STEP energy services

TSX STEP

Condensed Consolidated Interim

Financial Statements

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of Canadian dollars)	Notes		June 30, 2019		December 31, 2018
ASSETS					
Current Assets					
Cash and cash equivalents		$	1,113	$	364
Trade and other receivables	12		163,007		124,553
Current tax receivable			4,024		-
Inventory	2		28,282		32,646
Prepaid expenses and deposits			5,557		6,691
Foreign exchange forward contracts			-		44
			201,983		164,298
Property and equipment	3		568,732		600,142
Intangible assets	4		28,606		33,202
Goodwill	4		86,627		90,266
		$	885,948	$	887,908
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables	12	$	104,648	$	84,079
Income tax payable			1,470		4,572
Current portion of lease obligations	1,6		8,187		8,489
			114,305		97,140
Deferred tax liabilities			45,267		51,713
Lease obligations	1,6		12,386		8,010
Other liabilities	8		154		-
Loans and borrowings	5		255,557		252,441
			427,669		409,304
Shareholders' equity					
Share capital	7		427,386		426,494
Contributed surplus			31,458		29,447
Accumulated other comprehensive income			6,225		22,670
Deficit			(6,790)		(7)
			458,279		478,604
		$	885,948	$	887,908

See accompanying notes to the condensed consolidated interim financial statements

See Note 6 – Commitments

STEP ENERGY SERVICES LTD.

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

Unaudited (in thousands of dollars, except per share amounts)	Notes	For the three months ended June 30, 2019	For the three months ended June 30, 2018 [1]	For the six months ended June 30, 2019	For the six months ended June 30, 2018 [1]
Revenue		$ 186,577	$ 184,601	$ 363,046	$ 372,194
Cost of sales	1,10	182,819	180,676	350,158	330,634
Gross profit		3,758	3,925	12,888	41,560
Selling, general and administrative expenses	1,10	11,040	9,882	19,884	17,823
Results from operating activities		(7,282)	(5,957)	(6,996)	23,737
Finance costs	11	3,672	3,478	6,925	3,623
Foreign exchange (gain) loss		(584)	254	(1,849)	389
Gain on disposal of property and equipment		(336)	(305)	(1,009)	(423)
Transaction costs		-	1,772	-	2,925
Amortization of intangibles		1,556	1,418	3,331	1,428
Foreign exchange forward contract (gain) loss	12	-	(552)	383	1,219
Net (loss) income before income tax		(11,590)	(12,022)	(14,777)	14,576
Income tax expense (recovery)					
Current		(4,676)	(4,045)	(3,393)	2,597
Deferred		(890)	454	(4,755)	1,994
		(5,566)	(3,591)	(8,148)	4,591
Net (loss) income		(6,024)	(8,431)	(6,629)	9,985
Other comprehensive (loss) income					
Foreign currency translation (loss) gain		(7,652)	7,186	(16,445)	8,573
Total comprehensive (loss) income		$ (13,676)	$ (1,245)	$ (23,074)	$ 18,558
Earnings (loss) per share:					
Basic	9	$ (0.09)	$ (0.13)	$ (0.10)	$ 0.16
Diluted	9	$ (0.09)	$ (0.13)	$ (0.10)	$ 0.15

1) See note 1 for the restatement of certain 2018 balances.

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings / (deficit)	Total
Balance at January 1, 2018		$ 369,436	$ 24,664	$ (2,357)	$ 39,297	$ 431,040
Net income for the period		-	-	-	9,985	9,985
Foreign currency translation gain		-	-	8,573	-	8,573
Shares issued (net of share issue costs and deferred tax)		54,221	-	-	-	54,221
Share-based compensation	8	-	4,163	-	-	4,163
Exercise of equity instruments	7	1,776	(1,776)	-	-	-
Balance at June 30, 2018 (1)		$ 425,433	$ 27,051	$ 6,216	$ 49,282	$ 507,982
Balance at January 1, 2019		$ 426,494	$ 29,447	$ 22,670	$ (7)	$ 478,604
Impact of change in accounting policy	1	-	-	-	(154)	(154)
Net loss for the period		-	-	-	(6,629)	(6,629)
Foreign currency translation (loss)		-	-	(16,445)	-	(16,445)
Share-based compensation	8	-	2,903	-	-	2,903
Exercise of equity instruments	7	892	(892)	-	-	-
Balance at June 30, 2019		**$ 427,386**	**$ 31,458**	**$ 6,225**	**$ (6,790)**	**$ 458,279**

1) See note 1 for the restatement of certain 2018 balances.

