipeline System provides a capital efficient transportation solution for Secure's customers operating in the region and has operational flexibility to accommodate production growth. The \$75 million project is supported by long-term commitments, providing Secure with recurring fee-for-service cash flows. The project is expected to contribute to Adjusted EBITDA during the fourth quarter. The Corporation has also commenced construction of two additional storage tanks at the receipt terminal in Kerrobert, which are expected to be commissioned in the second quarter of 2019 and offer a solution during periods of apportionment resulting from egress challenges.

Secure continues to take a disciplined approach to maintaining a strong balance sheet. This provides the Corporation with considerable flexibility to continue to grow the business organically and execute on strategic acquisition opportunities that align with the profitable growth strategy of Secure. Additionally, during the third quarter, the Corporation returned \$11.0 million of cash flow to shareholders through the monthly dividend, and purchased and cancelled 1,613,400 common shares

of the Corporation ("shares") at a weighted average price per share of \$7.52 for a total of \$12.1 million under the normal course issuer bid ("NCIB") approved at the end of May 2018.

The operating and financial highlights for the three and nine month periods ending September 30, 2018 and 2017 can be summarized as follows:

(\$000's except share and per share data)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% change	2018	2017	% change
Revenue (excludes oil purchase and resale)	182,469	162,596	12	505,416	418,681	21
Oil purchase and resale	646,565	451,143	43	1,748,986	1,229,971	42
Total revenue	829,034	613,739	35	2,254,402	1,648,652	37
Adjusted EBITDA <sup>(1)</sup>	53,746	43,820	23	132,711	106,034	25
Per share (\$), basic	0.33	0.27	22	0.81	0.65	25
Per share (\$), diluted	0.33	0.27	22	0.80	0.64	25
Net income (loss)	6,809	(179)	3,904	5,985	(10,268)	158
Per share (\$), basic and diluted	0.04	-	100	0.04	(0.06)	167
Cash flows from operating activities	19,879	2,864	594	127,205	85,947	48
Per share (\$), basic	0.12	0.02	500	0.78	0.53	47
Per share (\$), diluted	0.12	0.02	500	0.77	0.52	48
Funds flow from operations <sup>(1)</sup>	48,407	54,326	(11)	117,597	111,235	6
Per share (\$), basic	0.30	0.33	(9)	0.72	0.68	6
Per share (\$), diluted	0.29	0.33	(12)	0.71	0.67	6
Dividends per common share	0.06750	0.06375	6	0.2025	0.1850	9
Capital expenditures <sup>(1)</sup>	43,478	78,238	(44)	136,322	140,022	(3)
Total assets	1,591,913	1,488,328	7	1,591,913	1,488,328	7
Long-term liabilities	522,304	379,443	38	522,304	379,443	38
Net debt <sup>(1)</sup>	250,061	151,697	65	250,061	151,697	65
Common shares - end of period	161,945,330	163,285,511	(1)	161,945,330	163,285,511	(1)
Weighted average common shares						
basic	162,286,387	163,128,460	(1)	163,600,546	162,659,701	1
diluted	164,911,044	164,661,749	-	165,779,889	164,980,327	-

<sup>(1)</sup>Refer to "Non-GAAP Measures, Additional GAAP Measures and Operational Definitions" for further information.

## • REVENUE OF \$829.0 MILLION AND \$2.3 BILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

- The PRD division's revenue from services increased to \$89.6 million and \$250.9 million during the three and nine months ended September 30, 2018, up 36% and 30%, respectively, from the comparative periods in 2017. The increase was driven by growth initiatives over the past several years to increase capacity and expand service offerings; higher activity levels in the U.S. in response to higher average crude oil prices, which also generated higher recovered oil revenues; increased produced water and condensate production in the Corporation's key service areas which resulted in incremental processing and disposal volumes at Secure's facilities; and wide crude oil differentials which resulted in higher crude oil marketing revenue as a result of Secure's ability to work with customers at the Corporation's pipeline connected FSTs to improve their operating netbacks through higher realized pricing and lower transportation costs;
- Oil purchase and resale revenue in the PRD division for the three and nine months ended September 30, 2018 increased by 43% and 42% from the 2017 comparative periods to \$646.6 million and \$1.7 billion due to higher volumes resulting from increased industry activity as discussed above and higher takeaway capacity at certain of the Corporation's pipeline connected full service terminals, and a 32% and 23% increase in Canadian Light Sweet crude oil prices in the three and nine months ended September 30, 2018 over the 2017 comparative periods;
- OS division revenue of \$29.6 million in the third quarter decreased 19% from the three months ended September 30, 2017 as a result of unseasonably wet weather in September which delayed certain Project work. Projects revenue is dependent on the type and size of jobs as well as weather conditions, which can vary quarter to quarter. Good weather conducive to project execution in the third quarter of 2017 resulted in more jobs, including a large pond remediation project. Additionally, water pumping revenue decreased in the three months ended September 30, 2018 following the completion of a customer's large fracing program in the IFS service area. In the nine months ended September 30, 2018, the OS division's revenue increased 9% to \$87.8 million primarily due to higher activity levels in the

