STEP energy services

TSX STEP

Condensed Consolidated Interim

Financial Statements

As at and for the three and nine months ended September 30, 2019

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of Canadian dollars)	Notes		September 30, 2019		December 31, 2018
ASSETS					
Current Assets					
Cash and cash equivalents		$	23,436	$	364
Trade and other receivables	13		135,857		124,553
Current tax receivable			5,028		-
Inventory	2		30,522		32,646
Prepaid expenses and deposits			10,349		6,691
Foreign exchange forward contracts			-		44
			205,192		164,298
Property and equipment	3		560,224		600,142
Intangible assets	4		1,474		33,202
Goodwill	4,5		-		90,266
		$	766,890	$	887,908
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables		$	98,812	$	84,079
Income tax payable			192		4,572
Current portion of lease obligations	1,7		10,122		8,489
			109,126		97,140
Deferred tax liabilities			39,794		51,713
Lease obligations	1,7		9,529		8,010
Other liabilities	9		354		-
Loans and borrowings	6		256,661		252,441
			415,464		409,304
Shareholders' equity					
Share capital	8		427,707		426,494
Contributed surplus			32,625		29,447
Accumulated other comprehensive income			10,726		22,670
Deficit			(119,632)		(7)
			351,426		478,604
		$	766,890	$	887,908

See accompanying notes to the condensed consolidated interim financial statements

See Note 7 – Commitments
See Note 14 – Contingencies and provisions

STEP ENERGY SERVICES LTD.

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

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Revenue		$ 178,745	$ 240,541	$ 541,790	$ 612,735
Cost of sales	1,11	171,391	214,957	521,548	545,592
Gross profit		7,354	25,584	20,242	67,143
Selling, general and administrative expenses	1,11	9,877	9,736	29,761	27,558
Results from operating activities		(2,523)	15,848	(9,519)	39,585
Finance costs	12	4,022	4,100	10,947	7,723
Foreign exchange loss (gain)		473	(1,069)	(1,376)	(680)
Gain on disposal of property and equipment		(806)	(951)	(1,815)	(1,373)
Transaction costs		-	(4)	-	2,921
Amortization of intangibles		1,553	1,588	4,883	3,016
Foreign exchange forward contract loss	13	-	-	383	1,219
Impairment	4,5	113,546	-	113,546	-
(Loss) income before income tax		(121,311)	12,184	(136,087)	26,759
Income tax expense (recovery)					
Current		(2,709)	5,229	(6,102)	7,824
Deferred		(5,759)	(2,305)	(10,514)	(310)
		(8,468)	2,924	(16,616)	7,514
Net (loss) income		(112,843)	9,260	(119,471)	19,245
Other comprehensive (loss) income					
Foreign currency translation (loss) gain		4,501	(7,471)	(11,944)	1,102
Total comprehensive (loss) income		$ (108,342)	$ 1,789	$ (131,415)	$ 20,347
Earnings (loss) per share:					
Basic	10	$ (1.69)	$ 0.14	$ (1.79)	$ 0.30
Diluted	10	$ (1.69)	$ 0.14	$ (1.79)	$ 0.29

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		-	-	-	19,245	19,245
Foreign currency translation gain		-	-	1,102	-	1,102
Shares issued (net of share issue costs and deferred tax)		54,218	-	-	-	54,218
Share-based compensation	9	-	6,626	-	-	6,626
Exercise of equity instruments	8	1,810	(1,810)	-	-	-
Balance at September 30, 2018		$ 425,464	$ 29,480	$ (1,255)	$ 58,542	$ 512,231
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		-	-	-	(119,471)	(119,471)
Foreign currency translation (loss)		-	-	(11,944)	-	(11,944)
Share-based compensation	9	-	4,391	-	-	4,391
Exercise of equity instruments	8	1,213	(1,213)	-	-	-
Balance at September 30, 2019		**$ 427,707**	**$ 32,625**	**$ 10,726**	**$ (119,632)**	**$ 351,426**

