

# SECURE Energy Announces 2020 Third Quarter Results

CALGARY, AB, Oct. 28, 2020 /CNW/ - SECURE ENERGY Services Inc. ("SECURE") (TSX: SES) reported today its operational and financial results for the three and nine months ended September 30, 2020. The following 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, 2020, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## THIRD QUARTER SUMMARY

The Corporation recorded Adjusted EBITDA<sup>1</sup> of \$37.0 million for the three months ended September 30, 2020, a decrease of 14% compared to the prior year third quarter, reflecting the level of production and contracted volumes during a period of reduced drilling and completion activity levels. As production came back online following short-term shut-ins due to uneconomic pricing in the second quarter of 2020, the Corporation benefited from increased cash flow stability driven by production-related volumes at SECURE's midstream infrastructure located in low cost light oil and gas related plays in western Canada. The Corporation's newly constructed East Kaybob oil pipeline also contributed to the Corporation's third quarter results, delivering fees-for-service from pipeline tariffs and reliable volumes at the Fox Creek facility. Drilling and completion activity remained muted during the third quarter as producers continue to prudently manage capital and protect their balance sheet.

Ongoing cost rationalizations, the impact of organizational restructuring, and wage subsidies of \$8.8 million reduced the impact of lower industry activity levels on the Corporation's current period results. As a result of these reductions which aligned the Corporation's cost structure with expected activity levels, the following was achieved during the third quarter of 2020:

- Increased Adjusted EBITDA margin<sup>1</sup> to 36%, up from 29% in the prior year comparative period;
- Increased the Midstream Infrastructure segment's profit margin as a percentage of revenue (excluding oil purchase and resale) to 71% (63% excluding wage subsidies) from 62% in the prior year comparative period;
- Increased the Environmental and Fluid Management segment's profit margin as a percentage of revenue to 25% (19% excluding wage subsidies) compared to 20% for the three months ended September 30, 2020;
- Reduced overall general and administrative ("G&A") expenses (excluding depreciation, depletion and amortization and share-based compensation) by more than 50% from the prior year comparative period. As a percentage of revenue (excluding oil purchase and resale), G&A expense was 9% for the three months ended September 30, 2020;
- Maintained a strong balance sheet. During the quarter, the Corporation extended the existing \$130 million second lien credit facility ("Second Lien facility") by one year to July 31, 2022. The interest rate on the Second Lien facility remains at 5.5% and all other terms, conditions and covenants also remain the same. Additional measures taken this year to protect the Corporation's balance sheet include:
  - Managing a strict capital program. The Corporation's 2020 capital program is \$60 million, comprised of \$50 million of growth capital and \$10 million of sustaining capital. The majority of the capital program for the year has been spent and related primarily to substantially completing the East Kaybob oil pipeline;
  - Reducing the Corporation's dividend. Beginning in May 2020, SECURE reduced the monthly dividend from \$0.0225 per share to \$0.0025 (0.25 cents). This reduction results in annualized cash savings of approximately \$38 million. The Corporation has also moved to

paying the dividend quarterly, with the first payment of \$0.0075 (0.75 cents) per common share made on October 15, 2020;

- o Minimizing counterparty risk and optimizing working capital. The Corporation has a robust credit review process and has been working with customers to ensure timely collection of receivables. As a result of these diligent procedures, the Corporation has not recorded any allowances for expected credit losses since March 31, 2020. At September 30, 2020, the Corporation's working capital was \$77.6 million, down from \$125.3 million at December 31, 2019.

The factors noted above have partially mitigated the negative impact of reduced industry activity levels and corresponding lower Adjusted EBITDA on the Corporation's financial position. During the three months ended September 30, 2020, SECURE generated discretionary free cash flow<sup>1</sup> of \$28.4 million, an increase of 9% from the prior year comparative period. During the quarter, the Corporation primarily applied discretionary free cash flow against outstanding debt. As a result, the Corporation reduced the amount drawn on the Corporation's \$600 million first lien credit facility ("First Lien facility") by 10% during the third quarter of 2020. At September 30, 2020, the First Lien facility had \$301.0 million drawn, resulting in available capacity of \$299.0 million, subject to covenant restrictions.