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited (in thousands of dollars)	Notes	For the three months ended June 30, 2019	For the three months ended June 30, 2018 (1)	For the six months ended June 30, 2019	For the six months ended June 30, 2018 (1)
Operating activities:					
Net (loss) income		$ (6,024)	$ (8,431)	$ (6,629)	$ 9,985
Adjusted for the following:					
Depreciation and amortization	3,4	26,594	25,359	53,436	35,679
Share-based compensation	8	2,584	3,120	3,846	4,896
Unrealized foreign exchange (gain) loss		(854)	717	(2,416)	748
Gain on disposal of property and equipment		(336)	(305)	(1,009)	(423)
Foreign exchange forward contract (gain) loss	12	-	(552)	383	1,219
Finance costs	11	3,672	3,478	6,925	3,623
Income tax expense (recovery)		(5,566)	(3,591)	(8,148)	4,591
Cash finance costs paid		(2,864)	(5,619)	(8,179)	(5,710)
Income taxes paid		(230)	(141)	(4,244)	(6,038)
Changes in non-cash working capital from operating activities		(15,246)	(5,873)	(15,472)	(13,812)
Net cash provided by operating activities		1,730	8,162	18,493	34,758
Investing activities:					
Acquisition through business combination		-	(340,206)	-	(340,206)
Purchase of property and equipment		(12,130)	(36,603)	(22,477)	(59,403)
Proceeds on disposal of property and equipment		155	461	834	669
Changes in non- cash working capital from investing activities		1,820	7,465	1,544	9,992
Net cash used in investing activities		(10,155)	(368,883)	(20,099)	(388,948)
Financing activities:					
Issuance of share capital, net	7	-	53,448	-	53,448
Issuance of loans and borrowings	5	4,002	279,788	5,801	279,788
Repayment of lease obligations		(1,659)	(1,350)	(3,411)	(2,415)
Settlement of foreign exchange forward contracts	12	-	(1,219)	(338)	(1,219)
Changes in non-cash working capital from financing activities		-	2,071	-	-
Net cash provided by financing activities		2,343	332,738	2,052	329,602
Impact of exchange rate changes on cash		155	349	303	391
Increase (decrease) in cash and cash equivalents		(5,927)	(27,634)	749	(24,197)
Cash and cash equivalents, beginning of period		7,040	40,296	364	36,859
Cash and cash equivalents, end of period		$ 1,113	$ 12,662	$ 1,113	$ 12,662

1) See note 1 for the restatement of certain 2018 balances.

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

Notes to the condensed consolidated interim financial statements

(unaudited)

As at and for the three and six months ended June 30, 2019 and 2018.

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", "STEP Energy Services" or "STEP") is a publically traded company domiciled in Canada, 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 of the Company is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5. STEP provides specialized coiled tubing and associated pumping and fracturing equipment to service the oil and gas industry in Canada and the United States ("U.S."). The Company purchased 100% of the issued and outstanding capital stock of Tucker Energy Services Holdings, Inc. ("Tucker") effective April 2, 2018.

Statement of Compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. These condensed consolidated interim 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 and for the year ended December 31, 2018.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. Due to the maturation of the business and the acquisition of Tucker, STEP reassessed its operating segments during the first quarter of 2019. The realignment of operating segments resulted in separate disclosure of Corporate costs in addition to the Canadian Operations and U.S. Operations reportable segments (see Note 14). The Company also reclassified specified cost of sales and selling, general, and administrative costs.

In addition, the Company restated certain June 30, 2018 amounts as a result of the finalization of the purchase price allocation for the Tucker Acquisition which occurred in the fourth quarter of 2018. Accounts impacted primarily include working capital, property and equipment, deferred tax liabilities and goodwill. These amounts were booked in U.S. dollars resulting in changes to other comprehensive (loss) income. See Note 2 to the annual consolidated financial statements as at and for the year ended December 31, 2018.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 7, 2019.

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 and mid-continental United States is generally not as influenced by seasonal conditions.

Critical accounting estimates and judgments

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates and judgments 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 condensed consolidated interim financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes. 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, 2018.

Changes in significant accounting policies

Except as described below, the same accounting policies and methods of computation were followed in preparation of these condensed consolidated interim financial statements as were followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2018.

