Condensed Interim Consolidated Financial Statements

STEP energy services

As at and for the three months ended March 31, 2018

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of dollars)	Notes		March 31, 2018		December 31, 2017
ASSETS					
Current Assets					
Cash and cash equivalents		$	40,296	$	36,859
Trade and other receivables	10		164,300		139,273
Inventory	2		18,118		17,461
Prepaid expenses and deposits			5,106		3,515
			227,820		197,108
Property and equipment	3		351,723		336,378
Intangible assets			349		359
		$	579,892	$	533,845
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables		$	84,209	$	64,569
Income tax payable			6,756		5,979
Current portion of loans and borrowings	4		1,813		604
Current portion of obligations under finance lease			5,200		4,924
Foreign exchange forward contracts	10		1,771		-
			99,749		76,076
Deferred tax liabilities			20,247		18,680
Obligations under finance lease			7,311		6,840
Loans and borrowings	4		-		1,209
			127,307		102,805
Shareholders' equity					
Share capital	5		370,543		369,436
Contributed surplus			25,299		24,664
Accumulated other comprehensive income (loss)			(970)		(2,357)
Retained earnings (Deficit)			57,713		39,297
			452,585		431,040
		$	579,892	$	533,845

See accompanying notes to the unaudited condensed interim consolidated financial statements

See note 12 – Commitments

See note 15 – Subsequent events

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND OTHER COMPREHENSIVE INCOME

For the three months ended March 31, Unaudited (in thousands of dollars, except per share amounts)	Notes		2018		2017
Revenue		$	187,593	$	117,984
Cost of sales	8		151,134		100,723
Gross profit			36,459		17,261
Selling, general and administrative expenses	8		6,764		5,171
Results from operating activities			29,695		12,090
Finance costs	9		145		569
Foreign exchange (gain) loss			135		(13)
Gain on disposal of property and equipment			(117)		(1,882)
Transaction costs			1,153		785
Amortization of intangibles			10		193
Unrealized loss on foreign exchange forward contracts	10		1,771		-
Net income before income tax			26,598		12,438
Income tax expense					
Current			6,642		7
Deferred			1,540		3,439
			8,182		3,446
Net income			18,416		8,992
Other comprehensive income (loss)					
Foreign currency translation gain (loss)			1,387		(278)
Total comprehensive income		$	19,803	$	8,714
Basic net income per share	7	$	0.30	$	0.18
Diluted net income per share	7	$	0.29	$	0.18

See accompanying notes to the unaudited 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, 2017		$ 258,144	19,895	321	(18,421)	259,939
Net income for the year		-	-	-	8,992	8,992
Foreign currency translation loss		-	-	(278)	-	(278)
Share-based compensation	6	-	1,698	-	-	1,698
Shares issued	5	15,000	-	-	-	15,000
Balance at March 31, 2017		273,144	$ 21,593	$ 43	$ (9,429)	$ 285,351
Balance at January 1, 2018		369,436	24,664	(2,357)	39,297	431,040
Net income for the year		-	-	-	18,416	18,416
Foreign currency translation gain		-	-	1,387	-	1,387
Share-based compensation	6	-	1,742	-	-	1,742
Exercise of equity instruments	5	1,107	(1,107)	-	-	-
Balance at March 31, 2018		**$ 370,543**	**$ 25,299**	**$ (970)**	**$ 57,713**	**$ 452,585**

See accompanying notes to the unaudited condensed interim consolidated financial statements