The following table outlines SECURE's Senior and Total Debt to trailing twelve-month EBITDA ratios<sup>2</sup> at September 30, 2020, compared to the covenant thresholds outlined in our credit facility agreements.

	Sept 30, 2020	Threshold
Senior Debt to EBITDA	2.2	3.5
Total Debt to EBITDA	3.1	5.0

The Corporation is well within the covenant restrictions at September 30, 2020, and expects sufficient liquidity to be generated by cash flow from operating activities to fund operations, working capital requirements, dividends and the Corporation's capital program, with excess cash flow available to pay down debt.

## OUTLOOK

Reduced energy demand resulting from the coronavirus ("COVID-19") health pandemic and over supply concerns continue to create considerable uncertainty with regards to the short-term outlook on oil and liquids prices. SECURE's customers have prudently employed increased financial and capital discipline, resulting in capital spending plans that remain well below prior year levels. Nonetheless, with its third quarter results, the Corporation has demonstrated that SECURE's midstream infrastructure and production-based service offerings deliver strong cash flows that are sustainable at the current commodity prices and activity levels, positioning the Corporation for success in the event of a longer-term economic downturn.

Based on current macroeconomic conditions and commodity prices, SECURE expects:

- A modest increase in drilling and completion activity in the fourth quarter of 2020 and in 2021 from current levels as producers seek to add production to offset natural declines in order to maintain flat production levels to hold cash flow levels, satisfy reserve-based lending commitments and take advantage of hedge contracts. However, SECURE anticipates that producers will remain focused on controlling costs and improving balance sheet strength in favor of production growth at current commodity prices.
- Stability from our core midstream infrastructure business, of which approximately 30% is underpinned by contracted volumes associated with the Corporation's oil and water pipelines, which provides a base level of cash flows. Additionally, SECURE's business remains highly concentrated on production volumes and related services that historically represent approximately 75% of the Corporation's Adjusted EBITDA. The majority of the Corporation's

operations are in low cost light oil and gas related plays in western Canada, which should support ongoing production at current benchmark pricing.

- Increased abandonment and remediation activity as a result of the Canadian Federal Government's \$1.7 billion stimulus package announced in the second quarter of 2020. The stimulus is intended to help fund the closure and reclamation of orphan and inactive wells in the Western Canadian Sedimentary Basin ("WCSB") over the next two years. SECURE expects increased abandonment and remediation activity to positively impact all Canadian operations over the term of the program, particularly within our Environmental Management group as a result of higher demand for environmental site assessments, onsite abandonment, remediation and reclamation management and decommissioning work. Waste volumes resulting from these activities will also require disposal; SECURE owns and operates six industrial landfills in Alberta capable of handling this waste.
- To incur minimal restructuring costs for the remainder of the year. The Corporation expects the reductions made during the second quarter to our fixed cost structure will result in annualized savings to Adjusted EBITDA in excess of \$40 million.
- To continue its prudent approach to capital spending. The Corporation has established a 2021 capital program of \$15 million, which includes \$12 million of sustaining capital.
- To proceed with the planned divestitures announced last year related to specific service lines that do not have recurring or production-related revenue streams, with targeted completion by the end of the 2021. However, SECURE continues to remain patient in executing any divestitures as the Corporation is committed to obtaining a sales price commensurate with the value of the service lines, and believes our debt position is manageable irrespective of any divestitures.

For the remainder of 2020 and throughout 2021, SECURE will continue to focus on maintaining financial resiliency by maximizing cash flows and paying down debt with discretionary free cash flow. By doing so, the Corporation will remain well positioned to respond to the market's needs when activity levels increase. SECURE's business is uniquely positioned to deliver economic and environmental benefits that make the oil and gas industry more efficient and sustainable. We are committed to helping our customers by working transparently with them to identify opportunities where we can provide innovative solutions that help their objectives of responsible development, while reducing costs. Remaining focused on this strategy will ultimately contribute to our combined success in the long-term, despite market challenges faced along the way.