oil and gas sector in the first half of the year as a result of rising oil prices. As a result, there was increased demand for onsite services and increased Projects work which contributed to higher revenue compared to the prior year comparative period;

- DPS division revenue increased 5% and 15% to \$63.3 million and \$166.7 million in the three and nine months ended September 30, 2018 over the 2017 comparative periods. In April 2017, the Corporation acquired a production chemicals business that significantly increased revenue generated from production services beginning in the second quarter of 2017. Revenue from production services has been increasing at a steady rate as the Corporation wins bids for new jobs and expands its customer base. A significant portion of the DPS division's revenue comes from drilling services, which strongly correlates with oil and gas drilling activity in the WCSB. During the three and nine months ended September 30, 2018 there was a slight decline in active rigs over the 2017 comparative periods; however, the impact to revenue from drilling services was mitigated as revenue per operating day increased as a result of the trend towards deeper and more complex wells.

- **ADJUSTED EBITDA OF \$53.7 MILLION AND \$132.7 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

- Adjusted EBITDA of \$53.7 million and \$132.7 million increased 23% and 25% from the three and nine months ended September 30, 2017, primarily from higher revenues achieved by the PRD division and a continued focus on cost controls. Increased revenues were driven by higher facility volumes from the addition of new facilities through organic growth, several facility expansions to increase waste handling capacity, the acquisition of Ceiba Energy Services Inc. ("Ceiba") in August 2017, higher produced water and condensate production volumes in the Corporation's key service areas, and improved oil and gas sector activity in the U.S. Additionally, increased recovered oil revenues generated from higher average crude oil prices and higher crude oil marketing revenues from the Corporation's pipeline connected FSTs during the three and nine months ended September 30, 2018 helped drive revenue and segment profit margins<sup>1</sup> in the PRD division, which were up 39% and 31% over the three and nine months ended September 30, 2017;
- Adjusted EBITDA generated from the OS division decreased 28% and increased 3% in the three and nine months ended September 30, 2018 over the comparative periods in 2017, primarily as a result of the variance in revenue, as described above. The majority of the OS division's operating expenses are variable, and fluctuations will correspond to change in revenue and project mix;
- The DPS division's Adjusted EBITDA was relatively consistent in the three and nine months ended September 30, 2018 over the 2017 comparative periods as the impact of higher revenue from production services was offset by increased general and administrative expenses in the year to date to support the expanded production chemicals business. Additionally, upward cost pressures resulting from higher commodity prices and the strength of the U.S. dollar have compressed margins, limiting the upside generated from economies of scale achieved from higher revenues.

- **NET INCOME OF \$6.8 MILLION AND \$6.0 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

- For the three and nine months ended September 30, 2018, Secure's net income of \$6.8 million and \$6.0 million improved from a net loss of \$0.2 million and \$10.3 million in the three and nine months ended September 30, 2017. The variances are primarily due to a \$9.9 million and \$26.7 million increase to Adjusted EBITDA resulting from the factors described above, partially offset by higher interest expense resulting from higher debt levels to fund organic development and acquisitions in the past year, as well as increased tax expense resulting from higher net earnings before non-deductible expenses.

- **FINANCIAL FLEXIBILITY**

- The total amount drawn on Secure's credit facilities as at September 30, 2018 increased by 30% to \$389.1 million compared to \$300.0 million at December 31, 2017. The amount drawn increased in order to fund the Corporation's organic capital program, partially offset by cash flows from operating activities.

- As at September 30, 2018, the Corporation had \$149.9 million available under its credit facilities, subject to covenant restrictions. The Corporation is well positioned, based on this availability and expected cash flows from operating activities, to pursue further accretive acquisition opportunities and execute on the remaining 2018 and expected 2019 capital programs.
- Secure is in compliance with all covenants related to its credit facilities at September 30, 2018. The following table outlines Secure's senior and total debt to trailing twelve month EBITDA ratios at September 30, 2018 and December 31, 2017.

