



Consolidated Financial Statements

STEP

energy services

As at and for the year ended December 31, 2018



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of STEP Energy Services Ltd. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in these financial statements. The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of net (loss) income and comprehensive (loss) income, consolidated changes in equity and consolidated cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable as a basis for the preparation of the consolidated financial statements.

The Audit Committee is appointed by the Board of Directors and monitors management's financial and accounting policies and practices and the preparation of these consolidated financial statements. The Audit Committee meets periodically with external auditors and management to review the work of each and the propriety of the discharge of their financial reporting responsibilities. Specifically, the Audit Committee reviews with management and the external auditors the consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed KPMG LLP as the external auditors of the Company and, in that capacity, they have examined the consolidated financial statements for the year ended December 31, 2018. The Auditors' Report to the shareholders is presented herein.

SIGNED "Regan Davis"

Regan Davis
PRESIDENT & CHIEF EXECUTIVE OFFICER

SIGNED "Michael Kelly"

Michael Kelly
CHIEF FINANCIAL OFFICER

March 5, 2019



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INDEPENDENT AUDITORS REPORT

The Shareholders of STEP Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of STEP Energy Services Ltd. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of (loss) net income and other comprehensive (loss) income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



OTHER INFORMATION

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Sophia J. Langlois

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
March 5, 2019

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, (in thousands of dollars)	Notes	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 364	\$ 36,859
Trade and other receivables	17	124,553	139,273
Inventory	4	32,646	17,461
Prepaid expenses and deposits		6,691	3,515
Foreign exchange forward contracts		44	-
		164,298	197,108
Property and equipment	5	600,142	336,378
Intangible assets	6	33,202	359
Goodwill	6	90,266	-
		\$ 887,908	\$ 533,845
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	17	\$ 84,079	\$ 64,569
Income tax payable		4,572	5,979
Current portion of loans and borrowings		-	604
Current portion of obligations under finance lease	9	8,489	4,924
		97,140	76,076
Deferred tax liabilities	16	51,713	18,680
Obligations under finance lease	9	8,010	6,840
Loans and borrowings	8	252,441	1,209
		409,304	102,805
Shareholders' equity			
Share capital	10	426,494	369,436
Contributed surplus		29,447	24,664
Accumulated other comprehensive (loss) income		22,670	(2,357)
Retained earnings (deficit)		(7)	39,297
		478,604	431,040
		\$ 887,908	\$ 533,845

See accompanying notes to the Consolidated Financial Statements

See Note 8 – Subsequent Event

See Note 19 – Commitments

Approved by the Board of Directors:

SIGNED “Douglas Freel”

Douglas Freel
Chairman

SIGNED “Regan Davis”

Regan Davis
Director

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF NET (LOSS) INCOME AND OTHER COMPREHENSIVE (LOSS) INCOME

For the year ended December 31, (in thousands of dollars, except per share amounts)	Notes	2018	2017
Revenue		\$ 781,763	\$ 553,220
Cost of sales	13	722,288	448,477
Gross profit		59,475	104,743
Selling, general and administrative expenses	13	33,280	21,610
Results from operating activities		26,195	83,133
Finance costs	15	11,456	1,110
Foreign exchange (gain) loss		2,288	708
Gain on disposal of property and equipment		(4,907)	(1,849)
Transaction costs		3,019	2,158
Amortization of intangibles	6	4,605	485
Loss on foreign exchange forward contracts	17	1,175	-
Impairment of goodwill	7	46,000	-
Net (loss) income before income tax		(37,441)	80,521
Income tax expense (recovery)			
Current		5,170	6,079
Deferred	16	(3,307)	16,724
		1,863	22,803
Net (loss) income		(39,304)	57,718
Other comprehensive (loss) income			
Foreign currency translation gain (loss)		25,027	(2,678)
Total comprehensive (loss) income		\$ (14,277)	\$ 55,040
Basic net (loss) income per share	12	\$ (0.60)	\$ 1.02
Diluted net (loss) income per share	12	\$ (0.60)	\$ 1.00

See accompanying notes to the Consolidated Financial Statements

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings / (deficit)	Total
Balance at January 1, 2017		\$ 258,144	19,895	321	(18,421)	259,939
Net income for the year		-	-	-	57,718	57,718
Foreign currency translation gain (loss)		-	-	(2,678)	-	(2,678)
Shares issued (net of share issue costs and deferred tax)	10	110,028	-	-	-	110,028
Share-based compensation	11	-	6,033	-	-	6,033
Exercise of equity instruments		1,264	(1,264)	-	-	-
Balance at December 31, 2017		369,436	\$ 24,664	\$ (2,357)	\$ 39,297	\$ 431,040
Balance at January 1, 2018		369,436	24,664	(2,357)	39,297	431,040
Net loss for the year		-	-	-	(39,304)	(39,304)
Foreign currency translation gain		-	-	25,027	-	25,027
Shares issued (net of share issue costs and deferred tax)	10	54,217	-	-	-	54,217
Share-based compensation	11	-	7,624	-	-	7,624
Exercise of equity instruments	10	2,841	(2,841)	-	-	-
Balance at December 31, 2018		\$ 426,494	\$ 29,447	\$ 22,670	\$ (7)	\$ 478,604

See accompanying notes to the Consolidated Financial Statements

STEP ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31,			
(in thousands of dollars)	Notes	2018	2017
Operating activities:			
Net (loss) income		\$ (39,304)	\$ 57,718
Adjusted for the following:			
Depreciation and amortization	5	88,646	34,413
Share-based compensation	11	7,401	6,523
Unrealized foreign exchange loss (gain)		1,735	(65)
Gain on disposal of property and equipment		(4,907)	(1,849)
Loss on foreign exchange forward contracts	17	1,175	-
Impairment on goodwill	7	46,000	-
Finance costs	15	11,456	1,110
Income tax expense		1,863	16,724
Cash finance costs paid		(10,875)	(1,629)
Cash tax (paid) received		(6,827)	648
Changes in working capital from operating activities		14,533	(64,450)
Net cash provided by operating activities		110,896	49,143
Investing activities:			
Acquisition through business combination	3	(340,206)	-
Purchase of property and equipment	5	(115,449)	(101,422)
Proceeds on disposal of property and equipment		6,284	6,044
Changes in working capital from investing activities		3,447	5,094
Net cash used in investing activities		(445,924)	(90,284)
Financing activities:			
Issuance of share capital (net of share issue costs)	10	53,443	108,209
Proceeds from exercise of stock options		-	5
Issuance (repayment) of loans and borrowings	8	250,993	(28,488)
Repayment of obligations under finance lease		(5,595)	(3,017)
Settlement of foreign currency hedge		(1,219)	-
Changes in working capital from financing activities		-	(711)
Net cash provided by financing activities		297,622	75,998
Impact of exchange rate changes on cash		911	(149)
Increase (decrease) in cash and cash equivalents		(36,495)	34,708
Cash and cash equivalents, beginning of year		36,859	2,151
Cash and cash equivalents, end of year		\$ 364	\$ 36,859

See accompanying notes to the Consolidated Financial Statements

STEP ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

As at and for the year ended December 31, 2018 and 2017.

Tabular amounts expressed in thousands of Canadian dollars, except where otherwise noted.

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

STEP Energy Services Ltd. (the “Company” or “STEP”) is a publically traded company domiciled in Canada and was incorporated under the laws of the Province of Alberta on March 25, 2011 and is listed under the symbol “STEP” on the Toronto Stock Exchange. The registered office is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5. STEP provides specialized coiled tubing and associated pumping and fracturing equipment to service the oil and gas industry in Canada and the United States (“U.S.”). The Company purchased 100% of the issued and outstanding capital stock of Tucker Energy Services Holdings, Inc. (“Tucker”) effective April 2, 2018 (see Note 3).

Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were prepared under the historical cost basis, except for the revaluation of certain financial assets and liabilities at fair value. These consolidated financial statements are presented in Canadian dollars, which is the presentation currency of the Company. All financial information has been rounded to the nearest thousands, except where indicated.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. On February 7, 2017, the Company amended its articles of incorporation to consolidate the issued and outstanding common shares on a 5:1 basis. During the quarter ended June 30, 2017, the Company also consolidated its options and performance warrants issued prior to the consolidation such that holders thereof received one common share for each such option or performance warrant exercised. All share capital, share-based compensation instruments and per share amounts in these financial statements have been adjusted to give retroactive effect to the share consolidation.

These consolidated financial statements were approved by the Board of Directors on March 5, 2019.

Critical accounting estimates and judgments

The preparation of the consolidated financial statements require that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management’s judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the consolidated financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes.