## OPERATING AND FINANCIAL HIGHLIGHTS

The following table summarizes the operating and financial highlights for the three- and nine-month periods ending September 30, 2020 and 2019:

(\$000's except share and per share data)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2020	2019	% change	2020	2019	% change
Revenue (excludes oil purchase and resale)	103,499	149,096	(31)	341,068	456,207	(25)
Oil purchase and resale	348,674	577,877	(40)	1,007,873	1,843,998	(45)
Total revenue	452,173	726,973	(38)	1,348,941	2,300,205	(41)
Adjusted EBITDA <sup>(1)</sup>	37,018	43,173	(14)	99,565	133,278	(25)
Per share (\$), basic	0.23	0.27	(15)	0.63	0.83	(24)
Net loss attributable to shareholders of SECURE	(4,588)	(639)	(618)	(47,415)	(1,058)	(4,382)
Per share (\$), basic and diluted	(0.03)	-	(100)	(0.30)	(0.01)	(2,900)
Cash flows from operating activities	38,470	35,976	7	106,418	147,204	(28)
Per share (\$), basic	0.24	0.23	4	0.67	0.92	(27)
Capital expenditures <sup>(1)</sup>	10,475	30,725	(66)	62,395	102,956	(39)
Dividends paid per common share	-	0.0675	(100)	0.0950	0.2025	(53)
Total assets	1,470,513	1,635,106	(10)	1,470,513	1,635,106	(10)
Long-term liabilities	593,192	633,037	(6)	593,192	633,037	(6)
Common shares - end of period	158,629,808	157,979,909	-	158,629,808	157,979,909	-
Weighted average common shares - basic and diluted	158,577,224	158,075,674	-	158,526,801	159,620,638	(1)

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

- **REVENUE OF \$452.2 MILLION AND \$1.3 BILLION FOR THE THREE AND NINE MONTHS**

## **ENDED SEPTEMBER 30, 2020**

- Midstream Infrastructure segment revenue (excluding oil purchase and resale) for the three and nine months ended September 30, 2020, decreased by 40% and 33% from the comparative periods of 2019 to \$44.8 million and \$153.5 million, respectively. The decrease in revenues is attributable to lower processing and disposal volumes at the Corporation's midstream infrastructure facilities due to reduced drilling and completion activity across the WCSB and North Dakota since March 2020, and lower period over period production volumes due to short-term shut-ins primarily impacting the second quarter of 2020, and natural declines due to limited capital investment. Reduced overall volumes, compounded by lower crude and liquids pricing in the three and nine months ended September 30, 2020, also negatively impacted recovered oil and crude oil marketing revenue compared to the respective prior year periods.
  - Partially offsetting these negative factors on the Midstream Infrastructure segment's revenue was increased stability provided by contracted volumes associated with SECURE's water feeder pipelines, including full period contributions of contracted infrastructure added in 2019.
  - Oil purchase and resale revenue for the three and nine months ended September 30, 2020, decreased 40% and 45% from the 2019 comparative periods to \$348.7 million and \$1.0 billion, respectively. The decrease in revenues is a result of a 29% and 37% decrease in Canadian light oil benchmark pricing during the three and nine month periods ended September 30, 2020 over 2019, combined with reduced marketing activity as a result of lower production volumes and more limited opportunities to work with our customers to optimize pricing by utilizing multiple crude oil and condensate streams at SECURE's midstream facilities due to lower crude and condensate pricing.
  - Environmental and Fluid Management segment revenue for the three and nine months ended September 30, 2020, decreased 21% and 18% from the 2019 comparative periods to \$58.7 million and \$187.5 million. Reduced drilling and completion activity in the WCSB decreased revenue generated from service lines supporting these activities. Revenue from these service lines, which includes drilling and completion fluid services, solids control equipment rentals, drilling waste management, water management, and industrial landfill disposal, was down approximately 50% and 30% for the three and nine months ended September 30, 2020, from the prior year comparative periods, consistent with the decline in the active rig count. Higher production chemical revenue generated from greater bid awards and growing market share, stable Oil Sands region project work and further customer diversification outside of the oil and gas industry partially offset the extent of the decrease in revenue.
- **ADJUSTED EBITDA OF \$37.0 MILLION AND \$99.6 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**
    - Adjusted EBITDA of \$37.0 million and \$99.6 million decreased 14% and 25% from the three and nine months ended September 30, 2019, primarily as a result of reduced period over period revenue as described above. For the three months ended September 30, 2020, the impact of the 31% reduction in revenue (excluding oil purchase and resale) was partially offset by an \$8.8 million recovery recorded in cost of sales and G&A expenses for wage subsidies, primarily related to the Canada Emergency Wage Subsidy ("CEWS"), a program provided by the Canadian Federal Government to reduce the impact of the downturn on the Corporation's staffing levels. The impact of reduced activity on the Corporation's Adjusted EBITDA was also mitigated by aggressive cost reduction measures taken in April 2020 to align the Corporation's fixed cost structure with current industry activity levels, which included organizational restructuring and associated personnel and salary reductions.
- **NET LOSS ATTRIBUTABLE TO SHAREHOLDERS OF SECURE OF \$4.6 MILLION AND \$47.4 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**
    - For the three months ended September 30, 2020, there was a net loss attributable to

