Condensed Interim Consolidated Financial Statements

STEP energy services

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

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

As at (in thousands of dollars)	Notes		March 31, 2017		December 31, 2016
ASSETS					
Current Assets					
Cash and cash equivalents		**$**	**8,864**	$	2,151
Trade and other receivables	11		**84,638**		47,907
Current tax receivable			**744**		744
Inventory	2		**15,918**		13,760
Prepaid expenses and deposits			**2,503**		2,054
			112,667		66,616
Property and equipment	3		**278,113**		266,975
Intangible assets	4		**651**		844
Deferred tax asset			**1,050**		705
		$	**392,481**	$	335,140
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables		**$**	**60,256**	$	33,588
Current portion of obligations under finance lease			**3,153**		3,156
			63,409		36,744
Deferred tax liabilities			**8,249**		4,463
Obligations under finance lease			**4,093**		3,692
Loans and borrowings	5		**31,379**		30,302
			107,130		75,201
Shareholders' equity					
Share capital	6		**273,144**		258,144
Contributed surplus			**21,593**		19,895
Accumulated other comprehensive income			**43**		321
Retained deficit			**(9,429)**		(18,421)
			285,351		259,939
		$	**392,481**	$	335,140

See accompanying notes to the condensed interim consolidated financial statements
See Note 13 – Commitments and contingencies
See Note 15 – Subsequent events

STEP ENERGY SERVICES LTD.

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

Unaudited

For the three month ended March 31, (in thousands of dollars, except per share amounts)	Notes		**2017**		2016
Revenue		**$**	**117,984**	$	27,577
Cost of sales	9		**100,723**		32,153
Gross profit (loss)			**17,261**		(4,576)
Selling, general and administrative expenses	9		**5,171**		5,620
Results from operating activities			**12,090**		(10,196)
Finance costs	10		**569**		183
Foreign exchange gain			**(13)**		(28)
Gain on disposal of property and equipment			**(1,882)**		(227)
Transaction costs	15		**785**		-
Amortization of intangibles	4		**193**		144
Net income (loss) before income tax			**12,438**		(10,268)
Income tax expense (recovery)					
Current			**7**		-
Deferred			**3,439**		(1,642)
			3,446		(1,642)
Net income (loss)			**8,992**		(8,626)
Other comprehensive income (loss)					
Foreign currency translation (loss)			**(278)**		(1,515)
Total comprehensive income (loss)		**$**	**8,714**	$	(10,141)
Basic and diluted net income (loss) per share	8	**$**	**0.18**	$	(0.27)

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	Total
Balance at January 1, 2016		$ 180,480	$ 10,977	$ 997	$ 1,535	$ 193,989
Net loss for the period		-	-	-	(8,626)	(8,626)
Foreign currency translation loss		-	-	(1,515)	-	(1,515)
Share-based compensation	7	-	4,811	-	-	4,811
Balance at March 31, 2016		180,480	15,788	(518)	(7,091)	188,659
Balance at January 1, 2017		258,144	19,895	321	(18,421)	259,939
Net income for the period		-	-	-	8,992	8,992
Foreign currency translation loss		-	-	(278)	-	(278)
Share-based compensation	7	-	1,698	-	-	1,698
Shares issued	6	15,000	-	-	-	15,000
Balance at March 31, 2017		**$ 273,144**	**$ 21,593**	**$ 43**	**$ (9,429)**	**$ 285,351**

See accompanying notes to the condensed interim consolidated financial statements

