

# SECURE Energy Announces New Feeder Pipeline System, Planned Divestitures and Third Quarter Results

CALGARY, Oct. 30, 2019 /CNW/ - Energy Services Inc. ("Secure" or the "Corporation") (TSX – SES) provided today an update on its corporate vision and strategy and announced a sales process relating to service lines that do not have recurring or production-related revenue streams, the development of a new feeder pipeline system and the operational and financial results of the Corporation for the three and nine months ended September 30, 2019.

The following press release should be read in conjunction with the Corporation's 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, 2019 which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## CORPORATE VISION AND STRATEGY UPDATE

In 2007, Secure was founded with one vision in mind: to help our customers. Twelve years later, delivering solutions that put our customers' needs first continues to be our guiding principle. Our unique culture, which is driven by entrepreneurial spirit, motivation, and hard work, allows us to carefully consider our customers' needs and deliver innovative solutions. It is this culture and our commitment to exceptional customer service that has made Secure a trusted industry partner today.

The past several years have been volatile for the oil and gas sector. From the dramatic drop in oil prices in late 2014, to the ongoing environmental and political debates surrounding transportation of crude oil in Canada, macro economic factors and political issues continue to have a significant impact on our industry. Our customers have responded with increased financial and capital discipline as they strive for resiliency and free cash flow generation through low commodity price cycles.

Secure's strategy remains focused on what is in the Corporation's control: helping our customers by challenging what's possible. Secure is building on our dedication to creating value for customers with our updated vision to *Do Midstream Differently*. By doing midstream differently, Secure works transparently with customers to identify opportunities where we can provide innovative solutions that help our customers reduce costs and emissions, and invest their capital where it generates the highest returns. As a result, customers are willing to share in the risk and commit dedicated volumes to our midstream infrastructure that provides predictable, recurring cash flows for the Corporation.

Increasing the stability of our cash flows is a key priority for Secure as we aim to reduce the risk of our investments, maximize the return and value from our existing assets and ensure profitable growth for our shareholders. This focus has led Secure to make strategic investments in midstream infrastructure in high impact resource plays located near customer production, including the following:

- Oil feeder pipelines
  - Kerrobert crude oil pipeline system and East Kaybob feeder pipeline (*currently under development*);
- New produced water disposal facilities with committed volumes
  - Gold Creek, Tony Creek and Pipestone (*commissioned October 2019*);
- Four produced water pipelines connecting producer facilities/gas plants to Secure's midstream infrastructure
  - Gold Creek, Tony Creek, Pipestone and 13 Mile;
- Crude oil storage at Cushing, Oklahoma and Kerrobert, Saskatchewan with lease commitments.

This midstream growth has helped transform the nature and reliability of Secure's cash flows by

significantly increasing the Corporation's exposure to recurring production-based revenues and limiting exposure to cyclical drilling and completion activities. Additional opportunities to execute on this strategy are expected to continue to evolve based on current trends such as:

- Producers outsourcing midstream work;
- Produced water volumes increasing at a disproportionate rate relative to aggregate production;
- Higher well densities improving economics to pipeline connect production volumes to midstream facilities; and
- Volatile differentials and limited pipeline capacity.

Secure's strategy is to follow a sensible approach to capital spending by allocating funds to projects that will generate stable cash flows. This approach includes constructing and operating midstream infrastructure as follows:

- Building and connecting produced water pipelines and disposal facilities to reduce customers' transportation costs and reduce their environmental footprint;
- Building and connecting feeder oil pipelines to producer batteries to reduce customers' transportation costs and optimize producer netbacks;
- Utilizing crude oil storage to optimize pricing and manage pipeline transportation constraints; and
- Providing crude oil transport via rail for access to higher priced markets.

## **STRATEGIC DIVESTITURES**

As part of Secure's focus on increasing cash flow stability, Secure has initiated a formal sales process for the divestiture of specific service lines that do not have recurring or production-related revenue streams. In the last quarter, multiple financial institutions approached Secure about divesting select service lines, and this process is expected to be ongoing throughout the remainder of the year and into 2020. Secure expects any divestitures will be completed by the end of 2020. Aggregate proceeds for these divestitures could range from \$100 million to \$200 million depending on which service lines are divested.

For many years, service offerings that supported drilling and completion activities were a key part of Secure's strategy of delivering value to customers through a broad suite of integrated, 'cradle to grave' energy solutions. During years where producer spending was robust, these service lines made important contributions to Secure by generating significant free cash flow that was reinvested in midstream growth opportunities.

