

Condensed Interim Consolidated Financial Statements



As at and for the three and six months ended June 30, 2017

# STEP ENERGY SERVICES LTD.

## INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

As at (in thousands of dollars)	Notes	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 57,051	\$ 2,151
Trade and other receivables	10	84,862	47,907
Current tax receivable		22	744
Inventory	2	13,967	13,760
Prepaid expenses and deposits		3,884	2,054
		<b>159,786</b>	66,616
Property and equipment	3	299,955	266,975
Intangible assets		497	844
Deferred tax asset		639	705
		<b>\$ 460,877</b>	<b>\$ 335,140</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables		\$ 59,823	\$ 33,588
Current portion of obligations under finance lease		3,679	3,156
		<b>63,502</b>	36,744
Deferred tax liabilities		7,810	4,463
Obligations under finance lease		5,475	3,692
Loans and borrowings	4	-	30,302
		<b>76,787</b>	75,201
<b>Shareholders' equity</b>			
Share capital	5	368,392	258,144
Contributed surplus		23,484	19,895
Accumulated other comprehensive income		(957)	321
Deficit		(6,829)	(18,421)
		<b>384,090</b>	259,939
		<b>\$ 460,877</b>	<b>\$ 335,140</b>

See accompanying notes to the condensed interim consolidated financial statements

See Note 12 – Commitments and contingencies

# STEP ENERGY SERVICES LTD.

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

Unaudited

(in thousands of dollars, except per share amounts)	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2017	2016	2017	2016
Revenue		\$ 105,446	\$ 19,230	\$ 223,430	\$ 46,808
Cost of sales	8	93,645	26,605	194,367	58,769
Gross profit (loss)		11,801	(7,375)	29,063	(11,961)
Selling, general and administrative expenses	8	5,802	2,581	10,973	8,189
Results from operating activities		5,999	(9,956)	18,090	(20,150)
Finance costs	9	335	218	904	401
Foreign exchange (gain) loss		469	(47)	456	(75)
Gain on disposal of property and equipment		(120)	(219)	(2,001)	(445)
Transaction costs		746	-	1,531	-
Amortization of intangibles		154	144	347	288
Net income (loss) before income tax		4,415	(10,052)	16,853	(20,319)
Income tax expense (recovery)					
Current		117	-	124	-
Deferred		1,698	(2,581)	5,137	(4,223)
		1,815	(2,581)	5,261	(4,223)
Net income (loss)		2,600	(7,471)	11,592	(16,096)
Other comprehensive loss					
Foreign currency translation loss		1,000	31	1,278	1,546
Total comprehensive income (loss)		\$ 1,600	\$ (7,502)	\$ 10,314	\$ (17,642)
Basic net income (loss) per share	7	\$ 0.05	\$ (0.18)	\$ 0.22	\$ (0.43)
Diluted net income (loss) per share	7	\$ 0.04	\$ (0.18)	\$ 0.22	\$ (0.43)

See accompanying notes to the condensed interim consolidated financial statements

# STEP ENERGY SERVICES LTD.

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(in thousands of dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings / (deficit)	Total
Balance at January 1, 2016		\$ 180,480	\$ 10,977	\$ 997	\$ 1,535	\$ 193,989
Net loss for the period		-	-	-	(16,096)	(16,096)
Foreign currency translation loss		-	-	(1,546)	-	(1,546)
Share-based compensation	6	-	5,957	-	-	5,957
Shares issued	5	75,819	-	-	-	75,819
<b>Balance at June 30, 2016</b>		<b>256,299</b>	<b>16,934</b>	<b>(549)</b>	<b>(14,561)</b>	<b>258,123</b>
Balance at January 1, 2017		258,144	19,895	321	(18,421)	259,939
Net income for the period		-	-	-	11,592	11,592
Foreign currency translation loss		-	-	(1,278)	-	(1,278)
Share-based compensation	6	-	3,589	-	-	3,589
Shares issued (net of share issue costs and deferred tax)	5	110,248	-	-	-	110,248
<b>Balance at June 30, 2017</b>		<b>\$ 368,392</b>	<b>\$ 23,484</b>	<b>\$ (957)</b>	<b>\$ (6,829)</b>	<b>\$ 384,090</b>