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

For the three months ended March 31, (in thousands of dollars)	Notes	**2017**	2016
Operating activities:			
Net income (loss)		**$ 8,992**	$ (8,626)
Adjusted for the following:			
Depreciation and amortization		**7,545**	5,195
Share-based compensation	7	**1,698**	4,811
Unrealized foreign exchange (gain)		**-**	(59)
Gain on disposal of property and equipment		**(1,882)**	(227)
Finance costs	10	**569**	183
Deferred income tax expense (recovery)		**3,439**	(1,642)
Cash finance costs paid		**(1,190)**	(183)
Changes in working capital from operations		**(15,718)**	(40)
Net cash provided by (used in) operating activities		**3,453**	(588)
Investing activities:			
Purchase of property and equipment		**(19,817)**	(6,012)
Proceeds on disposal of property and equipment		**4,059**	491
Purchase of intangible assets		**-**	(438)
Changes in working capital from investing		**2,967**	(2,044)
Net cash used in investing activities		**(12,791)**	(8,003)
Financing activities:			
Issuance of share capital	6	**15,000**	-
Borrowing of long-term debt	5	**1,698**	6,409
Repayment of obligations under finance lease		**(670)**	(584)
Net cash provided by financing activities		**16,028**	5,825
Impact of exchange rate changes on cash		**23**	(69)
Increase (decrease) in cash and cash equivalents		**6,713**	(2,835)
Cash and cash equivalents, beginning of period		**2,151**	8,226
Cash and cash equivalents, end of period		**$ 8,864**	$ 5,391

See accompanying notes to the condensed interim consolidated financial statements

As at and for the three months ended March 31, 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 company domiciled in Canada and was incorporated under the laws of the Province of Alberta on March 25, 2011. The registered office is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5. STEP utilizes 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 consolidated financial statements for the year ended December 31, 2016. Accordingly, these Financial Statements should be read in conjunction with those annual consolidated financial statements for the year ended December 31, 2016.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. During the quarter, the Company's Board of Directors approved a consolidation of the Company's issued and outstanding shares on a 5 to 1 basis. All share capital 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 11, 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 for periods of up to eight weeks 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. As a result, March through June is traditionally the Company's least active time and as such, the operating results of the Company will vary on a quarterly basis. Activity in the southern United States is generally not as influenced by seasonal conditions.

NOTE 2 – INVENTORY

As at		March 31, 2017		December 31, 2016
Coiled tubing	$	**4,711**	$	4,227
Sand and chemicals		**9,473**		7,843
Spare equipment parts		**1,734**		1,690
Total Inventory	$	**15,918**	$	13,760

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		493		1,126		19,251		73		20,943
Disposals		-		(472)		(2,919)		-		(3,391)
Effect of exchange rate changes		(3)		(9)		(231)		(1)		(244)
Balance at March 31, 2017	**$**	**22,687**	**$**	**10,810**	**$**	**296,616**	**$**	**5,276**	**$**	**335,389**
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		214		696		6,163		277		7,350
Disposals		-		(344)		(820)		-		(1,164)
Effect of exchange rate changes		(1)		-		(14)		(1)		(16)
Balance at March 31, 2017	**$**	**1,773**	**$**	**3,418**	**$**	**48,807**	**$**	**3,278**	**$**	**57,276**
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 March 31, 2017	**$**	**20,914**	**$**	**7,392**	**$**	**247,809**	**$**	**1,998**	**$**	**278,113**

Included in field equipment at March 31, 2017 were assets under construction of $22.1 million (December 31, 2016 - $8.3 million). Assets under construction are not depreciated until they are substantially completed and available for use.

NOTE 4 – INTANGIBLE ASSETS

		Total Intangible
Cost:		
Balance at January 1, 2016	$	4,735
Acquisition		438
Balance at December 31, 2016		5,173
Acquisition		-
Balance at March 31, 2017	**$**	**5,173**
Accumulated amortization:		
Balance at January 1, 2016	$	3,753
Amortization		576
Balance at December 31, 2016		4,329
Amortization		193
Balance at March 31, 2017	**$**	**4,522**
Carrying amounts:		
As at January 1, 2016	$	982
As at December 31, 2016	$	844
As at March 31, 2017	**$**	**651**

NOTE 5 – LOANS AND BORROWINGS

During the quarter, the Company entered into a new agreement with a syndicate of financial institutions. The Company's agreement is comprised of an operating facility and a revolving facility (together the "Facilities").

