

Q2

2017



STEP

energy services

Second Quarter
Ended June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for STEP Energy Services Ltd. ("STEP" or the "Company") has been prepared by management as of August 8, 2017 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards ("IFRS"). It should be read in conjunction with the unaudited consolidated interim financial statements and notes thereto as at and for the six months ended June 30, 2017 (the "Financial statements"), the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2016 and the Prospectus dated April 25, 2017. All documents are available on STEP's website at www.stepenergyservices.com and on SEDAR at www.sedar.com. Readers should also refer to the "Forward-looking statements" legal advisory at the end of this MD&A. All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated. Readers should review the section regarding "Non-IFRS measures".

CORPORATE OVERVIEW

STEP Energy Services is an oilfield service company that provides fully integrated coiled tubing and fracturing solutions. Our combination of modern, fit-for-purpose fracturing and coiled tubing equipment along with our commitment to safety and quality execution has differentiated STEP in plays where wells are deeper, have longer laterals, and higher pressure.

Founded in 2011, our business has grown from a specialized, Canadian-only, deep capacity coiled tubing company to a fully integrated, deep capacity coiled tubing and fracturing solutions provider. In 2015, we extended our coiled tubing operations into the Eagle Ford basin in Texas. During that same year we began offering fracturing services to our Canadian clients. Today, our fracturing and coiled tubing services are focused primarily in the Montney and Duvernay in Canada, while in the United States ("U.S."), we focus on coiled tubing services in the Permian and Eagle Ford in Texas and the Haynesville in Louisiana. Our U.S. business is a key differentiator for STEP. The rate of expansion and profitability from the U.S., coupled with growth in fracturing services, are expected to contribute meaningfully to the Company's results. Our continuing track record of safety, efficiency and execution drives repeat business from our blue-chip exploration and production ("E&P") clients.

Fracturing services in Canada continues to expand with increased industry activity

STEP's fracturing business is primarily focused on the deeper, more technically challenging plays in Alberta and northeast British Columbia. STEP currently operates six fracturing spreads representing 176,750 horsepower ("HP") (including 90,000 HP with bi-fuel capabilities). STEP has an additional 120,750 HP available for deployment, some of which would require additional capital for certain maintenance and refurbishment.

Coiled tubing services in Canada & the U.S. offers future growth

STEP provides coiled tubing services to Canadian and U.S. E&P companies for the completion of new wells and the enhancement of existing wells. STEP units are designed to service the deepest wells in North America. STEP currently has a fleet of 17 coiled tubing spreads, of which 16 are staffed and active (including five spreads in the U.S.). As industry activity is improving in the U.S. and Canada, STEP anticipates increased demand for our coiled tubing services in both markets.

STEP's culture sets us apart

A cornerstone of STEP's success is our high-performance, safety-focused culture. Our four core values; **Safety, Trust, Execution, and Possibilities** inspire our team of professionals to provide differentiated levels of service, strong execution and an unwavering commitment to safety. Internally, our commitment to these values results in lower Workers' Compensation Board rates, fewer non-productive hours, and is instrumental in attracting and retaining top talent. Externally, those benefits pass through to our clients which helps STEP attract and retain high-quality clients with similar values. STEP scored 96% in its 2016 Certificate of Recognition audit and is an award-winning service provider, being the recipient of the Top Safety Culture Awards, Large Enterprises Category, in addition to being named the safety record winner by the OGM Safety Awards.

CONSOLIDATED HIGHLIGHTS

FINANCIAL

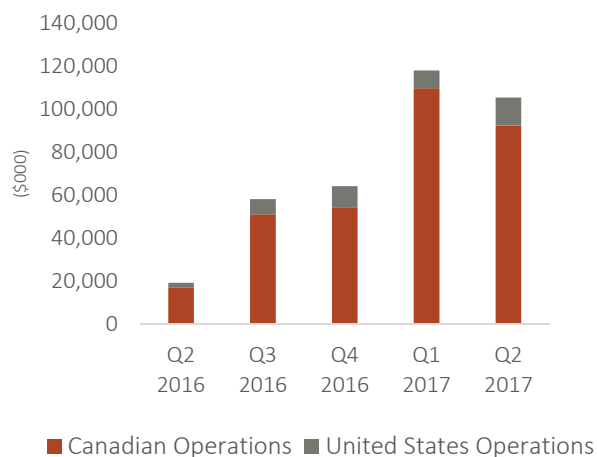
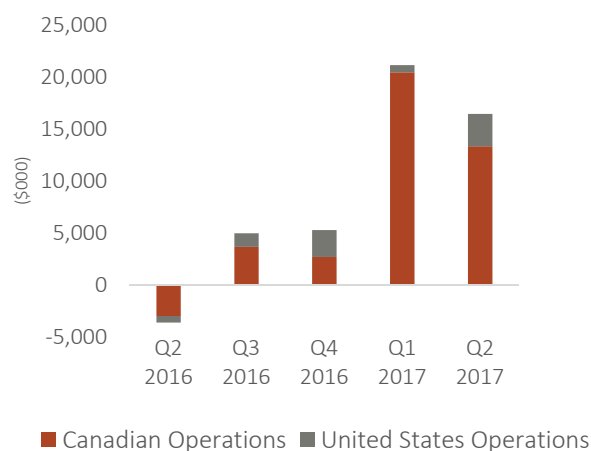
(\$000s except percentages, shares and per share amounts)	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Consolidated revenue	\$ 105,446	\$ 19,230	\$ 223,430	\$ 46,808
Net income (loss) attributable to shareholders	\$ 2,600	\$ (7,471)	\$ 11,592	\$ (16,096)
Per share-basic	\$ 0.05	\$ (0.18)	\$ 0.22	\$ (0.43)
Per share-diluted	\$ 0.04	\$ (0.18)	\$ 0.22	\$ (0.43)
Adjusted EBITDA ⁽¹⁾	\$ 16,439	\$ (3,653)	\$ 37,580	\$ (3,987)
Adjusted EBITDA % ⁽¹⁾	16%	n/m	17%	n/m