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 Canadian dollars)	Notes	For the three months ended September 30, 2019	For the three months ended September 30, 2018 [1]	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018 [1]
Operating activities:					
Net (loss) income		$ (112,843)	$ 9,260	$ (119,471)	$ 19,245
Adjusted for the following:					
Depreciation and amortization	3,4	25,001	26,266	78,436	61,945
Share-based compensation	9	1,765	1,925	5,610	6,821
Unrealized foreign exchange (gain) loss		694	(1,073)	(1,722)	(325)
Gain on disposal of property and equipment		(806)	(951)	(1,815)	(1,373)
Foreign exchange forward contract (gain) loss	13	-	-	383	1,219
Finance costs	12	4,022	4,100	10,947	7,723
Impairment	4,5	113,546	-	113,546	-
Income tax expense (recovery)		(8,468)	2,924	(16,616)	7,514
Cash finance costs paid		(3,362)	(3,863)	(11,541)	(9,573)
Income taxes received (paid)		641	(597)	(3,603)	(6,635)
Changes in non-cash working capital from operating activities		14,221	(15,426)	(1,249)	(29,238)
Net cash provided by operating activities		34,411	22,565	52,905	57,323
Investing activities:					
Acquisition through business combination		-	-	-	(340,206)
Purchase of property and equipment		(12,144)	(32,064)	(34,621)	(91,467)
Proceeds on disposal of property and equipment		1,346	1,267	2,180	1,936
Changes in non- cash working capital from investing activities		(351)	(8,697)	1,192	1,295
Net cash used in investing activities		(11,149)	(39,494)	(31,249)	(428,442)
Financing activities:					
Issuance of share capital, net	8	-	(4)	-	53,444
Issuance of loans and borrowings	6	514	10,946	6,315	290,734
Repayment of lease obligations		(1,704)	(1,699)	(5,115)	(4,114)
Settlement of foreign exchange forward contracts	13	-	-	(338)	(1,219)
Changes in non-cash working capital from financing activities		-	-	-	-
Net cash (used in) provided by financing activities		(1,190)	9,243	862	338,845
Impact of exchange rate changes on cash		251	(57)	554	334
Increase (decrease) in cash and cash equivalents		22,323	(7,743)	23,072	(31,940)
Cash and cash equivalents, beginning of period		1,113	12,662	364	36,859
Cash and cash equivalents, end of period		$ 23,436	$ 4,919	$ 23,436	$ 4,919

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 nine months ended September 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 publicly 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 15). The Company also reclassified specified cost of sales and selling, general, and administrative costs.

In addition, the Company restated certain September 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. In accordance with IFRS 2 – Business Combinations, the Company had one year from acquisition date to obtain information about facts and circumstances that existed as of the acquisition date which could impact the measurement of amounts recognized. 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 ("Board") on November 6, 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		September 30, 2019		December 31, 2018
Coiled tubing	$	**7,498**	$	6,412
Sand and chemicals		**8,799**		10,835
Spare equipment and parts		**14,225**		15,399
Total Inventory	$	**30,522**	$	32,646

During the three and nine months ended September 30, 2019, the Company incurred write-downs of $0.6 million and $1.2 million (September 30, 2018 –nil and $0.6 million) 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		8,694		2,328		34,206		304		45,532
Disposals		-		(6,942)		(992)		-		(7,934)
Effect of exchange rate changes		(373)		(390)		(8,857)		8		(9,612)
Balance at September 30, 2019	**$**	**46,140**	**$**	**24,013**	**$**	**713,727**	**$**	**8,341**	**$**	**792,221**
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		2,723		5,040		64,629		1,161		73,553
Disposals		-		(3,760)		(324)		-		(4,084)
Effect of exchange rate changes		(26)		(147)		(1,405)		13		(1,565)
Balance at September 30, 2019	**$**	**6,678**	**$**	**10,587**	**$**	**208,151**	**$**	**6,581**	**$**	**231,997**
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 September 30, 2019	**$**	**39,462**	**$**	**13,426**	**$**	**505,576**	**$**	**1,760**	**$**	**560,224**