See accompanying notes to the condensed interim consolidated financial statements

**STEP ENERGY SERVICES LTD.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Unaudited

(in thousands of dollars)	Notes	For the three months ended June 30,		For the six months ended June 30,	
		<b>2017</b>	2016	<b>2017</b>	2016
<b>Operating activities:</b>					
Net income (loss)		\$ 2,600	\$ (7,471)	\$ 11,592	\$ (16,096)
Adjusted for the following:					
Depreciation and amortization		8,318	5,301	15,863	10,495
Share-based compensation	6	2,276	1,145	3,974	5,957
Unrealized foreign exchange (gain) loss		(41)	84	(42)	25
Gain on disposal of property and equipment		(120)	(219)	(2,001)	(445)
Finance costs	9	335	218	904	401
Deferred income tax expense (recovery)		1,698	(2,581)	5,137	(4,223)
Cash finance costs paid		(302)	(218)	(1,492)	(401)
Cash tax received		648	-	648	-
Changes in working capital from operations		(5,989)	(420)	(19,651)	(462)
Net cash provided by (used in) operating activities		<b>9,423</b>	(4,161)	<b>14,932</b>	(4,749)
<b>Investing activities:</b>					
Purchase of property and equipment		(29,246)	(66,096)	(49,055)	(72,108)
Proceeds on disposal of property and equipment		1,364	354	5,396	845
Purchase of intangible assets		-	-	-	(438)
Changes in working capital from investing		5,924	(434)	7,013	(2,478)
Net cash used in investing activities		<b>(21,958)</b>	(66,176)	<b>(36,646)</b>	(74,179)
<b>Financing activities:</b>					
Issuance of share capital (net of capitalized transaction costs)	5	93,509	75,819	108,509	75,819
Proceeds from exercise of stock options	6	5	-	5	-
Repayment of long-term debt	4	(32,000)	(8,467)	(30,302)	(2,058)
Repayment of obligations under finance lease		(769)	(402)	(1,405)	(986)
Changes in working capital from financing		72	5	(122)	5
Net cash provided by financing activities		<b>60,817</b>	66,955	<b>76,685</b>	72,780
Impact of exchange rate changes on cash		(95)	53	(71)	(16)
Increase (decrease) in cash and cash equivalents		<b>48,187</b>	(3,329)	<b>54,900</b>	(6,164)
Cash and cash equivalents, beginning of period		<b>8,864</b>	5,391	<b>2,151</b>	8,226
Cash and cash equivalents, end of period		<b>\$ 57,051</b>	\$ 2,062	<b>\$ 57,051</b>	\$ 2,062

See accompanying notes to the condensed interim consolidated financial statements

# STEP ENERGY SERVICES LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

Unaudited

As at and for the three and six months ended June 30, 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.”).

#### Basis of presentation

These unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board including International Accounting Standard 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these Financial Statements as were followed in the preparation of the Company’s annual audited consolidated financial statements for the year ended December 31, 2016. Accordingly, these Financial Statements should be read in conjunction with those annual audited consolidated financial statements for the year ended December 31, 2016.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. During the period, the Company’s Board of Directors approved a consolidation of the Company’s share capital and share-based compensation instruments on a 5 to 1 basis. All share capital, share-based compensation and per share amounts in these financial statements have been adjusted to give retroactive effect to the share consolidation.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on August 8, 2017.

#### Critical accounting estimates and judgments

In preparing these condensed interim consolidated financial statements, management has made judgments, estimates, and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2016.

#### Seasonality of operations

The Company’s Canadian business is seasonal in nature with the periods of greatest activity being in the first, third and fourth quarters, and the least activity tending to be in the second quarter because of spring break-up. Spring break-up typically occurs between March and June. The Company’s operating activities can also be affected by extended periods of adverse weather which can result in restrictions to the movement of heavy equipment. Activity in the southern United States is generally not as influenced by seasonal conditions.