Business Combination

The Company estimates the fair value of assets acquired and liabilities incurred as well as any fair value of intangible assets identified as a result of business combinations. This requires an assessment of estimated cash flows and market conditions in order to determine the fair value of net identifiable assets. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets, goodwill, and deferred taxes in the purchase price equation. Goodwill is allocated to the Cash Generating Unit (“CGU”) which represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

The Company updated its assessment of its CGUs as a result of the business combination with Tucker (see Note 3) which occurred on April 2, 2018. Considerations set out in management’s analysis included cash inflows by business line, operational

considerations and the nature of asset usage. The Company's CGUs post acquisition are defined as: Canadian Coil, Canadian Fracturing, U.S. Coil, and U.S. Fracturing.

The business combination with Tucker resulted in the recognition of intangible assets including contracts, a non-compete and a license. These intangibles are amortized over their estimated useful economic lives using the straight-line method over the following periods:

Contracts	4 to 7 years
Non-compete	4 years
License	1 year

Allowance for doubtful accounts

The Company performs ongoing credit evaluations of its customers and provides credit based on a review of historical collections, current aging status, the customer's financial condition and anticipated market conditions. Customer payments are regularly monitored. A provision of doubtful accounts is established based off the Company's lifetime expected credit losses for trade receivables.

Impairment

Property and equipment, intangible assets and goodwill are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds the recoverable amount.

The determination of Cash Generating Units ("CGUs") is based on management's judgment regarding shared equipment, mobility of equipment, geographical proximity and materiality. The recoverable amount of CGUs is determined based on either the fair value less costs to sell or the value in use calculations as defined by IFRS. These calculations require the use of estimates applied by management regarding the forecasted activity levels, expected future results, and discount rates among others, and are subject to changes as new information becomes available. Changes in assumptions used in determining the recoverable amount could have a material effect on the carrying value of the related assets and CGUs.

Goodwill represents an excess of the purchase price over the fair value of the net assets acquired, and is not amortized. The Company assesses goodwill for impairment at least annually.

Net realizable value of inventory

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of items based on historical usage patterns, known changes to equipment or processes, estimated replacement costs and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of expense recognized.

Depreciation and amortization

Depreciation and amortization of the Company's property and equipment and intangible assets incorporates estimates of useful lives and residual values. These estimates may change as more knowledge is obtained or as general market conditions change, consequently affecting the value of the Company's property and equipment and intangible assets.

Functional Currency

Management applies judgment in determining the functional currency of its foreign subsidiaries. The decision is influenced by the currency that is used for sales prices, labour, materials and other costs as well as financings and receipts from operations.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax basis. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The calculation of income taxes involves many complex factors including the Company's interpretation of the relevant tax legislation and regulations.

Share-based payments

The fair value of stock based compensation instruments is estimated at the grant date using the Black-Scholes option pricing model, which includes estimating underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

Contingencies and provisions

The Company establishes provisions for legal claims when the outcome of such matters is probable. Facts and circumstances surrounding the matter and input from legal and other advisors is considered in establishing the estimate.

Future accounting pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective. Of these standards that are not yet effective for the year ending December 31, 2018, IFRS 16 is expected to have a material impact on the Company's financial statements in the period of initial application.

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 Leases, which require lessees to recognize virtually all leases on the balance sheet. Recognition exemptions permitted include short term leases or leases for which the underlying asset is of low value. IFRS 16 replaces existing lease guidance including IAS 17, Leases.

IFRS 16 is applied using a full retrospective approach where the standard is applied retrospectively to each prior reporting period presented applying IAS 8 or using the modified retrospective approach where the standard is applied retrospectively with no restatement of prior period financial information. The Company will use the modified retrospective approach upon adoption.

Under IFRS 16, a lessee will recognize right of use assets and corresponding lease liabilities at inception of the lease. Anticipated impacts of IFRS 16 include an increase in assets and liabilities as well as an increase in depreciation expense and decrease in operating costs. Upon application of this standard, it is expected that the operating lease commitments disclosed in Note 19 will be the primary source of changes to the statements of financial position and the timing of expenses in the statements of net (loss) income.

On initial adoption, the Company intends to use the following practical expedients permitted under the standard: account for leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases; account for lease payments as an expense for which the underlying asset is of low dollar value; apply a single discount rate to a portfolio of leases with similar characteristics; and use hindsight in applying the new standard for lease terms where the contract contains options to extend or terminate the lease.

The Company intends to adopt IFRS 16 in its annual period beginning January 1, 2019. New assets and liabilities to be recognized primarily include office and operating facilities and office equipment. The impact is an increase to liabilities, an increase to property and equipment, and a decrease to retained earnings as at January 1, 2019.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are entities over which the Company has control. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the investee. The financial results of the Company's subsidiaries are included in the consolidated financial statements from the date that control

commences until the date control ceases. The accounting policies of the Company's subsidiaries have been aligned with the policies adopted by the Company. All inter-company balances and transactions, and any income and expenses arising from inter-company transactions have been eliminated upon preparation of these consolidated financial statements.

Foreign Currency Translation

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than a Company's functional currency are recognized in the consolidated statement of net (loss) income.

The financial statements of foreign subsidiaries that have a different functional currency are translated into Canadian dollars whereby assets and liabilities are translated at the rate of exchange at the balance sheet date, revenue and expenses are translated at average exchange rates for the period, any gains and losses in translation are recognized as a cumulative translation adjustment in shareholders' equity. The U.S. entities' functional currency is the U.S. Dollar.

Business Combinations

The Company applies the acquisition method to account for business combinations whereby the assets and liabilities of its acquired entities are measured at their estimated fair value at acquisition date. The Company measures goodwill as the fair value of the consideration transferred, less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date.

Financial Instruments

Financial instruments are recognized at fair value on initial recognition less transaction costs directly attributable to the acquisition or issue of the financial instrument. Measurement in subsequent periods depends on the purpose for which the instruments were acquired. Financial assets are subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the Company's business model and contractual cash flows of the financial asset. Financial liabilities are subsequently measured at amortized cost with the exception of financial liabilities measured at fair value through profit or loss, such as the Company's foreign exchange forward contracts. Gains or losses on financial instruments measured at fair value are recognized in profit or loss.

The Company directly reduces the gross carry amount of financial assets when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company recognizes loss allowances for expected credit losses that reflects probability-weighted amounts that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

Transaction costs include only those costs that are directly attributable to the acquisition or origination of a financial asset or issue of a financial liability. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other transaction costs are amortized using the effective interest method.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a reduction of equity, net of any tax effects.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with original maturities of three months or less.

Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventories comprise all costs of purchase, costs of conversion, and other costs incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling prices in the ordinary course of business, less estimated costs of completion and selling expenses. The Company writes down inventory to net realizable value when it is determined the cost of inventories may not be recoverable. Any write downs of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. Coil tubing string inventory cost is determined on a specific item basis. All other inventory value is determined using weighted average cost.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the assets, and subsequent expenditures to the extent that they can be measured and future economic benefit is probable.

The carrying amount of an asset is derecognized when the asset is replaced. Major improvements or retrofits are capitalized. Repairs and maintenance are charged to the consolidated statement of net (loss) income during the period in which they are incurred.

Management estimates the useful life and salvage value of property and equipment based on expected utilization, and expected life. The Company allocates the amounts initially recognized in respect of an item of property and equipment to its significant components and depreciates each component separately. Residual values, methods of amortization and useful lives are reviewed annually and adjusted, if appropriate.

Property and equipment are depreciated over their estimated useful economic lives using the straight line method over the following periods:

Buildings	20 years
Office and computer equipment	3 to 5 years
Light duty vehicles	3 years
Field equipment	3 to 15 years

Depreciation of an asset begins when it is available for use, and ceases at the earlier of the date the asset is derecognized or classified as available for sale. Depreciation does not cease when an asset becomes idle or is retired from active use unless the asset is fully depreciated to its estimated salvage value. Assets under construction are not depreciated until they are substantially complete and available for use.

Impairment

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. Assets are grouped into CGUs, the lowest level with separately identifiable cash inflows that are largely independent of the cash inflows of other assets, for the purposes of measuring recoverable amounts. The recoverable amount is determined as the greater of the CGU's value in use ("VIU") and fair value less costs to sell ("FVLCTS"). CGUs are not larger than an operating segment. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. FVLCTS is defined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable parties, less the costs to dispose of the CGU.

Goodwill is reviewed for impairment annually or any time there is an indicator of impairment. Goodwill acquired through a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the related business combination. The CGU represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Impairment losses for assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the assets' carrying value does not exceed the carrying amount that would be determined, net of amortization or depreciation, if no impairment loss had been recognized.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date of the contract. Leases which transfer substantially all the risks and rewards of ownership to the Company are classified as finance leases. Finance leases are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, and are depreciated over the useful life of the asset. Other leases are classified as operating leases and payments are recognized as an expense in the period incurred.

Intangible Assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on fair values.

Expenditures incurred to acquire, develop, maintain and enhance intangible assets are recognized as assets only if they arise from contractual or other legal rights; it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company; and the cost can be reliably measured.