Monetizing assets that primarily support drilling and completion activity will help management focus on its longer-term strategy, strengthen our balance sheet, provide incremental capital for continued midstream infrastructure growth, and support continued opportunistic share repurchases. Secure believes this best positions the Corporation for sustainable future growth and shareholder value creation in the midstream space.

Regardless of whether or not divestitures are completed, Secure and our employees will continue providing exceptional service and delivering value-adding solutions that exceed our customers expectations.

## **DEVELOPMENT OF NEW FEEDER PIPELINE SYSTEM**

Secure is pleased to announce that the Corporation has entered into long-term contracts in the Bigstone and East Kaybob regions of Alberta to gather light oil and condensate from multiple producers and transport the product to the Corporation's Fox Creek full-service terminal ("FST"). Several producer facilities will be tied into the system by way of four-inch diameter lateral pipelines, joining together into a six-inch line stretching approximately 25 kilometres to the Fox Creek FST. In total, the system will span approximately 120 kilometres and is estimated to cost approximately \$40 million. Construction is scheduled to begin in the fourth quarter of 2019 and the pipeline is expected to be operational by mid-2020, subject to regulatory or other unanticipated delays.

The project is underpinned by 15-year commitments with multiple customers, providing Secure with stable, long-term fee-for-service revenues from pipeline tariffs, and reliable volumes at the Fox Creek FST. The pipeline system creates value for our customers operating in the region by providing a capital efficient transportation solution that enhances operating netbacks. Additionally, the pipeline system significantly reduces or eliminates trucking logistics and constraints, reduces CO<sub>2</sub> emissions and increases safety by reducing the number of trucks required to transport producer's product.

### THIRD QUARTER OPERATIONAL AND FINANCIAL HIGHLIGHTS

During the third quarter of 2019, Secure achieved Adjusted EBITDA<sup>1</sup> of \$43.2 million, equal to \$0.27 per share, an 18% decrease from the three months ended September 30, 2018. Drilling and completion activity in the Western Canadian Sedimentary Basin ("WCSB") did not see the usual significant increase following the second quarter spring break up due to unseasonably wet weather conditions extending throughout the summer months. During the third quarter, oil and gas producers were unwilling to incur additional costs due to weather related issues if the oil and gas activity could be delayed until weather conditions improved. This reduction in activity was compounded by the overall impact of reduced capital budgets as producers continue to make cautious spending decisions. Overall, the active rig count and wells completed were down 33% and 21% during the third quarter of 2019 from the same period of 2018.

In the Midstream Infrastructure division, growth initiatives over the last several years to increase capacity in response to customer demand and expand production-related service offerings partially offset the impact of lower drilling and completion volumes at the Corporation's facilities. Reduced activity levels had the most significant impact on the Corporation's Technical Solutions and Environmental Solutions divisions, where over half of the service lines provide drilling and completion-related services. The poor weather also impacted the execution of planned remediation and demolition programs in the Environmental Solutions division.

Secure continues to execute on the Corporation's midstream growth strategy by helping our customers challenge what's possible. During the third quarter, Secure progressed construction of the Pipestone water disposal facility in the Montney region of Alberta. The facility is pipeline connected and has multi-year contracted volumes through facility and area dedications with an anchor tenant, providing reliable cash flows over the contract term. The facility was commissioned in October and is expected to be running at full capacity by the end of the year. During the year, Secure also drilled additional wells at the Tony Creek water disposal facility and the 13 Mile and Keene full-service terminals which are expected to contribute incremental revenue in the first quarter of 2020 after pipeline connections are completed.

Secure continues to follow 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 acquisition opportunities that align with the profitable growth strategy of Secure. Additionally, during the third quarter of 2019, Secure returned \$10.7 million of cash flow to shareholders through the Corporation's monthly dividend, and purchased and cancelled 579,900 common shares of the Corporation ("shares") at a weighted average price per share of \$6.85 for a total of \$4.0 million under the Corporation's normal course issuer bid approved at the end of May 2019. Subsequent to the end of the quarter, Secure purchased and cancelled an additional 1,002,100 shares at an average price of \$4.57 per share.

