Condensed Interim Consolidated Financial Statements

STEP energy services

As at and for the three and nine months ended September 30, 2017

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

As at (in thousands of dollars)	Notes	September 30, 2017	December 31, 2016
ASSETS			
Current Assets			
Cash and cash equivalents		$ 60,206	$ 2,151
Trade and other receivables	10	131,823	47,907
Current tax receivable		-	744
Inventory	2	16,672	13,760
Prepaid expenses and deposits		3,489	2,054
		212,190	66,616
Property and equipment	3	314,714	266,975
Intangible assets		369	844
Deferred tax asset		-	705
		$ 527,273	$ 335,140
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		$ 85,943	$ 33,588
Current portion of obligations under finance lease		4,146	3,156
		90,089	36,744
Deferred tax liabilities		16,627	4,463
Obligations under finance lease		6,635	3,692
Loans and borrowings	4	1,903	30,302
		115,254	75,201
Shareholders' equity			
Share capital	5	368,170	258,144
Contributed surplus		24,496	19,895
Accumulated other comprehensive income (loss)		(2,393)	321
Retained earnings (Deficit)		21,746	(18,421)
		412,019	259,939
		$ 527,273	$ 335,140

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 September 30, 2017	2016	For the nine months ended September 30, 2017	2016
Revenue		$ 175,537	$ 58,182	$ 398,967	$ 104,990
Cost of sales	8	130,467	56,962	324,835	115,731
Gross profit (loss)		45,070	1,220	74,132	(10,741)
Selling, general and administrative expenses	8	5,067	3,163	16,041	11,352
Results from operating activities		40,003	(1,943)	58,091	(22,093)
Finance costs	9	99	214	1,003	615
Foreign exchange (gain) loss		(119)	(39)	338	(113)
Gain on disposal of property and equipment		(95)	(998)	(2,096)	(1,442)
Transaction costs		452	-	1,983	-
Amortization of intangibles		128	144	475	432
Net income (loss) before income tax		39,538	(1,264)	56,388	(21,585)
Income tax expense (recovery)					
Current		1,473	-	1,594	-
Deferred		9,490	(22)	14,627	(4,244)
		10,963	(22)	16,221	(4,244)
Net income (loss)		28,575	(1,242)	40,167	(17,341)
Other comprehensive income (loss)					
Foreign currency translation (loss) gain		(1,436)	134	(2,714)	(1,412)
Total comprehensive income (loss)		$ 27,139	$ (1,108)	$ 37,453	$ (18,753)
Basic net income (loss) per share	7	$ 0.48	$ (0.03)	$ 0.72	$ (0.43)
Diluted net income (loss) per share	7	$ 0.46	$ (0.03)	$ 0.71	$ (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		-	-	-	(17,341)	(17,341)
Foreign currency translation loss		-	-	(1,412)	-	(1,412)
Share-based compensation	6	-	7,224	-	-	7,224
Shares issued	5	76,690	-	-	-	76,690
Balance at September 30, 2016		257,170	18,201	(415)	(15,806)	259,150
Balance at January 1, 2017		258,144	19,895	321	(18,421)	259,939
Net income for the period		-	-	-	40,167	40,167
Foreign currency translation loss		-	-	(2,714)	-	(2,714)
Share-based compensation	6	-	4,601	-	-	4,601
Shares issued (net of share issue costs and deferred tax)	5	110,026	-	-	-	110,026
Balance at September 30, 2017		**$ 368,170**	**$ 24,496**	**$ (2,393)**	**$ 21,746**	**$ 412,019**

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 September 30, 2017	2016	For the nine months ended September 30, 2017	2016
Operating activities:					
Net income (loss)		$ 28,575	$ (1,242)	$ 40,167	$ (17,341)
Adjusted for the following:					
Depreciation and amortization		9,083	5,773	24,946	16,269
Share-based compensation	6	1,085	1,268	5,059	7,224
Unrealized foreign exchange (gain) loss		98	(38)	56	(13)
Gain on disposal of property and equipment		(95)	(998)	(2,096)	(1,442)
Finance costs	9	99	214	1,003	615
Deferred income tax expense (recovery)		9,490	(22)	14,627	(4,244)
Cash finance costs paid		(82)	(214)	(1,575)	(615)
Cash tax received		-	-	648	-
Changes in working capital from operations		(26,076)	(19,066)	(45,723)	(19,528)
Net cash provided by (used in) operating activities		22,177	(14,325)	37,112	(19,075)
Investing activities:					
Purchase of property and equipment		(22,760)	(14,197)	(71,815)	(86,305)
Proceeds on disposal of property and equipment		498	4,706	5,894	5,551
Purchase of intangible assets		-	-	-	(438)
Changes in working capital from investing		3,109	(895)	10,122	(3,372)
Net cash used in investing activities		(19,153)	(10,386)	(55,799)	(84,564)
Financing activities:					
Issuance of share capital (net of share issue costs)	5	(300)	871	108,209	76,690
Proceeds from exercise of stock options	6	-	-	5	-
Issuance (repayment) of loans and borrowings	4	1,903	23,969	(28,399)	21,911
Repayment of obligations under finance lease		(770)	(482)	(2,178)	(1,468)
Changes in working capital from financing		(576)	(5)	(698)	-
Net cash provided by financing activities		257	24,353	76,939	97,133
Impact of exchange rate changes on cash		(126)	2	(197)	(14)
Increase (decrease) in cash and cash equivalents		3,155	(356)	58,055	(6,520)
Cash and cash equivalents, beginning of period		57,051	2,062	2,151	8,226
Cash and cash equivalents, end of period		$ 60,206	$ 1,706	$ 60,206	$ 1,706