### 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.

#### *IFRS 16: Leases*

In January 2016, the IASB issued IFRS 16 Leases, which required lessees to recognize all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The Company is completing an assessment documenting the potential impacts of IFRS 16 on its consolidated financial statements. Under the application of this standard, the operating lease commitments disclosed in note 12 are expected to be the primary source of changes to the statements of financial position and the timing of expenses in the statements of net income (loss).

#### *IFRS 15: Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard is required to be adopted either retrospectively or by using a modified transition approach for fiscal years beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 will come into effect for annual periods beginning on or after January 1, 2018. The Company anticipates minimal effect but continues to assess its revenue streams to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements and disclosures.

#### *IFRS 9: Financial Instruments*

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The Standard supersedes earlier versions of IFRS 9 and completed the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9, as amended, includes a principle based approach for classification and measurement of financial assets, a single "expected loss" impairment model and a subsequently reformed approach to hedge accounting. IFRS 9 will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company expects IFRS 9 will impact the Company's current policies and procedures regarding provisions on trade receivables. Trade receivables are recorded at its original invoice less any amounts specifically estimated to be uncollectable. Under IFRS 9, the expected loss impairment model replaces the current method and is based on estimated recognition of losses. Given the strong history of collectability, the Company does not anticipate these changes to have a material impact. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently apply hedge accounting.

The Company's initial assessments on the IFRS 9, IFRS 15, and IFRS 16 are based on work completed to date and may be subject to change as the assessments continue.

### NOTE 2 – INVENTORY

As at	June 30, 2017	December 31, 2016
Coiled tubing	\$ 4,422	\$ 4,227
Sand and chemicals	7,487	7,843
Spare equipment parts	2,058	1,690
Total Inventory	\$ 13,967	\$ 13,760

During the three and six months ended June 30, 2017, the Company incurred a write-down of \$0.5 million (2016: nil) to reflect the net realizable value of sand and chemicals inventory.

## NOTE 3 – PROPERTY AND EQUIPMENT

	Land and buildings	Vehicles	Field equipment	Office equipment	Total
Cost:					
Balance at January 1, 2016	\$ 13,691	\$ 8,489	\$ 203,207	\$ 3,416	\$ 228,803
Additions	8,517	4,793	85,026	1,788	100,124
Disposals	-	(3,086)	(7,379)	-	(10,465)
Effect of exchange rate changes	(11)	(31)	(339)	-	(381)
Balance at December 31, 2016	22,197	10,165	280,515	5,204	318,081
Additions	1,276	4,766	47,471	83	53,596
Disposals	(34)	(2,212)	(4,273)	-	(6,519)
Effect of exchange rate changes	(14)	(64)	(1,063)	(1)	(1,142)
<b>Balance at June 30, 2017</b>	<b>\$ 23,425</b>	<b>\$ 12,655</b>	<b>\$ 322,650</b>	<b>\$ 5,286</b>	<b>\$ 364,016</b>
Accumulated depreciation:					
Balance at January 1, 2016	\$ 940	\$ 2,509	\$ 26,493	\$ 2,049	\$ 31,991
Depreciation	620	2,165	18,469	953	22,207
Disposals	-	(1,610)	(1,507)	-	(3,117)
Effect of exchange rate changes	-	2	23	-	25
Balance at December 31, 2016	1,560	3,066	43,478	3,002	51,106
Depreciation	496	1,520	12,964	536	15,516
Disposals	(34)	(1,367)	(1,002)	-	(2,403)
Effect of exchange rate changes	(2)	(12)	(143)	(1)	(158)
<b>Balance at June 30, 2017</b>	<b>\$ 2,020</b>	<b>\$ 3,207</b>	<b>\$ 55,297</b>	<b>\$ 3,537</b>	<b>\$ 64,061</b>
Carrying amounts:					
As at January 1, 2016	\$ 12,751	\$ 5,980	\$ 176,714	\$ 1,367	\$ 196,812
As at December 31, 2016	\$ 20,637	\$ 7,099	\$ 237,037	\$ 2,202	\$ 266,975
<b>As at June 30, 2017</b>	<b>\$ 21,405</b>	<b>\$ 9,448</b>	<b>\$ 267,353</b>	<b>\$ 1,749</b>	<b>\$ 299,955</b>

Included in field equipment at June 30, 2017 were assets under construction of \$41.0 million (December 31, 2016 - \$8.3 million). Assets under construction are not depreciated until they are substantially completed and available for use.