BALANCE SHEET

(\$000s except shares and per share amounts)	As at June 30,	As at December 31,
	2017	2016
Cash and cash equivalents	\$ 57,051	\$ 2,151
Working capital	\$ 96,284	\$ 29,872
Total long-term financial liabilities	\$ 5,475	\$ 33,994
Total assets	\$ 460,877	\$ 335,140
Shares outstanding		
Basic	60,120,191	47,719,703
Weighted average shares – basic	53,053,199	42,400,845
Weighted average shares – diluted	53,654,521	42,400,845

⁽¹⁾ See Non-IFRS Measures. "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, current and deferred income tax, share-based compensation, transaction costs and foreign exchange (gain) loss.

CONSOLIDATED REVENUE

CONSOLIDATED ADJUSTED EBITDA ⁽¹⁾

Increased activity and additional deployed equipment across all services contributed to revenue growth for the three and six months ended June 30, 2017.

Record second quarter and year-to-date Adjusted EBITDA is largely the result of increased pricing and improved utilization, complemented by cost and operating efficiencies.

⁽¹⁾ See Non-IFRS Measures.

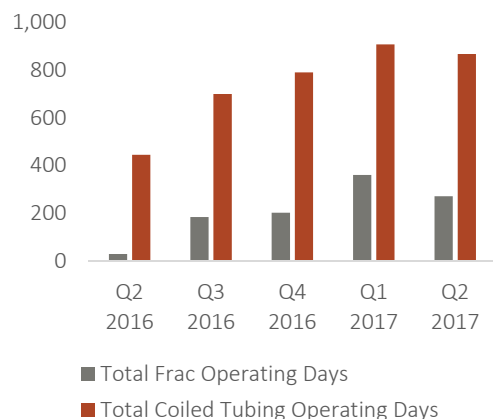
OPERATIONAL

(\$000's except per day, days, units, and HP)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Total fracturing operating days ⁽¹⁾	272	31	633	67
Fracturing revenue per operating day	\$ 252,405	\$ 121,865	\$ 233,800	\$ 112,338
Fracturing capacity (HP):				
Average active HP	145,000	50,000	145,000	50,000
Exit active HP	145,000	50,000	145,000	50,000
Total HP ⁽²⁾	297,500	290,000	297,500	290,000
Total coiled tubing operating days ⁽¹⁾	866	445	1,772	1,058
Coiled tubing revenue per operating day	\$ 42,485	\$ 34,725	\$ 42,570	\$ 37,128
Coiled tubing capacity:				
Average active coiled tubing units	14	9	14	11
Exit active coiled tubing units	15	10	15	10
Total coiled tubing units	16	15	16	15
Capital expenditures	\$ 32,654	\$ 66,369	\$ 53,596	\$ 72,931

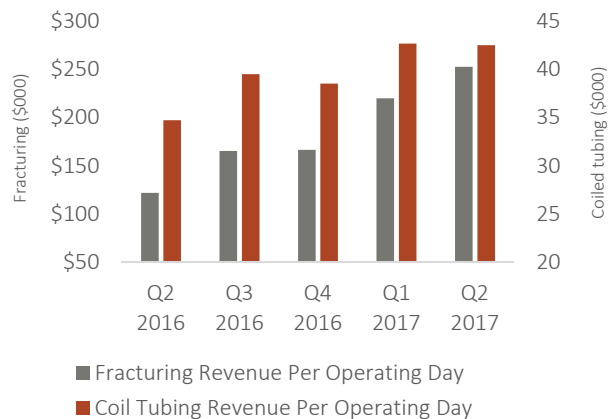
⁽¹⁾ An operating day is defined as any coiled tubing and fracturing work that is performed in a 24 hour period, exclusive of support equipment.

⁽²⁾ Represents total owned HP, of which 176,750 HP is currently deployed and the remainder of which requires certain maintenance and refurbishment.

OPERATING DAYS



REVENUE PER OPERATING DAY



Growth in operating days over prior year is the result of increased demand, additional U.S. coiled tubing capacity, and higher average deployed fracturing HP in Canada.

Increases in revenue per day over prior year are primarily the result of improved pricing across all business lines and higher fracturing intensity.