Subsequent expenditures to maintain such expected economic benefits are only capitalized to the carrying amount of the existing intangible asset if these expenditures separately meet the prescribed criteria for recognition as an intangible and that these costs could be directly attributable to a specific intangible rather than to the business as a whole.

Intangible assets lives are finite and are amortized on a straight line basis over their estimated useful lives as follows:

Contracts	4 to 7 years
Technology license	11 years
Non-compete	4 years
License	1 year

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are defined as assets which take a substantial time period (greater than a year) to construct. The Company does not currently have any qualifying assets.

All other borrowing costs are recognized as interest expense in the consolidated statement of net (loss) income in the period in which they are incurred.

Income Taxes

Income taxes comprise current and deferred tax. Income tax is recognized in the consolidated statement of net (loss) income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on taxable income for the year, using the tax rates effective at the end of the reported period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates substantially enacted at the balance sheet date. Deferred tax assets are recognized the extent it is probable that future taxable profits will be available against which they can be applied.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount rate is recognized as a finance cost.

From time to time, the Company may become involved in, named as a party to, or be the subject of various legal proceedings which are usually related to normal operational or labor issues. The results of such legal proceedings or related matters cannot be determined with certainty. The Company's assessment of the likely outcome of such matters is based on input from internal examination of the facts of the case and advice from external legal advisors, which is based on their judgment of a number of factors including the applicable legal framework and precedents, relevant financial and operational information and other evidence and facts specific to the matter as known at the time of the assessment.

Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Revenue is recognized once performance obligations are satisfied. The Company's performance obligations are satisfied from oil and gas services performed over time as customers simultaneously receive and consume the benefits provided. Invoices for services rendered are issued upon completion of the work, generally within the same period.

The Company follows the general guidance in the standard on allocating variable consideration entirely to distinct services that form part of a performance obligation.

Share-based Compensation

The Company has a stock option plan, a performance warrant plan and a performance and restricted share unit plan, which provide for the granting of options, performance warrants, performance share units and restricted share units to directors, officers and employees. All of these plans are equity settled and there are no provisions for cash settlement.

The Company follows the fair value method of valuing share-based compensation instruments. Under this method, compensation costs are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of an instrument, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The fair value of each tranche within an award is measured at the date of the grant using the Black-Scholes option pricing model. Assumptions used in the model include interest rates, underlying volatility, expected life of the tranche, estimated performance metrics and estimated forfeiture rates. The number of awards expected to vest is reviewed on an ongoing basis.

The Company also has a cash-settled deferred share unit (DSU) plan for its directors. At each reporting date between grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in the consolidated statement of net (loss) income in the period.

Earnings per share

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated through the adjustment of profit or loss and the weighted average number of shares outstanding for all effects of all dilutive potential ordinary shares.

Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating results are reviewed regularly on a segmented basis by the Company's executive officers to make decisions about resources to be allocated to the segment and to assess its performance.

Changes in significant accounting policies

The standards and interpretations were issued and effective for annual periods beginning on or after January 1, 2018. These are reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2018.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The new standard presents a five-step model in the recognition of revenue from contracts with customers. The Company has adopted IFRS 15 with the effective date of January 1, 2018 under the modified retrospective approach. The modified retrospective approach recognizes the cumulative effect of transition to the new standard as an adjustment to opening retained earnings. The Company did not have a cumulative adjustment as the Company's adoption of IFRS 15 did not have a material impact on the timing or measurement of revenue. The standard requires the Company to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Company follows the general guidance in the standard on allocating variable consideration entirely to distinct services that form part of a performance obligation. The Company disaggregated revenue into service line and country to depict the nature of revenue. Refer to Note 21 for the disclosure of segmented revenue.

IFRS 9: Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Company adopted this standard effective January 1, 2018. IFRS 9 is applied retrospectively on initial adoption and differences in the measurement of financial instruments upon adoption of IFRS 9 are recognized as an adjustment to opening retained earnings. IFRS 9 did not have a significant impact on the recognition and measurement of the Company's financial instruments and no adjustment to retained earnings was made.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Company's accounting results related to classification of financial assets and liabilities. See Note 17 – Financial Instruments for classifications.

The following table shows the changes in the measurement models under IAS 39 and the new models under IFRS 9:

Financial Instrument	IFRS 9	IAS 39
Cash and cash equivalents	Amortized cost	Held for trading
Trade and other receivables	Amortized cost	Loans and receivables
Trade and other payables	Amortized cost	Financial liabilities measured at amortized cost
Income tax payable	Amortized cost	Financial liabilities measured at amortized cost
Finance lease obligations	Amortized cost	Financial liabilities measured at amortized cost
Loans and borrowings	Amortized cost	Financial liabilities measured at amortized cost
Foreign exchange forward contracts	Fair value through profit or loss	Fair value through profit or loss

Regarding impairment of financial assets, IFRS 9 uses an ‘expected credit loss’ (ECL) model that replaces the ‘incurred loss’ model in IAS 39. The new impairment guidance applies to financial assets measured at amortized cost. The Company’s financial assets at amortized cost includes cash and cash equivalents and trade and other receivables.

The Company measures potential loss exposures on trade and other receivables at an amount equal to lifetime ECLs. At every point after the initial recognition, there is at least some risk of default. To assess this risk, the Company considers quantitative and qualitative information based on the Company’s historical experience and forward-looking information. Factors considered include customer payment history, customer credit ratings, customer cash flows, industry trends, and commodity pricing forecasts. The Company assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. Loss allowances for trade and other receivables included in selling, general and administrative expenses are disclosed in Note 13 and 16. The implementation of this methodology did not have a material impact on the provision for doubtful accounts.

IFRS 9 also includes a new general hedge accounting model. The Company uses forward foreign exchange contracts to hedge variability in debt denominated in a foreign currency. The Company recognizes foreign exchange gains and losses on hedge contracts in the consolidated statements of net (loss) income and other comprehensive (loss) income. The Company does not currently apply hedge accounting.

NOTE 3 – BUSINESS COMBINATION

Effective April 2, 2018, the Company acquired all of the issued and outstanding shares of Tucker for total consideration of U.S. \$263.6 million, after closing adjustments (the “Acquisition”). Total consideration is comprised of net cash of \$257 million and \$6.6 million in liabilities. Tucker provides oil and gas services to the U.S. oil and gas industry, primarily in the SCOOP/STACK and Woodford plays in Oklahoma. Tucker offers fracturing solutions, coiled tubing, and wireline services, and its primary customer base includes supermajor oil and gas companies and large independent exploration and production companies. The acquisition of Tucker allows for the expansion of STEP’s fracturing capacity and strategic entry into the U.S. fracturing market. Acquisition related expenses were \$3.0 million relating to advisory, due diligence, and legal fees. These have been expensed in the consolidated statements of net (loss) income and other comprehensive (loss) income as transaction costs.

The Acquisition has been accounted for as a business combination using the acquisition method on April 2, 2018, whereby the acquired tangible and intangible assets and assumed liabilities are recorded at their estimated fair values at the date of acquisition. At acquisition, STEP made a preliminary assessment of the purchase price equation which has been finalized for the year ended December 31, 2018. The estimate of the purchase price equation was based on the best available information and certain assumptions that management of STEP believe are reasonable under the circumstances.

Finalizing adjustments were made since preliminary assessment upon completion of the purchase price allocation at year end December 31, 2018. The fair value of intangibles and property and equipment increased by U.S. \$0.2 million and U.S. \$2.4 million respectively, while the fair value of working capital and deferred tax liabilities correspondingly decreased by U.S. \$2.1 million and U.S. \$1.8 million. Downward adjustments of U.S. \$6.7 million were made to preliminary closing adjustments upon final settlement agreements. A net increase of U.S. \$8.0 million was made to goodwill as a result of the adjustments disclosed. The purchase price was completed with the finalization of independent valuator reports and working capital.