The Corporation's operating and financial highlights for the three- and nine-month periods ending September 30, 2019 and 2018 can be summarized as follows:

(\$000's except share and per share data)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2019	2018	% change	2019	2018	% change
Revenue (excludes oil purchase and resale)	154,147	182,469	(16)	470,395	505,416	(7)
Oil purchase and resale	577,877	646,565	(11)	1,843,998	1,748,986	5
Total revenue	732,024	829,034	(12)	2,314,393	2,254,402	3

Adjusted EBITDA <sup>(1)</sup>	43,173	53,746	(20)	133,278	132,711	-
Per share (\$), basic	0.27	0.33	(18)	0.83	0.81	2
Per share (\$), diluted	0.27	0.33	(18)	0.82	0.80	2
Net (loss) income attributable to shareholders of Secure	(639)	6,809	(109)	(1,058)	5,985	118
Per share (\$), basic and diluted	-	0.04	(100)	(0.01)	0.04	125
Cash flows from operating activities	35,976	19,879	81	147,204	127,205	16
Per share (\$), basic	0.23	0.13	77	0.92	0.78	18
Per share (\$), diluted	0.22	0.20	10	0.91	0.77	18
Dividends per common share	0.0675	0.0675	-	0.2025	0.2025	-
Capital expenditures <sup>(1)</sup>	30,725	43,478	(29)	102,956	136,322	(24)
Total assets	1,635,106	1,591,913	3	1,635,106	1,591,913	3
Long-term liabilities	633,037	522,304	21	633,037	522,304	21
Common shares - end of period	157,979,909	162,286,387	(3)	157,979,909	161,945,330	(2)
Weighted average common shares						
basic	158,075,674	162,286,387	(3)	159,620,638	163,600,546	(2)
diluted	160,725,966	164,911,044	(3)	162,621,883	165,779,889	(2)

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

## • REVENUE OF \$732.0 MILLION AND \$2.3 BILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

- The Midstream Infrastructure division's revenue (excluding oil purchase and resale) decreased 1% to \$88.3 million during the three months ended September 30, 2019 from the comparative period in 2018. Higher revenues driven by infrastructure added since the third quarter of 2018, which resulted in new recurring revenue streams and increased disposal capacity with committed volumes, were offset by lower revenue from existing facilities due to lower drilling and completions related processing and disposal volumes resulting from poor weather conditions across the Corporation's operating areas and cautious spending by producers in Canada. As a result, drilling waste and flowback water disposal volumes, and processing volumes from drilling and completion activities, were negatively impacted and, consequently, recovered oil volumes decreased. Additionally, commodity price differentials were flat in the three months ended September 30, 2019 compared to the same period of 2018, resulting in fewer marketing opportunities and reduced rail activity compared to the prior year period.
- During the nine months ended September 30, 2019, the Midstream Infrastructure division's revenue (excluding oil purchase and resale) increased to \$268.0 million, up 7% from the 2018 comparative period due to infrastructure added during 2018 and in the 2019 year to date, which more than offset the impact of lower year over year activity levels.
- Oil purchase and resale revenue in the Midstream Infrastructure division for the three and nine months ended September 30, 2019 decreased by 11% and increased by 5% from the 2018 comparative periods to \$577.9 million and \$1.8 billion. In the year to date, the increase is attributable to Secure's expanded commercial operations, particularly related to the Kerrobert crude oil pipeline system. In the three months ended September 30, 2019, this impact was more than offset by reduced rail and marketing activity resulting from flat price differentials.
- The Environmental Solutions division revenue of \$20.4 million and \$66.1 million for the three and nine months ended September 30, 2019 decreased 31% and 25% from the respective comparative periods of 2018. The integrated fluids solutions service line was impacted by lower well completion activity in the WCSB and from reduced spending from major exploration and production companies in Canada. Project revenue decreased due to fewer reclamation and demolition jobs underway quarter over quarter and from the deferral of ongoing remediation and demolition jobs as wet weather conditions in the quarter limited field access required to complete these jobs. Increases in recurring revenue from the scrap metal recycling agreements combined with new project work in the Fort McMurray region partially offset the reduced revenue from the lower job volumes and program deferrals.
- The Technical Solutions division revenue decreased 28% and 18% to \$45.4 million and \$136.3 million in the three and nine months ended September 30, 2019 over the 2018 comparative periods due to lower drilling and completion activity in the WCSB, negatively impacting revenue generated from drilling and completion fluid services, solids control equipment rentals and drilling waste management. Increased production services revenue

from an expanded customer base partially offset this impact.