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, Unaudited (in thousands of dollars)	Notes		2018		2017
Operating activities:					
Net income		$	18,416	$	8,992
Adjusted for the following:					
Depreciation and amortization			10,320		7,545
Share-based compensation	6		1,776		1,698
Unrealized foreign exchange (gain) loss			31		-
Gain on disposal of property and equipment			(117)		(1,882)
Unrealized loss on foreign exchange forward contracts			1,771		-
Finance costs	9		145		569
Deferred income tax expense (recovery)			1,540		3,439
Cash finance costs paid			(92)		(1,190)
Cash tax paid			(5,897)		-
Changes in working capital from operating activities			(1,297)		(15,718)
Net cash provided by operating activities			26,596		3,453
Investing activities:					
Purchase of property and equipment			(22,800)		(19,817)
Proceeds on disposal of property and equipment			208		4,059
Changes in working capital from investing activities			2,527		2,967
Net cash used in investing activities			(20,065)		(12,791)
Financing activities:					
Issuance of share capital (net of share issue costs)	5		-		15,000
Issuance (repayment) of loans and borrowings	4		-		1,698
Repayment of obligations under finance lease			(1,065)		(670)
Changes in working capital from financing activities			(2,071)		-
Net cash (used in) provided by financing activities			(3,136)		16,028
Impact of exchange rate changes on cash			42		23
Increase in cash and cash equivalents			3,437		6,713
Cash and cash equivalents, beginning of year			36,859		2,151
Cash and cash equivalents, end of year		$	40,296	$	8,864

See accompanying notes to the unaudited condensed interim consolidated financial statements

As at and for the three months ended March 31, 2018 and 2017.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

STEP Energy Services Ltd. (the "Company" or "STEP") is a publically traded company domiciled in Canada and was incorporated under the laws of the Province of Alberta on March 25, 2011 and is listed under the symbol "STEP" on the Toronto Stock Exchange. The registered office is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5. STEP provides specialized coiled tubing and associated pumping and fracturing equipment to service the oil and gas industry in Canada and the United States ("U.S.").

Statement of Compliance

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. These unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2017.

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

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on May 7th, 2018.

Critical accounting estimates and judgments

The preparation of these unaudited condensed 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. Except for as noted below, 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, 2017.

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.

Changes in significant accounting policies

Except as described below, the same accounting policies and methods of computation were followed in the preparation of these unaudited condensed interim consolidated financial statements as were followed in the preparation of the Company's annual audited consolidated financial statements for the year ended December 31, 2017. Accordingly, these financial statements should be read in conjunction with those annual audited consolidated financial statements for the year ended December 31, 2017. The changes in accounting policies will be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2018.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The Company has adopted IFRS 15 with the effective date of January 1, 2018. The standard requires the Company to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company concluded that revenue from oil and gas services will continue to be recognized over time because the customer simultaneously receives and consumes the benefits provided. Invoices for services rendered are issued upon completion of the work, generally within the same period, and are usually payable within 30 days. The Company follows the general guidance in the standard on allocating variable consideration entirely to distinct services that form part of a performance obligation.

As required for the unaudited condensed interim consolidated financial statements, the Company disaggregated revenue into service line and country to depict the nature of revenue. Refer to note 14 for the disclosure of revenue.

IFRS 15 did not have a significant impact on the Company's unaudited interim consolidated financial statements.

IFRS 9: Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Company adopted this standard effective January 1, 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Company's accounting results related to classification of financial assets and liabilities. See note 10 – Financial Instruments for classifications.

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

The Company measures potential loss exposures on trade and other receivables at an amount equal to lifetime ECL's. At every point after the initial recognition, there is at least some risk of default. To assess this risk, the Company considers quantitative and qualitative information based on the Company's historical experience and forward-looking information. Factors considered include customer payment history, customer credit ratings, customer cash flows, industry trends, and commodity pricing forecasts. The Company assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. Loss allowances for trade and other receivables included in selling, general and administrative expenses are disclosed in note 8. The implementation of this methodology did not have a material impact on the provision for doubtful accounts.

IFRS 9 also includes a new general hedge accounting model. The Company uses forward foreign exchange contracts to hedge variability in significant foreign currency denominated contracts. The Company does not currently apply hedge accounting.

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 virtually all leases on the balance sheet. The Company intends to adopt IFRS 16 in its annual period beginning on January 1, 2019. Anticipated impacts of IFRS 16 include an increase in assets and liabilities as well as timing of expense recognition. Upon application of this standard, it is expected that the operating lease commitments disclosed in note 12 will be the primary source of changes to the statements of financial position and the timing of expenses in the statements of net income.