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

Security for the Facilities is provided by a general security agreement of the assets of the company. The amount of Facilities available to the Company is the lower of $100 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 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 million; less

4. Priority payables.

The Facilities are secured by all present and after acquired personal property of the Company and all of its subsidiaries. Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 450 basis points, dependent on certain financial ratios of the Company.

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 March 31, 2017, funded debt to capitalization ratio was 0.10:1 (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 March 31, 2017 Debt service coverage ratio was 6.14:1 (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.

At March 31, 2017, the full amount was available to be drawn on the facilities of which $32.0 million was outstanding ($31.4 million net of unamortized debt issue costs of $0.6 million) and the Company was in compliance with all covenants.

NOTE 6 – 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	15,533,729	77,664
Balance at December 31, 2016	47,719,703	258,144
Issued	2,400,000	15,000
Balance at March 31, 2017	**50,119,703**	**$ 273,144**

For the three months ended March 31, 2017, there were 2.4 million common shares issued by the Company for aggregate proceeds of $15.0 million. The subscription agreement dated April 2, 2015 was 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").

NOTE 7 – SHARE-BASED COMPENSATION

Following the February 7, 2017 consolidation of common shares (Note 1), each whole stock option or performance warrant is exercisable for one-fifth of a common share upon payment of an exercise price established at the time of grant. Share based instruments issued and outstanding at the end of the period were as follows:

	2017		2016	
	Stock Options	**Performance Warrants**	Stock Options	Performance Warrants
Outstanding at January 1	**21,246,250**	**44,253,000**	11,035,000	28,349,000
Granted	**727,000**	**-**	-	-
Forfeited / Cancelled	**(55,000)**	**(112,500)**	(288,000)	(498,600)
Outstanding at March 31	**21,918,250**	**44,140,500**	10,747,000	27,850,400
Exercisable at March 31	**6,645,308**	**17,584,380**	4,568,657	14,263,800

The exercise of outstanding options of 21,918,250 would result in the issue of 4,383,650 common shares and the exercise of outstanding performance warrants of 44,140,500 would result in the issue of 8,828,100 common shares. Subsequent to quarter end, 1,454,000 performance warrants were issued.

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

Three months ended March 31,				
		2017		2016
Stock options	**$**	**976**	$	1,758
Performance warrants		**722**		3,053
Total expense	**$**	**1,698**	$	4,811

When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus are added to share capital. The weighted average grant date fair value of stock options granted in the first quarter 2017, determined using the Black-Scholes pricing model, was $0.84 per option. Key assumptions of these stock options include: risk-free interest rate 1.11-1.21%, estimated forfeiture rate 9.88-10.37%, expected life 5.00 years, dividend rate 0%, and volatility 55.36-55.48%. There were no performance warrants issued in the first quarter 2017 nor were there any stock options or performance warrants issued in the first quarter 2016.

NOTE 8 – PER SHARE COMPUTATIONS

Three months ended March 31,		
	2017	2016
Weighted average number of shares outstanding - basic	**49,319,703**	32,185,974
Dilutive impact of stock options and performance warrants	**29,336**	-
Weighted average number of shares outstanding - diluted	**49,349,039**	32,185,974

Dilutive securities will have a dilutive effect under the treasury stock method only when the average market price of the common shares during the period exceeds the sum of the exercise price of the securities and unamortized share-based compensation.

NOTE 9 – PRESENTATION OF EXPENSES

Three months ended March 31,		2017		2016
Cost of sales				
Employee costs	**$**	**27,572**	$	11,973
Operating expense		**22,199**		7,472
Materials and inventory costs		**43,028**		6,548
		92,799		25,993
Depreciation		**7,079**		4,809
Share-based compensation		**845**		1,351
Total cost of sales	**$**	**100,723**	$	32,153
Selling, general and administrative expenses				
Employee costs	**$**	**2,110**	$	970
General expenses		**1,935**		948
		4,045		1,918
Depreciation		**273**		242
Share-based compensation		**853**		3,460
Total selling, general and administrative expenses	**$**	**5,171**	$	5,620

NOTE 10 – FINANCE COSTS

Three months ended March 31,		2017		2016
Interest on borrowings	**$**	**414**	$	100
Interest on finance leases		**75**		64
Interest income		**(1)**		(4)
Deferred financing charges		**41**		-
Other		**40**		23
	$	**569**	$	183

NOTE 11 – FINANCIAL INSTRUMENTS

The Company's financial instruments included in the consolidated statement of financial position are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt and finance lease obligations.