## NOTE 4 – LOANS AND BORROWINGS

The Company has a borrowing agreement with a syndicate of financial institutions. The Company's agreement is comprised of an operating facility and a revolving facility (together the "Facilities").

The Facilities mature May 31, 2020 and include a committed operating facility up to a maximum of \$10.0 million and a committed revolving facility up to a maximum of \$90.0 million with an additional \$25.0 million accordion feature which is available upon request by the Company, subject to review and approval by the agent and syndicate. The maturity date of the Facilities may be extended for a period up to 3 years. The 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.



The amount of Facilities available to the Company is the lower of \$100.0 million and the following:

1. 85% of the Eligible Accounts Receivable owed by Investment Grade Debtors at such time and 75% of the Eligible Accounts Receivable owed by Non-Investment Grade Debtors; plus
2. 50% of the net book value (as determined in accordance with IFRS) of all Eligible Inventory, to a maximum of \$5.0 million; plus
3. 50% of the net book value (as determined in accordance with IFRS) of all Eligible Real Estate and Eligible Equipment, to a maximum of \$65.0 million; less
4. Priority payables.

The Facility 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 ("Funded debt") 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, and impairment ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Adjusted bank EBITDA for the purposes of the covenant calculations differ from the Company's non-IFRS measure "Adjusted EBITDA" by the exclusion of realized foreign exchange (gain) loss and transaction costs. Funded debt to Adjusted bank EBITDA ratio will not be tested until the first quarter of 2018 when it is required to be 4.00:1 or less for the fiscal quarter ending March 31, 2018, 3.75:1 or less for the fiscal quarter ending June 30, 2018, 3.50:1 or less for the fiscal quarter ending September 30, 2018, and 3.00:1 for the fiscal quarters ending December 31, 2018 and thereafter. During the fiscal quarters ending in 2017 the Funded debt to Adjusted bank EBITDA ratio will not be tested pursuant to the agreement.

2. Funded debt to capitalization ratio refers to the ratio of Funded debt, defined above, to Shareholders' Equity and Funded debt. The Funded debt to capitalization ratio is required to be 0.30:1 or less.

At June 30, 2017, the Funded debt to capitalization ratio was 0.00:1 (December 31, 2016 - 0.12:1).

3. Debt Service Coverage Ratio is calculated as Adjusted bank EBITDA, defined above, to interest expense and scheduled principal repayments in respect of Funded debt. This ratio is not to fall below 1.25:1.00.

At June 30, 2017, the Debt service coverage ratio was 8.92:1 (December 31, 2016 – 1.70:1)

The Company shall ensure that, as at the end of each Fiscal Quarter:

1. The tangible assets of STEP and the Guarantors (material subsidiaries) are not less than 95% of the Consolidated Tangible Assets; and
2. The Adjusted bank EBITDA of STEP and the Guarantors (material subsidiaries) is not less than 95% of the Adjusted bank EBITDA of STEP on a consolidated basis.

Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 450 basis points, dependent on certain financial ratios of the Company. At June 30, 2017, the full amount was available to be drawn on the facilities of which there were no amounts outstanding and the Company was in compliance with all covenants.

## NOTE 5 – SHAREHOLDERS’ EQUITY

## 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, 2016	32,185,974	\$ 180,480
Issued during 2016	15,533,729	77,664
Balance at December 31, 2016	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 – May 17, 2017	488	5
Share issue costs (net of deferred tax)	-	(4,757)
<b>Balance at June 30, 2017</b>	<b>60,120,191</b>	<b>\$ 368,392</b>

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 treasury offering through the issuance of 10 million 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, are estimated to be \$2.5 million in total.