NOTE 2 – INVENTORY

As at		March 31, 2018		December 31, 2017
Coiled tubing	$	**6,108**	$	5,568
Sand and chemicals		**8,809**		9,262
Spare equipment and parts		**3,201**		2,631
Total Inventory	$	**18,118**	$	17,461

During the three months ended March 31, 2018, the Company incurred a write-down of $0.6 million (March 31, 2017 - $0.5 million) 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, 2017	$ 22,197	$ 10,165	$ 280,515	$ 5,204	$ 318,081
Additions	1,510	9,757	99,058	630	110,955
Disposals	(34)	(3,709)	(5,336)	-	(9,079)
Effect of exchange rate changes	(50)	(148)	(2,218)	(1)	(2,417)
Balance at December 31, 2017	23,623	16,065	372,019	5,833	417,540
Additions	156	1,797	22,593	51	24,597
Disposals	-	(62)	(161)	-	(223)
Effect of exchange rate changes	31	89	1,281	2	1,403
Balance at March 31, 2018	**$ 23,810**	**$ 17,889**	**$ 395,732**	**$ 5,886**	**$ 443,317**
Accumulated depreciation:					
Balance at January 1, 2017	$ 1,560	$ 3,066	$ 43,478	$ 3,002	$ 51,106
Depreciation	976	3,697	28,143	1,112	33,928
Disposals	(34)	(2,265)	(1,237)	-	(3,536)
Effect of exchange rate changes	(4)	(34)	(297)	(1)	(336)
Balance at December 31, 2017	**2,498**	**4,464**	**70,087**	**4,113**	**81,162**
Depreciation	245	1,189	8,533	345	10,312
Disposals	-	(42)	(70)	-	(112)
Effect of exchange rate changes	2	30	199	1	232
Balance at March 31, 2018	**$ 2,745**	**$ 5,641**	**$ 78,749**	**$ 4,459**	**$ 91,594**
Carrying amounts:					
As at January 1, 2017	$ 20,637	$ 7,099	$ 237,037	$ 2,202	$ 266,975
As at December 31, 2017	$ 21,125	$ 11,601	$ 301,932	$ 1,720	$ 336,378
As at March 31, 2018	**$ 21,065**	**$ 12,248**	**$ 316,983**	**$ 1,427**	**$ 351,723**

Included in field equipment at March 31, 2018 were assets under construction of $30.6 million (December 31, 2017 - $32.7 million). Assets under construction are not depreciated until they are substantially complete and available for use.

NOTE 4 – LOANS AND BORROWINGS

At March 31, 2018, 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 "Existing Credit Facilities").

The Existing Credit Facilities mature on 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 Existing Credit Facilities may be extended for a period of up to 3 years. The Existing Credit Facilities include a general security agreement providing a security interest over all present and after acquired personal property of the Company and all of its subsidiaries. The amount of Existing Credit Facilities available to the Company is $100.0 million.

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

1. Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including capital lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions ("Funded debt") to earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange forward contract (gain) loss, 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 differs 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 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.

   At March 31, 2018, the Funded debt to Adjusted bank EBITDA ratio was 0.00:1 (December 31, 2017 – 0.00:1).

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 March 31, 2018, the Funded debt to capitalization ratio was 0.00:1 (December 31, 2017 - 0.00:1).

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.

   At March 31, 2018, the Debt service coverage ratio was 22.15:1 (December 31, 2017 – 19.05:1).

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 March 31, 2018, the full amount was available to be drawn on the Existing Credit Facilities of which there were no amounts outstanding and the Company was in compliance with all covenants.

At March 31, 2018, short-term loans and borrowings outstanding are comprised of vendor financing related to the acquisition of property and equipment. Amounts incur no interest and payments commence in the fourth quarter 2018.

See note 15 subsequent events regarding loans and borrowings.