IFRS 16: Leases

IFRS 16 is effective as of January 1, 2019. IFRS 16 replaces existing lease guidance including IAS 17, Leases and related interpretations. Upon identification of a lease contract, IFRS 16 requires the recognition of a right-of-use asset and lease liability. The Company has applied the standard using the modified retrospective approach in which the cumulative impact of initial application is recognized as an adjustment to the opening balance of retained earnings with no restatement of prior period information, subject to elected practical expedients.

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to perform this assessment, the Company determines whether: i.) The Company has the right to obtain substantially all of the economic benefits from use of the asset through the period of use; and ii.) The Company has the right to direct the use of the identified asset.

The term of the lease is determined as the non-cancellable period of a lease and periods in which there is reasonable certainty the Company will exercise an option to extend or cancel a lease. The Company considers all relevant facts and circumstances that would create an economic incentive to extend or terminate a lease.

At the commencement date of a lease, the Company measures lease liabilities at the present value of remaining estimated lease payments, discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. Prospectively, the carrying amount of lease liabilities is increased by interest, offset by lease payments made. The initial cost of right-of-use assets is measured as the value of the lease liability, adjusted for any lease incentives received and initial direct costs. Right-of-use assets are depreciated over the lease term and recognized as cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are presented within Property and Equipment (see Note 3). The Company primarily leases light duty vehicles, office buildings, service centers, and copiers. Recognition exemptions permitted include short term leases or leases for which the underlying asset is of low value. If a contract meets these criteria the Company expenses the payments in the consolidated statements of net (loss) income and other comprehensive (loss) income.

Upon adoption, previously recognized operating commitments disclosed in the annual consolidated financial statements for the year ended December 31, 2018 meeting IFRS 16 recognition criteria were measured at the present value of remaining future lease payments using the Company's incremental January 1, 2019 borrowing rate. For leases previously recognized as finance leases under IAS 17, the carrying amounts of the lease asset and lease liability at January 1, 2019 were determined using the carrying amounts of the lease asset and lease liability under IAS 17 immediately before that date. The Company applied the following practical expedients on initial adoption of IFRS 16 for previously recognized operating commitments: account for leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases; account for lease payments as an expense for which the underlying asset is of low value; and use hindsight in applying the new standard for lease terms where the contract contains options to extend or terminate the lease. The impact of adoption of IFRS 16 was a \$7.2 million increase to lease liabilities, a \$0.1 million decrease to accrued payables, a \$6.9 million increase to property and equipment, and a \$0.2 million decrease to deficit as at January 1, 2019 using an average incremental borrowing rate of 5.1%.

NOTE 2 – INVENTORY

As at		June 30, 2019		December 31, 2018
Coiled tubing	$	**6,385**	$	6,412
Sand and chemicals		**8,106**		10,835
Spare equipment/parts		**13,791**		15,399
Total Inventory	$	**28,282**	$	32,646

During the three and six months ended June 30, 2019, the Company incurred write-downs of $0.6 million and $0.7 million (June 30, 2018 –$0.6 million and nil) respectively comprised of coiled tubing and sand and chemicals.

NOTE 3 – PROPERTY AND EQUIPMENT

		Land and buildings		Vehicles		Field equipment		Office equipment		Total
Cost:										
Balance at January 1, 2018	$	23,623	$	16,065	$	372,019	$	5,833	$	417,540
Acquisition through business combination		10,823		7,802		192,108		-		210,733
Additions		2,681		9,627		110,565		2,154		125,027
Disposals		-		(5,361)		(2,136)		-		(7,497)
Effect of exchange rate changes		692		884		16,814		42		18,432
Balance at December 31, 2018		37,819		29,017		689,370		8,029		764,235
Additions		8,347		1,724		22,444		270		32,785
Disposals		-		(6,395)		(246)		-		(6,641)
Effect of exchange rate changes		(507)		(553)		(12,341)		(29)		(13,430)
Balance at June 30, 2019	**$**	**45,659**	**$**	**23,793**	**$**	**699,227**	**$**	**8,270**	**$**	**776,949**
Accumulated depreciation:										
Balance at January 1, 2018	$	2,498	$	4,464	$	70,087	$	4,113	$	81,162
Depreciation		1,455		7,926		73,372		1,287		84,040
Disposals		-		(3,179)		(317)		-		(3,496)
Effect of exchange rate changes		28		243		2,109		7		2,387
Balance at December 31, 2018		3,981		9,454		145,251		5,407		164,093
Depreciation		1,929		4,234		43,303		639		50,105
Disposals		-		(3,414)		(172)		-		(3,586)
Effect of exchange rate changes		(42)		(231)		(2,111)		(11)		(2,395)
Balance at June 30, 2019	**$**	**5,868**	**$**	**10,043**	**$**	**186,271**	**$**	**6,035**	**$**	**208,217**
Carrying amounts:										
As at January 1, 2018	$	21,125	$	11,601	$	301,932	$	1,720	$	336,378
As at December 31, 2018	$	33,838	$	19,563	$	544,119	$	2,622	$	600,142
As at June 30, 2019	**$**	**39,791**	**$**	**13,750**	**$**	**512,956**	**$**	**2,235**	**$**	**568,732**