Included in field equipment at September 30, 2019 were assets under construction of $9.9 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	$ -	$ 15,201	$ -	$ 15,201
Acquisition through business combination	-	7,802	-	7,802
Additions	-	9,578	-	9,578
Disposals	-	(5,361)	-	(5,361)
Effect of exchange rate changes	-	925	-	925
Balance at December 31, 2018	-	28,145	-	28,145
Additions	8,312	2,327	272	10,911
Disposals	-	(6,803)	-	(6,803)
Effect of exchange rate changes	18	(380)	-	(362)
Balance at September 30, 2019	**$ 8,330**	**$ 23,289**	**$ 272**	**$ 31,891**
Accumulated depreciation:				
Balance at January 1, 2018	$ -	$ 3,710	$ -	$ 3,710
Depreciation	-	7,872	-	7,872
Disposals	-	(3,179)	-	(3,179)
Effect of exchange rate changes	-	228	-	228
Balance at December 31, 2018	-	8,631	-	8,631
Depreciation	1,684	5,021	52	6,757
Disposals	-	(3,625)	-	(3,625)
Effect of exchange rate changes	(1)	(141)	-	(142)
Balance at September 30, 2019	**$ 1,683**	**$ 9,886**	**$ 52**	**$ 11,621**
Carrying amounts:				
As at January 1, 2018	$ -	$ 11,491	$ -	$ 11,491
As at December 31, 2018	$ -	$ 19,514	$ -	$ 19,514
As at September 30, 2019	**$ 6,647**	**$ 13,403**	**$ 220**	**$ 20,270**

NOTE 4 – INTANGIBLE ASSETS AND GOODWILL

	Notes		Intangible assets		Goodwill
Cost:					
Balance at January 1, 2018		$	3,543	$	-
Acquisition through business combination			35,626		129,599
Impairment			-		(46,000)
Effect of exchange rate changes			2,020		6,667
Balance at December 31, 2018			41,189		90,266
Impairment	5		-		(87,641)
Effect of exchange rate changes			401		(2,625)
Balance at September 30, 2019		$	41,590	$	-
Accumulated amortization:					
Balance at January 1, 2018		$	3,184	$	-
Amortization			4,605		-
Effect of exchange rate changes			198		-
Balance at December 31, 2018			7,987		-
Amortization			4,883		-
Impairment			25,905		-
Effect of exchange rate changes			1,341		-
Balance at September 30, 2019		$	40,116	$	-
Carrying amounts:					
As at January 1, 2018		$	359	$	-
As at December 31, 2018		$	33,202	$	90,266
As at September 30, 2019		**$**	**1,474**	**$**	**-**

At September 30, 2019, the Company determined that no future economic benefits are expected from the continued use of certain of its U.S. segment intangible assets. As such, the Company has recognized an impairment expense of $25.9 million in intangible assets for the period ending September 30, 2019. All of the Company's intangible assets have finite useful lives. See Note 5 for discussion on the Company's further impairment tests.

NOTE 5 – IMPAIRMENT OF GOODWILL

IAS 36 requires the Company to test any Cash Generating Unit ("CGU") with goodwill at least annually for impairment. Also, the Company reviews the carrying value of its property and equipment, intangible assets and goodwill at each reporting period for indicators of impairment. STEP has identified four CGUs: Canadian Coiled Tubing, Canadian Fracturing, U.S. Coiled Tubing and U.S. Fracturing. All of the Company's goodwill is allocated to the U.S. Fracturing CGU which is reported under the U.S. Operations Segment.

During the third quarter of 2019, the Company identified indicators of impairment which included the impact of continued market uncertainty on the Company's current and future financial results, the oversupply of pressure pumping equipment in North America for the current activity levels, and the derecognition of certain of its U.S. segment intangible assets. Accordingly, the Company estimated the recoverable amount of its property and equipment, intangible assets and goodwill and tested all CGUs for impairment.

The recoverable amounts of the CGUs were determined using the value in use method, based on multiyear discounted cash flows to be generated from continuing operations. Cash flow assumptions were based on a combination of expected future results, including management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and a post-tax discount rate of 15.4% for all CGUs. Discount rates were calculated using the Company's weighted-average cost of capital. A terminal growth rate of 2.0% was applied for cash flows beyond 2024.