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, 2017	47,719,703	$	258,144
Issued – private placement – February 7, 2017	2,400,000		15,000
Issued – initial public offering – May 2, 2017	10,000,000		100,000
Issued – exercise of stock options and performance warrants	190,035		1,264
Share issue costs (net of deferred tax)	-		(4,972)
Balance at December 31, 2017	60,309,738		369,436
Issued – exercise of stock options and performance warrants	125,233		1,107
Balance at March 31, 2018	**60,434,971**	**$**	**370,543**

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

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

On March 15, 2018, the Company closed an equity financing raising gross proceeds of $56,311,500 by issuing 6,055,000 subscription receipts for $9.30 each. Subsequent to March 31, 2018, the conversion of the subscription receipts to common shares of the Company occurred as it was contingent on completion of the acquisition outlined in the subsequent events note 15.

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 and performance warrants. The Company implemented new share-based compensation plans following the IPO including a new stock option plan (the "New Stock Option Plan"), a performance and restricted share unit plan (the "PRSU Plan") and a deferred share unit plan (the "DSU Plan"). Effective May 2, 2017, no further awards under the prior stock option plan or performance warrants may be granted. See note 1 regarding the consolidation of share-based compensation instruments in the year.

The following table summarizes the Company's outstanding share-based compensation instruments:

	Restricted share units	Performance share units	Prior stock options	Performance warrants	Deferred share units (cash settled)	Total
Balance at January 1, 2017	-	-	4,249,250	8,850,600	-	13,099,850
Granted	223,467	208,079	145,400	290,800	47,742	915,488
Exercised	-	-	(262,405)	(219,787)	-	(482,192)
Forfeited/cancelled	-	-	(57,396)	(162,933)	-	(220,329)
Outstanding at December 31, 2017	223,467	208,079	4,074,849	8,758,680	47,742	13,312,817
Exercisable at December 31, 2017	-	-	2,174,609	4,460,440	47,742	6,682,791

	Restricted share units	Performance share units	Prior stock options	Performance warrants	Deferred share units (cash settled)	Total
Balance at January 1, 2018	223,467	208,079	4,074,849	8,758,680	47,742	13,312,817
Granted	64,953	282,553	-	-	5,925	353,431
Exercised	-	-	(108,652)	(189,724)	-	(298,376)
Forfeited/cancelled	(2,878)	-	(11,333)	(25,920)	-	(40,131)
Outstanding at March 31, 2018	**285,542**	**490,632**	**3,954,864**	**8,543,036**	**53,667**	**13,327,741**
Exercisable at March 31, 2018	-	-	2,099,433	4,286,996	53,667	6,440,096

The maximum number of common shares issuable under the New Stock Option Plan and all other share based compensation arrangements (excluding the prior options and performance warrants) must not exceed 5% of the aggregate of the number of outstanding common shares. The weighted average grant date fair value per award granted in the quarter, determined using the Black-Scholes option pricing model, was $9.66 per unit.

Share-based compensation expense

The composition of share-based compensation expense incurred was:

Three months ended March 31,		**2018**		2017
Prior stock options	**$**	**497**	$	976
Performance warrants		**535**		722
Deferred share units (cash settled)		**35**		-
Performance share units		**369**		-
Restricted share units		**340**		-
Total share-based compensation expense	**$**	**1,776**	$	1,698

NOTE 7 – PER SHARE COMPUTATIONS

Three months ended March 31,	2018	2017
Weighted average number of shares outstanding - basic	60,420,318	49,319,703
Dilutive impact of stock based compensation instruments	2,071,880	29,336
Weighted average number of shares outstanding - diluted	62,492,198	49,349,039

For the three months ended March 31, 2018, 0.1 million stock options and 5.9 million performance warrants were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (2017: 0.1 million stock options and 7.6 million performance warrants).