See accompanying notes to the condensed interim consolidated financial statements

As at and for the three and nine months ended September 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. In the first quarter of 2017, 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 November 7, 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 of the potential impacts of IFRS 16 on its consolidated financial statements. Upon application of this standard, it is expected that the operating lease commitments disclosed in note 12 are 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. The Company does not anticipate any adjustments to revenue upon the adoption of IFRS 15. The standard will also require additional 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 lifetime expected credit losses. Given the strong history of collectability, the Company does not anticipate these changes to have a material impact.

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

NOTE 2 – INVENTORY

As at		September 30, 2017		December 31, 2016
Coiled tubing	$	**5,967**	$	4,227
Sand and chemicals		**8,610**		7,843
Spare equipment parts		**2,095**		1,690
Total Inventory	$	**16,672**	$	13,760

During the nine months ended September 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	1,510	7,343	69,587	494	78,934
Disposals	(34)	(2,402)	(4,779)	-	(7,215)
Effect of exchange rate changes	(56)	(155)	(2,259)	(1)	(2,471)
Balance at September 30, 2017	**$ 23,617**	**$ 14,951**	**$ 343,064**	**$ 5,697**	**$ 387,329**
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	740	2,575	20,313	843	24,471
Disposals	(34)	(1,476)	(1,103)	-	(2,613)
Effect of exchange rate changes	(4)	(34)	(310)	(1)	(349)
Balance at September 30, 2017	**$ 2,262**	**$ 4,131**	**$ 62,378**	**$ 3,844**	**$ 72,615**
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
As at September 30, 2017	**$ 21,355**	**$ 10,820**	**$ 280,686**	**$ 1,853**	**$ 314,714**

Included in field equipment at September 30, 2017 were assets under construction of $34.7 million (December 31, 2016 - $8.3 million). Assets under construction are not depreciated until they are substantially complete 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 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 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 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 September 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 September 30, 2017, the Debt service coverage ratio was 16.13:1 (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, depending on certain financial ratios of the Company. At September 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.

At September 30, 2017, loans and borrowings outstanding are comprised of long term vendor financing related to capital acquisitions. Amounts incur no interest and payments commence in the fourth quarter 2018.

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)	-	(4,979)
Balance at September 30, 2017	**60,120,191**	**$ 368,170**

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 and tax impact, are estimated to be $3.3 million in total.

NOTE 6 – SHARE-BASED COMPENSATION

Prior to the IPO, the Company's share-based compensation plans for employees and directors consisted of prior stock options ("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").

Grants under the New Stock Option Plan are exercisable for Common Shares, vest over a period of three years and have a maximum term of five years, or as otherwise set out by the Board in the applicable grant agreement. The Board may, from time to time, determine those eligible persons of the Company who will receive grants under the PRSU Plan. Grants under the PRSU Plan provide the holder a right to receive a Common Share for each whole vested share unit. As at September 30, 2017, there were no instruments granted under the New Stock Option Plan or the PRSU Plan.

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. Effective May 2, 2017, no further awards under the prior Stock Option Plan are permitted and no further performance warrants may be granted. See note 1 regarding the consolidation of share-based compensation instruments in the year.

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**	195,000	372,000
Exercised	**(1,333)**	**(320)**	-	-
Forfeited / Cancelled	**(45,865)**	**(102,580)**	(95,100)	(172,220)
Outstanding at September 30	**4,347,452**	**9,038,500**	2,306,900	5,869,580
Exercisable at September 30	**1,777,430**	**4,093,715**	1,311,228	3,476,632

Deferred share units (cash-settled)

During the year, 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 September 30, 2017, there were 42,967 DSUs outstanding and the liability, included in trade and other payables, is $0.5 million (December 31, 2016 – nil).