The determination of the fair values of net identifiable assets required management to make assumptions about market conditions and future estimated cash flows. The surplus of consideration transferred over the fair value of net identifiable assets is recorded as goodwill. Goodwill results from STEP's ability to leverage an existing workforce, utilize established facilities and fully implemented processes, and build upon established client relationships. Goodwill arising on the acquisition is denominated in U.S. dollars and as a result is subject to foreign currency fluctuations. All recognized goodwill is not expected to be deductible for income tax purposes. Estimated fair values of the Acquisition are as follows:

(in thousands of dollars – amounts converted into Canadian dollars using the rate in effect at April 2, 2018 of 1.29 CAD/USD)	At fair value	
	<i>In U.S. \$.</i>	<i>In CAD \$</i>
Purchase price consideration	\$ 275,000	\$ 354,970
Final closing adjustments	(11,438)	(14,764)
	263,562	340,206
Allocated as:		
Working capital	1,780	2,298
Property and equipment	163,257	210,733
Intangibles	27,600	35,626
Goodwill	100,402	129,599
Deferred tax liabilities	(27,163)	(35,063)
Obligations under finance lease	(2,314)	(2,987)
	\$ 263,562	\$ 340,206

The Company financed the acquisition with cash, drawing on its new credit facility and the issuance of common shares. The Company secured a new \$330.0 million revolving syndicated credit facility, a Canadian \$10.0 million operating facility, and a U.S. \$7.5 million operating facility (together, the "New Credit Facilities"). Costs incurred to arrange the New Credit Facilities were \$2.4 million and are recorded as deferred financing costs and expensed over the life of the New Credit Facilities. STEP also raised \$56.3 million through the issuance of 6,055,000 common shares at a price of \$9.30 per common share, which included 675,000 common shares issued pursuant to the partially exercised over-allotment option granted to the syndicate of underwriters. Total costs related to the equity offering were \$2.9 million less \$0.8 million in deferred tax which have been recognized in share capital.

From the date of the acquisition to December 31, 2018, Tucker contributed \$205.4 million of revenue and \$19.0 million of net loss before tax. Had the business combination occurred on January 1, 2018, revenue contributed by Tucker would have been \$285.1 million and net loss before tax would have been \$21.8 million for the period January 1, 2018 to December 31, 2018.

NOTE 4 – INVENTORY

As at December 31,	2018	2017
Coiled tubing	\$ 6,412	\$ 5,568
Sand and chemicals	10,835	9,262
Spare equipment/parts	15,399	2,631
Total Inventory	\$ 32,646	\$ 17,461

The cost of inventories recognized in cost of sales during the year ended December 31, 2018 was \$255.8 million (2017 - \$182.2 million).

During the twelve months ended December 31, 2018, the Company incurred a \$0.6 million write down to reflect the net realizable value of sand and chemicals inventory (December 31, 2017 - \$0.5 million). \$12.6 million in inventory was acquired as part of the Tucker Acquisition.

NOTE 5 – PROPERTY AND EQUIPMENT

	Land and buildings	Vehicles	Field equipment	Office equipment	Total
Cost:					
Balance at January 1, 2017	\$ 22,197	\$ 10,165	\$ 280,515	\$ 5,204	\$ 318,081
Additions	1,510	9,757	99,058	630	110,955
Disposals	(34)	(3,709)	(5,336)	-	(9,079)
Effect of exchange rate changes	(50)	(148)	(2,218)	(1)	(2,417)
Balance at December 31, 2017	23,623	16,065	372,019	5,833	417,540
Acquisition through business combination	10,823	7,802	192,108	-	210,733
Additions	2,681	9,627	110,565	2,154	125,027
Disposals	-	(5,361)	(2,136)	-	(7,497)
Effect of exchange rate changes	692	884	16,814	42	18,432
Balance at December 31, 2018	\$ 37,819	\$ 29,017	\$ 689,370	\$ 8,029	\$ 764,235
Accumulated depreciation:					
Balance at January 1, 2017	\$ 1,560	\$ 3,066	\$ 43,478	\$ 3,002	\$ 51,106
Depreciation	976	3,697	28,143	1,112	33,928
Disposals	(34)	(2,265)	(1,237)	-	(3,536)
Effect of exchange rate changes	(4)	(34)	(297)	(1)	(336)
Balance at December 31, 2017	2,498	4,464	70,087	4,113	81,162
Depreciation	1,455	7,926	73,372	1,287	84,040
Disposals	-	(3,179)	(317)	-	(3,496)
Effect of exchange rate changes	28	243	2,109	7	2,387
Balance at December 31, 2018	\$ 3,981	\$ 9,454	\$ 145,251	\$ 5,407	\$ 164,093
Carrying amounts:					
As at January 1, 2017	\$ 20,637	\$ 7,099	\$ 237,037	\$ 2,202	\$ 266,975
As at December 31, 2017	\$ 21,125	\$ 11,601	\$ 301,932	\$ 1,720	\$ 336,378
As at December 31, 2018	\$ 33,838	\$ 19,563	\$ 544,119	\$ 2,622	\$ 600,142

Included in field equipment at December 31, 2018 were assets under construction of \$41.4 million (December 31, 2017 - \$32.7 million). Assets under construction are not depreciated until they are substantially complete and available for use.

Finance lease assets

The Company has entered into finance lease contracts for light duty vehicles. The net carrying amount of these leases is included in property and equipment as follows:

As at December 31,	2018	2017
Cost	\$ 29,743	\$ 15,201
Less: Accumulated depreciation	(9,100)	(3,710)
Carrying amount	\$ 20,643	\$ 11,491

NOTE 6 – INTANGIBLE ASSETS AND GOODWILL

	Intangibles		Goodwill	
Cost:				
Balance at January 1, 2017	\$	3,543	\$	-
Additions		-		-
Balance at December 31, 2017		3,543		-
Acquisition through business combination		35,626		129,599
Impairment of Goodwill		-		(46,000)
Effect of exchange rate changes		2,020		6,667
Balance at December 31, 2018	\$	41,189	\$	90,266
Accumulated depreciation:				
Balance at January 1, 2017	\$	2,699	\$	-
Amortization		485		-
Balance at December 31, 2017		3,184		-
Amortization		4,605		-
Effect of exchange rate changes		198		-
Balance at December 31, 2018	\$	7,987	\$	-
Carrying amounts:				
As at January 1, 2017	\$	844	\$	-
As at December 31, 2017	\$	359	\$	-
As at December 31, 2018	\$	33,202	\$	90,266

Intangible assets include intangibles acquired upon the Acquisition and include customer contracts, a non-compete, and a license.

NOTE 7 – IMPAIRMENT

IAS 36 requires the Company to test any CGU with goodwill at least annually for impairment and in circumstances where indicators of impairment are present; an impairment test is required for any affected CGUs. STEP has identified four CGUs: Canadian coil, Canadian fracturing, US coil and US fracturing.

As at December 31, 2018, the Company identified impairment indicators related to market uncertainty and prolonged commodity price downturn. All of the Company's goodwill is allocated to the U.S. Fracturing CGU which is reported under the U.S. Operating Segment.

The recoverable amount allocated to the four CGUs were determined from cash flow projections based on historical results, the Company's most recent approved 2019 budget and management's view of market outlook. Cash flow projections for 2020 to 2023 have assumed a return of activity to historical levels. A terminal growth rate was applied for cash flows beyond 2023. The forecasted cash flows are based on management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and a post-tax discount rate of 13.5% for Canadian CGUs and 12.5% for U.S. CGUs.

The results of the tests indicate no impairment of property, equipment and definite life intangibles at December 31, 2018 in any of the CGUs. However, the impairment testing on the U.S. Fracturing CGU resulted in a goodwill impairment charge of \$46.0 million recorded in the December 31, 2018 financial statements. The recoverable amount of the U.S. Fracturing CGU was \$301.3 million.

A 1% increase in the discount rate would not cause the carrying amount to exceed the recoverable amount of the Canadian Coil, Canadian Fracturing and U.S. Coil CGUs. The U.S. Fracturing CGU's value in use was lower than the carrying amount for the year ended December 31, 2018 resulting in a determination of an impairment in the carrying amount of goodwill. Increasing the discount rate by 1% would result in an additional impairment loss of \$10.1 million.

NOTE 8 – LOANS AND BORROWINGS

At December 31, 2018, the Company has a borrowing agreement with a syndicate of financial institutions. The Company's agreement is comprised of operating facilities (one Canadian and one U.S.) and a revolving facility (together the "New Credit Facilities"). The New Credit Facilities mature on April 2, 2021 and include a \$330.0 million revolving credit facility, Canadian \$10.0 million operating facility and U.S. \$7.5 million operating facility. The maturity date of the New Credit Facilities may be extended for a period of up to 3 years with syndicate approval. The New Credit Facilities include a general security agreement providing a security interest over all present and after acquired personal property of the Company and all of its subsidiaries including mortgages on certain properties. Under the New Credit Facilities, net proceeds raised pursuant to one or more equity issuances or proceeds of the issuance of any subordinated debt shall be applied to reduce the New Credit Facility to not less than \$300.0 million.

The New Credit Facilities includes certain financial and non-financial covenants, including:

- 1) Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including capital lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange gains and losses, taxes, depreciation, amortization, impairment, unrealized foreign exchange forward contract (gain) loss and transaction costs ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Adjusted bank EBITDA includes the twelve month historical results of Tucker as though the Company owned Tucker throughout the measurement period. Also, realized foreign exchange (gain) loss is excluded from Adjusted bank EBITDA. These are differences from the Company's non-IFRS measure "Adjusted EBITDA". Funded debt to Adjusted bank EBITDA ratio is required to be 3.00:1 or less.

At December 31, 2018, the Funded debt to Adjusted bank EBITDA ratio was 2.20:1.