NOTE 8 – PRESENTATION OF EXPENSES

Three months ended March 31,		2018		2017
Cost of sales				
Employee costs	$	44,012	$	27,572
Operating expense		34,549		22,199
Materials and inventory costs		61,712		43,028
		140,273		92,799
Depreciation		10,000		7,079
Share-based compensation		861		845
Total cost of sales	$	151,134	$	100,723
Selling, general and administrative expenses				
Employee costs	$	3,285	$	2,110
General expenses		2,177		1,661
		5,462		3,771
Allowance for doubtful accounts expense (recovery)		77		274
Depreciation		310		273
Share-based compensation		915		853
Total selling, general and administrative expenses	$	6,764	$	5,171

NOTE 9 – FINANCE COSTS

Three months ended March 31,		2018		2017
Interest on loans and borrowings	$	78	$	414
Interest on finance leases		126		75
Interest income		(128)		(1)
Deferred financing charges		53		41
Other		16		40
Total finance costs	$	145	$	569

NOTE 10 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

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

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

Credit risk

The Company held cash and cash equivalents of $40.3 million as at March 31, 2018 (December 31, 2017 - $36.9 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major bank and financial institution counterparties (level 1).

During the quarter ended March 31, 2018, five clients represented 37% of revenue (2017 – 56% of revenue). These top five clients contribute 12%, 12%, 7%, 4% and 4% of revenue respectively, all of which are operated in the Canadian segment.

As at March 31, 2018, 13% of trade receivables are held with one client within the Canadian segment (December 31, 2017 – 14%), and as such, the Company is exposed to concentration of credit risk. As at March 31, 2018, approximately 44% of the total accounts receivable balance was due from five clients (December 31, 2017 – 45%).

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

	March 31, 2018	December 31, 2017
Current (0 to 30 days from invoice date)	$ 114,125	$ 73,829
31 - 60 days	40,603	44,793
61 - 90 days	7,697	13,354
91+ days	950	6,780
Receivables from trade clients	163,375	138,756
Other amounts	1,423	939
Allowance for doubtful accounts	(498)	(422)
Total trade and other receivables	$ 164,300	$ 139,273

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

Liquidity risk

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

	2018	2019	2020	2021	Thereafter	Total
Finance lease obligations[1]	$ 4,625	$ 6,309	$ 1,935	$ 202	$ -	$ 13,071
Trade and other payables	84,209	-	-	-	-	84,209
Income tax payable	6,756	-	-	-	-	6,756
Foreign exchange forward contracts	1,771	-	-	-	-	1,771
Loans and borrowings	604	1,209	-	-	-	1,813
	$ 97,965	$ 7,518	$ 1,935	$ 202	$ -	$ 107,620

(1) Includes interest portion of finance lease obligations.

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

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

Interest rate risk

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

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.

During the first quarter of 2018, the Company entered into several forward contracts. The goal of these instruments was to limit exposure to U.S. dollar fluctuations as it relates to the purchase price of the Acquisition discussed in note 15. Upon closing of the acquisition subsequent to quarter end, the forward contracts were settled. Instruments outstanding at March 31, 2018 include:

Trade Date	Expiration Date	U.S. dollar	Rate	Canadian dollar	Fair value
March 7, 2018	April 30, 2018	$ 25,000	1.2920	$ 32,300	$ (89)
March 7, 2018	April 30, 2018	75,000	1.2981	97,358	(724)
March 9, 2018	April 30, 2018	25,000	1.2820	32,050	161
March 9, 2018	April 30, 2018	25,000	1.2865	32,163	49
March 15, 2018	April 30, 2018	10,000	1.3064	13,064	(179)
March 16, 2018	April 30, 2018	10,000	1.3099	13,099	(215)
March 16, 2018	April 30, 2018	10,000	1.3099	13,099	(215)
March 21, 2018	April 30, 2018	20,000	1.3060	26,120	(351)
March 21, 2018	April 30, 2018	15,000	1.3010	19,515	(188)
March 21, 2018	April 30, 2018	10,000	1.2915	12,915	(31)
March 22, 2018	April 30, 2018	10,000	1.2875	12,874	11
Total		$ 235,000	1.2960	$ 304,557	$ (1,771)

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.