	Sept 30, 2018	Dec. 31, 2017	Threshold
Senior debt to EBITDA	1.5	1.1	3.5
Total debt to EBITDA	2.2	1.9	5.0

- Senior debt is equal to amounts drawn on the Corporation's first lien facility plus financial leases less any cash balances exceeding \$5 million. Total debt includes senior debt plus the \$130 million borrowed under the Corporation's second lien facility. EBITDA is defined in the lending agreement as earnings before interest, taxes, depreciation, depletion and amortization, and is adjusted for non-recurring losses, any non-cash impairment charges and any other non-cash charges, and acquisitions on a pro-forma basis.
- **CAPITAL EXPENDITURES OF \$43.5 MILLION AND \$136.3 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**
  - Total capital expenditures for the three and nine months ended September 30, 2018 of \$43.5 million and \$136.3 million were comprised of \$37.7 million and \$124.4 million related to growth and expansion projects, and \$5.8 million and \$11.9 million of sustaining capital. There were no acquisitions completed during the quarter or year to date. Growth and expansion capital in the nine months ended September 30, 2018 relates primarily to completing construction of the Kerrobert Light Pipeline System; the addition of four water disposal wells, including two at Gold Creek, and one each at Tony Creek and Big Mountain; expansion projects at various existing facilities to increase throughput, emulsion treating and disposal capacity; construction of three new landfill cells (Saddle Hills, Tulliby Lake and Williston); and long lead items and upfront costs for future projects, including the additional storage at the receipt terminal in Kerrobert. Sustaining capital incurred in 2018 to date relates primarily to well and facility maintenance.

## PRD DIVISION OPERATING HIGHLIGHTS

(\$000's)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2018	2017	%Change	2018	2017	%Change
<b>Revenue</b>						
PRD services (a)	89,579	66,013	36	250,930	193,761	30
Oil purchase and resale service	646,565	451,143	43	1,748,986	1,229,971	42
<b>Total PRD division revenue</b>	<b>736,144</b>	<b>517,156</b>	<b>42</b>	<b>1,999,916</b>	<b>1,423,732</b>	<b>40</b>
<b>Direct expenses</b>						
PRD services (b)	35,913	27,416	31	107,160	83,778	28
Oil purchase and resale service	646,565	451,143	43	1,748,986	1,229,971	42
<b>Total PRD division direct expenses</b>	<b>682,478</b>	<b>478,559</b>	<b>43</b>	<b>1,856,146</b>	<b>1,313,749</b>	<b>41</b>
<b>Segment Profit Margin <sup>(1)</sup> (a-b)</b>	<b>53,666</b>	<b>38,597</b>	<b>39</b>	<b>143,770</b>	<b>109,983</b>	<b>31</b>
<b>Segment Profit Margin <sup>(1)</sup> as a % of revenue (a)</b>	<b>60%</b>	<b>58%</b>		<b>57%</b>	<b>57%</b>	

<sup>(1)</sup>Refer to "Non-GAAP Measures, Additional GAAP Measures and Operational Definitions" for further information.