HIGHLIGHTS

- Generated record second quarter and first half consolidated revenue of \$105.4 million and \$223.4 million, respectively, compared to \$19.2 million and \$46.8 million in the same periods of 2016. The increases are primarily attributable to the growth in deployed equipment, improved pricing, and higher fracturing intensity.
- Average active fracturing spreads increased to five in Q2 2017 from two in Q2 2016, while average active coiled tubing spreads increased to 14 in Q2 2017 from nine in Q2 2016.
- Recorded positive net income of \$2.6 million in the second quarter, a period traditionally represented by net losses for oilfield service companies in Canada due to the seasonality of the business, and \$11.6 million for the first six months of 2017.

- Operating days in Q2 2017 increased 777% for fracturing and 95% for coiled tubing, compared to the same period in 2016, driven by additional deployed equipment to support increased demand for our services.
- Adjusted EBITDA for the three months ended June 30, 2017 was \$16.4 million and for the first six months of 2017 was \$37.6 million, an increase of \$20.1 million and \$41.6 million, respectively, compared to the same periods of 2016. The increase is primarily attributable to increased utilization of an expanded fleet, improved pricing, and cost and operating efficiencies.

SIGNIFICANT EVENTS

Initial public offering

On May 2, 2017, STEP completed an initial public offering (“IPO”) of 10.0 million common shares at a price of \$10.00 per common share for gross proceeds to STEP of \$100.0 million. The proceeds were initially used to repay indebtedness and positions the Company to execute on our capital program.

INDUSTRY CONDITIONS & OUTLOOK

Increased North American drilling activity in response to strengthening commodity prices led to increased demand for STEP’s services in the first half of 2017. A backlog of work was created during the first quarter of 2017 by the undersupply of active fracturing equipment, resulting in some Q1 2017 drilling and completion programs being deferred to the second quarter (or later) of 2017. Improved pricing for our services in response to strong demand was partially offset by inflation in input costs such as chemicals, hauling, proppant, coiled tubing strings and personnel. The improvement in industry conditions has resulted in a tightening of the supply chain including major components, select proppants and chemicals. We continue to work closely with key suppliers to provide projections to support our business and client requirements. Competition for skilled personnel, particularly field professionals, has increased significantly.

Upon completion of our previously announced 2017 capital program of \$100 million (plus the 2016 carry-forward capital of \$9 million), STEP will have a fleet of 21 coiled tubing spreads operating (including eight in the U.S.) and eight fracturing spreads representing approximately 225,000 horsepower deployed (with an additional 72,500 horsepower in our fleet available for future deployment). The eighth U.S. coiled tubing spread and eighth fracturing spread is planned for delivery in the first quarter of 2018. STEP’s ability to deploy additional equipment will be dependent on access to key components, shop capacity and the availability of qualified personnel to staff equipment.

Management is monitoring uncertainty created by volatility in commodity prices and we take a real-time approach to assessing demand for our services. We engage with our clients to understand their drilling and completion programs and will continue to take a measured approach to the pace of our equipment deployment and capital program. Client discussions indicate that activity levels should remain strong for the second half of 2017, although recent commodity price volatility could reduce industry activity as the year progresses.

We continue to be committed to technology advancements and our approach in developing modern fit-for-purpose equipment and solutions. Such advancements include fiber optics and e-line with our coiled tubing operations, STEP-PLEX™ diverting agents in association with recompletion activities, and field equipment automation.

CANADIAN OPERATIONS OVERVIEW

The Canadian operating segment provides fracturing and coiled tubing services to oil and natural gas companies operating in the Western Canadian Sedimentary Basin. As at June 30, 2017, our Canadian operations were comprised of 297,500 fracturing HP, of which a fleet of five fracturing spreads representing 145,000 HP was staffed with 24-hour operations; and 12 purpose-built coiled tubing spreads, with 11 currently staffed and deployed. Subsequent to the end of the second quarter, STEP deployed one additional fracturing spread bringing total deployed fracturing capacity to 176,750 HP.