As at		March 31, 2018			December 31, 2017	
Shareholders' equity	$	**452,585**	**97%**	$	431,040	97%
Obligation under finance lease		**12,511**	**3%**		11,764	3%
Loans and borrowings		**1,813**	**0%**		1,813	0%
Total capitalization	$	**466,909**		$	444,617	

The Company is subject to various financial and non-financial covenants, which are monitored on a regular basis and controls are in place to maintain compliance with these covenants (note 4). The Company is in compliance with all financial and non-financial covenants.

NOTE 12 – COMMITMENTS

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

	2018	2019	2020	2021	2022	Thereafter	Total
Operating lease obligations(1)	$ 1,530	$ 2,859	$ 2,890	$ 2,906	$ 1,891	$ 1,603	$ 13,679
Loans and borrowings(2)	226	300	125	-	-	-	651
Total	$ 1,756	$ 3,159	$ 3,015	$ 2,906	$ 1,891	$ 1,603	$ 14,330

(1) Includes US obligations at a forecast exchange rate of 1 USD = 1.25 CAD.
(2) Stand-by fees on the Existing Credit Facility described in note 4, changes to the credit facility subsequent to quarter end will impact this estimate, see note 15

Operating leases relate to leases of certain shop and office space with lease terms of between 1 years and 6 years.

As at March 31, 2018, the Company has $55.7 million (December 31, 2017 - $41.3 million) of commitments related to capital expenditures. This commitment is expected to be incurred in fiscal 2018.

NOTE 13 - CONTINGENCIES AND PROVISIONS

Litigation

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

In January 2017, Calfrac Well Services Ltd. ("Calfrac") filed a statement of claim in the Judicial District of Calgary in the Court of Queen's Bench against the Company and an employee of the Company seeking $10.0 million in damages among other relief. Calfrac alleges that the employee, who is a former employee of Calfrac, misappropriated certain competitively sensitive materials from Calfrac. Calfrac further alleges that STEP benefited or made use of such materials, resulting in damages to Calfrac. STEP is presently investigating the claim and at this time intends to contest allegations made in the claim. While management does not believe that this action will have a material adverse effect on the business or financial condition of the company, no assurance can be given as to the final outcome of this or any other legal proceeding. If this claim, or any claims 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 14 – 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 March 31, 2018	Canadian Operations	U.S. Operations	Total
Revenue			
Fracturing	$ 127,606	$ -	$ 127,606
Coiled tubing	37,524	22,463	59,987
Total Revenue	$ 165,130	$ 22,463	$ 187,593
Adjusted EBITDA [1]	$ 34,212	$ 7,568	$ 41,780
Adjusted EBITDA %[1]	21%	34%	22%
Depreciation and amortization	$ 8,801	$ 1,519	$ 10,320
Income tax expense	$ 6,822	$ 1,360	$ 8,182
Capital expenditures	$ 16,342	$ 8,255	$ 24,597

For the three months ended March 31, 2017		Canadian Operations		U.S. Operations		Total
Revenue						
Fracturing	$	79,341	$	-	$	79,341
Coiled tubing		30,437		8,206		38,643
Total Revenue	$	109,778	$	8,206	$	117,984
Adjusted EBITDA [(1)]	$	20,445	$	695	$	21,140
Adjusted EBITDA %[(1)]		19%		8%		18%
Depreciation and amortization	$	6,650	$	895	$	7,545
Income tax (recovery)	$	3,788	$	(342)	$	3,446
Capital expenditures	$	14,459	$	6,484	$	20,943

Segmented assets and liabilities

As at March 31, 2018		**Canadian Operations**		**U.S. Operations**		**Total**
Assets						
Current assets	**$**	**201,050**	**$**	**26,770**	**$**	**227,820**
Property and equipment		**292,827**		**58,896**		**351,723**
Intangible assets		**349**		**-**		**349**
Total assets	**$**	**494,226**	**$**	**85,666**	**$**	**579,892**
Current liabilities	**$**	**92,697**	**$**	**7,052**	**$**	**99,749**

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

Reconciliation of Net income to Adjusted EBITDA[(1)]