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in an impairment charge in the U.S. Fracturing CGU against goodwill of $87.6 million at September 30, 2019. The recoverable amount of the U.S. fracturing CGU was determined to be $175.5 million. The Company determined no further impairment was required for its property and equipment as recent equipment appraisals note fair market values greater than the current carrying value of property and equipment in the U.S. Fracturing CGU at September 30, 2019. The results of the tests indicated no impairment for the Canadian Coiled Tubing, Canadian Fracturing, and U.S. Coiled Tubing CGUs.

Assumptions that are valid at the time of preparing the impairment test at September 30, 2019 may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to impairment on an ongoing basis.

A 1% increase in the discount rate would not cause the carrying amount to exceed the recoverable amount of the Canadian Coiled Tubing, Canadian Fracturing, and U.S. Coiled Tubing CGUs. Increasing the discount rate by 1% for the U.S. Fracturing CGU would result in an additional impairment loss of $15.3 million.

NOTE 6 – LOANS AND BORROWINGS

At September 30, 2019 the Company has a borrowing agreement with a syndicate of financial institutions. The Company's agreement is comprised of operating facilities and a revolving facility (together the "Credit Facilities"). The Credit Facilities mature on June 25, 2022 and include a Canadian $313.3 million revolving credit facility, a Canadian $10.0 million operating facility and a U.S. $20.0 million operating facility. The maturity date of the Credit Facilities may be extended for a period of up to three years with syndicate approval. The 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 $25.0 million from the issuance of equity securities and must be utilized to repay borrowings under the Credit Facilities. Under the 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 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
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 September 30, 2019, the Funded debt to Adjusted bank EBITDA ratio was 3.17:1.00.

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 September 30, 2019, the Interest Coverage Ratio was 5.48:1.00.

Interest is payable monthly, at the lead syndicate 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 third quarter of 2019 was approximately 4.56%. At September 30, 2019, the full amount of the facility was available to be drawn on the Credit Facilities of which there was $259.3 million outstanding ($256.7 million net of deferred financing costs of $2.6 million). The Company was in compliance with all covenants as at September 30, 2019.

NOTE 7 – 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 October 2019 to January 2026 with interest rates ranging from 2.68% to 8.99%. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are as follows:

As at,		September 30, 2019		December 31, 2018 (1)
Future minimum lease payments	$	21,144	$	17,546
Discount		(1,493)		(1,047)
Present value of minimum lease payments	$	19,651	$	16,499
Presented as:				
Current portion of lease obligations	$	10,122	$	8,489
Lease obligations	$	9,529	$	8,010

1) Prior year balances include lease obligations recognized under the previously implemented standard, IAS 17. Lease obligations in the current period include leases recognized under IFRS 16, see Note 1.

Commitments

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

		2019		2020		2021		2022		2023		Thereafter		Total
Operating expenses related to lease obligations(1)	$	257	$	1,323	$	1,306	$	1,253	$	1,241	$	407	$	5,787
Short term and low value lease obligations(1)		110		212		-		-		-		-		322
Total commitments	$	367	$	1,535	$	1,306	$	1,253	$	1,241	$	407	$	6,109

1) Includes U.S. obligations at a forecast exchange rate of 1 USD = 1.32 CAD.

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 third quarter for short term and low value lease obligations was $0.3 million.

As at September 30, 2019, the Company has $3.4 million (December 31, 2018 - $8.2 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2019.

NOTE 8 – 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	116,977	1,213
Balance at September 30, 2019	**66,799,296**	**$ 427,707**

NOTE 9 – 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	1,971,489	-	-	-	-	1,971,489
Revised via performance factor	-	-	(13,129)	-	-	(13,129)
Exercised	-	(108,000)	(9,132)	-	-	(117,132)
Forfeited/Expired	(51,716)	(122,832)	-	(191,552)	(608,260)	(974,360)
Outstanding at September 30, 2019	**2,121,760**	**539,742**	**483,055**	**3,558,176**	**7,552,528**	**14,255,261**
Exercisable at September 30, 2019	-	-	-	3,001,460	5,479,678	8,481,138
Weighted average exercise price ($)	2.45	nil	nil	5.47	10.99	
Weighted average remaining life (years)	4.6	1.7	1.4	1.5	1.2	