- **NET LOSS ATTRIBUTABLE TO SHAREHOLDERS OF SECURE OF \$0.6 MILLION AND \$1.1 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019**

- For the three months ended September 30, 2019, net loss attributable to shareholders of Secure of \$0.6 million decreased from net income of \$6.8 million in the three months ended September 30, 2018. The variance is due primarily to a \$10.6 million decrease to Adjusted EBITDA, partially offset by lower tax expense driven by lower pre-tax income. During the nine months ended September 30, 2019, the net loss attributable to shareholders of Secure was \$1.1 million, down from net income of \$6.0 million in the nine months ended September 30, 2018. The decrease relates primarily to higher depreciation expense resulting from the adoption of International Financial Reporting Standard 16 ("IFRS 16")<sup>ii</sup> and new assets put into use since the second quarter of 2018, partially offset by lower tax expense driven by lower pre-tax income and a deferred tax recovery booked in the second quarter of 2019 due to a reduction in corporate tax rates.

- **CAPITAL EXPENDITURES OF \$30.7 MILLION AND \$103.0 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019**

- Total capital expenditures for the three months ended September 30, 2019 included \$24.4 million of organic growth and expansion capital related primarily to:
  - Construction of the new Pipestone water disposal facility;
  - Completing construction of a produced water transfer and injection pipeline from a customer plant to our Gold Creek water disposal facility;
  - Increasing processing and disposal capacity and creating efficiencies at various other facilities;
  - Tying in of new disposal wells drilled during the first half of the year;
  - Ongoing optimization of disposal well water injection pumps to increase throughput; and
  - Long lead items related to the East Kaybob oil feeder pipeline.
- In addition to these projects, growth and expansion capital incurred during the nine months ended September 30, 2019 of \$91.7 million included two tuck-in acquisitions at Cushing to secure crude oil storage for \$13.9 million; construction of 260,000 barrels of additional crude oil storage at Kerrobert; and the addition of three water disposal wells at existing facilities (Tony Creek, Keene and 13 Mile).
- Sustaining capital incurred in the three and nine months ended September 30, 2019 of \$6.3 million and \$11.3 million relates primarily to well and facility maintenance.

- **FINANCIAL FLEXIBILITY**

- The total amount drawn on Secure's credit facilities as at September 30, 2019 increased by 8% to \$448.5 million compared to \$413.5 million at December 31, 2018. The amount drawn increased primarily as a result of the Corporation's capital program.
- As at September 30, 2019, the Corporation had \$318.9 million available under its credit facilities, subject to covenant restrictions, up from \$148.4 million at December 31, 2018. In April 2019, Secure closed an amendment to its First Lien Credit Facility, increasing the capacity by \$130 million and issued a new \$75 million bilateral Letter of Credit Facility, resulting in total credit capacity of \$805 million.
- Secure is in compliance with all covenants related to its credit facilities at September 30, 2019. The following table outlines Secure's senior and total debt to trailing twelve-month EBITDA ratios<sup>iii</sup> at September 30, 2019 and December 31, 2018.

	Sept 30, 2019	Dec. 31, 2018	Threshold
Senior Debt to EBITDA	1.8	1.6	3.5
Total Debt to EBITDA	2.5	2.2	5.0

## MIDSTREAM INFRASTRUCTURE DIVISION HIGHLIGHTS

(\$000's)	Three months ended Sept 30, 2019			Nine months ended Sept 30, 2019		
	2019	2018	% Change	2019	2018	% Change
<b>Revenue</b>						
Midstream Infrastructure (a)	88,316	89,579	(1)	267,998	250,930	7
Oil purchase and resale	577,877	646,565	(11)	1,843,998	1,748,986	5
<b>Total Midstream Infrastructure division revenue</b>	<b>666,193</b>	<b>736,144</b>	<b>(10)</b>	<b>2,111,996</b>	<b>1,999,916</b>	<b>6</b>
<b>Cost of Sales</b>						
Midstream Infrastructure excluding items noted below	39,829	35,913	11	118,485	107,160	11
Depreciation, depletion and amortization	20,972	23,771	(12)	63,280	60,917	4
Oil purchase and resale	577,877	646,565	(11)	1,843,998	1,748,986	5
<b>Total Midstream Infrastructure division cost of sales</b>	<b>638,678</b>	<b>706,249</b>	<b>(10)</b>	<b>2,025,763</b>	<b>1,917,063</b>	<b>6</b>
<b>Segment Profit Margin <sup>(1)</sup></b>	<b>48,487</b>	<b>53,666</b>	<b>(10)</b>	<b>149,513</b>	<b>143,770</b>	<b>4</b>
<b>Segment Profit Margin <sup>(1)</sup> as a % of revenue (a)</b>	<b>55%</b>	<b>60%</b>		<b>56%</b>	<b>57%</b>	

<sup>(1)</sup>Calculated as revenue less cost of sales excluding depreciation, depletion and amortization. Refer to "Non-GAAP Measures and Operational Definitions" for further information.