Share-based compensation expense

The composition of share-based compensation expense incurred was:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Stock options	**$ 742**	$ 535	**$ 2,731**	$ 2,860
Performance warrants	**270**	733	**1,874**	4,364
Deferred share units(1)	**73**	-	**454**	-
Total share-based compensation expense	**$ 1,085**	$ 1,268	**$ 5,059**	$ 7,224

(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 or performance warrants 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 nine months ended September 30, 2017, determined using the Black-Scholes pricing model, was $4.80 per option. The weighted average exercise price of the Company's outstanding stock options is $5.49/share with a range from $5.00 - $10.00.

The weighted average fair value of performance warrants granted in the nine months ended September 30, 2017, determined using the Black-Scholes pricing model, was $3.86 per performance warrant. The weighted average exercise price of the Company's outstanding performance warrants is $10.89/share with a range from $7.50 - $17.50.

Key assumptions used in determining share-based compensation for instruments issued in 2017 include: risk-free interest rate 0.99-1.37%, estimated forfeiture rate 9.67-10.37%, expected life 4.99 years, dividend rate 0%, and volatility 52.66-59.85%.

NOTE 7 – PER SHARE COMPUTATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Weighted average number of shares outstanding - basic	**60,120,191**	47,466,858	**55,408,863**	40,649,531
Dilutive impact of stock options and performance warrants	**1,659,160**	-	**855,047**	-
Weighted average number of shares outstanding - diluted	**61,779,351**	47,466,858	**56,263,910**	40,649,531

At September 30, 2017, no stock options and 4.8 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 net loss incurred in 2016, all equity settled share-based instruments were anti-dilutive.

NOTE 8 – PRESENTATION OF EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Cost of sales				
Employee costs	**$ 34,655**	$ 16,819	**$ 89,633**	$ 37,829
Operating expense	**28,692**	6,442	**70,026**	13,876
Materials and inventory costs	**57,738**	28,009	**139,073**	46,537
Depreciation	**8,696**	5,393	**23,626**	15,126
Share-based compensation	**686**	299	**2,477**	2,363
Total cost of sales	**130,467**	56,962	**324,835**	115,731
Selling, general and administrative expenses				
Employee costs	**2,564**	1,153	**7,185**	3,107
General expenses	**1,845**	805	**5,429**	2,673
Depreciation	**259**	236	**845**	711
Share-based compensation	**399**	969	**2,582**	4,861
Total selling, general and administrative expenses	**$ 5,067**	$ 3,163	**$ 16,041**	$ 11,352

NOTE 9 – FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Interest on loans and borrowings	**$ 87**	$ 142	**$ 783**	$ 412
Interest on finance leases	**104**	58	**269**	176
Interest income	**(156)**	(1)	**(256)**	(28)
Deferred financing charges	**55**	-	**146**	-
Other	**9**	15	**61**	55
Total finance costs	**$ 99**	$ 214	**$ 1,003**	$ 615

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 $60.2 million as at September 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 nine month period ended September 30, 2017, five clients represented 45% of revenue (2016 – 58% of revenue). These top five clients contribute 12%, 11%, 8%, 8% and 5% of revenue respectively, all of which are operated in the Canadian segment.

As at September 30, 2017, 13% of trade receivables are held with one client within the Canadian segment (December 31, 2016 – 13%), and as such, the Company is exposed to concentration of credit risk. As at September 30, 2017, approximately 45% 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		September 30, 2017		December 31, 2016
Current (0 to 30 days from invoice date)	$	**98,847**	$	27,020
31 - 60 days		**23,482**		14,733
61 - 90 days		**7,869**		2,879
91+ days		**2,297**		3,574
Receivables from trade clients		**132,495**		48,206
Other amounts		**243**		1
Allowance for doubtful accounts		**(915)**		(300)
Total trade and other receivables	$	**131,823**	$	47,907

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 on the statement of financial position as at September 30, 2017 are:

		2017		2018		2019		2020		Thereafter		Total
Finance lease obligations(1)	$	1,429	$	4,644	$	4,392	$	840	$	-		11,305
Trade and other payables		85,943		-		-		-		-		85,943
Loans and borrowings		-		634		1,269		-		-		1,903
	$	87,372	$	5,278	$	5,661	$	840	$	-	$	99,151

(1) Includes interest portion of finance lease obligation.

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 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
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.

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.