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 under the Company's Phantom Long-Term Incentive Plan (the "Phantom PRSU Plan"). 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 under the Company's Phantom PRSU Plan. 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. The Board 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. The aggregate liability for cash settled share-based instruments of $0.7 million is included in the statement of financial position in trade and other payables and other liabilities. 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	370,301	2,412,546	847,379	3,630,226
Forfeited/Expired		(131,226)	-	(131,226)
Outstanding at September 30, 2019	**507,935**	**2,281,320**	**847,379**	**3,636,634**
Exercisable at September 30, 2019	507,935	-	-	507,935

Share-based compensation expense

The composition of share-based compensation expense incurred was:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Prior stock options	**$ 127**	$ 407	**$ 279**	$ 1,375
New stock options	**393**	-	**724**	-
Performance warrants	**173**	440	**423**	1,469
Performance share units	**408**	-	**1,270**	-
Restricted share units	**387**	-	**1,695**	-
Cash-settled deferred share units	**(146)**	(539)	**468**	195
Cash-settled performance share units	**60**	789	**106**	2,011
Cash-settled restricted share units	**363**	828	**645**	1,771
Total share-based compensation expense	**$ 1,765**	$ 1,925	**$ 5,610**	$ 6,821

NOTE 10 – PER SHARE COMPUTATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Weighted average number of shares outstanding - basic	66,767,919	66,595,729	66,733,701	64,497,647
Dilutive impact of stock options and performance warrants	-	492,039	-	1,175,636
Weighted average number of shares outstanding - diluted	66,767,919	67,087,768	66,733,701	65,673,283

As at September 30, 2019, 3.6 million prior stock options, 7.6 million performance warrants, 2.1 million new options, 0.5 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 (September 30, 2018: 1.2 million prior stock options and 8.3 million performance warrants).

NOTE 11 – PRESENTATION OF EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 (1)	2019	2018 (1)
Cost of sales				
Employee costs	$ 52,491	$ 57,162	$ 154,069	$ 149,800
Operating expense	42,195	53,324	124,194	131,879
Materials and inventory costs	52,715	79,157	168,411	203,354
	147,401	189,643	446,674	485,033
Depreciation	23,137	24,296	72,536	57,979
Share-based compensation	853	1,018	2,338	2,580
Total cost of sales	171,391	214,957	521,548	545,592
Selling, general and administrative expenses				
Employee costs	5,862	5,315	17,088	14,013
General expenses	2,492	2,395	7,319	6,844
	8,354	7,710	24,407	20,857
Allowance for doubtful accounts expense	300	737	1,065	1,510
Depreciation	311	382	1,017	950
Share-based compensation	912	907	3,272	4,241
Total selling, general and administrative expenses	$ 9,877	$ 9,736	$ 29,761	$ 27,558

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

NOTE 12 – FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest on borrowings	$ 3,262	$ 3,562	$ 9,095	$ 6,753
Interest on finance leases	406	272	870	526
Interest income	(10)	(13)	(28)	(175)
Deferred financing charges	244	238	832	521
Other	120	41	178	98
Total finance costs	$ 4,022	$ 4,100	$ 10,947	$ 7,723

NOTE 13 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

Cash and cash equivalents, trade and other receivables, current tax receivable, 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, current tax receivable, 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 third 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,		September 30, 2019		December 31, 2018
Current (0 to 30 days from invoice date)	$	76,299	$	66,844
31 - 60 days		36,070		45,406
61 - 90 days		10,005		8,708
91+ days		15,871		3,782
Receivables from trade clients		138,245		124,740
Other amounts		1,268		2,588
Allowance for doubtful accounts		(3,656)		(2,775)
Total trade and other receivables	$	135,857	$	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.

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 the cash and cash equivalents account. See Note 7 for operating commitments.