Included in field equipment at June 30, 2019 were assets under construction of $34.9 million (December 31, 2018 - $41.4 million). Assets under construction are not depreciated until they are substantially complete and available for use.

Right-of-Use Assets

Included in Property, Plant, and Equipment are the right-of use assets measured under lease contracts. In addition to the previously recorded leased light duty vehicles, the Company added lease contracts for office buildings, service centers, and copiers as a result of the implementation of IFRS 16 (Note 1).

	Buildings	Vehicles	Office equipment	Total
Cost:				
Balance at January 1, 2018	$ -	$ 15,553	$ -	$ 15,553
Acquisition through business combination	-	7,802	-	7,802
Additions	-	9,627	-	9,627
Disposals	-	(5,361)	-	(5,361)
Effect of exchange rate changes	-	871	-	871
Balance at December 31, 2018	-	28,492	-	28,492
Additions	8,313	1,724	270	10,307
Disposals	-	(6,300)	-	(6,300)
Effect of exchange rate changes	(11)	(553)	-	(564)
Balance at June 30, 2019	**$ 8,302**	**$ 23,363**	**$ 270**	**$ 31,935**
Accumulated depreciation:				
Balance at January 1, 2018	$ -	$ 4,054	$ -	$ 4,054
Depreciation	-	7,880	-	7,880
Disposals	-	(3,179)	-	(3,179)
Effect of exchange rate changes	-	231	-	231
Balance at December 31, 2018	-	8,986	-	8,986
Depreciation	1,085	4,234	34	5,353
Disposals	-	(3,319)	-	(3,319)
Effect of exchange rate changes	(4)	(231)	-	(235)
Balance at June 30, 2019	**$ 1,081**	**$ 9,670**	**$ 34**	**$ 10,785**
Carrying amounts:				
As at January 1, 2018	$ -	$ 11,499	$ -	$ 11,499
As at December 31, 2018	$ -	$ 19,506	$ -	$ 19,506
As at June 30, 2019	**$ 7,221**	**$ 13,693**	**$ 236**	**$ 21,150**

Depreciation expense on right-of-use assets recognized for the six months ending June 30, 2019 was $5.3 million (June 30, 2018 - $3.3 million).

NOTE 4 – INTANGIBLE ASSETS AND GOODWILL

		Intangibles		Goodwill
Cost:				
Balance at January 1, 2018	$	3,543	$	-
Acquisition through business combination		35,626		129,599
Impairment of Goodwill		-		(46,000)
Effect of exchange rate changes		2,020		6,667
Balance at December 31, 2018		41,189		90,266
Effect of exchange rate changes		(1,518)		(3,639)
Balance at June 30, 2019	$	39,671	$	86,627
Accumulated depreciation:				
Balance at January 1, 2018	$	3,184	$	-
Amortization		4,605		-
Effect of exchange rate changes		198		-
Balance at December 31, 2018		7,987		-
Amortization		3,331		-
Effect of exchange rate changes		(253)		-
Balance at June 30, 2019	$	11,065	$	-
Carrying amounts:				
As at January 1, 2018	$	359	$	-
As at December 31, 2018	$	33,202	$	90,266
As at June 30, 2019	**$**	**28,606**	**$**	**86,627**

NOTE 5 – LOANS AND BORROWINGS

On June 25, 2019, the Company amended its syndicated borrowing agreement to extend the maturity of the facility to June 25, 2022. The Company's agreement is comprised of operating facilities (one Canadian and one U.S.) and a revolving facility (together the "Amended Credit Facilities"). The Amended Credit Facilities include a Canadian $330.0 million revolving credit facility, a Canadian $10.0 million operating facility and a U.S. $7.5 million operating facility. The maturity date of the Amended Credit Facilities may be extended for a period of up to three years with syndicate approval. The Amended Credit Facilities include a general security agreement providing a security interest over all present and after acquired personal property of the Company and all of its subsidiaries including mortgages on certain properties. An equity cure is available for the purposes of determining compliance with the Funded debt to Adjusted bank EBITDA ratio. The equity cure is available for use up to two times, in non-consecutive quarters. Each use of the equity cure is limited to $25 million from the issuance of equity securities and must be utilized to repay borrowings under the Amended Credit Facilities. Under the Amended Credit Facilities, any current and future leases that would have been accounted for as an operating lease at December 31, 2018 will continue to be recognized as operating leases for purposes of calculating financial covenants.