- 2) Fixed Charge Coverage Ratio is calculated as Free Cash Flow to cash interest expense and scheduled principal repayments in respect of indebtedness. "Free Cash Flow" is defined as Adjusted Bank EBITDA, defined above, less maintenance capital expenditures, cash distributions and cash tax. This ratio is not to fall below 1.20:1.

At December 31, 2018, the Fixed Charge Coverage Ratio was 4.82:1.00.

Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 200 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the fourth quarter of 2018 was approximately 4.39%. At December 31, 2018, the full amount of the facility was available to be drawn on the New Credit Facilities of which there was \$254.6 million outstanding and the Company was in compliance with all covenants.

Subsequent Event

On March 5, 2019, the Company's credit facilities were amended (together the "Amended Credit Facilities"). The primary amendments include a change to the Funded debt to Adjusted bank EBITDA ratio, the removal of the Fixed Charge Coverage ratio, and an addition of the Interest Coverage ratio. Interest continues to be payable monthly, at the bank's prime lending rate plus 50 basis points to 300 basis points depending on certain financial ratios of the Company. Under the Amended Credit Facilities, any leases accounted for as an operating lease in effect on December 31, 2018 will continue to be recognized as operating leases for the purposes of calculating financial covenants.

The Amended Credit Facilities includes certain financial and non-financial covenants, including:

- 1) Funded debt to Adjusted bank EBITDA ratio is calculated the same, however the Company is now required to meet the following ratios:

Quarters Ended	Required Funded debt to Adjusted bank EBITDA ratio
March 31, 2019	3.50:1 or less
June 30, 2019	4.00:1 or less
September 30, 2019 to December 31, 2019	4.50:1 or less
March 31, 2020	4.00:1 or less
June 30, 2020	3.50:1 or less
September 30, 2020 and thereafter	3.00:1 or less

- 2) Interest coverage ratio refers to the ratio of Adjusted bank EBITDA to interest expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on capitalized lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance advances. This ratio is not to fall below 3.00:1 or less.

An equity cure is available for the purposes of determining compliance with the Funded Debt to Adjusted bank EBITDA ratio. The equity cure is available for use up to two times, in non-consecutive quarters, until the expiry of the Amended Credit Facilities. Each use of the equity cure is limited to \$25 million from the issuance of equity securities and must be utilized to repay borrowings under the Credit Facilities.

NOTE 9 – FINANCE LEASE OBLIGATIONS

The Company has entered into finance lease contracts for light duty vehicles. The maturity date of these contracts range from January 2019 to June 2022 with interest rates ranging from 2.26% to 10.67% and are collateralized by a general security agreement in the underlying assets. Lease payments made by the Company are blended interest and principal payments. The Company's finance lease obligations are payable as follows:

As at December 31,	2018		2017	
Future minimum lease payments	\$	17,546	\$	12,339
Discount		(1,047)		(575)
Present value of minimum lease payments	\$	16,499	\$	11,764
Presented as:				
Current portion of obligations under finance lease	\$	8,489	\$	4,924
Obligations under finance lease	\$	8,010	\$	6,840

See Note 17 regarding timing of finance lease obligation settlements.

NOTE 10 – SHAREHOLDERS’ EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Share capital

The Company is authorized to issue an unlimited number of common shares. The shares have no par value. All issued shares are fully paid.

	Shares #	Amount
Balance at January 1, 2017	47,719,703	\$ 258,144
Issued – private placement – February 7, 2017	2,400,000	15,000
Issued – initial public offering – May 2, 2017	10,000,000	100,000
Issued – exercise of stock options and performance warrants	190,035	1,264
Share issue costs (net of deferred tax)	-	(4,972)
Balance at December 31, 2017	60,309,738	369,436
Issued – public offering – April 2, 2018	6,055,000	56,312
Issued – exercise of stock options and performance warrants	317,581	2,841
Share issue costs (net of deferred tax)	-	(2,095)
Balance at December 31, 2018	66,682,319	\$ 426,494

During the first quarter of 2017, there were 2.4 million common shares issued by the Company for aggregate proceeds of \$15.0 million, pursuant to a subscription agreement dated April 2, 2015 between the Company and ARC Energy Fund 8 Canadian Limited Partnership, ARC Energy Fund 8 United States Limited Partnership, ARC Energy Fund 8 International Limited Partnership and ARC Capital 8 Limited Partnership (collectively, “ARC Energy Fund 8”).

On May 2, 2017, the Company closed an initial public offering (“IPO”) to raise gross proceeds of \$100.0 million through the issuance of 10 million treasury shares at a price of \$10.00 per share. The underwriters’ commission was 5.5% of the gross proceeds of the IPO. The expenses of the IPO, excluding the underwriters’ commission and tax impact, were \$3.3 million in total.

On April 2, 2018, the Company closed an equity financing raising gross proceeds of \$56.3 million by issuing 6,055,000 subscription receipts for \$9.30 each. The proceeds of the offering were used to partially fund the Acquisition. Total costs related to the equity offering were \$2.9 million less \$0.8 million deferred tax. These were classified as a reduction of share capital.

Accumulated Other Comprehensive Income

Accumulated other comprehensive (loss) income arises from foreign translation adjustments of the results and financial position of foreign subsidiaries. At December 31, 2018, the Company had \$22.7 million in accumulated other comprehensive loss (December 31, 2017 – \$2.4 million loss).

NOTE 11 – SHARE-BASED COMPENSATION

Prior to the IPO, the Company’s share-based compensation plans for employees and directors consisted of prior stock options and performance warrants. The Company implemented new share-based compensation plans following the IPO including a new stock option plan (the “New Stock Option Plan”), a performance and restricted share unit plan (the “PRSU Plan”) and a deferred share unit plan (the “DSU Plan”). Effective May 2, 2017, no further awards under the prior stock option plan or performance warrants may be granted.

Equity settled share-based instruments

The maximum number of common shares issuable under the New Stock Option Plan and all other share based compensation arrangements (excluding the prior options and performance warrants) must not exceed 5% of the aggregate of the number of

outstanding common shares. The following table summarizes the Company's outstanding equity settled share-based compensation instruments:

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2017	-	-	-	4,249,250	8,850,600	13,099,850
Granted	-	223,467	208,079	145,400	290,800	867,746
Exercised	-	-	-	(262,405)	(219,787)	(482,192)
Forfeited/Expired	-	-	-	(57,396)	(162,933)	(220,329)
Outstanding at December 31, 2017	-	223,467	208,079	4,074,849	8,758,680	13,265,075
Exercisable at December 31, 2017	-	-	-	2,174,609	4,460,440	6,635,049

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2018	-	223,467	208,079	4,074,849	8,758,680	13,265,075
Granted	201,987	659,736	318,819	-	-	1,180,542
Added via performance factor	-	-	19,777	-	-	19,777
Exercised	-	(71,574)	(13,886)	(247,324)	(317,932)	(650,716)
Forfeited/Expired	-	(41,055)	(27,473)	(77,797)	(279,960)	(426,285)
Outstanding at December 31, 2018	201,987	770,574	505,316	3,749,728	8,160,788	13,388,393
Exercisable at December 31, 2018	-	-	-	3,023,691	5,246,838	8,270,529

New stock options

New stock options may be granted at the discretion of the Board of Directors and all officers and employees of the Company are eligible for participation in the New Stock Option Plan. The option price is equal to the volume-weighted-average closing price of the Company's shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant. Grants vest in three equal portions on the first, second and third anniversary of the grant date and have a maximum life of five years, or as otherwise set out by the Board in the applicable grant agreement.

	2018		2017	
	New stock options	Weighted average exercise price	New stock options	Weighted average exercise price
Outstanding at beginning of year	-	\$ -	-	\$ -
Granted	201,987	5.70	-	-
Exercised	-	-	-	-
Forfeited / Expired	-	-	-	-
Outstanding at end of year	201,987	\$ 5.70	-	\$ -
Exercisable at end of year	-	\$ -	-	\$ -

As at December 31, 2018	New stock options Outstanding			New stock options Exercisable	
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercisable price
Exercise price					
\$5.70	201,987	4.75	\$ 5.70	-	\$ -
	201,987	4.75	\$ 5.70	-	\$ -

Restricted share units

The Board grants restricted share units (“RSUs”) to its employees. RSUs granted under the PRSU Plan provide the holder a right to receive a common share for each whole vested share unit. The RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in shares of the Company on those vesting dates. The fair value of the RSU is recognized over the expected life and is based on volume-weighted-average closing price of the Company’s shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant.

When RSUs are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of units granted in 2018, determined using the Black-Scholes pricing model, was \$7.18 per unit. The weighted average remaining life of RSUs outstanding is 2.5 years.