shareholders of SECURE of \$4.6 million, an increased loss of \$3.9 million from the comparative period of 2019. The increase is primarily due to lower Adjusted EBITDA as described above. For the nine months ended September 30, 2020, the Corporation's net loss of \$47.4 million increased \$46.4 million from the comparative period of 2019. In addition to lower Adjusted EBITDA, the net loss in the current year period also included \$27.1 million of impairment and restructuring charges.

- *Impairment of non-current assets:* In accordance with applicable accounting standards, the Corporation assesses at each reporting date whether there is an indication that an asset or cash generating unit ("CGU") may be impaired. With the rapid and significant decline in oil prices in March 2020 and resulting decrease to producer capital spending, indicators of impairment were present at March 31, 2020 for SECURE's CGUs with cash flows tied primarily to drilling and completion activities. The value in use of the Technical Solutions CGU, determined using a five-year cash flow estimate discounted to March 31, 2020, exceeded the carrying amount of the CGU. Consequently, a \$15.7 million impairment charge was recorded in the first quarter of 2020 against intangible assets in order to write the CGU down to its recoverable amount. There were no indicators of impairment or impairment reversal at September 30, 2020.
- *Restructuring costs:* SECURE recorded an expense of \$11.4 million during the nine months ended September 30, 2020, related primarily to employee termination benefits resulting from restructuring plans undertaken by the Corporation beginning at the end of March 2020 to right-size the Corporation's workforce to anticipated activity levels and streamline business processes which resulted in the suspension or termination of certain functions.

- These negative variances were partially offset by a higher income tax recovery for 2020 year to date resulting primarily from a higher pre-tax loss.

- **CASH FLOWS FROM OPERATING ACTIVITIES OF \$38.5 MILLION AND \$106.4 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**

- The Corporation generated cash flows from operating activities of \$38.5 million and \$106.4 million during the three and nine months ended September 30, 2020, an increase of 7% and a decrease of 28% from the respective prior year comparative periods. For the three months ended September 30, 2020, the impact of lower Adjusted EBITDA was partially offset by changes in non-cash working capital during the period corresponding to lower activity levels. SECURE carried total net working capital at September 30, 2020, of \$77.6 million, down from \$125.3 million at December 31, 2019.

- **GROWTH CAPITAL EXPENDITURES OF \$8.1 MILLION AND \$46.9 MILLION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**

- During the three months ended September 30, 2020, SECURE incurred \$8.1 million of growth capital related primarily to the substantial completion of the East Kaybob oil pipeline. During the nine months ended September 30, 2020, SECURE incurred \$46.9 million of growth capital largely related to the East Kaybob oil pipeline, as well as certain carryover costs related to expansion and optimization projects at existing facilities.
- The Corporation also incurred sustaining capital of \$1.5 million and \$6.5 million during the three and nine months ended September 30, 2020 relating primarily to well and facility maintenance. SECURE is committed to maintaining capital discipline as we navigate this downturn, while continuing to ensure the integrity and safety of our assets for long-term sustainability.