Fair values of financial assets and liabilities

The fair values of financial instruments included in the consolidated statements of financial position approximate their carrying amounts as they are short-term in nature. The carrying value of the loans and borrowings approximate the fair value due to the variable rate.

Credit risk

The Company held cash and cash equivalents of $8.9 million as at March 31, 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). The Company does not anticipate non-performance that would materially impact its financial statements.

During the three month period ended March 31, 2017, five customers represented 56% of revenue (2016 –59% of revenue). These top five customers contribute 13%, 13%, 13%, 12% and 5% of revenue respectively, all of which are operated in the Canadian segment.

As at March 31, 2017, 18% of trade receivables are held with one customer within the Canadian operations (December 31, 2016 – 13%), and as such, the Company is exposed to concentration of credit risk. As at March 31, 2017, approximately 57% of the total accounts receivable balance was due from five companies (December 31, 2016 – 49%). The Company's aged trade and accounts receivable, are as follows:

As at		March 31, 2017		December 31, 2016
Current (0 to 30 from invoice date)	**$**	**65,154**	$	27,020
31 - 60 days		**16,091**		14,733
61 - 90 days		**937**		2,879
91+ days		**3,354**		3,574
Receivables from trade customers		**85,536**		48,206
Other amounts		**60**		1
Allowance for doubtful accounts		**(958)**		(300)
Total Trade and other receivables	**$**	**84,638**	$	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 at March 31, 2017 is:

		2017		2018		2019		2020		Thereafter		Total
Repayment of the Facility(1)	$	-	$	-	$	-	$	32,000	$	-	$	32,000
Interest on the Facility(2)		1,495		1,984		1,984		821		-		6,284
Finance lease obligations(3)		2,986		3,175		1,384		75		-		7,620
Trade and other payables		60,256		-		-		-		-		60,256
	$	64,737	$	5,159	$	3,368	$	32,896	$	-	$	106,160

(1) The Facility is required to be repaid on May 31, 2020 if the Company has not refinanced or extended it prior to this date.
(2) For calculation purposes this assumes amount outstanding and rate at period end are constant through forecast period.
(3) Includes interest portion of finance lease obligation.

The Company anticipates that its existing capital resources, including the credit facility and cash flows from operations, will be adequate to satisfy its liquidity requirements through 2017. Reductions in our customers' 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 cash flow interest rate risk on its floating rate bank indebtedness.

Foreign currency risk
As the Company operates in both Canada and the United States, fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar can have an impact on the operating results and the future cash flows of the Company's financial assets and liabilities. The Canadian segment is exposed to foreign exchange risk on the U.S. dollar denominated purchases made in the normal course of business. The Company managed risk to foreign currency exposure by monitoring financial assets and liabilities denominated in U.S. dollars and exchange rates on an ongoing basis.

NOTE 12 – CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to operate within the oilfield services sector and to maintain a flexible capital structure with reasonable debt to undertake future capital expansion or acquisitions for the benefit of its stakeholders. The Company considers the items included in shareholders' equity, loans and borrowings and finance leases as capital. The Company seeks to maintain a balance between the level of total debt and shareholders' equity to ensure access to capital to fund growth and working capital, given the cyclical nature of the oilfield services sector.

As at December 31,		**March 31, 2017**			December 31, 2016	
Total debt	**$**	**39,246**	**12%**	$	37,150	13%
Shareholders' equity		**285,351**	**88%**		259,939	87%
Total capitalization	**$**	**324,597**		$	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 5). The Company is in compliance with all financial and non-financial covenants.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's estimated future minimum operating lease payments as at March 31, 2017 for the following five years and thereafter:

		2017		2018		2019		2020		2021		Thereafter		Total
Operating lease obligations	$	2,152	$	1,809	$	1,606	$	1,978	$	1,992	$	2,025	$	11,562

Operating leases relate to leases of certain shop and office space with lease terms of between 1 years and 7 years. Subsequent to quarter end, the Company signed a lease for new office space with a total commitment of approximately $5.0 million over a term of 7 years.