## NOTE 6 – SHARE-BASED COMPENSATION

The Company’s share-based compensation plans for employees and directors currently consists of stock options, performance warrants and deferred share units (“DSUs”). See note 1 regarding consolidation of share-based compensation instruments in the quarter. The following table summarizes the Company’s outstanding equity-settled share-based compensation units:

	2017		2016	
	Stock Options	Performance Warrants	Stock Options	Performance Warrants
Outstanding at January 1	4,249,250	8,850,600	2,207,000	5,669,800
Granted	145,400	290,800	108,000	216,000
Exercised	(1,333)	(320)	-	-
Forfeited / Cancelled	(15,667)	(34,180)	(95,100)	(172,220)
Outstanding at June 30	4,377,650	9,106,900	2,219,900	5,713,580
Exercisable at June 30	1,690,095	3,967,516	1,244,395	3,293,732

### Share-based compensation expense

The composition of share-based compensation expense incurred in the quarter was:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Stock options	\$ 1,014	\$ 567	\$ 1,990	\$ 2,326
Performance warrants	882	578	1,604	3,631
Deferred share units <sup>(1)</sup>	380	-	380	-
<b>Total share-based compensation expense</b>	<b>\$ 2,276</b>	<b>\$ 1,145</b>	<b>\$ 3,974</b>	<b>\$ 5,957</b>

(1) The DSU plan is a cash-settled share-based compensation plan and is recognized as a liability in trade and other payables

When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus are added to share capital.

The weighted average fair value of stock options granted in the first half of 2017, determined using the Black-Scholes pricing model, was \$0.98 per option. The weighted average exercise price of the Company's outstanding stock options is \$5.61/share with a range from \$5.00 - \$10.00.

The weighted average fair value of performance warrants granted in the first half of 2017, determined using the Black-Scholes pricing model, was \$0.79 per performance warrant. The weighted average exercise price of the Company's outstanding performance warrants is \$10.91/share with a range from \$7.50 - \$17.50.

Key assumptions of the share-based compensation instruments issued in 2017: risk-free interest rate 1.07-1.31%, estimated forfeiture rate 9.86-10.37%, expected life 5.25 years, dividend rate 0%, and volatility 54.42-55.60%.

### Deferred share units (cash-settled)

During the quarter, the Company implemented a cash-settled deferred share unit (DSU) plan for its directors. DSUs 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 profit or loss 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 profit or loss for the period. At June 30, 2017, there were 42,967 units outstanding and the liability, included in trade and other payables, is \$0.4 million (December 31, 2016 – nil).

### NOTE 7 – PER SHARE COMPUTATIONS

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Weighted average number of shares outstanding - basic	56,786,695	42,295,760	53,053,199	37,240,867
Dilutive impact of stock options and performance warrants	1,427,041	-	601,322	-
<b>Weighted average number of shares outstanding - diluted</b>	<b>58,213,736</b>	<b>42,295,760</b>	<b>53,654,521</b>	<b>37,240,867</b>

At June 30, 2017, 0.1 million stock options and 6.7 million performance warrants were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive. Due to the losses incurred in 2016, all equity settled share-based instruments were anti-dilutive.

## NOTE 8 – PRESENTATION OF EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cost of sales				
Employee costs	\$ 27,406	\$ 9,039	\$ 54,976	\$ 21,011
Operating expense	19,135	5,854	41,334	13,336
Materials and inventory costs	38,307	6,075	81,336	12,625
Depreciation	7,851	4,924	14,930	9,733
Share-based compensation	946	713	1,791	2,064
Total cost of sales	93,645	26,605	194,367	58,769
Selling, general and administrative expenses				
Employee costs	2,510	984	4,620	1,954
General expenses	1,649	931	3,584	1,867
Depreciation	313	234	586	475
Share-based compensation	1,330	432	2,183	3,893
Total selling, general and administrative expenses	\$ 5,802	\$ 2,581	\$ 10,973	\$ 8,189

## NOTE 9 – FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Interest on borrowings	\$ 282	\$ 155	\$ 696	\$ 242
Interest on finance leases	90	55	165	119
Interest income	(99)	(23)	(100)	(26)
Deferred financing charges	51	-	91	-
Other	11	31	52	66
Total finance costs	\$ 335	\$ 218	\$ 904	\$ 401

## NOTE 10 – FINANCIAL INSTRUMENTS

The Company's financial instruments included in the consolidated statement of financial position are comprised of cash and cash equivalents, trade and other receivables, trade and other payables, loans and borrowings and finance lease obligations.