- **DIVIDEND PAYMENTS OF \$15.0 MILLION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

- During the three and nine months ended September 30, 2020, the Corporation paid monthly dividend payments of nil and \$15.0 million, respectively, to holders of common shares. On

March 24, 2020, the Corporation announced that the monthly dividend would be reduced from \$0.0225 per common share to \$0.0025 (0.25 cents) per common share, effective for the May 2020 dividend. This reduction of the dividend results in annualized cash savings of approximately \$38 million. Following the June 2020 monthly dividend, the Corporation moved to a quarterly dividend of \$0.0075 (0.75 cents) with the first payment made on October 15, 2020 for shareholders of record on October 1, 2020.

- SECURE believes the sharing of excess cash flows with shareholders is a core business principle; as a result, management and the Board of Directors of the Corporation will continue to monitor the Corporation's dividend policy with respect to forecasted Adjusted EBITDA, debt, capital expenditures and other investment opportunities, as well as expected interest, lease and tax payments, and will look for opportunities to increase the dividend as business conditions warrant.

#### • RENEWAL OF THE NORMAL COURSE ISSUER BID

- During the second quarter of 2020, SECURE renewed the normal course issuer bid ("NCIB") first initiated in May 2018. Pursuant to the renewed NCIB, the Corporation may repurchase from time to time up to a maximum of 10,796,069 common shares of the Corporation. Any common shares purchased under the NCIB will be cancelled. The renewed NCIB period commenced on May 28, 2020, and will end on May 27, 2021, or such earlier date as the NCIB is completed or is terminated at the Corporation's election.
- The renewed NCIB provides the Corporation with an additional capital allocation alternative to acquire common shares under the appropriate circumstances. The Board of Directors and senior management believe that, from time to time, the prevailing market price of the common shares may not fully reflect the underlying value of SECURE's business and future business prospects. In such circumstances, the repurchase of common shares under the NCIB represents an attractive investment for the Corporation and an opportunity to enhance shareholder value. No shares were repurchased during the third quarter of 2020.

### MIDSTREAM INFRASTRUCTURE SEGMENT HIGHLIGHTS

(\$000's)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2020	2019	% Change	2020	2019	% Change
Midstream Infrastructure services revenue (a)	44,757	75,045	(40)	153,521	228,281	(33)
Oil purchase and resale	348,674	577,877	(40)	1,007,873	1,843,998	(45)
<b>Midstream Infrastructure Revenue</b>	<b>393,431</b>	<b>652,922</b>	<b>(40)</b>	<b>1,161,394</b>	<b>2,072,279</b>	<b>(44)</b>
<b>Cost of Sales</b>						
Cost of sales excluding items noted below	13,077	28,359	(54)	57,187	88,362	(35)
Depreciation and amortization	21,988	18,545	19	69,058	54,740	26
Oil purchase and resale	348,674	577,877	(40)	1,007,873	1,843,998	(45)
<b>Midstream Infrastructure Cost of Sales</b>	<b>383,739</b>	<b>624,781</b>	<b>(39)</b>	<b>1,134,118</b>	<b>1,987,100</b>	<b>(43)</b>
<b>Segment Profit Margin <sup>(1)</sup></b>	<b>31,680</b>	<b>46,686</b>	<b>(32)</b>	<b>96,334</b>	<b>139,919</b>	<b>(31)</b>
<b>Segment Profit Margin <sup>(1)</sup> as a % of revenue (a)</b>	<b>71%</b>	<b>62%</b>		<b>63%</b>	<b>61%</b>	

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

- Revenue generated from Midstream Infrastructure services of \$44.8 million decreased 40% for the three months ended September 30, 2020, from the 2019 comparative period. The decrease was due to lower processing and disposal volumes tied to drilling and completion activity. Produced water, emulsion treating and terminalling volumes at the Corporation's midstream processing facilities also decreased primarily as a result of natural production declines in the WCSB, production shut-ins in North Dakota, and limited overflow volumes from producers with capacity to handle their own product. The factors above also negatively impacted recovered oil revenue, compounded by lower realized pricing on recovered oil. Lower crude and liquids pricing and less volatile differentials also limited the upside for price optimization at the Corporation's pipeline connected FSTs compared to the three months ended September 30, 2019, resulting in reduced crude oil marketing revenue;