**Highlights for the PRD division for the three and nine months ended September 30, 2018 included:**

- Record revenue generated from PRD services of \$89.6 million for the three months ended September 30, 2018, and \$250.9 million in the year to date, increased by 36% and 30% from the 2017 comparative periods. The increase in revenue was primarily driven by higher facility volumes resulting from new facility additions and expansions at certain of the Corporation's existing facilities in 2017 and 2018 to date, and increased activity levels in response to higher average crude oil prices at the Corporation's facilities in North Dakota, which also resulted in higher recovered oil revenues;
- The majority of the Corporation's facilities are located in high impact resource plays, such as the Montney and Duvernay regions, where producers have been most active in the WCSB. Fluids pumped from wells in these regions are also significantly higher than other regions of the WCSB, driving incremental volumes at Secure's facilities. In the past year, Secure has strategically added new facilities, including the Gold Creek and Tony Creek water disposal facilities in July 2018, and increased capacity for water disposal at various other facilities in these regions, including at the Dawson Creek and Fox Creek FSTs, Rycroft FSR and Big Mountain water disposal facility, in response to customer demand. Additionally, Secure completed the acquisition of Ceiba on August 1, 2017 which added ten facilities to Secure's footprint in the WCSB. These additions and expansions were the driving force behind a 42% and 35% increase in water disposal volumes in Canada during the three and nine months ended September 30, 2018 over the comparative periods of 2017;
- Waste processing and solids disposal volumes at the Corporation's facilities in North Dakota increased significantly in the three and nine months ended September 30, 2018 contributing to a 58% and 54% increase in revenue generated from the U.S. from the 2017 comparative periods. Higher volumes at Secure's North Dakota facilities were a result of improved activity levels, including new drilling and frac completions as customers remain active in the Bakken. Higher drilling and completion activity has been driven by an increase in average crude oil prices over the prior period, and the commissioning of the Dakota Access Pipeline in June 2017 which has improved economics for delivering producers' product to market;
- Recovered oil revenues increased 33% and 39% in the three and nine months ended September 30, 2018 from the 2017 comparative periods, driven by higher volumes as discussed above, and a marked increase in Canadian Light Sweet oil prices of 32% and 23% over the 2017 comparative periods;
- Overall, disposal volumes increased by 25% and 22% in the three and nine months ended September 30, 2018 from the comparative periods in 2017 due primarily to increased produced and flowback water resulting from new facilities and increased capacity at existing facilities, as well as increasing water production as wells mature and improved industry activity;
- Overall, processing volumes increased 1% and 9% in the three and nine months ended September 30, 2018 from the comparative periods in 2017 due primarily to higher waste processing volumes at the Corporation's North Dakota facilities. Drilling and completion activity in Canada has been relatively flat in the quarter and year to date as producers are taking a cautious approach to capital spending in light of wide crude oil pricing differentials, low gas prices and uncertainty with respect to the addition of pipeline capacity out of the WCSB;
- During the three months and nine months ended September 30, 2018, refinery outages and a shortage of pipeline takeaway capacity resulted in large heavy oil differentials, reaching over \$30 per barrel in the quarter and year to date, nearly double the 2017 levels. The volatility in the differential wide crude oil differentials provided Secure with an opportunity to work with customers at the Corporation's ten pipeline connected FSTs to improve their operating netbacks through higher realized pricing and lower transportation costs which also lead to higher revenue generated from this service line;
- Oil purchase and resale revenue in the PRD division for the three and nine months ended September 30, 2018 increased to \$646.6 million and \$1.7 billion due to higher volumes resulting from increased industry activity and higher takeaway capacity at certain of the Corporation's pipeline connected full service terminals, and higher benchmark crude oil prices in the three and nine months ended September 30, 2018 over the comparative periods of 2017;
- The PRD's segment profit margin as a percentage of revenue from PRD services for the three

and nine months ended September 30, 2018 increased to 60% in the three months ended September 30, 2018 from 58% in the three months ended September 30, 2017. Segment profit margin as a percentage of PRD services revenue was 57% in both the nine months ended September 30, 2018 and 2017. As a percentage of PRD services revenue, segment profit margin increased over 2017 as a result of overall increased revenues while minimizing fixed and related costs, and higher recovered oil revenues and crude oil marketing revenues which carry high margins. These positive impacts were partially offset by increased variable costs related to personnel and higher facility repair and maintenance expenditures in the 2018 periods over 2017;

- General and administrative ("G&A") expenses of \$6.7 million and \$18.9 million for the three and nine months ended September 30, 2018 increased from the comparative period balances of \$4.3 million and \$12.7 million. Although the Corporation continues to minimize G&A costs by streamlining operations where possible, PRD G&A expenses have increased primarily due to overhead requirements to support new service lines, facilities and expansions. As a percentage of revenue from PRD services, G&A expenses were consistent at 7% for the three months ended September 30, 2018 and 2017, and up slightly to 8% in the nine months ended September 30, 2018 from 7% in the 2017 comparative period.

## OS DIVISION OPERATING HIGHLIGHTS

(\$000's)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2018	2017	% Change	2018	2017	% Change
<b>Revenue</b>						
OnSite services (a)	29,617	36,542	(19)	87,824	80,490	9
<b>Direct expenses</b>						
OnSite services (b)	23,149	28,151	(18)	69,778	62,290	12
<b>Segment Profit Margin <sup>(1)</sup> (a-b)</b>	<b>6,468</b>	<b>8,391</b>	<b>(23)</b>	<b>18,046</b>	<b>18,200</b>	<b>(1)</b>
<b>Segment Profit Margin <sup>(1)</sup> as a % of revenue (a)</b>	<b>22%</b>	<b>23%</b>		<b>21%</b>	<b>23%</b>	

<sup>(1)</sup>Refer to "Non-GAAP Measures, Additional GAAP Measures and Operational Definitions" for further information.