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

1) Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including 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. Also, realized foreign exchange (gain) loss is excluded from Adjusted bank EBITDA. This is a difference from the Company's non-IFRS measure "Adjusted EBITDA". The Company is required to meet the following funded debt to adjusted bank EBITDA ratios:

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

At June 30, 2019, the Funded debt to Adjusted bank EBITDA ratio was 2.76:1.00.

2) Interest coverage ratio refers to the ratio of Adjusted bank EBITDA to interest expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance and LIBOR advances. Interest on lease obligations for current and future leases which would have been accounted for as an operating lease at December 31, 2018 is not included in interest expense for purposes of calculating financial covenants. This ratio is not to fall below 3.00:1.

   At June 30, 2019, the Interest Coverage Ratio was 6.81:1.00.

Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 300 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the second quarter of 2019 was approximately 4.55%. At June 30, 2019, the full amount of the facility was available to be drawn on the Amended Credit Facilities of which there was $255.6 million outstanding ($258.5 million before deferred financing costs of $2.9 million). The Company was in compliance with all covenants.

Subsequent event

As of August 8, 2019, the Amended Credit Facilities will be further amended to increase the U.S. operating facility to U.S. $20.0 million to accommodate growth in U.S. operations. This will be achieved with a corresponding decrease in the revolving credit facility. The facilities will be comprised of a Canadian $313.3 million revolving credit facility, a Canadian $10.0 million operating facility, and a U.S. $20.0 million operating facility.

NOTE 6 – LEASE OBLIGATIONS

The Company has lease contracts for light duty vehicles, office buildings, service centers, and copiers. The maturity date of these contracts range from July 2019 to February 2026 with interest rates ranging from 2.26% to 13.56%. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are payable as follows:

As at,		**June 30, 2019**		December 31, 2018
Future minimum lease payments	**$**	**22,176**	$	17,546
Discount		**(1,603)**		(1,047)
Present value of minimum lease payments	**$**	**20,573**	$	16,499
Presented as:				
Current portion of lease obligations	**$**	**8,187**	$	8,489
Lease obligations	**$**	**12,386**	$	8,010

Commitments

The following table summarizes the Company's estimated commitments as at June 30, 2019 for the following five years and thereafter:

		2019		2020		2021		2022		2023		Thereafter		Total
Operating expenses related to lease obligations(1)	$	512	$	1,322	$	1,305	$	1,252	$	1,239	$	403	$	6,033
Short term and low value lease obligations(1)		175		149		-		-		-		-		324
Total commitments	$	687	$	1,471	$	1,305	$	1,252	$	1,239	$	403	$	6,357

(1) Includes U.S. obligations at a forecast exchange rate of 1 USD = 1.31 CAD.

The operating expenses related to lease obligations relate to leases of certain shop and office space with lease terms of between 1 years and 7 years. The total expense recognized in the second quarter for short term and low value lease obligations was $1.0 million. As at June 30, 2019, the Company has $2.3 million (December 31, 2018 - $8.2 million) of commitments related to capital expenditures. This commitment is expected to be incurred in fiscal 2019.

NOTE 7 – SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Share capital

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

	Shares #		Amount
Balance at January 1, 2018	60,309,738	$	369,436
Issued – public offering – April 2, 2018	6,055,000		56,312
Issued – exercise of share-based instruments	317,581		2,841
Share issue costs (net of deferred tax)	-		(2,095)
Balance at December 31, 2018	66,682,319		426,494
Issued – exercise of share-based instruments	79,098		892
Balance at June 30, 2019	**66,761,417**	$	427,386

NOTE 8 – SHARE-BASED COMPENSATION

Equity settled share-based instruments

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

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2019	201,987	770,574	505,316	3,749,728	8,160,788	13,388,393
Granted	1,887,272	-	-	-	-	1,887,272
Revised via performance factor	-	-	(13,129)	-	-	(13,129)
Exercised	-	(70,122)	(9,132)	-	-	(79,254)
Forfeited/Expired	-	(49,426)	-	(153,719)	(479,080)	(682,225)
Outstanding at June 30, 2019	**2,089,259**	**651,026**	**483,055**	**3,596,009**	**7,681,708**	**14,501,057**
Exercisable at June 30, 2019	-	-	-	3,007,630	5,468,158	8,475,788

Cash settled share-based instruments

The Company has a cash-settled deferred share unit plan for its directors. The fair value of the liability and the corresponding expense is charged to net (loss) income in the period.