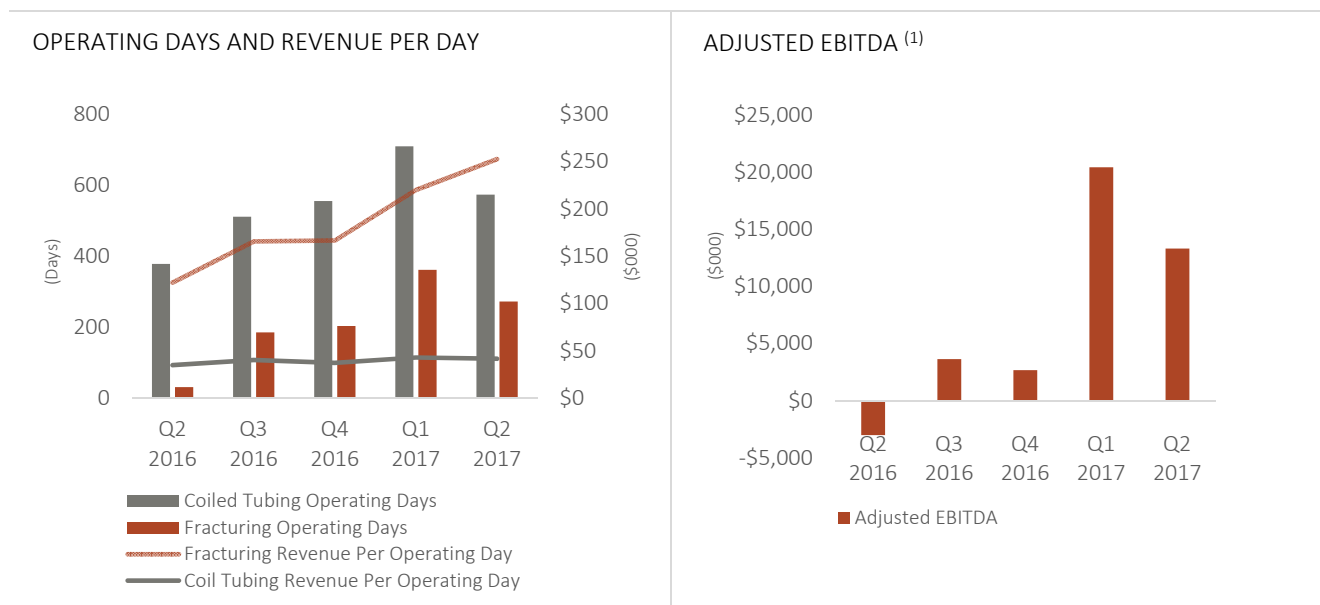
(\$000's except per day, days, units, and HP)	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue	\$ 92,437	\$ 16,907	\$ 202,215	\$ 41,717
Expenses:				
Cost of sales	83,351	23,313	176,225	51,969
Selling, general and administrative	4,950	2,240	9,425	7,593
Results from operating activities	\$ 4,136	\$ (8,646)	\$ 16,565	\$ (17,845)
Add non-cash items:				
Depreciation	7,100	4,619	13,557	9,098
Share-based compensation	2,082	1,008	3,642	5,662
Adjusted EBITDA ⁽¹⁾	\$ 13,318	\$ (3,019)	\$ 33,764	\$ (3,085)
Adjusted EBITDA % ⁽¹⁾	14%	n/m	17%	n/m
Sales mix (% of segment revenue)				
Fracturing	74%	22%	73%	18%
Coiled tubing	26%	78%	27%	82%
Fracturing services				
Fracturing revenue per operating day	\$ 252,405	\$ 121,865	\$ 233,800	\$ 112,338
Number of fracturing operating days ⁽²⁾	272	31	633	67
Active pumping HP, end of period	145,000	50,000	145,000	50,000
Idle pumping HP, end of period	152,500	240,000	152,500	240,000
Total pumping HP, end of period ⁽³⁾	297,500	290,000	297,500	290,000
Coiled tubing services				
Coiled tubing revenue per operating day	\$ 41,505	\$ 34,733	\$ 42,293	\$ 36,803
Number of coiled tubing operating days ⁽²⁾	573	378	1,282	929
Active coiled tubing units, end of period	11	7	11	7
Idle coiled tubing units, end of period	1	5	1	5
Total coiled tubing units, end of period	12	12	12	12

⁽¹⁾ See Non-IFRS Measures.

⁽²⁾ An operating day is defined as any coiled tubing and fracturing work that is performed in a 24 hour period, exclusive of support equipment.

⁽³⁾ Represents total owned HP, of which 176,750 HP is currently deployed and the remainder of which requires certain maintenance and refurbishment.

Q2 and first half 2017 highlights – Canada



Our Canadian segment remains active in both service offerings. During the second quarter, strong demand, increased fracturing intensity and improved pricing generated an increase in revenue per operating day in fracturing and coiled tubing over prior year.

Relative to prior year, increased Adjusted EBITDA in Canada benefitted from improved pricing, stronger utilization and cost and operating efficiencies.

⁽¹⁾ See Non-IFRS Measures.

- Revenue in the second quarter of 2017 was 447% higher and for the first six months of 2017 was 385% higher than the same periods in 2016 as a result of increased demand for our services.
- Coiled tubing operating days increased 52% in Q2 2017 and increased 38% in the first half of 2017 compared to the same periods in 2016.
- Average revenue per coiled tubing operating day increased 19% and 15% in Q2 2017 and the first half of 2017, respectively, over the same periods in 2016. Increases in both periods are largely attributable to improved pricing driven by stronger industry activity.
- Fracturing operating days in Q2 increased 777% in 2017 over 2016, and increased 845% in the first half of 2017, compared to the same periods in the prior year.
- Average revenue per fracturing operating day increased 107% in the second quarter of 2017 and 108% in the first half of 2017, relative to the same periods in 2016. Increases in both periods were largely attributable to improved pricing and higher revenue resulting from increased stages and proppant pumped on a per well basis.
- Adjusted EBITDA in Canada during the three and six months ended June 30, 2017 was \$13.3 million (or 14%) and \$33.8 million (or 17%), respectively, compared to negative Adjusted EBITDA of \$3.0 million and \$3.1 million, respectively, in same periods of 2016. The improvement is primarily attributable to the impacts of increased pricing, an expanded client base, improved utilization, cost reduction measures and better operating efficiencies.