## Highlights for the OS division for the three and nine months ended September 30, 2018 included:

- OS division revenue decreased by 19% to \$29.6 million for the three months ended September 30, 2018 primarily as a result of lower revenue generated from project work and onsite water management and pumping services due to wet weather conditions in September 2018 resulting in project delays, and two large customer jobs in the third quarter of 2017 which were not repeated in the third quarter of 2018. The resulting decrease to revenue was partially offset by project work generated from new customers, including the completion of a large infrastructure demolition job for a government agency, and the introduction of new service offerings in the past year, including the management of scrap metal recycling programs for two major oil sands producers. Secure continues to seek opportunities of this nature as they provide Secure with a more stable stream of revenue over the life of the agreement;
- OS division revenue increased 9% to \$87.8 million in the nine months ended September 30, 2018 from the 2017 comparative period primarily due to higher activity levels in the oil and gas sector in the first half of the year as a result of improved commodity prices which led to increased customer activity, resulting in more project work and higher pumping and fluid storage rental activity;
- Segment profit margin for the three and nine months ended September 30, 2018 of \$6.5 million and \$18.0 million decreased by 23% and 1% from the prior year comparative periods. As a percentage of revenue, segment profit margin was 22% and 21% for the three and nine months ended September 30, 2018, down slightly from 23% in both the comparative 2017 periods. The OS division's segment profit margin as a percentage of revenue can fluctuate depending on the

volume and type of projects undertaken and the blend of business between remediation and reclamation projects, demolition projects, pipeline integrity projects, site clean-up, and other services in any given period. As a percentage of revenue, the segment profit margin in the three and nine months ended September 30, 2018 decreased primarily due to the nature of the project work, as well as increased competition on project bids which resulted in lower rates charged for labour and equipment;

- G&A expenses for the three and nine months ended September 30, 2018 decreased marginally by \$0.2 million and \$0.5 million from the 2017 comparative periods to \$1.8 million and \$5.8 million as certain personnel and office costs included in the comparative figure were transferred to the PRD division at the start of this year. The impact of this change is partially offset by additional business development expenses resulting from the OS division's growth initiatives. As a percentage of OS revenue, G&A expenses are 6% and 7% in the three and nine months ended September 30, 2018 compared to 5% and 8% in the 2017 comparative periods, primarily due to the change in revenue.

## DPS DIVISION OPERATING HIGHLIGHTS

(\$000's)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2018	2017	% Change	2018	2017	% Change
<b>Revenue</b>						
Drilling and production services (a)	63,273	60,041	5	166,662	144,430	15
<b>Direct expenses</b>						
Drilling and production services (b)	50,191	46,895	7	137,495	117,640	17
<b>Segment Profit Margin <sup>(1)</sup> (a-b)</b>	<b>13,082</b>	<b>13,146</b>	<b>-</b>	<b>29,167</b>	<b>26,790</b>	<b>9</b>
<b>Segment Profit Margin <sup>(1)</sup> as a % of revenue (a)</b>	<b>21%</b>	<b>22%</b>		<b>18%</b>	<b>19%</b>	

(1) Refer to "Non-GAAP Measures, Additional GAAP Measures and Operational Definitions" for further information.

## Highlights for the DPS division for the three and nine months ended September 30, 2018 included:

- The DPS division's drilling services revenue correlates with oil and gas drilling activity in the WCSB. The strength in oil prices has resulted in steady or improved activity levels from oil and liquids focused producers, but this was offset by declines in dry gas drilling activity as a result of low AECO gas prices. Additionally, rig activity was impacted by unseasonably wet weather in September 2018. As a result, overall activity in the WCSB is relatively flat compared to last year, and the division's market share declined by 4% and 3% in the three and nine months ended September 30, 2018 from the comparative periods of 2017. However, the Corporation continued to focus on more complex wells which require specialized fluids, equipment and expertise, and resulted in a higher revenue per operating day. Overall, revenue from drilling services was relatively flat in the three and nine months ended September 30, 2018 from the 2017 comparative period;
- Secure continues diversification efforts in the DPS division to become less dependent on drilling activity through expansion of production services. Strategic relationships with key suppliers and ongoing product development has resulted in a significant expansion to Secure's product offering, leading to multiple commercial projects in 2017 and the first half of 2018. The acquisition of a production chemicals business completed in April 2017 has strengthened Secure's position in the market by adding over 100 fully formulated proprietary products, as well as key infrastructure related to the product offering and an experienced and dedicated employee base. The production chemicals service line now has over 350 commercialized products and continues to win new bids and customers and gain market share. As a result of increased contributions from production related services, total revenue from the DPS division for the three and nine months ended September 30, 2018 increased 5% and 15% from the comparative periods of 2017 to \$63.3 million and \$166.7 million.