Cash-settled Restricted share units

The Board grants cash-settled restricted share units ("Cash-settled RSUs") to its employees. Cash-settled RSUs granted under the Phantom PRSU Plan provide the holder a right to receive the cash equivalent of one common share for each vested share unit. The Cash-settled RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in cash on those vesting dates. Cash-settled RSU liabilities are re-measured at each reporting period to the period end share price until they are fully vested. Any changes in fair value are recognized in net (loss) income for the period. Cash-settled RSUs are excluded from earnings per share calculations as they are cash settled.

Cash-settled Performance share units

The Board grants cash-settled performance share units ("Cash-settled PSUs") to eligible employees and executives. Cash-settled PSUs granted under the Phantom PRSU Plan provide the holder a right to receive the cash equivalent of a common share for each vested share unit. Vesting is based on the achievement of performance measures as specified by the Board of Directors. The Board of Directors assesses performance of the Company to determine the vesting percentage, which can range from 0 percent to 200 percent. Corporate Cash-settled PSUs vest at the end of three years, while instruments granted to the business unit senior officers vest in three equal portions on the first, second and third anniversary of the grant date. Cash-settled PSU liabilities are re-measured at each reporting period to the period end share price until they are fully vested. Any changes in fair value are recognized in net (loss) income for the period. Cash-settled PSUs are excluded from earnings per share calculations as they are cash settled.

	Director share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2018	47,742	-	-	47,742
Granted	89,891	-	-	89,891
Outstanding at December 31, 2018	137,634	-	-	137,634
Exercisable at December 31, 2018	137,634	-	-	137,634

	Director share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2019	137,634	-	-	137,634
Granted	331,891	2,178,800	826,309	3,337,000
Outstanding at June 30, 2019	**469,525**	**2,178,800**	**826,309**	**3,474,634**
Exercisable at June 30, 2019	469,525	-	-	469,525

Share-based compensation expense

The composition of share-based compensation expense incurred was:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Stock options	**$ 155**	$ 470	**$ 152**	$ 968
New stock options	**243**	-	**332**	-
Performance warrants	**276**	495	**250**	1,030
Performance share units	**403**	853	**862**	1,222
Restricted share units	**647**	603	**1,307**	943
Deferred share units (cash settled)	**533**	699	**616**	733
Cash-settled performance share units	**46**	-	**46**	-
Cash-settled restricted share units	**281**	-	**281**	-
Total share-based compensation expense	**$ 2,584**	$ 3,120	**$ 3,846**	$ 4,896

NOTE 9 – PER SHARE COMPUTATIONS

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Weighted average number of shares outstanding - basic	**66,719,341**	66,409,034	**66,709,806**	63,431,219
Dilutive impact of stock options and performance warrants	**-**	2,532,896	**-**	2,360,683
Weighted average number of shares outstanding - diluted	**66,719,341**	68,941,930	**66,709,806**	65,791,902

As at June 30, 2019, 3.6 million prior stock options, 7.7 million performance warrants, 2.1 million new options, 0.7 million RSUs and 0.5 million PSUs were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (June 30, 2018: 4.2 million performance warrants).

NOTE 10 – PRESENTATION OF EXPENSES

	Three months ended June 30, 2019	Three months ended June 30, 2018 [1]	Six months ended June 30, 2019	Six months ended June 30, 2018 [1]
Cost of sales				
Employee costs	$ 49,742	$ 49,328	$ 101,578	$ 92,640
Operating expense	44,350	44,245	81,999	78,555
Materials and inventory costs	63,204	62,485	115,696	124,196
	157,296	156,058	299,273	295,391
Depreciation	24,680	23,687	49,399	33,683
Share-based compensation	843	931	1,486	1,560
Total cost of sales	182,819	180,676	350,158	330,634
Selling, general and administrative expenses				
Employee costs	5,270	4,713	11,226	8,697
General expenses	2,872	2,029	4,827	4,448
	8,142	6,742	16,053	13,145
Allowance for doubtful accounts expense (recovery)	799	697	765	774
Depreciation	358	254	706	568
Share-based compensation	1,741	2,189	2,360	3,336
Total selling, general and administrative expenses	$ 11,040	$ 9,882	$ 19,884	$ 17,823

1 –Amounts have been reclassified in conjunction with the corporate segment realignment, see note 1.