- Revenue generated from Midstream Infrastructure services of \$88.3 million and \$268.0 million for the three and nine months ended September 30, 2019 decreased by 1% and increased by 7% from the 2018 comparative periods. In the three month period, the decrease in Midstream Infrastructure services revenue from the 2018 comparative period was due to lower processing and disposal volumes tied to drilling and completion activity, and corresponding recovered oil volumes, lower realized pricing on recovered oil, and flat differentials limiting the upside for price optimization at the Corporation's pipeline connected FSTs and rail terminals.
- The impact of lower activity levels on existing facilities offset incremental revenue in the three months ended September 30, 2019 driven from new infrastructure and expansions at certain of the Corporation's existing facilities since the third quarter of 2018. Secure commenced commercial operations at the Kerrobert crude oil pipeline system on October 1, 2018, resulting in a new, stable revenue source for the Corporation in the three months ended September 30, 2019 compared to the same period of 2018 through pipeline tariffs. The feeder pipeline project includes area dedication and contracted volume on both an annual and cumulative term basis over a 10-year term. The Corporation also completed the acquisition of a crude oil storage business located in Cushing, Oklahoma in April 2019, which commenced contributing revenue during the second quarter of 2019.
- During the nine months ended September 30, 2019, the 7% increase in Midstream Infrastructure service revenue from the 2018 comparative period was primarily due to higher volumes associated with new infrastructure. In addition to the above, the Corporation strategically added the Gold Creek and Tony Creek water disposal facilities at the end of the second quarter of 2018 which are underpinned by committed volumes.
- Disposal volumes were relatively flat in the three and nine months ended September 30, 2019 over the 2018 comparative period as a 14% and 16% increase in produced water disposal volumes was offset by the impact of lower completion-related water volumes and reduced drilling waste disposed at the Corporation's landfills. Increased produced water disposal volumes were driven by the addition of the Gold Creek and Tony Creek water disposal facilities at the end of the second quarter of 2018 and expansions to increase water disposal capacity at various other facilities since the start of 2018. Additionally, Secure's facilities are strategically located in regions where production levels have not decreased, and where average fluids pumped per well are higher than other regions of the WCSB, driving incremental volumes at Secure's facilities.
- Processing volumes decreased by 22% and 25% in the three and nine months ended

September 30, 2019 from the 2018 comparative periods due primarily to lower drilling waste processing and completion fluids. Weather related issues during the year, including cold weather in the first quarter, a prolonged spring break-up and unseasonably wet weather throughout the third quarter of 2019 resulted in year over year declines in drilling and completions activity. These issues were compounded by the overall slowdown of oil and gas activity during 2019 due to challenging industry fundamentals stemming from volatile crude oil pricing, low natural gas prices and uncertainty with respect to the addition of pipeline capacity out of the WCSB. In the WCSB, rig activity declined 33% and 31% in the three and nine months ended September 30, 2019 from the 2018 comparative periods, and well completions decreased 21% and 23% in these same periods.

- Oil purchase and resale revenue in the Midstream Infrastructure division for the three and nine months ended September 30, 2019 decreased by 11% and increased by 5% from the 2018 comparative periods to \$577.9 million and \$1.8 billion. In the year to date, the increase is attributable to Secure's expanded commercial operations, particularly related to the Kerrobert crude oil pipeline system. In the three months ended September 30, 2019, this impact was more than offset by lower volumes due to decreased rail activity and marketing opportunities due to flat differentials in the third quarter of 2019, and lower oil prices compared to the third quarter of 2018.
- For the three months ended September 30, 2019, the Midstream Infrastructure division's segment profit margin decreased 10% to \$48.5 million. As a percentage of Midstream Infrastructure services revenue, segment profit margin was 55%, down from 60% in the third quarter of 2018. The decrease was primarily a result of lower drilling and completion revenue with ongoing fixed costs at existing facilities during the quarter. Profit margin percentages were also lower than the network average at Cushing, partly due to start-up costs.
- The Midstream Infrastructure division's segment profit margin for the nine months ended September 30, 2019 of \$149.5 million increased by 4% from the prior year comparative period due primarily to higher revenues associated with new infrastructure. As a percentage of revenue, segment profit margin was 56%, down slightly from 57% for the nine months ended September 30, 2018.
- General and administrative ("G&A") expenses of \$7.4 million and \$22.3 million for the three and nine months ended September 30, 2019 increased from the respective 2018 comparative period balances of \$7.0 million and \$19.7 million. Excluding depreciation and amortization, G&A expenses decreased 9% and 6% during the three and nine months ended September 30, 2019 from the respective 2018 comparative periods primarily due to the impact of IFRS 16 on office leases. The Corporation continues to minimize G&A costs by streamlining operations where possible.
- Earnings before tax of \$19.7 million for the three months ended September 30, 2019 decreased 13% from the three months ended September 30, 2018. The decrease is primarily a result of a \$5.2 million decrease in segment profit margin, partially offset by lower operating depreciation and amortization expense in the 2019 period. Earnings before tax of \$62.5 million for the nine months ended September 30, 2019 were relatively flat from the 2018 comparative period. Higher segment profit margin was offset by higher depreciation, depletion and amortization expense.