- The DPS division's segment profit margin for the three and nine months ended September 30, 2018 was flat and improved by 9%, respectively, from the comparative periods to \$13.1 million and \$29.2 million. Segment profit margin as a percentage of revenue was 21% and 18% in the three and nine months ended September 30, 2018, down slightly from 22% and 19% in the comparative periods. Segment profit margin as a percentage of revenue were positively impacted by the increased revenues while minimizing fixed costs resulting in achieving economies of scale from increased activity. This impact was partially offset by the continued cost inflation associated with drilling and production chemicals which have outpaced the DPS division's ability to realize meaningful price increases during the period;
- G&A expense for the three and nine months ended September 30, 2018 decreased by 5% and increased by 27% from the comparative periods of 2017. The Corporation continues to proactively manage costs while still responding to customer demands and activity levels. In the year to date, G&A expenses have increased as a result of expanding the production chemicals service line, and includes additional costs resulting from the production chemicals acquisition in April 2017. Additionally, all research and development costs associated with the Corporation's research lab have been included in DPS G&A expense since the third quarter of 2017. Previous to that, they were reported with the Corporation's business development expense. Secure continues to focus on research and development projects to expand the value chain of services offered to customers, and to provide innovative and cost-effective solutions to reduce waste in the drilling and production processes. As a percentage of DPS revenue, G&A expenses are 8% and 10% in the three and nine months ended September 30, 2018 compared to 9% in both the prior year comparative periods.

## OUTLOOK

Secure's strategy remains focused on working with customers to identify opportunities and integrated solutions where the Corporation can add value and lower customers' costs. By focusing on new and innovative ways to offer solutions, Secure's customers will be able to gain efficiencies for drilling, completing and producing their hydrocarbon reserves. Helping Secure's customers grow and being their trusted energy solutions partner will ensure that the Corporation continues to create long-term shareholder value.

The fundamental drivers that are expected to provide meaningful avenues of growth during 2019 and beyond include:

### ***Increasing Volumes: Supporting Growth of Midstream Infrastructure and Services***

Production-related volumes represent the majority of the volumes processed and disposed at Secure's midstream facilities, providing the Corporation with recurring cash flows. The majority of Secure's facilities are located in high impact resource plays which have experienced higher production growth than the remainder of the WCSB over the past several years. Produced water, which accounts for over 85% of total production fluids in the WCSB, continues to increase at a disproportionate rate relative to aggregate production as a result of aging wells and maturing basins.

Flowback waters and processing volumes are also increasing as high intensity fracs continue to be applied in liquids rich natural gas shale reservoirs like the Montney and Duvernay formations. The increased use of proppants, the number of completion stages and length of the horizontal wells are expected to continue as producers use innovative means to develop unconventional resources. As a result, there is a significant need from Secure's customers for sourcing water, water logistics, storing water and overall water re-use where it is cost effective. Secure's integrated business model provides full-cycle service offerings to assist customers with large completion programs where significant amounts of water are required to be managed at various stages.

As oil sands projects have come on stream over the past few years, bitumen production has increased along with demand for condensate that is used as a diluent in order to transport the final product to market. Condensate production levels have increased in response; however, Canada

currently remains a net importer of condensate and, as a result, drilling activity in the Montney and Duvernay regions is expected to increase to try to meet demand. As new production comes on, demand for production chemicals is expected to increase. In addition to continuing to provide customers with technical solutions for drilling and completion, the Corporation's DPS division is developing chemistry to optimize fluid production, provide flow assurance and maintain the integrity of assets, both for producers as well as Secure's own midstream assets.

These trends are all expected to result in increased demand for incremental treating, processing and disposal capacity. It is also expected that additional terminals and storage will be required to meet this increased demand. Secure has made significant capital investments over the past few years to ensure the business is well positioned to capture new demand. By offering exceptional customer service and owning and operating midstream facilities near customer production, Secure expects these trends will drive more volumes to Secure's midstream facilities.