- Midstream Infrastructure services revenue for the nine months ended September 30, 2020, of \$153.5 million decreased 33% from the prior year comparative period. The impact of the drop in oil prices and corresponding decrease in activity levels and crude oil marketing opportunities during the second and third quarters of 2020 was partially offset by higher processing and disposal volumes during the first two months of the year resulting primarily from infrastructure additions during 2019, including produced water pipelines added at Gold Creek and Tony Creek, crude oil storage at Kerrobert, Cushing and the Pipestone facility, along with various expansions at existing facilities;
- Disposal volumes decreased 49% and 30% during the three and nine months ended September 30, 2020, from the respective 2019 comparative periods as a result of production shut-ins, storage of production water for completions anticipated for the fourth quarter and lower waste water volumes corresponding to limited producer completion activity during the second and third quarter of 2020. Production shut-ins across the Corporation's operating regions during the second quarter of 2020, carried into the third quarter particularly in North Dakota. Higher stability from the Corporation's pipeline connected water disposal facilities with contracted volumes helped to partially reduce the overall decrease to disposal volumes. During the nine months ended September 30, 2020, the impact of the reductions to drilling, completion and production on disposal volumes beginning in March 2020 was partially offset by higher activity levels in January and February of the current year;
- Processing volumes decreased 29% and 16% during the three and nine months ended September 30, 2020, from the respective 2019 comparative periods due primarily to lower waste processing volumes corresponding to the decrease in drilling and completion activity beginning in March 2020. Emulsion treating volumes were also down due to lower overall production levels, particularly in North Dakota where second quarter production shut-ins were slower to come back online;
- Oil volumes recovered through our processing operations decreased 36% and 23% during the three and nine months ended September 30, 2020, from the respective 2019 comparative periods, consistent with lower overall volumes received at the Corporation's midstream processing facilities. The impact of lower volumes on recovered oil revenue was compounded by lower benchmark oil pricing in the current year periods;
- Crude oil terminalling and pipeline volumes decreased modestly by 13% and 2% during the three and nine months ended September 30, 2020, from the respective 2019 comparative periods primarily as a result of reduced terminalling at certain facilities due to lower production, partially offset by the addition of the East Kaybob oil pipeline in June 2020, and relative stability of volumes associated with the contracted Kerrobert crude oil pipeline;
- Oil purchase and resale revenue in the Midstream Infrastructure segment decreased 40% and 45% to \$348.7 million and \$1.0 billion for the three and nine months ended September 30, 2020, from the respective 2019 comparative periods. The decrease in the three and nine months ended September 30, 2020, corresponds to the decrease in benchmark oil prices, compounded by reduced marketing activities compared to the prior year comparative periods;
- The Midstream Infrastructure segment's profit margin decreased 32% and 31% to \$31.7 million and \$96.3 million for the three and nine months ended September 30, 2020, from the respective 2019 comparative periods. As a percentage of Midstream Infrastructure services revenue, segment profit margin was 71% for the three months ended September 30, 2020, up from 62% for the three months ended September 30, 2019. Service mix, the impact of fixed cost structure reductions, and wage subsidies more than offset lower revenue;
- For the nine months ended September 30, 2020, segment profit margin as a percentage of revenue (excluding oil purchase and resale) was 63%, up from 61% in the prior year comparative period. The positive variance is primarily a result of the factors described above impacting the second and third quarters of 2020, partially offset by service mix in the first quarter of 2020, including reduced marketing revenue and associated blending margins due to fewer optimization opportunities compared to the prior year;
- G&A expenses decreased by 35% and 29% to \$4.5 million and \$15.1 million for the three and nine months ended September 30, 2020, from the respective 2019 comparative periods. The

decrease is mainly due to lower personnel costs and strict cost control measures restricting discretionary spending. Excluding depreciation and amortization, G&A expenses as a percentage of the segment's services revenue was 8% for both the three and nine months ended September 30, 2020, compared to 8% and 7% for the three and nine months ended September 30, 2019, respectively;

- Earnings before tax decreased 77% and 88% to \$4.8 million and \$7.6 million for the three and nine months ended September 30, 2020, from the respective 2019 comparative periods. The decrease is a result of lower segment profit margin and increased depreciation and amortization expense in the 2020 period, as well as restructuring costs of \$3.9 million related to right sizing the Corporation's workforce to anticipated activity levels and streamlining business processes resulting in the suspension or termination of certain functions.