NOTE 11 – FINANCE COSTS

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Interest on borrowings	$ 2,982	$ 3,114	$ 5,649	$ 3,191
Interest on finance leases	218	127	463	254
Interest income	(2)	(34)	(17)	(162)
Deferred financing charges	318	230	588	283
Other	156	41	242	57
Total finance costs	$ 3,672	$ 3,478	$ 6,925	$ 3,623

NOTE 12 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

Cash and cash equivalents, trade and other receivables, trade and other payables, income tax payable, lease obligations and loans and borrowings are initially recognized at fair value and subsequently measured at amortized cost. The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and income tax payable, approximate 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 at fair value through profit or loss. Changes in fair value are recognized as they arise and are determined using quoted forward exchange rates at the reporting date (level 2). During the second quarter of 2019, there were no transfers between levels in the fair value hierarchy.

Credit risk

The Company's aged trade and other receivables are as follows:

As at,		June 30, 2019		December 31, 2018
Current (0 to 30 days from invoice date)	$	**99,633**	$	66,844
31 - 60 days		**25,828**		45,406
61 - 90 days		**25,954**		8,708
91+ days		**13,208**		3,782
Receivables from trade clients		**164,623**		124,740
Other amounts		**1,728**		2,588
Allowance for doubtful accounts		**(3,344)**		(2,775)
Total trade and other receivables	$	**163,007**	$	124,553

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. Trade receivables greater than 60 days outstanding have increased due to a major client who is undergoing an amalgamation that has impacted their accounting department. All amounts from this client were received on July 29, 2019.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company's objective in managing liquidity risk is to maintain sufficient available resources to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in cash and cash equivalent account. See Note 6 for operating commitments.

The expected timing of cash outflows relating to financial liabilities on the statement of financial position as at June 30, 2019 are:

	2019	2020	2021	2022	Thereafter	Total
Lease obligations(1)	$ 5,106	$ 8,692	$ 5,260	$ 1,581	$ 1,537	$ 22,176
Trade and other payables	104,648	-	-	-	-	104,648
Income tax payable	1,470	-	-	-	-	1,470
Loans and borrowings (2)	5,928	11,791	11,759	264,116	-	293,594
	$ 117,152	$ 20,483	$ 17,019	$ 265,697	$ 1,537	$ 421,888

(1) Includes interest portion of lease obligations.
(2) Includes estimated interest and principle repayments, based on current amounts outstanding and current interest rates at June 30, 2019. Both are variable in nature.

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

Market risk

During the first quarter of 2019, the Company settled forward exchange forward contracts outstanding at December 31, 2018, resulting in a realized loss of $0.3 million. The goal of these instruments was to limit exposure to U.S. dollar fluctuations.

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 to which the Company may be subject in the future, were to be concluded in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

NOTE 14 – OPERATING SEGMENTS

Effective January 1, 2019, the Company reorganized the composition of its reportable segments due to the maturation of the business and acquisition of Tucker. The realignment of operating segments created the separate disclosure of Corporate costs in addition to Canadian Operations and U.S. Operations segments. The Company has reclassified prior period information to align with the new composition of operating segments.

The Company's services are conducted by the Canadian Operations and the U.S. Operations segments. The results of each operating segment are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented operating results and activity

Three months ended June 30, 2019	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 53,224	$ 85,158	$ -	$ 138,382
Coiled tubing	22,881	25,314	-	48,195
Total Revenue	76,105	110,472	-	186,577
Expenses				
Cost of sales	78,241	104,006	572	182,819
Selling, general and administrative	2,488	3,355	5,197	11,040
Results from operating activities	(4,624)	3,111	(5,769)	(7,282)
Finance Costs	-	-	3,672	3,672
Foreign exchange (gain) loss	(583)	(1)	-	(584)
Gain (loss) on disposal of property and equipment	(793)	457	-	(336)
Amortization of intangible assets	10	1,546	-	1,556
Net (loss) income before income tax	$ (3,258)	$ 1,109	$ (9,441)	$ (11,590)
Capital expenditures (1)	$ 11,081	$ 2,892	$ -	$ 13,973
Total assets as at June 30, 2019	$ 393,537	$ 490,626	$ 1,785	$ 885,948
Total liabilities as at June 30, 2019	$ 327,114	$ 100,555	$ -	$ 427,669