		September 30, 2017			December 31, 2016	
Shareholders' equity	**$**	**412,019**	**97.0%**	$	259,939	87.5%
Obligation under finance lease		**10,781**	**2.5%**		6,848	2.3%
Loans and borrowings		**1,903**	**0.5%**		30,302	10.2%
Total capitalization	**$**	**424,703**		$	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 commitments as at September 30, 2017 for the following five years and thereafter:

		2017		2018		2019		2020		2021		Thereafter		Total
Operating lease obligations(1)	$	769	$	2,304	$	1,876	$	2,251	$	2,267	$	2,289	$	11,756
Loans and borrowings(2)		76		300		300		125		-		-		801
Total	$	845	$	2,604	$	2,176	$	2,376	$	2,267	$	2,289	$	12,557

(1) Includes US obligations at a forecast exchange rate of 1 USD = 1.25 CAD.
(2) Stand-by fees on the credit facility described in note 4

Operating leases relate to leases of certain shop and office space with lease terms of between 1 years and 7 years. As at September 30, 2017, the Company has $23.1 million (December 31, 2016 - $9.3 million) of commitments related to capital projects and 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(1) as included in the internal management reports. The revenue and Adjusted EBITDA(1) of each region 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 three months ended September 30, 2017		Canadian Operations		U.S. Operations		Total
Revenue	$	159,211	$	16,326	$	175,537
Adjusted EBITDA (1)	$	45,483	$	4,560	$	50,043
Depreciation and amortization	$	7,838	$	1,245	$	9,083
Income tax expense	$	10,165	$	798	$	10,963
Capital expenditures	$	17,486	$	7,852	$	25,338

For the three months ended September 30, 2016		Canadian Operations		U.S. Operations		Total
Revenue	$	51,088	$	7,094	$	58,182
Adjusted EBITDA (1)	$	3,640	$	1,314	$	4,954
Depreciation and amortization	$	5,097	$	676	$	5,773
Income tax (recovery)	$	78	$	(100)	$	(22)
Capital expenditures	$	11,946	$	3,625	$	15,571

For the nine months ended September 30, 2017		Canadian Operations		U.S. Operations		Total
Revenue	$	361,426	$	37,541	$	398,967
Adjusted EBITDA (1)	$	79,246	$	8,375	$	87,621
Depreciation and amortization	$	21,743	$	3,203	$	24,946
Income tax expense	$	15,334	$	887	$	16,221
Capital expenditures	$	56,249	$	22,685	$	78,934

For the nine months ended September 30, 2016		Canadian Operations		U.S. Operations		Total
Revenue	$	92,805	$	12,185	$	104,990
Adjusted EBITDA (1)	$	556	$	412	$	968
Depreciation and amortization	$	14,483	$	1,786	$	16,269
Income tax (recovery)	$	(3,163)	$	(1,081)	$	(4,244)
Capital expenditures	$	83,626	$	4,876	$	88,502

Segmented assets and liabilities

As at September 30, 2017		Canadian Operations		U.S. Operations		Total
Assets						
Current assets	$	195,627	$	16,563	$	212,190
Property and equipment		277,653		37,061		314,714
Intangible assets		369		-		369
Total assets	$	473,649	$	53,624	$	527,273
Current liabilities	$	82,813	$	7,276	$	90,089

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

Reconciliation of Net income (loss) to Adjusted EBITDA(1)

		Three months ended September 30,				Nine months ended September 30,		
		2017		2016		2017		2016
Net income (loss)	$	28,575	$	(1,242)	$	40,167	$	(17,341)
Add (deduct):								
Depreciation and amortization		9,083		5,773		24,946		16,269
Gain on disposal of property and equipment		(95)		(998)		(2,096)		(1,442)
Finance costs		99		214		1,003		615
Income tax expense (recovery)		10,963		(22)		16,221		(4,244)
Share-based compensation		1,085		1,268		5,059		7,224
Transaction costs		452		-		1,983		-
Foreign exchange (gain) loss		(119)		(39)		338		(113)
Adjusted EBITDA(1)	$	50,043	$	4,954	$	87,621	$	968

(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.

CORPORATE INFORMATION

Management

Regan Davis
President & Chief Executive Officer

Rob Sprinkhuysen
Chief Financial Officer

Steve Glanville
Chief Operating Officer & Vice President Operations

Mike Burvill
Vice President Fracturing Services

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

Rory Thompson
Vice President Coiled Tubing Services – Canada

Bailey Epp
Vice President Engineering and Technology

David Johnson
Vice President Human Resources

Lori McLeod-Hill
Vice President Finance

Todd Rainville
Vice President Sales and Marketing

Directors

Douglas Freel – Chairman

Regan Davis (3)

Jeremy Gackle (1) (2)

Jason Skehar (3)

Michael Kelly (1) (2)

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