## ENVIRONMENTAL AND FLUID MANAGEMENT SEGMENT

(\$000's)	Three months ended Sept 30,			Nine months ended Sept 30,		
	2020	2019	% Change	2020	2019	% Change
Environmental and Fluid Management Revenue	58,742	74,051	(21)	187,547	227,926	(18)
Cost of sales excluding depreciation, depletion and amortization	44,191	59,235	(25)	146,960	183,575	(20)
Depreciation, depletion and amortization	7,533	10,208	(26)	26,706	33,180	(20)
<b>Environmental and Fluid Management Cost of Sales</b>	<b>51,724</b>	<b>69,443</b>	<b>(26)</b>	<b>173,666</b>	<b>216,755</b>	<b>(20)</b>
Segment Profit Margin <sup>(1)</sup>	14,551	14,816	(2)	40,587	44,351	(8)
<b>Segment Profit Margin <sup>(1)</sup> as a % of revenue</b>	<b>25%</b>	<b>20%</b>		<b>22%</b>	<b>19%</b>	

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

- The Environmental and Fluid Management segment revenue decreased 21% and 18% to \$58.7 million and \$187.5 million for the three and nine months ended September 30, 2020, from the respective 2019 comparative periods. Limited producer spending in the current year periods decreased drilling and completion activity, therefore reducing drilling waste volumes at the Corporation's landfills and demand for fluid management associated with drilling and completions. In total, revenue from these service lines decreased approximately 50% for the three months ended September 30, 2020, and 30% in the 2020 year to date period, consistent with the reduction in drilling activity as evidenced by active rig counts in the WCSB. Site rehabilitation revenue was minimal during the third quarter of 2020 as slower deployment of the government stimulus programs is delaying work into the fourth quarter and 2021;
- The extent of the revenue decrease in the segment was partially mitigated by higher revenue from production chemicals as the Corporation continues to win new bids and gain market share. SECURE has experience and expertise in key production fields where producers have been the most active in WCSB. As a result, the Corporation can provide tailored solutions and improved product formulations that optimize production, provide flow assurance and maintain the integrity of production assets. Additionally, stability from contracted operations in the Oil Sands region and increased environmental project job volumes for customers outside of the oil and gas industry helped offset the impact of reduced drilling and completion activity on the segment;
- Segment profit margin decreased 2% and 8% to \$14.6 million and \$40.6 million for the three and nine months ended September 30, 2020 from the respective 2019 comparative periods. For the three months ended September 30, 2020, segment profit margin as a percentage of revenue of 25% increased from 20% in the prior year comparative period. The profit margin increase was primarily a result of the impact of wage subsidies and fixed cost reductions that began to take effect in the second quarter. Additionally, the prior year comparative period had unusually wet weather, resulting in higher leachate management costs negatively impacting margins;
- For the nine months ended September 30, 2020, segment profit margin as a percentage of revenue increased to 22%, up from 19% in the prior year comparative period due to a greater proportion of higher margin work during the first quarter of 2020 which included increased volumes of project jobs in the Fort McMurray region. Wage subsidies and fixed cost reductions

that began to take effect in the second quarter also contributed to improvements in profit margin;

- G&A expenses decreased 59% and 35% to \$3.1 million and \$14.3 million for the three and nine months ended September 30, 2020, from the respective 2019 comparative periods. The decrease is primarily due to lower personnel related costs and reduced discretionary spending as the Corporation manages costs to correspond to current industry activity levels. For the nine months ended September 30, 2020, the impact of cost reductions taking effect in the second quarter were partially offset by higher loss allowances for expected credit losses as a result of negative macro-economic factors as at March 31, 2020. Excluding depreciation and amortization, G&A expenses as a percentage of the segment's revenue was 4% and 7% for the three and nine months ended September 30, 2020, respectively, compared to 9% for both the three and nine months ended September 30, 2019;
- The Environmental and Fluid Management segment had earnings before tax of \$3.0 million for the three months ended September 30, 2020, an improvement of \$6.0 million compared to the three months ended September 30, 2019. Lower G&A expenses and operational DD&A expense more than offset the reduced segment profit margin. For the nine months ended September 30, 2020, the segment's loss before tax of \$22.7 million increased \$11.5 million primarily as a result of a non-cash impairment charge recorded in the first quarter of 2020.