## ENVIRONMENTAL SOLUTIONS DIVISION HIGHLIGHTS

(\$000's)	Three months ended Sept 30, 2019			Nine months ended Sept 30, 2019		
	2019	2018	% Change	2019	2018	% Change
<b>Revenue</b>						
Environmental Solutions	20,387	29,617	(31)	66,086	87,824	(25)
<b>Cost of Sales</b>						
Environmental Solutions excluding depreciation and amortization	15,308	23,149	(34)	53,343	69,778	(24)
Depreciation and amortization	2,047	1,801	14	7,037	6,434	9

Total Environmental Solutions division cost of sales	17,355	24,950	(30)	60,380	76,212	(21)
Segment Profit Margin <sup>(1)</sup>	5,079	6,468	(21)	12,743	18,046	(29)
Segment Profit Margin <sup>(1)</sup> as a % of revenue	25%	22%		19%	21%	

<sup>(1)</sup>Calculated as revenue less cost of sales excluding depreciation and amortization. Refer to "Non-GAAP Measures and Operational Definitions" for further information.

- The Environmental Solutions division revenue of \$20.4 million and \$66.1 million for the three and nine months ended September 30, 2019 decreased by 31% and 25% from the comparative periods of 2018. Project services revenue decreased as there were fewer large-scale job opportunities quarter over quarter. Revenue in the third quarter of 2018 included several large remediation and demolition jobs and revenue from an oil spill clean-up. The third quarter of 2019 did not have similar types of jobs occurring. Additionally, ongoing remediation and demolition programs during this quarter were delayed as wet conditions throughout the summer months and into September limited field access to continue these jobs. The programs are expected to resume during the fourth quarter. In addition, third quarter and year to date revenue from onsite water management and pumping services were negatively impacted by lower well completion activity in the WCSB. Increases in Oil Sands recurring revenue from scrap metal recycling agreements combined with new project work in the region partially offset the reduced revenue from the other service lines.
- Segment profit margin for the three and nine months ended September 30, 2019 decreased by 21% and 29% to \$5.1 million and \$12.7 million from the prior year comparative periods due primarily to lower revenue. As a percentage of revenue, segment profit margin was 25% for the three months ended September 30, 2019, up from 22% in the prior year comparative period. The Environmental Solutions 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, metal recycling and other services in any given period.
- During the three months ended September 30, 2019, segment profit as a percentage of revenue increased as a result of improving project type margins and higher margins associated with recurring revenue generated from the Oil Sands region despite a decline in completion related water pumping and fracing services. In the year to date, segment profit margin as a percentage of revenue decreased primarily due to lower proportion of revenue from water pumping and fracing services, which typically generates higher margins than project type work.
- G&A expense for the three and nine months ended September 30, 2019 decreased 11% and 20% from the 2018 comparative periods to \$1.8 million and \$5.2 million. The overall decrease is primarily a result of lower personnel costs due to headcount reductions to align staff with activity levels. Additionally, amortization expense decreased as certain intangible assets were fully amortized in the prior year.
- During the three and nine months ended September 30, 2019, the Environmental Solutions division had earnings before tax of \$1.2 million and \$0.5 million, respectively, down from \$2.6 million and \$5.1 million during the three and nine months ended September 30, 2018. The variances correspond primarily to the decrease in segment revenue and profit margin, offset by the positive impact of reduced G&A expense in the period.