Performance share units

The Board grants performance share units (“PSUs”) to eligible employees and executives. PSUs granted under the PRSU Plan provide the holder a right to receive a common share for each whole vested share unit. Vesting is based on the achievement of performance measures as specified by the Board of Directors. The Board of Directors assesses performance of the Company to determine the vesting percentage, which can range from 0 percent to 200 percent. Corporate PSUs vest at the end of three years, while instruments granted to the business unit senior officers vest in three equal portions on the first, second and third anniversary of the grant date. The PSU fair value approximates the volume-weighted-average closing price of the Company’s shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant.

When PSUs are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of units granted in 2018, determined using the Black-Scholes pricing model, was \$9.67 per unit. The weighted average remaining life of PSUs outstanding is 2.1 years.

Prior stock options

Grants under the prior stock option plan are exercisable for common shares, vest over a period of three years and have a maximum life of five or seven years, or as otherwise set out by the Board in the applicable grant agreement or amendment. Effective May 2, 2017, no further awards under the prior stock option plan may be granted.

	2018		2017	
	Prior stock options	Weighted average exercise price	Prior stock options	Weighted average exercise price
Outstanding at beginning of year	4,074,849	\$ 5.50	4,249,250	\$ 5.45
Granted	-		145,400	10.00
Exercised	(247,324)	5.34	(262,405)	5.29
Forfeited / Expired	(77,797)	5.99	(57,396)	7.03
Outstanding at end of year	3,749,728	\$ 5.50	4,074,849	\$ 5.50
Exercisable at end of year	3,023,691	\$ 5.51	2,174,609	\$ 5.45

As at December 31, 2018	Prior stock options Outstanding			Prior stock options Exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercisable price	
Exercise price						
\$5.00	2,572,025	2.45	\$ 5.00	1,913,578	\$ 5.00	
\$6.25	1,057,803	1.76	6.25	1,057,803	6.25	
\$7.00	11,500	0.74	7.00	11,500	7.00	
\$10.00	108,400	3.08	10.00	40,810	10.00	
	3,749,728	2.26	\$ 5.50	3,023,691	\$ 5.51	

When prior stock options are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of options granted in 2017, determined using the Black-Scholes pricing model, was \$4.80 per option.

Performance warrants

Grants under the performance warrant plan are exercisable for common shares, vest over a period of five years and have a maximum life of five or seven years, or as otherwise set out by the Board in the applicable grant agreement or amendment. Effective May 2, 2017, no further awards under the performance warrant plan may be granted.

	2018		2017	
	Performance warrants	Weighted average exercise price	Performance warrants	Weighted average exercise price
Outstanding at beginning of year	8,758,680	\$ 10.91	8,850,600	\$ 10.80
Granted	-	-	290,800	14.50
Exercised	(317,932)	7.86	(219,787)	9.65
Forfeited / Expired	(279,960)	11.60	(162,933)	12.59
Outstanding at end of year	8,160,788	\$ 11.00	8,758,680	\$ 10.91
Exercisable at end of year	5,246,838	\$ 10.77	4,460,440	\$ 10.43

As at December 31, 2018	Performance warrants outstanding			Performance warrants exercisable	
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercisable price
Exercise price					
\$7.50-\$9.99	2,501,955	1.89	\$ 8.45	1,673,888	\$ 8.41
\$10.00-\$12.49	2,793,211	1.85	10.70	1,930,456	10.67
\$12.50-\$14.99	2,253,188	2.12	12.91	1,367,573	12.81
\$15.00-\$17.49	568,754	2.55	15.68	265,929	15.66
\$17.50+	43,680	3.28	17.50	8,992	17.50
	8,160,788	1.99	\$ 11.00	5,246,838	\$ 10.77

When performance warrants are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of performance warrants granted in 2017, determined using the Black-Scholes pricing model, was \$3.86 per warrant.

Cash settled share-based instruments

The Company has a cash-settled deferred share unit plan for its directors.

For the year ended December 31,	2018	2017
Outstanding units at beginning of year	47,742	-
Granted	89,891	47,742
Outstanding units at end of year	137,634	47,742
Exercisable at end of period	137,634	47,742

Deferred Share Units awarded vest immediately and will be settled in cash in the amount equal to the closing price of the Company's common shares on the day before the Company elects to pay. The Company may elect to pay the DSUs at any point after the resignation is received from the Board member and before the last business day of the following year. Since the DSUs vest immediately, the fair value of the liability and the corresponding expense is charged to net (loss) income at the grant date.

Subsequently, at each reporting date between grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in net (loss) income for the period.

Fair Value Assumptions for Share-based Compensation

The Company uses the Black-Scholes pricing model to calculate the fair value of equity settled share-based compensation instruments. Regarding PSUs and RSUs, the estimated fair value per unit approximates the 5 day weighted average share price on grant date. The Company estimates volatility based off the Company's historical share prices and peer information. Estimated fair values for the new stock options, prior stock options and performance warrants granted in the year were calculated using the following weighted average assumptions:

For the year ended December 31,	New stock options		Prior stock options		Performance warrants	
	2018	2017	2018	2017	2018	2017
Risk-free interest rate (%)	2.41	-	-	1.07-1.31	-	1.00-1.37
Expected life (years)	5.00	-	-	4.99-5.00	-	4.47-8.55
Expected forfeiture rate (%)	0.00	-	-	10.12	-	9.67
Expected dividend rate (%)	0.00	-	-	-	-	-
Expected volatility (%)	58.15	-	-	55.40-55.60	-	52.66-59.85

Share-based compensation expense

The composition of share-based compensation expense was:

For the year ended December 31,	2018	2017
New stock options	\$ 91	\$ -
Prior stock options	1,557	3,353
Performance warrants	1,755	2,443
Deferred share units (cash settled)	(223)	490
Performance share units	1,571	125
Restricted share units	2,650	112
Total share-based compensation expense	\$ 7,401	\$ 6,523

NOTE 12 – PER SHARE COMPUTATIONS

For the year ended December 31,	2018	2017
Weighted average number of shares outstanding - basic	65,033,085	56,528,016
Dilutive impact of stock based compensation instruments	319,480	1,224,851
Weighted average number of shares outstanding - diluted	65,352,565	57,752,867

As at December 31, 2018, 3.7 million prior stock options, 8.2 million performance warrants and 0.2 million new options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (December 31, 2017: no stock options and 4.7 million performance warrants).

NOTE 13 – PRESENTATION OF EXPENSES

The Company presents expenses in the consolidated statements of net (loss) income and other comprehensive (loss) income by function. The following table presents expenses in costs of sales and administrative expenses by nature:

For the year ended December 31,	2018	2017
Cost of sales		
Employee costs	\$ 204,254	\$ 125,862
Operating expense	175,310	100,011
Materials and inventory costs	255,751	186,527
	635,315	412,400
Depreciation	82,826	32,858
Share-based compensation	4,147	3,219
Total cost of sales	\$ 722,288	\$ 448,477
Selling, general and administrative expenses		
Employee costs	\$ 16,720	\$ 10,225
General expenses	9,950	7,274
	26,670	17,499
Allowance for doubtful accounts expense (recovery)	2,141	(263)
Depreciation	1,215	1,070
Share-based compensation	3,254	3,304
Total selling, general and administrative expenses	\$ 33,280	\$ 21,610

NOTE 14 – EMPLOYEE EXPENSES

For the year ended December 31,	2018	2017
Salaries and short term benefits	\$ 218,369	\$ 135,329
Post-employment benefits	2,151	635
Share-based compensation	7,401	6,523
Termination benefits	454	123
Total employee expenses	\$ 228,375	\$ 142,610
Included in:		
Cost of sales	\$ 208,401	\$ 129,081
Selling, general and administrative	19,974	13,529
Total employee expenses	\$ 228,375	\$ 142,610

NOTE 15 – FINANCE COSTS

For the year ended December 31,	2018	2017
Interest on loans and borrowings	\$ 10,119	\$ 852
Interest on finance leases	620	382
Interest income	(156)	(415)
Deferred financing charges	761	171
Other	112	120
Total finance costs	\$ 11,456	\$ 1,110

NOTE 16 – INCOME TAXES

Income tax expense

The components of income tax expense (recovery) are:

For the year ended December 31,	2018		2017	
Current income tax expense	\$	5,170	\$	6,079
Deferred income tax expense (recovery)		(3,307)		16,724
	\$	1,863	\$	22,803

The provision for income taxes in the consolidated statement of net (loss) income varies from the amount that would be computed by applying the combined Federal and Provincial income tax rates of 27% (2017 – 27%) to net income or loss before income tax.

On December 22, 2017, the US government enacted new tax legislation, originally known as the Tax Cuts and Jobs Act, which included a decrease to the US federal corporate income tax rate from 35% to 21%. The impact of the rate change decreased the Corporation's net deferred tax balance associated with its directly owned US operations by \$0.2 million (2017 - \$0.5 million increase), all of which is recorded as deferred tax expense.