UNITED STATES OPERATIONS OVERVIEW

The U.S. operating segment provides coiled tubing services to an expanding client list in the Permian and Eagle Ford basins in Texas and the Haynesville shale in Louisiana. At June 30, 2017, STEP's U.S. operations had four active coiled tubing spreads. Subsequent to the end of the second quarter STEP took delivery of its fifth U.S. coiled tubing spread and deployed the unit in the Haynesville in Louisiana.

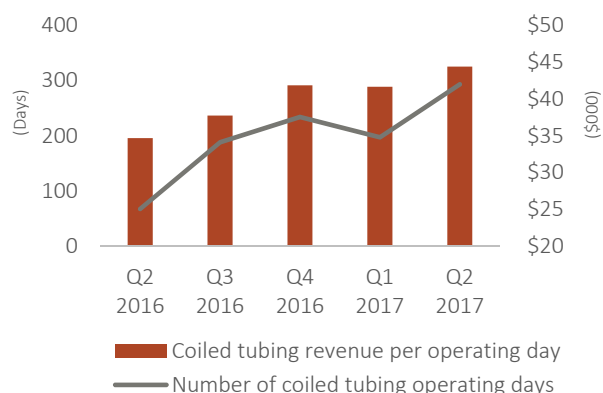
(\$000's except per day, units, and days)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 13,009	\$ 2,323	\$ 21,215	\$ 5,091
Expenses:				
Cost of sales	10,294	3,292	18,142	6,800
Selling, general and administrative	852	341	1,548	597
Results from operating activities	\$ 1,863	\$ (1,310)	\$ 1,525	\$ (2,306)
Add non-cash items:				
Depreciation	1,064	539	1,959	1,110
Share-based compensation	194	137	332	294
Adjusted EBITDA ⁽¹⁾	\$ 3,121	\$ (634)	\$ 3,816	\$ (902)
Adjusted EBITDA % ⁽¹⁾	24%	n/m	18%	n/m
Coiled tubing services				
Coiled tubing revenue per operating day	\$ 44,401	\$ 34,678	\$ 43,296	\$ 39,462
Number of coiled tubing operating days ⁽²⁾	293	67	490	129
Active coiled tubing units, end of period	4	3	4	3
Idle coiled tubing units, end of period	-	-	-	-
Total coiled tubing units, end of period	4	3	4	3

⁽¹⁾ See Non-IFRS Measures.

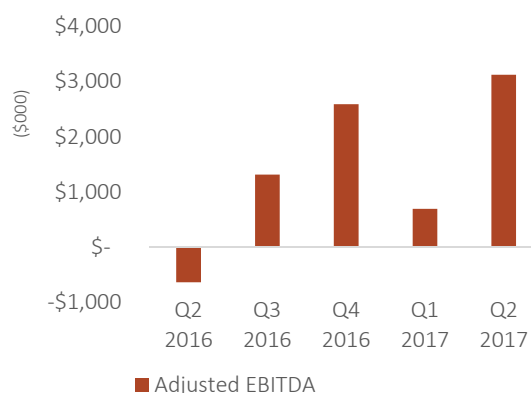
⁽²⁾ An operating day is defined as any coiled tubing and fracturing work that is performed in a 24 hour period, exclusive of support equipment.

Q2 and first half 2017 highlights – U.S.

OPERATING DAYS AND REVENUE PER DAY



ADJUSTED EBITDA ⁽¹⁾



Stronger industry activity during the second quarter of 2017 led to increased utilization of our coiled tubing spreads and resulted in an increase revenue per operating day over prior year.

Increased Adjusted EBITDA over prior year is the result of a more mature business where operating efficiencies gained through economies of scale are becoming meaningful to results.

⁽¹⁾ See Non-IFRS Measures.

- Generated revenue of \$13.0 million in the second quarter and \$21.2 million for the first half of 2017, compared to \$2.3 million and \$5.1 million in the same periods of 2016. Increases are the result of improved demand for our services.
- Coiled tubing operating days increased 337% and 280% in second quarter and first half of 2017, respectively, compared to the same periods in 2016, primarily attributable to more active equipment to support increased demand for our services.
- Average revenue per coiled tubing operating day increased 28% and 10% in the second quarter and first half of 2017, respectively, over the same periods in 2016.
- Adjusted EBITDA from the U.S. was \$3.1 million (or 24%) for Q2 2017 and \$3.8 million (or 18%) for the first half of 2017 compared to negative Adjusted EBITDA of \$0.6 million and \$0.9 million, respectively, in the same periods of 2016. Increased pricing, an expanded client base, improved utilization, cost reduction measures and better operating efficiencies contributed to the increases in both periods.