For the three months ended March 31,		**2018**		2017
Net income	**$**	**18,416**	$	8,992
Add (deduct):				
Depreciation and amortization		**10,320**		7,545
Gain on disposal of property and equipment		**(117)**		(1,882)
Finance costs		**145**		569
Income tax expense		**8,181**		3,446
Unrealized loss on foreign exchange forward contracts		**1,771**		-
Share-based compensation		**1,776**		1,698
Transaction costs		**1,153**		785
Foreign exchange loss (gain)		**135**		(13)
Adjusted EBITDA[(1)]	**$**	**41,780**	$	21,140

(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, current and deferred income tax provisions and recoveries, share-based compensation, unrealized foreign exchange forward contract (gain) loss, transaction costs and foreign exchange (gain) loss.

NOTE 15 – SUBSEQUENT EVENTS

Acquisition

On April 2, 2018, the Company closed the previously announced agreement to acquire all of the issued and outstanding capital stock of Tucker Energy Services Holdings, Inc. ("Tucker") for total cash consideration of US$275 million, before closing adjustments (the "Acquisition").

STEP's Canadian entity funded the Acquisition of CAD$ 355.0 million (US$275.0 million) with cash on hand of $24.0 million, the gross proceeds of the offering ("the Offering") of common shares of $56.3 million, and the balance funded from borrowings under the New Credit Facilities of $274.7 million. Costs related to the Acquisition are estimated to be $2.8 million in total, amounts incurred prior to quarter end have been booked to transaction costs on the interim consolidated statements of net income. The Company is in the process of integrating Tucker, including assigning fair value to all of the working capital accounts, tangible and intangible assets and the resulting goodwill.

Equity issuance

On April 2, 2018, contingent with the completion of the Acquisition, the previously announced bought-deal equity financing (the "Offering") converted the subscription receipts to common shares of the Company. The Offering raised gross proceeds of $56.3 million by issuing 6,055,000 common shares for $9.30 per common share, which included 675,000 common shares issued pursuant to the partially exercised over-allotment option granted to the syndicate of underwriters. The proceeds of the offering were used to partially fund the Acquisition. Costs related to the equity offering are estimated to be $2.8 million, amounts incurred prior to quarter end have been recorded as prepaid expenses and deposits on the interim statement of financial position until the Offering is closed subsequent to quarter end when the total was classified as a reduction of share capital.

Loans and borrowings

Commensurate with the closing of the Acquisition, the Company secured a new $330.0 million revolving syndicated credit facility, $10.0 million operating facility and U.S.$7.5 million operating facility (together the "New Credit Facilities"). The New Credit Facilities will replace STEP's existing credit facilities. The New Credit Facilities mature April 2, 2021 and may be extended for a period of up to 3 years with syndicate approval. Under the New Credit Facilities, net proceeds raised pursuant to one or more equity issuances or proceeds of the issuance of any subordinated debt shall be applied to permanently reduce the New Credit Facility to not less than $300.0 million.

Security for the New Credit Facilities is provided by a general security agreement over the assets of the Company all present and after acquired personal property of the Company and all of its subsidiaries including mortgages on certain properties.

Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 200 basis points, dependent on the Funded debt to Adjusted bank EBITDA ratio of the Company as defined below.

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

1. Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including capital lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange gains and losses, taxes, depreciation, amortization, impairment, unrealized foreign exchange forward contract (gain) loss and transaction costs ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Adjusted bank EBITDA 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. Funded debt to Adjusted bank EBITDA ratio is required to be 3.00:1 or less.
2. Fixed Charge Coverage Ratio is calculated as Free Cash Flow to cash interest expense and scheduled principal repayments in respect of indebtedness. "Free Cash Flow" is defined as Adjusted Bank EBITDA, defined above, less maintenance capital expenditures, cash distributions and cash tax. This ratio is not to fall below 1.20:1.

CORPORATE INFORMATION

Management

Regan Davis
President & Chief Executive Officer

Rob Sprinkhuysen
Chief Financial Officer

Steve Glanville
Chief Operating Officer & Vice President Operations

Mike Burvill
Senior Vice President Fracturing Services

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

Shane Persad
Vice President Fracturing & Cased Hole 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

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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