Three months ended June 30, 2018	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 41,017	$ 88,524	$ -	$ 129,541
Coiled tubing	27,021	28,039	-	55,060
Total Revenue	68,038	116,563	-	184,601
Expenses				
Cost of sales	79,608	100,514	554	180,676
Selling, general and administrative	3,561	2,172	4,149	9,882
Results from operating activities	(15,131)	13,877	(4,703)	(5,957)
Finance Costs	-	-	3,478	3,478
Foreign exchange (gain) loss	254	-	-	254
Gain (loss) on disposal of property and equipment	(278)	(27)	-	(305)
Transaction costs	-	-	1,772	1,772
Amortization of intangible assets	10	1,408	-	1,418
Loss on foreign exchange forward contracts	-	-	(552)	(552)
Net (loss) income before income tax	$ (15,117)	$ 12,496	$ (9,401)	$ (12,022)
Capital expenditures (1)	$ 29,368	$ 9,977	$ -	$ 39,345
Total assets as at December 31, 2018	$ 416,191	$ 469,167	$ 2,550	$ 887,908
Total liabilities as at December 31, 2018	$ 329,383	$ 79,921	$ -	$ 409,304

Six months ended June 30, 2019		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	135,575	$	125,393	$	-	$	260,968
Coiled tubing		48,756		53,322		-		102,078
Total Revenue		184,331		178,715		-		363,046
Expenses								
Cost of sales		173,432		175,526		1,200		350,158
Selling, general and administrative		4,784		5,505		9,595		19,884
Results from operating activities		6,115		(2,316)		(10,795)		(6,996)
Finance Costs		-		-		6,925		6,925
Foreign exchange (gain) loss		(1,847)		(2)		-		(1,849)
Gain (loss) on disposal of property and equipment		(1,397)		388		-		(1,009)
Amortization of intangible assets		20		3,311		-		3,331
Loss on foreign exchange forward contracts		-		-		383		383
Net (loss) income before income tax	$	9,339	$	(6,013)	$	(18,103)	$	(14,777)
Capital expenditures (1)	$	22,686	$	10,099	$	-	$	32,785

Six months ended June 30, 2018		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	168,624	$	88,524	$	-	$	257,148
Coiled tubing		64,545		50,501		-		115,046
Total Revenue		233,169		139,025		-		372,194
Expenses								
Cost of sales		213,526		115,975		1,133		330,634
Selling, general and administrative		7,159		3,325		7,339		17,823
Results from operating activities		12,484		19,725		(8,472)		23,737
Finance Costs		-		-		3,623		3,623
Foreign exchange (gain) loss		389		-		-		389
Gain (loss) on disposal of property and equipment		(460)		37		-		(423)
Transaction costs		-		-		2,925		2,925
Amortization of intangible assets		20		1,408		-		1,428
Loss on foreign exchange forward contracts		-		-		1,219		1,219
Net (loss) income before income tax	$	12,535	$	18,280	$	(16,239)	$	14,576
Capital expenditures (1)	$	45,710	$	18,232	$	-	$	63,942

(1) Capital expenditures include non-cash expenditures from the addition of leased right-of-use assets.

CORPORATE INFORMATION

Management

Regan Davis
President and Chief Executive Officer

Michael Kelly
Executive Vice-President and Chief Financial Officer

Steve Glanville
Vice-President, Operations and Chief Operating Officer

Rory Thompson
President, Canadian Operations

Brock Duhon
President, United States Operations

Lori McLeod-Hill
Vice-President, Finance

Directors

Douglas Freel (1)

Evelyn Angelle (2)

Regan Davis (3)(4)

Jeremy Gackle (2)(5)

Donna Garbutt (6)(7)

James Harbilas (8)(9)

Jason Skehar (4)(9)

1. Chair of the Board
2. Member of the Audit Committee
3. President and Chief Executive Officer
4. Member of the Health, Safety and Environment Committee
5. Chair of the Compensation and Corporate Governance Committee
6. Lead Director
7. Chair of the Health, Safety and Environment Committee
8. Chair of the Audit Committee
9. Member of the Compensation and Corporate Governance 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