Additionally, customers continue to seek cost effective transportation solutions for water, oil and condensate volumes. Secure's successful execution of the Kerrobert Light Pipeline System from the planning phase to final completion positions the Corporation to take advantage of similar opportunities creating value for both the customer and Secure.

### ***Pipeline Constraints and Wide Differentials: Driving Higher Crude by Rail Activity***

Rail offers an alternative mode of transportation that is becoming increasingly relied upon by the industry to transport crude oil as new pipeline projects in Canada continue to face challenges and delays. With a loading capacity of over 50,000 barrels per day across the Corporation's four full service rail terminals, Secure has meaningful exposure to the growing market for Canadian crude shipped by rail. Given the recent widening of WCSB crude oil pricing differentials, Secure expects more producers will agree to long-term commitments to make transporting crude by rail a more recurring cash flow stream. As rail operations normalize, Secure should see increased activity during 2019 and beyond. Moreover, wide WCS/WTI to Brent oil differentials influence certain U.S. refiners to look for feedstock accessible by rail that is otherwise delivered by oil tanker.

As crude oil price differentials have widened even further during October, and are expected to remain so headed into 2019, the Corporation remains attentive to opportunities at both pipeline-connected FSTs and with respect to transporting crude by rail. Secure continues to strive to position itself to offer producers egress solutions with better pricing for their products in western Canada.

The potential impact of wider crude oil differentials on producer capital budgets and drilling activity is expected to be more than offset by increased crude by rail shipments and ongoing and increasing production related volumes at Secure's midstream facilities, as described above.

### ***U.S. Macroeconomic Environment: Increasing Activity Levels in North Dakota***

Higher average crude oil prices, improved market access, a favourable regulatory environment and recent tax reform has driven capital investment into North Dakota in recent years. Record production levels were reached during the third quarter and are expected to continue to increase along with drilling and completion activity. The Corporation has meaningful exposure through Secure's six midstream facilities located in key resource plays in North Dakota to capture incremental production, drilling and completion related volumes. The continuing strength of oil prices in the region along with additional takeaway capacity from the Dakota Access Pipeline expansion under construction is expected to continue to facilitate advantageous project economics for Secure's customers operating in the region.

### ***Environmental Regulations: Creating Demand for Secure's Environmental Solutions***

Increased environmental regulations in all of Secure's market areas have created opportunities to help customers operate in a sustainable way with a focus on protecting the environment. Secure's OS division has seen increased proactive efforts by customers to prevent spills and reduce their future environmental liabilities. Recent changes to remediation regulations in Alberta through the

Alberta Energy Regulator's Area-Based Closure program could initiate increased abandonment, decommissioning, remediation and reclamation activity levels which may result in additional demand for OS division services.

These drivers are expected to provide Secure with significant potential to grow and expand the business into the future. The Corporation expects to incur approximately \$150 million of growth and expansion capital in 2018, and allocate \$100 million in 2019, depending on the outcome of various opportunities in development, such as timing of obtaining regulatory approvals, development permits and other operating agreements. During the remainder of 2018, capital will be incurred on advancing the construction of additional storage tanks at the receipt terminal in Kerrobert, completing the permanent water disposal facility at Tony Creek, completing the expansion at the Williston landfill, increasing processing and disposal capacity at various other facilities, and purchasing equipment to support existing services. Providing value-adding solutions to increase customer operating netbacks and improve capital efficiency remains Secure's primary objective.

## **FINANCIAL STATEMENTS AND MD&A**

The Corporation's unaudited condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2018 and 2017 and MD&A for the three and nine months ended September 30, 2018 and 2017 are available immediately on Secure's website at [www.secure-energy.com](http://www.secure-energy.com). The unaudited condensed consolidated financial statements and MD&A will be available tomorrow on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document constitute "forward-looking statements" and/or "forward-looking information" within the meaning of applicable securities laws (collectively referred to as forward-looking statements). When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to Secure, or its management, are intended to identify forward-looking statements. Such statements reflect the current views of Secure with respect to future events and operating performance and speak only as of the date of this document. In particular, this document contains or implies forward-looking statements pertaining to: key priorities for the Corporation's success; the oil and natural gas industry, including drilling and production trends; activity levels in the oil and gas sector, drilling levels, commodity prices for oil, natural gas liquids and natural gas; industry fundamentals for 2018; capital forecasts and spending by producers; demand for the Corporation's services and products; expansion strategy; the impact of oil and gas activity on Secure's activity levels; the Corporation's proposed 2018 and 2019 capital expenditure program including expansion, growth and sustaining capital expenditures, and the timing of completion for projects, in particular the additional storage at the Kerrobert terminal; debt service; acquisition strategy and timing of potential acquisitions; the impact of new facilities, new service offerings, potential acquisitions, and prior year acquisitions on the Corporation's financial and operational performance and growth opportunities; growth opportunities; future capital needs and how the Corporation intends to fund its operations, working capital requirements, dividends and capital program; access to capital; the impact of the NCIB on shareholder value; and the Corporation's ability to meet obligations and commitments and operate within any credit facility restrictions.