The reasons for the differences between the expected income tax expense (recovery) and the amounts recorded are:

For the year ended December 31,	2018		2017	
Net (loss) income before income tax expense	\$	(37,441)	\$	80,521
Income tax rate %		27%		27%
Computed expected income tax expense		(10,109)		21,741
Increase (decrease) in income taxes resulting from:				
Share-based compensation		2,058		1,777
Transaction costs		770		-
Change in income tax rate		404		(500)
Capital gains		(558)		(507)
Goodwill impairment		11,149		-
Foreign income tax rate differentials		(2,500)		
Other non-deductible items		649		292
Total income tax expense (recovery)	\$	1,863	\$	22,803

Deferred tax balances

The following table summarizes the income tax impact of temporary differences that give rise to the deferred tax liability:

As at December 31,	2018		2017	
Tax losses	\$	26,750	\$	1,085
Property and equipment		(78,702)		(26,322)
Intangible assets		(7,958)		4
Obligation under capital lease		2,692		2,703
Deferred financing		2,261		1,932
Reserves		834		-
Other		2,410		1,918
Deferred tax liability (net)	\$	(51,713)	\$	(18,680)
Deferred Tax (liability) asset by Jurisdiction:				
Canada	\$	(17,036)	\$	(17,493)
United States		(34,677)		(1,187)
Deferred tax liability (net)	\$	(51,713)	\$	(18,680)

Changes in net deferred income tax balances during the year:

	Tax losses	Property and equipment	Intangible assets	Capital lease obligation	Deferred financing	Reserves	Other	Total
Balance at January 1, 2017	\$ 15,422	\$ (22,050)	\$ (115)	\$ 1,467	\$ 8	\$ -	\$ 1,510	\$ (3,758)
Recognized in profit or loss	(14,353)	(4,217)	119	1,236	105	-	386	(16,724)
Recognized in equity	16	(55)	-	-	1,819	-	22	1,802
Balance at December 31, 2017	1,085	(26,322)	4	2,703	1,932	-	1,918	(18,680)
Recognized in profit or loss	7,180	(5,391)	1,142	(11)	(446)	463	370	3,307
Recognized in goodwill	16,892	(43,680)	(8,629)	-	-	354	-	(35,063)
Recognized in equity	1,593	(3,309)	(475)	-	775	17	122	(1,277)
Balance at December 31, 2018	\$ 26,750	\$ (78,702)	\$ (7,958)	\$ 2,692	\$ 2,261	\$ 834	\$ 2,410	\$ (51,713)

As at December 31, 2018, the Company has tax assets that relate to \$110 million of non-capital losses in the United States (2017 – United States \$5.1 million). The Company recognizes losses to the extent they are expected to be deductible. The losses expire beginning in 2035.

NOTE 17 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

Cash and cash equivalents, trade and other receivables, trade and other payables, income tax payable, finance lease obligations and loans and borrowings are initially recognized at fair value and subsequently measured at amortized cost. The book value of cash and cash equivalents, trade and other receivables, income tax payable, trade and other payables, and finance lease obligations approximates fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and therefore fair market value approximates carrying value.

The Company classifies its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Foreign exchange forward contracts are classified and measured at fair value through profit or loss. Changes in fair value are recognized as they arise and are determined using quoted forward exchange rates at the reporting date (level 2). During the year ended December 31, 2018, there were no transfers between levels in the fair value hierarchy.

Credit risk

Credit risk is the risk that a counterparty to a financial asset will not discharge its obligations, resulting in a financial loss to the Company. The majority of the Company's accounts receivable are with clients in the oil and natural gas industry and are subject to normal industry credit risks that include fluctuations in oil and natural gas prices and the ability to secure adequate debt or equity financing. The Company's clients are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients.

The Company held cash and cash equivalents of \$0.4 million as at December 31, 2018 (December 31, 2017 - \$36.9 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major bank and financial institution counterparties (level 1).

During the year ended December 31, 2018, five clients represented 36% of revenue (December 2017 – 39% of revenue). These top five clients contribute 10%, 10%, 6%, 6%, and 4% of revenue respectively, three of which are operated in the Canadian segment and two in the U.S.

As at December 31, 2018, 10% of trade receivables are held with one client within the Canadian segment as such the Company is exposed to concentration of credit risk (December 31, 2017 – 14% in the Canadian segment). As at December 31, 2018, 36% of the total accounts receivable balance was due from five clients (December 31, 2017 – 45%).

The Company monitors ECLs on trade receivables at each reporting date. The Company calculates ECLs using a probability-weighted estimate of credit losses over the expected life of trade receivables. There were no write-offs of allowance for doubtful accounts in the period.

The Company's aged trade and accounts receivable are as follows:

As at December 31,		2018		2017
Current (0 to 30 days from invoice date)	\$	66,844	\$	73,829
31 - 60 days		45,406		44,793
61 - 90 days		8,708		13,354
91+ days		3,782		6,780
Receivables from trade clients		124,740		138,756
Other amounts		2,588		939
Allowance for doubtful accounts		(2,775)		(422)
Total trade and other receivables	\$	124,553	\$	139,273

The Company's objective is to minimize credit losses. The Company's objectives, processes and policies for managing credit risk have not changed from the prior year.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company's objective in managing liquidity risk is to maintain sufficient available resources to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in cash and cash equivalent account.

The expected timing of cash outflows relating to financial liabilities on the statement of financial position as at December 31, 2018 are:

	2019	2020	2021	2022	Thereafter	Total
Finance lease obligations ⁽¹⁾	\$ 9,046	\$ 6,263	\$ 2,219	\$ 18	\$ -	\$ 17,546
Trade and other payables	84,079	-	-	-	-	84,079
Income tax payable	4,572				-	4,572
Loans and borrowings ⁽²⁾	11,061	11,092	257,362	-	-	279,515
	\$ 108,758	\$ 17,355	\$ 259,581	\$ 18	\$ -	\$ 385,712

(1) Includes interest portion of finance lease obligations.

(2) Includes interest calculated based on principle and rate outstanding at December 31, 2018, both amounts are variable in nature.

The Company anticipates that its existing capital resources, including the credit facilities and cash flows from operations, will be adequate to satisfy its liquidity requirements over the next 12 months. Reductions in the Company's clients' cash flow or difficulty in their ability to source debt or equity could negatively impact the Company's assessment of liquidity risk.

Market risk

Market risk is the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market rates. Market risk is comprised of interest rate risk, currency risk and other price risks which consist primarily of fluctuations in commodity prices.

Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding debt for the year a 1.0% change in the bankers prime rate would result in a \$2.2 million increase or decrease in interest expense for the 2018 twelve month period (2017 - \$0.1 million).

Foreign currency risk

The Company operates in both Canada and the United States. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar can have an impact on the operating results and the future cash flows of the Company's financial assets and liabilities. The Canadian segment is exposed to foreign exchange risk on U.S. dollar denominated purchases made in the normal course of business. The Company manages risk to foreign currency exposure by monitoring financial assets and liabilities denominated in U.S. dollars and exchange rates on an ongoing basis.

Fluctuations in the value of foreign currencies would have had the following impact on net (loss) income and other comprehensive (loss) income:

For the year ended December 31,	Impact on Net (Loss) Income		Impact on Other Comprehensive (Loss) Income	
	2018	2017	2018	2017
1% change in the value of the U.S. dollar	\$ 430	\$ 445	\$ 4,210	\$ 594

During the year ended December 31, 2018, the Company entered into several foreign exchange forward contracts. The goal of these instruments is to limit exposure to U.S. dollar fluctuations. In the second quarter, foreign exchange forward contracts were settled upon closing of the Acquisition, resulting in a realized loss of \$1.2 million. Additional instruments outstanding at December 31, 2018 include:

Trade Date	Expiration Date	U.S. dollar	Rate	Canadian dollar	Foreign exchange forward contract asset
December 21, 2018	January 7, 2019	\$ 11,000	1.36	\$ 14,960	\$ -
December 31, 2018	January 4, 2019	400	1.36	545	44
Total		\$ 11,400	1.36	\$ 15,505	\$ 44

NOTE 18 – CAPITAL MANAGEMENT

The Company's objectives when managing its capital structure are to maintain a balance between debt and equity so as to withstand industry and seasonal volatility, maintain investor, creditor and market confidence, and to sustain future development of the business. The Company considers the items included in shareholders' equity, loans and borrowings and finance leases as capital. Debt includes the current and long-term portions of bank indebtedness and obligations under finance leases.

As at December 31,	2018		2017		
Shareholders' equity	\$	478,604	64%	\$ 431,040	97%
Obligations under finance lease		16,499	2%	11,764	3%
Loans and borrowings		252,441	34%	1,813	0%
Total capitalization	\$	747,544		\$ 444,617	

The Company is subject to various financial and non-financial covenants, which are monitored on a regular basis and controls are in place to maintain compliance with these covenants (Note 8). The Company is in compliance with all financial and non-financial covenants.