**Fair values of financial assets and liabilities**

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and accordingly, fair market value approximates carrying value.

**Credit risk**

The Company held cash and cash equivalents of \$57.1 million as at June 30, 2017 (December 31, 2016 - \$2.2 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 six month period ended June 30, 2017, five clients represented 53% of revenue (2016 – 63% of revenue). These top five clients contribute 17%, 12%, 10%, 8% and 6% of revenue respectively, all of which are operated in the Canadian segment.

As at June 30, 2017, 24% of trade receivables are held with one client within the Canadian operations (December 31, 2016 – 13%), and as such, the Company is exposed to concentration of credit risk. As at June 30, 2017, approximately 61% of the total accounts receivable balance was due from five clients (December 31, 2016 – 49%). The Company's aged trade and accounts receivable, are as follows:

As at	June 30, 2017	December 31, 2016
Current (0 to 30 days from invoice date)	\$ 54,783	\$ 27,020
31 - 60 days	20,417	14,733
61 - 90 days	7,142	2,879
91+ days	3,259	3,574
Receivables from trade clients	85,601	48,206
Other amounts	61	1
Allowance for doubtful accounts	(800)	(300)
<b>Total trade and other receivables</b>	<b>\$ 84,862</b>	<b>\$ 47,907</b>

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

The expected timing of cash outflows relating to financial liabilities at June 30, 2017 is:

	2017	2018	2019	2020	Thereafter	Total
Finance lease obligations <sup>(1)</sup>	\$ 2,132	\$ 3,991	\$ 2,962	\$ 573	\$ -	9,658
Trade and other payables	59,823	-	-	-	-	59,823
	\$ 61,955	\$ 3,991	\$ 2,962	\$ 573	\$ -	\$ 69,481

(1) Includes interest portion of finance lease obligation.

The Company anticipates that its existing capital resources, including the credit facility and cash flows from operations, will be adequate to satisfy its liquidity requirements through 2017. Reductions in our 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

##### Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness.

##### Foreign currency risk

As 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 the 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.

## NOTE 11 – 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.

	June 30, 2017		December 31, 2016		
Shareholders' equity	\$	384,090	98%	\$ 259,939	87%
Obligation under finance lease		9,154	2%	6,848	2%
Loans and borrowings		-	-	30,302	11%
Total capitalization	\$	393,244		\$ 297,089	

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 4). The Company is in compliance with all financial and non-financial covenants.

## NOTE 12 – COMMITMENTS, CONTINGENCIES AND PROVISIONS

The following table summarizes the Company's estimated future minimum operating lease payments as at June 30, 2017 for the following five years and thereafter:

	2017	2018	2019	2020	2021	Thereafter	Total
Operating lease obligations <sup>(1)</sup>	\$ 1,558	\$ 2,147	\$ 1,818	\$ 2,193	\$ 2,209	\$ 2,253	\$ 12,178

(1) Includes US obligations at a forecast exchange rate of 1 USD = 1.30 CAD.

Operating leases relate to leases of certain shop and office space with lease terms of between 1 years and 7 years. As at June 30, 2017, the Company has \$29.1 million (December 31, 2016 - \$9.3 million) of commitments related to capital projects all are expected to be incurred in fiscal 2017.

## 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 which the Company may be subject to 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 13 – OPERATING SEGMENTS

The Company's oil and natural gas services are conducted in two geographical segments which are Canada and the U.S. Canadian services include fracturing, coiled tubing, nitrogen and fluid pumping. U.S. services provided are coil tubing, nitrogen and fluid pumping. Management evaluates the performance of its operating segments primarily based on revenue and Adjusted EBITDA<sup>(1)</sup> as included in the internal management reports. The revenue and Adjusted EBITDA<sup>(1)</sup> of each region are used to measure performance since 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 three months ended June 30, 2017	Canadian Operations	U.S. Operations	Total
Revenue	\$ 92,437	\$ 13,009	\$ 105,446
Adjusted EBITDA <sup>(1)</sup>	\$ 13,318	\$ 3,121	\$ 16,439
Depreciation and amortization	\$ 7,254	\$ 1,064	\$ 8,318
Income tax expense	\$ 1,384	\$ 431	\$ 1,815
Capital expenditures	\$ 24,305	\$ 8,349	\$ 32,654