CONSOLIDATED FINANCIAL REVIEW

(\$000's except per share amounts)	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue	\$ 105,446	\$ 19,230	\$ 223,430	\$ 46,808
Cost of sales	93,645	26,605	194,367	58,769
Gross profit (loss)	11,801	(7,375)	29,063	(11,961)
Selling, general and administrative	5,802	2,581	10,973	8,189
Results from operating activities	5,999	(9,956)	18,090	(20,150)
Finance costs	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
Income (loss) before income tax	4,415	(10,052)	16,853	(20,319)
Income tax expense (recovery)	1,815	(2,581)	5,261	(4,223)
Net Income (loss)	2,600	(7,471)	11,592	(16,096)
Other comprehensive loss	1,000	31	1,278	1,546
Total comprehensive income (loss)	\$ 1,600	\$ (7,502)	\$ 10,314	\$ (17,642)
Net income (loss)	\$ 2,600	\$ (7,471)	\$ 11,592	\$ (16,096)
Net income (loss) per share – basic	\$ 0.05	\$ (0.18)	\$ 0.22	\$ (0.43)
Net income (loss) per share – diluted	\$ 0.04	\$ (0.18)	\$ 0.22	\$ (0.43)
Adjusted EBITDA ⁽¹⁾	\$ 16,439	\$ (3,653)	\$ 37,580	\$ (3,987)
Adjusted EBITDA % ⁽¹⁾	16%	n/m	17%	n/m

⁽¹⁾ See Non-IFRS Measures.

Q2 and first half 2017 capital expenditures

(\$000s)	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Canada	\$ 24,305	\$ 66,125	\$ 38,762	\$ 71,680
United States	8,349	244	14,834	1,251
Total capital expenditures	\$ 32,654	\$ 66,369	\$ 53,596	\$ 72,931

STEP funds capital expenditures from a combination of cash, cash provided by operating activities, issuance of share capital and available credit facilities.

OTHER ITEMS

Depreciation and amortization

For the three and six months ended June 30, 2017, depreciation and amortization expense increased by 57% and 51% to \$8.3 million and \$15.9 million, respectively, from \$5.3 million and \$10.5 million in the same periods of 2016. The increase was the result of assets deployed over the past twelve months.

Finance costs

STEP's finance costs of \$0.3 million and \$0.9 million for the three and six months ended June 30, 2017 increased from \$0.2 million and \$0.4 million in the same periods of 2016 as the outstanding balance on the Company's credit facilities was higher in 2017 due to funding working capital and the capital program. Additionally, interest on finance leases increased as a result of an expanded fleet of leased vehicles.

Foreign exchange gains and losses

STEP recorded a foreign exchange loss of \$0.5 million and \$0.5 million for the three and six months ended June 30, 2017, respectively, versus a gain of \$47 thousand and \$75 thousand in the comparable periods of 2016. Foreign exchange gains and losses arose primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars.

Gains or losses on disposal of property and equipment

The Company recorded gains on disposal of property and equipment of \$0.1 million and \$2.0 million for the three and six months ended June 30, 2017, respectively, compared to \$0.2 million and \$0.4 million in the comparable periods of 2016. The increase is due to the disposal of more non-core assets in the first quarter of 2017 versus 2016. Proceeds on sale of \$1.4 million and \$5.4 million were recognized in the three and six months ended June 30, 2017.

Impairment

STEP reviews for indicators of impairment at each reporting period. Based on management's review, no indicators of impairment existed at June 30, 2017.

Transaction costs

Transaction costs of \$0.7 million and \$1.5 million for the three and six months ended June 30, 2017, respectively, relate to the IPO. In addition \$1.0 million of the transaction costs were capitalized to share capital in the first half 2017.

Income taxes

STEP recorded an income tax expense of \$1.8 million and \$5.3 million in the three and six months ended June 30, 2017, compared to a recovery of \$2.6 million and \$4.2 million in the comparable periods of 2016, respectively. The average combined tax rate was approximately 27% in the three and six months ended June 30, 2017 and 2016.

Share-based compensation

For the three and six months ended June 30, 2017, STEP recorded share-based compensation expense of \$2.3 million and \$4.0 million, respectively, compared to \$1.1 million and \$6.0 million in the same periods of 2016. The prior year comparative includes a charge pertaining to the extension of options and performance warrant grants issued in 2011 that were set to expire in 2016.

LIQUIDITY AND CAPITAL RESOURCES

(\$000s)	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
Net cash provided by (used in)				
Operating activities	\$ 9,423	\$ (4,161)	\$ 14,932	\$ (4,749)
Investing activities	(21,958)	(66,176)	(36,646)	(74,179)
Financing activities	60,817	66,955	76,685	72,780
Impact of foreign exchange on cash	(95)	53	(71)	(16)
Increase (decrease) in cash and cash equivalents	\$ 48,187	\$ (3,329)	\$ 54,900	\$ (6,164)
Ending cash balance	\$ 57,051	\$ 2,062	\$ 57,051	\$ 2,062

Net cash provided by (used in) operating activities

Net cash provided by operating activities totaled \$9.4 million and \$14.9 million for the three and six months ended June 30, 2017, compared to net cash used in operating activities of \$4.2 million and \$4.7 million in the comparable periods of 2016, respectively. The increase in net cash provided by operating activities was due to increased activity and pricing partially offset by an increase in non-cash working capital. Trade and other receivables increased from \$13.0 million at June 30, 2016 to \$84.9 million at June 30, 2017, as a result of increase in revenue in the second quarter and first half of 2017, compared to the comparable periods of 2016.

Net cash used in investing activities

Net cash used in investing activities totaled \$22.0 million and \$36.6 million for the three and six months ended June 30, 2017. The decrease relative to the same periods in 2016 can be attributed to the Sanjel acquisition in the second quarter of 2016.