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

		2019		2020		2021		2022		2023		Thereafter		Total
Lease obligations(1)	$	3,395	$	9,092	$	5,449	$	1,663	$	1,545	$	-	$	**21,144**
Trade and other payables		89,513		9,299		-		-		-		-		**98,812**
Income tax payable		-		192										**192**
Loans and borrowings(2)		2,980		11,857		11,824		265,008		-		-		**291,669**
	$	95,888	$	30,440	$	17,273	$	266,671	$	1,545	$		$	**411,817**

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

The Company anticipates that its existing capital resources, including the Credit Facilities and cash provided by operating activities, will be adequate to satisfy its liquidity requirements over the next 12 months. Reductions in 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 foreign 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 14 - 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 15 – 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 September 30, 2019	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 65,754	$ 56,835	$ -	$ 122,589
Coiled tubing	32,080	24,076	-	56,156
Total revenue	97,834	80,911	-	178,745
Expenses				
Cost of sales	84,149	86,576	666	171,391
Selling, general and administrative	2,453	2,946	4,478	9,877
Results from operating activities	11,232	(8,611)	(5,144)	(2,523)
Finance costs	-	-	4,022	4,022
Foreign exchange (gain) loss	475	(2)	-	473
(Gain) loss on disposal of property and equipment	(898)	92	-	(806)
Amortization of intangible assets	10	1,543	-	1,553
Impairment	-	113,546	-	113,546
Income (loss) before income tax	$ 11,645	$ (123,790)	$ (9,166)	$ (121,311)
Capital expenditures (1)	$ 5,697	$ 7,051	$ -	$ 12,748
Total assets as at September 30, 2019	$ 394,901	$ 369,404	$ 2,585	$ 766,890
Total liabilities as at September 30, 2019	$ 325,298	$ 90,166	$ -	$ 415,464

Three months ended September 30, 2018	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 108,191	$ 65,079	$ -	$ 173,270
Coiled tubing	39,773	27,498	-	67,271
Total revenue	147,964	92,577	-	240,541
Expenses				
Cost of sales	120,178	94,226	553	214,957
Selling, general and administrative	4,183	2,364	3,189	9,736
Results from operating activities	23,603	(4,013)	(3,742)	15,848
Finance costs	-	-	4,100	4,100
Foreign exchange (gain) loss	(1,069)	-	-	(1,069)
(Gain) loss on disposal of property and equipment	(920)	(31)	-	(951)
Transaction costs	-	-	(4)	(4)
Amortization of intangible assets	10	1,578	-	1,588
Income (loss) before income tax	$ 25,582	$ (5,560)	$ (7,838)	$ 12,184
Capital expenditures (1)	$ 22,589	$ 11,711	$ -	$ 34,300

Nine months ended September 30, 2019		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	201,329	$	182,228	$	-	$	383,557
Coiled tubing		80,836		77,397		-		158,233
Total revenue		282,165		259,625		-		541,790
Expenses								
Cost of sales		257,581		262,102		1,865		521,548
Selling, general and administrative		7,238		8,449		14,074		29,761
Results from operating activities		17,346		(10,926)		(15,939)		(9,519)
Finance costs		-		-		10,947		10,947
Foreign exchange (gain) loss		(1,372)		(4)		-		(1,376)
(Gain) loss on disposal of property and equipment		(2,295)		480		-		(1,815)
Amortization of intangible assets		30		4,853		-		4,883
Loss on foreign exchange forward contracts		-		-		383		383
Impairment		-		113,546		-		113,546
Income (loss) before income tax	$	20,983	$	(129,801)	$	(27,269)	$	(136,087)
Capital expenditures (1)	$	28,382	$	17,150	$	-	$	45,532

Nine months ended September 30, 2018		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	276,815	$	153,604	$	-	$	430,419
Coiled tubing		104,317		77,999		-		182,316
Total revenue		381,132		231,603		-		612,735
Expenses								
Cost of sales		333,704		210,201		1,687		545,592
Selling, general and administrative		11,659		5,373		10,526		27,558
Results from operating activities		35,769		16,029		(12,213)		39,585
Finance costs		-		-		7,723		7,723
Foreign exchange (gain) loss		(680)				-		(680)
(Gain) loss on disposal of property and equipment		(1,379)		6		-		(1,373)
Transaction costs		-		-		2,921		2,921
Amortization of intangible assets		30		2,986		-		3,016
Loss on foreign exchange forward contracts		-		-		1,219		1,219
Income (loss)before income tax	$	37,798	$	13,037	$	(24,076)	$	26,759
Capital expenditures (1)	$	68,299	$	29,943	$	-	$	98,242

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*

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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