For the three months ended June 30, 2016	Canadian Operations	U.S. Operations	Total
Revenue	\$ 16,907	\$ 2,323	\$ 19,230
Adjusted EBITDA <sup>(1)</sup>	\$ (3,019)	\$ (634)	\$ (3,653)
Depreciation and amortization	\$ 4,762	\$ 539	\$ 5,301
Income tax (recovery)	\$ (1,946)	\$ (635)	\$ (2,581)
Capital expenditures	\$ 66,125	\$ 244	\$ 66,369

For the six months ended June 30, 2017	Canadian Operations	U.S. Operations	Total
Revenue	\$ 202,215	\$ 21,215	\$ 223,430
Adjusted EBITDA <sup>(1)</sup>	\$ 33,764	\$ 3,816	\$ 37,580
Depreciation and amortization	\$ 13,904	\$ 1,959	\$ 15,863
Income tax expense	\$ 5,172	\$ 89	\$ 5,261
Capital expenditures	\$ 38,762	\$ 14,834	\$ 53,596

For the six months ended June 30, 2016	Canadian Operations	U.S. Operations	Total
Revenue	\$ 41,717	\$ 5,091	\$ 46,808
Adjusted EBITDA <sup>(1)</sup>	\$ (3,085)	\$ (902)	\$ (3,987)
Depreciation and amortization	\$ 9,385	\$ 1,110	\$ 10,495
Income tax (recovery)	\$ (3,242)	\$ (981)	\$ (4,223)
Capital expenditures	\$ 71,680	\$ 1,251	\$ 72,931

(1) "Adjusted EBITDA" is a financial measure not presented in accordance with IFRS and is equal to net income before finance costs, depreciation and amortization, loss (gain) on disposal of property and equipment, impairment charges, current and deferred income tax provisions and recoveries, share-based compensation, transaction costs and foreign exchange (gain) loss.

## Segmented assets and liabilities

As at June 30, 2017	Canadian Operations	U.S. Operations	Total
Assets			
Current assets	\$ 146,474	\$ 13,312	\$ 159,786
Property and equipment	269,895	30,060	299,955
Intangible assets	497	-	497
Deferred tax assets	-	639	639
Total assets	\$ 416,866	\$ 44,011	\$ 460,877
Current liabilities	\$ 58,152	\$ 5,350	\$ 63,502

As at December 31, 2016	Canadian Operations	U.S. Operations	Total
Assets			
Current assets	\$ 55,861	\$ 10,755	\$ 66,616
Property and equipment	237,228	29,747	266,975
Intangible assets	844	-	844
Deferred tax assets	-	705	705
Total assets	\$ 293,933	\$ 41,207	\$ 335,140
Current liabilities	\$ 33,491	\$ 3,253	\$ 36,744



## CORPORATE INFORMATION

## Management

Regan Davis  
President & Chief Executive Officer

Rob Sprinkhuysen  
Chief Financial Officer

Steve Glanville  
Vice President Operations & Chief Operating Officer

Rory Thompson  
Vice President Coiled Tubing Services – Canada

Brock Duhon  
Vice President Coiled Tubing Services – U.S.

Mike Burvill  
Vice President Fracturing Services

Bailey Epp  
Vice President Engineering and Technology

Todd Rainville  
Vice President Sales and Marketing

David Johnson  
Vice President Human Resources

Lori McLeod-Hill  
Vice President Finance

## Directors

Douglas Freel – Chairman

Regan Davis <sup>(3)</sup>

Jeremy Gackle <sup>(1) (2)</sup>

Jason Skehar <sup>(3)</sup>

Michael Kelly <sup>(1) (2)</sup>

James Harbilas <sup>(1) (2)</sup>

Donna Garbutt <sup>(3)</sup>

Member of:

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

## Corporate office

300, 505 3<sup>rd</sup> Street SW  
Calgary, Alberta T2P 3E6  
Telephone: (403) 457-1772

## Registered office

4300, 888 - 3<sup>rd</sup> Street SW  
Calgary, Alberta T2P 5C5

## Website

[www.stepenergyservices.com](http://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