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

The Corporation's condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2020 and 2019 and MD&A for the three and nine months ended September 30, 2020 and 2019 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 and speak only as of the date of this document.

In particular, this document contains or implies forward-looking statements pertaining but not limited to: management's expectations with respect to the impact of COVID-19 on demand for oil, supply and demand balance, and our operations generally; the outlook for oil and liquids prices; spending by producers and the impact of this on SECURE's activity levels; the oil and natural gas industry in Canada and the U.S., including drilling, completion and production activity levels for the remainder of 2020 and beyond in the Corporation's operating areas, and the impact of this on SECURE's business, operations and financial results; the benefits of contracted and/or fee-for-service contracts on SECURE's cash flow and the expected stability of such sources; the benefit of production concentrated volumes on SECURE's cash flow and the expected stability of such sources of cash flow; the timing and stability of contributions from new projects, particularly the East Kaybob oil pipeline; the impact the Canadian Federal Government's orphan and inactive well fund may have to the business, operations and results of the Corporation; restructuring costs for the remainder of the year; the Corporation's ability to execute our restructuring plans and align the Corporation's cost structure with expected industry activity levels; the expected impacts and amounts of the Corporation's cost and capital expenditure reductions; the Corporation's proposed 2020 and 2021 capital expenditure programs, including growth and expansion and sustaining capital expenditures; timing associated with potential divestitures related to specific service lines that do not have recurring or production-related revenue streams and the outcome of such sales process; future dividend payments and expected cash savings resulting from the reduction of the Corporation's cash

dividend payments; debt service; and the Corporation's ability to meet obligations and commitments and operate within any credit facility restrictions, including the financial covenants related to our debt facilities; expectations that our capital investment, share repurchases and cash dividends will be funded from internally generated cash flows; the Corporation's credit risk levels and its ability to collect on trade receivables; expected benefits customers will receive from our midstream and environmental solutions; key factors driving the Corporation's success; demand for the Corporation's services and products; industry fundamentals driving the success of SECURE's core operations; future capital needs and how the Corporation intends to fund its operations, working capital requirements, dividends and capital program; and access to capital

Forward-looking statements are based on certain assumptions that SECURE has made in respect thereof as at the date of this document regarding, among other things: the impact of COVID-19, including related government responses related thereto and lower global energy pricing on oil and gas industry exploration and development activity levels and production volumes (including as a result of demand and supply shifts caused by COVID-19 and the actions of OPEC and non-OPEC countries); the success of SECURE's operations and growth projects; the Corporation's competitive position remaining substantially unchanged; future acquisition and sustaining costs will not significantly increase from past acquisition and sustaining costs; that counterparties comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts or the completion of the relevant facilities; that there are no unforeseen material costs in relation to the Corporation's facilities; and that prevailing regulatory, tax and environmental laws and regulations apply.

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 AIF. In addition, the effects and impacts of the COVID-19 outbreak, the rapid decline in global energy prices and the length of time to significantly reduce the global threat of COVID-19 on SECURE's business, the global economy and markets are unknown at this time and could cause SECURE's actual results to differ materially from the forward-looking statements contained in this document.

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**

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

SECURE is a publicly traded energy business listed on the Toronto Stock Exchange ("TSX") 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.") through its network of midstream processing and storage facilities, crude oil and water pipelines, and crude by rail terminals located throughout key resource plays in western Canada, North Dakota and Oklahoma. SECURE's core midstream infrastructure operations generate cash flows from oil production processing and disposal, produced water disposal, and crude oil storage, logistics, and marketing. SECURE also provides comprehensive environmental and fluid management for landfill disposal, onsite abandonment, remediation and reclamation, drilling, completion and production operations for oil and gas producers in western Canada.

<sup>1</sup> Refer to the "Non-GAAP Measures" section herein

<sup>2</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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