## TECHNICAL SOLUTIONS DIVISION HIGHLIGHTS

(\$000's)	Three months ended Sept 30, 2019			Nine months ended Sept 30, 2019		
	2019	2018	% Change	2019	2018	% Change
Revenue						
Technical Solutions	45,444	63,273	(28)	136,311	166,662	(18)

<b>Cost of Sales</b>						
Technical Solutions excluding depreciation and amortization	37,507	50,191	(25)	114,297	137,495	(17)
Depreciation and amortization	5,734	5,096	13	17,603	15,582	13
<b>Total Technical Solutions division cost of sales</b>	<b>43,241</b>	<b>55,287</b>	<b>(22)</b>	<b>131,900</b>	<b>153,077</b>	<b>(14)</b>
<b>Segment Profit Margin <sup>(1)</sup></b>	<b>7,937</b>	<b>13,082</b>	<b>(39)</b>	<b>22,014</b>	<b>29,167</b>	<b>(25)</b>
<b>Segment Profit Margin <sup>(1)</sup> as a % of revenue</b>	<b>17%</b>	<b>21%</b>		<b>16%</b>	<b>18%</b>	

<sup>(1)</sup>Calculated as revenue less cost of sales excluding depreciation and amortization. Refer to "Non-GAAP Measures and Operational Definitions" for further information.

- The Technical Solutions division's revenue of \$45.4 million and \$136.3 million in the three and nine months ended September 30, 2019 decreased 28% and 18% compared to the three and nine months ended September 30, 2018. The division's drilling fluids and equipment revenue correlates with oil and gas drilling activity in the WCSB. During the three and nine months ended September 30, 2019, rig activity in the WCSB decreased 33% and 31%, respectively, compared to the three months ended September 30, 2018. As a result, drilling services revenue was negatively impacted by fewer operating days and rigs serviced. Secure was able to partially mitigate the impact of reduced activity levels higher contributions from production chemicals as the Corporation expands its customer base and product offerings.
- The Technical Solutions division's segment profit margin of \$7.9 million and \$22.0 million for the three and nine months ended September 30, 2019 decreased 39% and 25% from the comparative periods of 2018. Segment profit margin as a percentage of revenue was 17% and 16% for the three and nine months ended September 30, 2019, down from 21% and 18% in the prior year comparative periods. The decrease is attributable to reduced revenue with relatively flat overhead costs. Improved production services margins resulting from margin improvement initiatives to lower materials costs, a favorable product mix, and the adoption of IFRS 16 resulting in the capitalization of certain production chemical blending plants operated under lease agreements partially offset these factors.
- Overall G&A expenses decreased 5% and 7% to \$5.2 million and \$15.5 million as a result of the Corporation's continued efforts to manage costs efficiently and proactively while still responding to customer demands and activity levels. This is partially offset by costs associated with research and development projects as Secure continues its focus on expanding the value chain of services offered to customers, including innovative and cost-effective solutions to reduce waste in the drilling and production processes.
- During the three months ended September 30, 2019, the Technical Solutions division had losses before tax of \$3.0 million compared to earnings before taxes of \$2.5 million in the prior year. During the nine months ended September 30, 2019, the Technical Solutions division had losses before tax of \$11.1 million compared to \$3.2 million in the comparative period of the prior year. These variances were primarily a result of lower segment profit margin as described above.

## OUTLOOK

Improved weather conditions and increased producer spending to complete 2019 capital plans are expected to lead to higher drilling and completion activity during the fourth quarter compared to the three months ended September 30, 2019. However, in the absence of significant commodity price increases, the Corporation expects producer spending on drilling and completions to remain cautious, with activity levels below the fourth quarter of 2018.

The Corporation has engaged financial advisors for the sales process for the divestiture of specific service lines that do not have recurring or production-related revenue streams. We expect a robust sales process and are committed to obtaining a sales price commensurate with the value of the service lines. We expect the sales process will be ongoing throughout the fourth quarter and into 2020, with the intent of completing any divestitures by the end of next year.

There can be no assurance that any agreement or transaction will occur, or if a transaction is

undertaken, as to its terms or timing. Secure has not set a definitive schedule to complete the sales process and no decision on any particular transaction structure has been reached at this time. Secure does not intend to make further announcements or disclose developments with respect to the sales process until the Corporation's board of directors has approved a definitive transaction, unless otherwise required by applicable laws or Secure otherwise determines that disclosure is appropriate.

Secure's organic growth capital for 2019 has been heavily weighted toward infrastructure projects that align with our underlying strategy to increase the stability of our cash flows. In addition to commissioning the Pipestone water disposal facility and feeder pipeline, the capital plan the remainder of 2019 includes beginning construction of the East Kaybob oil feeder pipeline; and finishing projects to optimize capabilities and increase processing and disposal capacity at various other facilities. The current growth capital plan for 2020 is approximately \$30 million, and is dependent upon the timing of carryover and completion of projects from the fourth quarter of 2019. Sustaining capital is expected to be approximately \$20 million for 2020.