As at March 31, 2017, the Company has $33.2 million (December 31, 2016 - $9.3 million) of commitments related to capital projects all are expected to be incurred in fiscal 2017.

Litigation

From time to time, 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.

During the first quarter of 2017, Calfrac Well Services Ltd. ("Calfrac") filed a statement of claim in the Judicial District of Calgary in the Court of Queen's Bench against the Company and an employee of the Company seeking $10 million in damages among other relief. Calfrac alleges that the employee, who is a former employee of Calfrac, misappropriated certain competitively sensitive materials from Calfrac. Calfrac further alleges that STEP benefited or made use of such materials, resulting in damages to Calfrac. STEP is presently investigating the claim and at this time intends to contest allegations made in the claim. While management does not believe that this action will have a material adverse effect on the business or financial condition of the company, no assurance can be given as to the final outcome of this or any other legal proceeding. If this claim, or any claims which the Company may be subject to in the future, were to be concluded in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

NOTE 14 – OPERATING SEGMENTS

The Company's oil and natural gas services are conducted in two geographical segments which are Canada and the United States. 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 since management believes such information is most relevant in evaluating regional results, relative to other entities operating in the industry. Information on the results of each geographic region are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented operating results and activity

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

For the three months ended March 31, 2016		Canadian Operations		U.S. Operations		Total
Revenue	$	24,810	$	2,767	$	27,577
Adjusted EBITDA [1]	$	(66)	$	(268)	$	(334)
Depreciation and amortization	$	4,624	$	571	$	5,195
Income tax expense (recovery)	$	(1,296)	$	(346)	$	(1,642)
Capital expenditures	$	5,555	$	1,007	$	6,562

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

Segmented Assets and Liabilities

As at March 31, 2017		Canadian Operations		U.S. Operations		Total
Assets						
Current assets	$	102,183	$	10,484	$	112,667
Property and equipment		248,156		29,957		278,113
Intangible assets		651		-		651
Deferred tax assets		-		1,050		1,050
Total assets	$	350,990	$	41,491	$	392,481
Current liabilities	$	60,664	$	2,745	$	63,409

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

NOTE 15 – SUBSEQUENT EVENT

On April 25, 2017, the Company filed a final prospectus for an initial public offering ("IPO") to raise gross proceeds of $100 million treasury offering through the issuance of 10 million shares at a price of $10.00 per share. The underwriters' commission was 5.5% of the gross proceeds of the IPO. The expenses of the IPO, excluding the underwriters' commission, are estimated to be approximately $2.5 million in total, and will be paid by the Company out of the proceeds of the treasury offering. The IPO closed on May 2, 2017. Upon completion of the IPO, the Company has 60.1 million shares outstanding.

In connection with the IPO, the Company will adopt a new option plan and a new performance and restricted share unit plan, which will supercede the prior plans. A maximum of 5% of the issued and outstanding common shares will be reserved for issuance under the new plans, excluding the prior options and performance warrants. As of May 11, 2017, no instruments have been issued under the new plans.

CORPORATE INFORMATION

Management

Regan Davis
President & Chief Executive Officer

Rob Sprinkhuysen
Chief Financial Officer

Steve Glanville
Vice President Operations & Chief Operating Officer

Rory Thompson
Vice President Coiled Tubing Services – Canada

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

Mike Burvill
Vice President Fracturing Services

Bailey Epp
Vice President Engineering and Technology

Todd Rainville
Vice President Sales and Marketing

David Johnson
Vice President Human Resources

Lori McLeod-Hill
Vice President Finance

Directors

Douglas Freel – Chairman

Regan Davis (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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Registered office

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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

STEP energy services

Safety | Trust | Execution | Possibilities