Net cash provided by financing activities

Net cash provided by financing activities totaled \$60.8 million and \$76.7 million for the three and six months ended June 30, 2017. In February 2017, the Company issued 2.4 million common shares for aggregate proceeds of \$15.0 million pertaining to a subscription agreement entered into between the Company and ARC Energy Fund 8 on April 2, 2015. This represents the final financing under the subscription agreement. On May 2, 2017, STEP completed an initial public offering for aggregate gross proceeds to STEP of \$100.0 million. The proceeds were initially used to repay indebtedness and positions the Company to execute on its capital program.

Working capital and cash requirements

As at June 30, 2017, STEP had positive working capital of \$96.3 million, compared to \$29.9 million as at December 31, 2016. Contributing to the improvement is the net proceeds from the IPO as cash and cash equivalents increased from \$2.1 million at December 31, 2017 to \$57.1 million as at June 30, 2017. As at June 30, 2017, trade and other receivables increased to \$84.9 million from \$47.9 million as at December 31, 2016, due to higher activity across all service lines. As at June 30, 2017, trade and other payables increased to \$59.8 million from \$33.6 million as at December 31, 2016, the growth relates to the increased need for non-cash working capital to support operations and the capital program.

Capital management

(\$000s)	As at June 30, 2017	As at December 31, 2016
Shareholders' equity	\$ 384,090	\$ 259,939
Obligation under finance lease	9,154	6,848
Loans and borrowings	-	30,302
Total capital	\$ 393,244	\$ 297,089

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 growth 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.

Equity:

As at August 8, 2017, there were 60,120,191 common shares issued and outstanding.

Debt:

During the first quarter of 2017, the Company entered into a new 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 once for a period of 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 lesser of \$100.0 million and the sum of 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 Facilities require the Company to maintain certain 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.

- 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).

- 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.

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:

- The tangible assets of STEP and the Guarantors (material subsidiaries) are not less than 95% of the consolidated tangible assets; and
- 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.

Contractual obligations, commitments, and provisions

(\$000s)	Total	< 1 year	1-3 years	4-5 years	>5 years
Trade and other payables	\$ 59,823	\$ 59,823	\$ -	\$ -	\$ -
Operating leases and office space	12,178	1,558	6,158	2,209	2,253
Finance leases	9,658	2,132	7,526		
Capital expenditure commitments ⁽¹⁾	29,098	29,098	-	-	-
Total commitments	\$ 110,757	\$ 92,611	\$ 13,684	\$ 2,209	\$ 2,253

⁽¹⁾ A capital expenditure commitment is defined as a legally binding purchase agreement between the Company and the supplier as it relates to the Company's capital program.

The Company leases a number of office and operating facilities. The lease terms range from one to seven years with an option to renew upon expiry.

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 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.

SELECTED QUARTERLY INFORMATION

STEP's quarterly financial performance are affected by the seasonality⁽¹⁾ of the business in Canada, assets deployed, asset utilization, pricing, changes in STEP's clients' capital programs, foreign exchange rates, product costs, and other significant events impacting operations.

Quarterly Results Summary ⁽²⁾								
(\$000's, except per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2017	2017	2016	2016	2016	2016	2015	2015
Revenue								
Canadian Operations	92,437	109,778	54,368	51,088	16,907	24,810	29,115	28,492
United States Operations	13,009	8,206	9,794	7,094	2,323	2,767	6,155	514
	105,446	117,984	64,162	58,182	19,230	27,577	35,270	29,006
Net income (loss) attributable to shareholders								
	2,600	8,992	(2,615)	(1,242)	(7,471)	(8,626)	(3,724)	(1,565)
Adjusted EBITDA ⁽³⁾								
Canadian Operations	13,318	20,445	2,668	3,640	(3,019)	(66)	3,007	2,685
United States Operations	3,121	695	2,587	1,314	(634)	(268)	1,311	(420)
	16,439	21,140	5,255	4,954	(3,653)	(334)	4,318	2,265
Capital expenditures								
Canadian Operations	24,305	14,459	9,263	11,946	66,125	5,555	18,841	5,567
United States Operations	8,349	6,484	2,359	3,625	244	1,007	1,145	610
	32,654	20,943	11,622	15,571	66,369	6,562	19,986	6,177
Per common share								
Net income (loss) – basic	0.05	0.18	(0.05)	(0.03)	(0.18)	(0.27)	(0.12)	(0.05)
Net income (loss) – diluted	0.04	0.18	(0.05)	(0.03)	(0.18)	(0.27)	(0.12)	(0.05)
Adjusted EBITDA ⁽³⁾ – basic	0.29	0.43	0.11	0.10	(0.09)	(0.01)	0.14	0.08
Adjusted EBITDA ⁽³⁾ – diluted	0.28	0.43	0.11	0.10	(0.09)	(0.01)	0.14	0.08

⁽¹⁾ The Company's business is seasonal in nature with the periods of greatest activity in Canada being in the first, third and fourth quarters. The U.S. is generally not affected by seasonality.

⁽²⁾ Totals may not add due to rounding.

⁽³⁾ See Non-IFRS Measures.