Secure will continue to focus on strengthening the Corporation's financial position throughout 2020. This will provide increased flexibility for debt repayment, midstream infrastructure growth underpinned by contracts, and opportunistic share repurchases.

## **REPORTING CHANGES**

The Corporation adopted IFRS 16 as at the effective date of January 1, 2019 which replaced IAS 17, Leases. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Corporation elected the modified retrospective transition approach, which provides lessees a method for recording existing leases at adoption with no restatement of prior period financial information. Under this approach, a lease liability was recognized at January 1, 2019 in respect of leases previously classified as operating leases, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at transition. The associated right-of-use assets were measured at amounts equal to the respective lease liabilities, subject to certain adjustments allowed under IFRS 16.

Adoption of the new standard at January 1, 2019 resulted in the recording of additional right-of-use assets and lease liabilities of \$33.4 million and \$35.9 million, respectively, related to office space, warehouses, surface land, rail cars and certain heavy equipment. The new standard did not materially impact consolidated net income as the depreciation of right-of-use assets and interest and finance costs related to the lease liabilities recognized under IFRS 16 were mostly offset by reductions in operating lease expense, which were previously recognized in cost of sales and general and administrative expenses. The adoption of IFRS 16 had no impact on cash flows.

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

The Corporation's condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2019 and 2018 and MD&A for the three and nine months ended September 30, 2019 and 2018 are available immediately on Secure's website at [www.secure-energy.com](http://www.secure-energy.com). The 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: management's expectations with respect to the business, financial prospects and future opportunities for the Corporation; the Corporation's growth and expansion strategy; the Corporation's ability to continue to grow the business organically and execute on strategic growth opportunities based on current financial position; sales process for the divestiture of specific service lines that do not have recurring or production-related revenue streams, including outcome of the sales process, proceeds and timing of proposed divestitures, and the announcements, anticipated proceeds and use of proceeds therefrom; the Corporation's proposed 2019 and 2020 capital expenditure programs including growth and expansion and sustaining capital expenditures, and the timing of completion for projects, in particular the Pipestone water disposal facility and East Kaybob pipeline; key factors driving the Corporation's success; the oil and natural gas industry in Canada and the U.S., including 2019 and 2020 activity levels, spending by producers and the impact of this on Secure's activity levels; the impact of new facilities, and new service offerings, potential acquisitions, and prior year acquisitions on the Corporation's future financial results; demand for the Corporation's services and products; industry fundamentals driving the success of Secure's core operations, including increased outsourcing of midstream work by producers, drilling, completion and production trends, opportunities relating to crude oil logistics, well density and economics for pipeline connecting production volumes to midstream facilities, and global oil and gas demand; debt service; future capital needs and how the Corporation intends to fund its operations, working capital requirements, dividends and capital program; access to capital; 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 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 known and unknown 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 annual information form for the year ended December 31, 2018 and in the MD&A for the year ended December 31, 2018 and also includes risks associated with general economic conditions in Canada and the U.S.; changes in the level of capital expenditures made by oil and natural gas producers and the resultant effect on demand for oilfield services during drilling and completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; risks inherent in the Corporation's ability to generate sufficient cash flow from operations to meet its current and future obligations; increases in debt service charges; the Corporation's ability to access external sources of debt and equity capital; changes in legislation and the regulatory environment, including uncertainties with respect to implementing binding targets for reductions of emissions and the regulation of hydraulic fracturing services; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; competition; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; ability to integrate technological advances and match advances of completion; credit risk to which the Corporation is exposed in the conduct of its business; Secure's ability to complete anticipated divestiture transactions on acceptable terms or at all; updates or changes to Secure's strategy; 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; and other factors, many of which are beyond the control of the Corporation.

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 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 MD&A 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>i</sup> Refer to the "Non-GAAP Measures and Operational Definitions" section herein.

<sup>ii</sup> IFRS 16 was adopted by the Corporation on January 1, 2019 and resulted in the reclassification of certain lease payments previously included in the determination of EBITDA to depreciation and amortization expense and interest costs. Refer to the 'Reporting Changes' section herein.

<sup>iii</sup> Refer to the "Liquidity and Capital Resources" section herein for details on the Corporation's covenant calculations.

SOURCE SECURE Energy Services Inc.

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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, Chief Operating Officer, Midstream, 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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