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as the assumption that levels of market activity and growth will be consistent with industry activity in Canada and the U.S. and similar phases of previous economic cycles. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Corporation has relied upon in the past will continue to be available to the Corporation on terms favorable to the Corporation and that future economic and operating conditions will not limit the Corporation's access to debt and equity markets. Forward-looking statements concerning the relative future competitive position of the

Corporation are based upon the assumption that economic and operating conditions, including commodity prices, crude oil and natural gas storage levels, interest and foreign exchange rates, the regulatory framework regarding oil and natural gas royalties, environmental regulatory matters, the ability of the Corporation and its subsidiaries to successfully market their services and drilling and production activity in North America will lead to sufficient demand for the Corporation's services and its subsidiaries' services including demand for oilfield services for drilling and completion of oil and natural gas wells, that the current business environment will remain substantially unchanged, and that present and anticipated programs and expansion plans of other organizations operating in the energy industry may change the demand for the Corporation's services and its subsidiaries' services. Forward-looking statements concerning the nature and timing of growth are based on past factors affecting the growth of the Corporation, past sources of growth and expectations relating to future economic and operating conditions. Forward-looking statements in respect of the costs anticipated to be associated with the acquisition and maintenance of equipment and property are based upon assumptions that future acquisition and maintenance costs will not significantly increase from past acquisition and maintenance costs.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. Readers are cautioned not to place undue reliance on these statements as a number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, including but not limited to those factors referred to under the heading "*Risk Factors*" in the AIF for the year ended December 31, 2017 and also includes the risks associated with the possible failure to realize the anticipated synergies in integrating the assets acquired in prior year acquisitions with the operations of Secure. Although forward-looking statements contained in this document are based upon what the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements in this document are expressly qualified by this cautionary statement. Unless otherwise required by law, Secure does not intend, or assume any obligation, to update these forward-looking statements.

## **NON-GAAP MEASURES, ADDITIONAL GAAP MEASURES AND OPERATIONAL DEFINITIONS**

The Corporation uses accounting principles that are generally accepted in Canada (the issuer's "GAAP"), which includes International Financial Reporting Standards ("IFRS"). Certain supplementary measures in this document do not have any standardized meaning as prescribed by IFRS. These measures are intended as a complement to results provided in accordance with IFRS. The Corporation believes these measures provide additional useful information to analysts, shareholders and other users to understand the Corporation's financial results, profitability, cost management, liquidity and ability to generate funds to finance its operations. However, they should not be used as an alternative to IFRS measures because they do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. See the management's discussion and analysis available at [www.sedar.com](http://www.sedar.com) for further details, including reconciliations of the Non-GAAP measures and additional GAAP measures to the most directly comparable measures calculated in accordance with IFRS.

## **ABOUT SECURE ENERGY SERVICES INC.**

Secure is a TSX publicly traded integrated energy business with midstream infrastructure, environmental and technical solutions divisions providing industry leading customer solutions to upstream oil and natural gas companies operating in western Canada and certain regions in the United States ("U.S.").

<sup>1</sup> Refer to the "Non-GAAP Measures, Additional GAAP Measures and Operational Definitions" section herein.

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**For further information:** Secure Energy Services Inc., Rene Amirault, Chairman, President and Chief Executive Officer, Phone: (403) 984-6100, Fax: (403) 984-6101; Allen Gransch, Executive Vice President, Corporate Development, Phone: (403) 984-6100, Fax: (403) 984-6101; Chad Magus, Executive Vice President and Chief Financial Officer, Phone: (403) 984-6100, Fax: (403) 984-6101, Website: [www.secure-energy.com](http://www.secure-energy.com), TSX Symbol: SES

CO: SECURE Energy Services Inc.

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