Quarterly Operating Summary								
(000's, except units)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2017	2017	2016	2016	2016	2016	2015	2015
Canada								
Exit active HP (000's)	145	145	100	100	50	50	50	-
Total HP (000's)	298	298	298	298	290	115	115	115
Exit active coiled tubing units	11	10	10	8	7	10	10	11
Total coiled tubing units	12	12	12	12	12	12	12	13
United States								
Exit active coiled tubing units	4	4	4	3	2	2	2	-
Total coiled tubing units	4	4	4	3	3	2	2	1

FINANCIAL INSTRUMENTS

Fair values

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.

Interest rate risk

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

Credit risk

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 and management's assessment of the credit risk associated with its clients. The Company continually monitors individual client trade receivables, taking into account numerous factors including industry conditions, payment history and financial condition in assessing credit risk. The Company establishes an allowance for doubtful accounts for specifically identifiable client balances which are assessed to have credit risk exposure.

Foreign currency risk

As the Company operates in both Canada and the U.S., 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.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements as at June 30, 2017 other than the operating leases described under "Contractual obligations and commitments".

NON-IFRS MEASURES

This MD&A includes a term or performance measure commonly used in the oilfield services industry that is not defined under IFRS: "Adjusted EBITDA". The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. This non-IFRS measure has no standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. The non-IFRS measure should be read in conjunction with the Company's audited and unaudited Financial statements and the accompanying notes thereto.

"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, share-based compensation, transaction costs and foreign exchange (gain) loss. Adjusted EBITDA is presented because it is widely used by the investment community as it provides an indication of the results generated by the Company's normal course business activities prior to considering how the activities are financed and the results are taxed. Transaction costs related to the IPO have been adjusted for as they are not reflective of operating activities. The Company uses Adjusted EBITDA internally to evaluate operating and segment performance, because management believes it provides better comparability between periods.

The following table presents a reconciliation of the non-IFRS financial measure of Adjusted EBITDA to the IFRS financial measure of net income (loss).

(\$000s)	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
Net income (loss)	\$ 2,600	\$ (7,471)	\$ 11,592	\$ (16,096)
Add (deduct):				
Depreciation and amortization	8,318	5,302	15,863	10,494
Gain on disposal of property and equipment	(120)	(219)	(2,001)	(445)
Finance costs	335	218	904	401
Income tax expense (recovery)	1,815	(2,581)	5,261	(4,223)
Share-based compensation	2,276	1,145	3,974	5,957
Transaction costs	746	-	1,531	-
Foreign exchange (gain) loss	469	(47)	456	(75)
Adjusted EBITDA	\$ 16,439	\$ (3,653)	\$ 37,580	\$ (3,987)

ACCOUNTING POLICIES AND ESTIMATES

Internal control over financial reporting

The Company is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". STEP became a reporting issuer in the second quarter of 2017, and accordingly is not required to make representations regarding the maintenance and establishment of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") in place at June 30, 2017. Management will certify the design of the Company's DC&P and ICFR as at September 30, 2017 and the effectiveness of DC&P and ICFR as at December 31, 2017. The evaluation of ICFR will be based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Critical accounting estimates and judgments

This MD&A is based on the Company's interim consolidated financial statements for the three and six months ended June 30, 2017. The preparation of the interim 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. Please refer to Notes 1 and 2 to the audited consolidated financial statements and MD&A dated April 7, 2017 for the year ended December 31, 2016 and the interim consolidated financial statements for the Quarter ended June, 30, 2017 for a description of the Company's accounting policies, impacts of future accounting pronouncements, significant accounting policies, and practices involving the use of estimates and judgments that are critical to determining STEP's financial results.

RISK FACTORS AND RISK MANAGEMENT

STEP's business is subject to a number of risks and uncertainties. Investors should review and carefully consider the risks described in the Company's annual MD&A dated April 7, 2017 prepared by management for the year ended December 31, 2016, which are specifically incorporated by reference herein. The Company's risk factors and management thereof has not changed substantially from those disclosed in the annual MD&A and the Prospectus dated April 25, 2017.

Forward-looking statements

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will",

"should", "believe", "plans" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this document contains forward-looking information and statements pertaining to the following: expected expansion and profitability from the U.S.; anticipated growth in fracturing services; anticipated increased demand for coiled tubing services; timing of delivery of additional spreads; activity levels; the ability to deploy additional equipment; utilization; monitoring of client capital budgets; and the amount of capital expenditures in 2017.

The forward-looking information and statements contained in this document reflect several material factors and expectations and assumptions of the Company including, without limitation: that the Company will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the impact of seasonal weather conditions; and certain cost assumptions. The Company believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in the demand for or supply of the Company's services; unanticipated operating results; changes in tax or environmental laws, or other regulatory matters; changes in the development plans of third parties; increased debt levels or debt service requirements; limited, unfavourable or a lack of access to capital markets; increased costs; the impact of competitors; reliance on industry partners; attracting and retaining skilled personnel and certain other risks detailed in the Prospectus (including, without limitation, those risks identified in this document).

The forward-looking information and statements contained in this document speak only as of the date of the document, and none of the Company or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws. The reader is cautioned not to place undue reliance on forward-looking information.