NOTE 19 – COMMITMENTS

The following table summarizes the Company's estimated commitments as at December 31, 2018 for the following five years and thereafter:

	2019	2020	2021	2022	2023	Thereafter	Total
Operating lease obligations ⁽¹⁾	\$ 5,073	\$ 3,709	\$ 3,530	\$ 2,519	\$ 4,216	\$ 886	\$ 19,933

(3) Includes U.S. obligations at a forecast exchange rate of 1 USD = 1.315 CAD.

Operating leases relate to leases of certain shop and office space with lease terms of between 1 years and 5 years.

As at December 31, 2018, the Company has \$8.2 million (December 31, 2017 - \$41.3 million) of commitments related to capital expenditures. This commitment is expected to be incurred in fiscal 2019.

NOTE 20 - CONTINGENCIES AND PROVISIONS

Litigation

Periodically, the Company may become involved in, named as a party to, or be the subject of various legal proceedings which are usually related to normal operational or labor issues. The results of such legal proceedings or related matters cannot be determined with certainty. The Company's assessment of the likely outcome of such matters is based on input from internal examination of the facts of the case and advice from external legal advisors, which is based on their judgment of a number of factors including the applicable legal framework and precedents, relevant financial and operational information, and other evidence and facts specific to the matter as known at the time of the assessment.

In January 2017, Calfrac Well Services Ltd. ("Calfrac") filed a statement of claim in the Judicial District of Calgary in the Court of Queen's Bench against the Company and an employee of the Company seeking \$10.0 million in damages among other relief. Calfrac alleges that the employee, who is a former employee of Calfrac, misappropriated certain competitively sensitive materials from Calfrac. Calfrac further alleges that STEP benefited or made use of such materials, resulting in damages to Calfrac. STEP is presently investigating the claim and at this time intends to contest allegations made in the claim. While management does not believe that this action will have a material adverse effect on the business or financial condition of the Company, no assurance can be given as to the final outcome of this or any other legal proceeding. If this claim, or any claims to which the Company may be subject in the future, were to be concluded in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

NOTE 21 – OPERATING SEGMENTS

The Company's oil and natural gas services are conducted in two geographical segments which are Canada and the U.S. The Company's services include fracturing, coiled tubing, nitrogen and fluid pumping in both Canada and the U.S. The Company also offers wireline services in the U.S. Management evaluates the performance of its operating segments primarily based on revenue and Adjusted EBITDA⁽¹⁾ as included in the internal management reports. The revenue and Adjusted EBITDA⁽¹⁾ of each segment are used to measure performance as management believes such information is most relevant in evaluating regional results, relative to other entities operating in the industry. Information on the results of each geographic region are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented operating results and activity

For the year ended December 31, 2018	Canadian Operations	U.S. Operations	Total
Revenue			
Fracturing	\$ 350,628	\$ 202,873	\$ 553,501
Coiled tubing	128,260	100,002	228,262
Total Revenue	\$ 478,888	302,875	781,763
Adjusted EBITDA ⁽¹⁾	\$ 72,657	44,980	117,637
Adjusted EBITDA % ⁽¹⁾	15%	15%	15%
Depreciation and amortization	\$ 44,620	44,026	88,646
Income tax expense (recovery)	\$ 5,162	(3,299)	1,863
Capital expenditures ⁽²⁾	\$ 81,134	\$ 43,893	\$ 125,027

For the year ended December 31, 2017	Canadian Operations	U.S. Operations	Total
Revenue			
Fracturing	\$ 365,599	\$ -	\$ 365,599
Coiled tubing	129,695	57,926	187,621
Total Revenue	\$ 495,294	\$ 57,926	\$ 553,220
Adjusted EBITDA ⁽¹⁾	\$ 107,722	\$ 15,862	\$ 123,584
Adjusted EBITDA % ⁽¹⁾	22%	27%	22%
Depreciation and amortization	\$ 29,808	\$ 4,605	\$ 34,413
Income tax expense (recovery)	\$ 20,778	\$ 2,025	\$ 22,803
Capital expenditures ⁽²⁾	\$ 79,935	\$ 31,020	\$ 110,955

Segmented assets and liabilities

As at December 31, 2018	Canadian Operations	U.S. Operations	Total
Assets			
Current assets	\$ 98,301	\$ 65,997	\$ 164,298
Property and equipment	320,121	280,021	600,142
Intangible assets	319	32,883	33,202
Goodwill	-	90,266	90,266
Total assets	\$ 418,741	\$ 469,167	\$ 887,908
Current liabilities	\$ 56,983	\$ 40,157	\$ 97,140

As at December 31, 2017	Canadian Operations	U.S. Operations	Total
Assets			
Current assets	\$ 179,771	\$ 17,337	\$ 197,108
Property and equipment	293,605	42,773	336,378
Intangible assets	359	-	359
Total assets	\$ 473,735	\$ 60,110	\$ 533,845
Current liabilities	\$ 70,602	\$ 5,474	\$ 76,076

- (1) "Adjusted EBITDA" is a financial measure not presented in accordance with IFRS and is equal to net (loss) income before finance costs, depreciation and amortization, loss (gain) on disposal of property and equipment, current and deferred income tax provisions and recoveries, share-based compensation, transaction costs, foreign exchange forward contract (gain) loss, foreign exchange (gain) loss, and impairment losses.
- (2) Capital expenditures include non-cash expenditures from the addition of capital leases for light duty vehicles.

NOTE 22 – RELATED PARTY TRANSACTIONS

Key management personnel are comprised of the Company's Board of Directors and executive officers. The compensation and other benefits paid to key management personnel are as follows:

For the year ended December 31,	2018		2017	
Salaries, fees and short-term benefits	\$	3,238	\$	2,028
Post-employment benefits (group retirement savings plans)		67		23
Share-based compensation		2,496		3,095
	\$	5,801	\$	5,146

ARC Energy Fund 6 Canadian Limited Partnership, ARC Energy Fund 6 United States Limited Partnership, ARC Energy Fund 6 International Limited Partnership and ARC Capital 6 Limited Partnership (collectively, "ARC Energy Fund 6") and ARC Energy Fund 8 Canadian Limited Partnership, ARC Energy Fund 8 United States Limited Partnership, ARC Energy Fund 8 International Limited Partnership and ARC Capital 8 Limited Partnership (collectively, "ARC Energy Fund 8"), each a private equity fund advised by ARC Financial Corp. have been investors in the Company since 2011 and 2015, respectively. During the first quarter of 2017, there were 2.4 million common shares issued by the Company for aggregate proceeds of \$15.0 million, pursuant to a subscription agreement dated April 2, 2015 between the Company and ARC Energy Fund 8.

NOTE 23 – SUPPLEMENTAL CASH FLOW INFORMATION

The following table reconciles the net changes in non-cash working capital from the balance sheet to the cash flow statement:

For the year ended December 31,	2018		2017	
Net change in non-cash working capital:				
Trade and other receivables	\$	62,549	\$	(92,072)
Current tax receivable		-		744
Inventory		(1,588)		(3,760)
Prepaid expenses		(1,800)		(2,041)
Trade and other payables		(41,181)		37,062
	\$	17,980	\$	(60,067)
Net change in non-cash working capital relate to:				
Operating activities	\$	14,533	\$	(64,450)
Investing activities		3,447		5,094
Financing activities		-		(711)
	\$	17,980	\$	(60,067)

CORPORATE INFORMATION

Management

Regan Davis
President & Chief Executive Officer

Michael Kelly
Executive Vice President & Chief Financial Officer

Steve Glanville
Vice President Operations & Chief Operating Officer

Rob Sprinkhuysen
Vice President Business Development

Mike Burvill
President US Operations

Rory Thompson
President Canadian Operations

Brock Duhon
Vice President Coiled Tubing and Open Hole
Wireline Services – U.S.

David Johnson
Vice President Human Resources

Lori McLeod-Hill
Vice President Finance

Shane Persad
Vice President Fracturing & Cased Hole Wireline
Services – U.S.

Todd Rainville
Vice President Sales & Marketing

Directors

Douglas Freel ⁽¹⁾ – Chairman

Regan Davis ⁽³⁾

Jeremy Gackle ⁽¹⁾⁽²⁾

Jason Skehar ⁽²⁾⁽³⁾

James Harbilas ⁽¹⁾⁽²⁾

Donna Garbutt ⁽³⁾

Member of:

1. Audit Committee
2. Compensation and Corporate Governance Committee
3. Health and Safety Committee

Corporate office

Bow Valley Square II
#1200, 205 – 5 Ave SW
Calgary, Alberta T2P 2V7

Registered office

4300, 888 – 3rd Street SW
Calgary, Alberta T2P 5C5

Website

www.stepenergyservices.com

Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

“STEP”
Toronto Stock Exchange