



Condensed Interim Consolidated Financial Statements

STEP

energy services

As at and for the three and nine months ended September 30, 2018



STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at		September 30,	December 31,
Unaudited (in thousands of dollars)	Notes	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 4,672	\$ 36,859
Trade and other receivables	12	193,411	139,273
Inventory	3	35,074	17,461
Prepaid expenses and deposits		7,671	3,515
		240,828	197,108
Property and equipment	4	583,445	336,378
Intangible assets	5	32,700	359
Goodwill	5	126,554	-
		\$ 983,527	\$ 533,845
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables		\$ 108,258	\$ 64,569
Income tax payable		7,174	5,979
Current portion of loans and borrowings		-	604
Current portion of obligations under finance lease		8,594	4,924
		124,026	76,076
Deferred tax liabilities		51,081	18,680
Obligations under finance lease		7,984	6,840
Loans and borrowings	6	288,189	1,209
		471,280	102,805
Shareholders' equity			
Share capital	7	425,464	369,436
Contributed surplus		29,480	24,664
Accumulated other comprehensive income (loss)		(1,239)	(2,357)
Retained earnings		58,542	39,297
		512,247	431,040
		\$ 983,527	\$ 533,845

See accompanying notes to the unaudited condensed interim consolidated financial statements

See note 14 – Commitments

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND OTHER COMPREHENSIVE INCOME

Unaudited (in thousands of dollars, except per share amounts)	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Revenue		\$ 240,541	\$ 175,537	\$ 612,735	\$ 398,967
Cost of sales	10	216,376	130,467	549,656	324,835
Gross profit		24,165	45,070	63,079	74,132
Selling, general and administrative expenses	10	8,317	5,067	23,494	16,041
Results from operating activities		15,848	40,003	39,585	58,091
Finance costs	11	4,100	99	7,723	1,003
Foreign exchange (gain) loss		(1,069)	(119)	(680)	338
Gain on disposal of property and equipment		(951)	(95)	(1,373)	(2,096)
Transaction costs		(4)	452	2,921	1,983
Amortization of intangibles		1,588	128	3,016	475
Loss on foreign exchange forward contracts	12	-	-	1,219	-
Net income before income tax		12,184	39,538	26,759	56,388
Income tax expense (recovery)					
Current		5,229	1,473	7,824	1,594
Deferred		(2,305)	9,490	(310)	14,627
		2,924	10,963	7,514	16,221
Net income		9,260	28,575	19,245	40,167
Other comprehensive income (loss)					
Foreign currency translation gain (loss)		(7,471)	(1,436)	1,118	(2,714)
Total comprehensive income		\$ 1,789	\$ 27,139	\$ 20,363	\$ 37,453
Basic net income per share	9	\$ 0.14	\$ 0.48	\$ 0.30	\$ 0.72
Diluted net income per share	9	\$ 0.14	\$ 0.46	\$ 0.29	\$ 0.71

See accompanying notes to the unaudited condensed interim consolidated financial statements

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings / (deficit)	Total
Balance at January 1, 2017		\$ 258,144	\$ 19,895	\$ 321	\$ (18,421)	\$ 259,939
Net income for the period		-	-	-	40,167	40,167
Foreign currency translation loss		-	-	(2,714)	-	(2,714)
Share-based compensation	8	-	4,601	-	-	4,601
Shares issued (net of share issue costs and deferred tax)	7	110,026	-	-	-	110,026
Balance at September 30, 2017		368,170	\$ 24,496	\$ (2,393)	\$ 21,746	\$ 412,019
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 (loss)		-	-	1,118	-	1,118
Shares issued (net of share issue costs and deferred tax)	7	54,218	-	-	-	54,218
Share-based compensation	8	-	6,626	-	-	6,626
Exercise of equity instruments	7	1,810	(1,810)	-	-	-
Balance at September 30, 2018		\$ 425,464	\$ 29,480	\$ (1,239)	\$ 58,542	\$ 512,247

See accompanying notes to the unaudited condensed interim consolidated financial statements

STEP ENERGY SERVICES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of dollars)	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Operating activities:					
Net income		\$ 9,260	\$ 28,575	\$ 19,245	\$ 40,167
Adjusted for the following:					
Depreciation and amortization		26,266	9,083	61,945	24,946
Share-based compensation	8	1,925	1,085	6,821	5,059
Unrealized foreign exchange (gain) loss		(1,073)	98	(325)	56
Gain on disposal of property and equipment		(951)	(95)	(1,373)	(2,096)
Realized loss on foreign exchange contracts		-	-	1,219	-
Finance costs	11	4,100	99	7,723	1,003
Income tax expense (recovery)		2,924	9,490	7,514	14,627
Cash finance costs received (paid)		(3,863)	(82)	(9,573)	(1,575)
Cash tax (paid) received		(597)	-	(6,635)	648
Changes in working capital from operating activities		(20,057)	(26,076)	(21,223)	(45,723)
Net cash provided by (used in) operating activities		17,934	22,177	65,338	37,112
Investing activities:					
Acquisition through business combination	2	-	-	(354,970)	-
Purchase of property and equipment		(32,064)	(22,760)	(91,467)	(71,815)
Proceeds on disposal of property and equipment		1,267	498	1,936	5,894
Changes in working capital from investing activities		(4,113)	3,109	7,784	10,122
Net cash used in investing activities		(34,910)	(19,153)	(436,717)	(55,799)
Financing activities:					
Issuance of share capital (net of capitalized transaction and share issue costs)	7	(4)	(300)	53,444	108,209
Proceeds from exercise of stock options	7	-	-	-	5
Issuance (repayment) of long-term debt	6	10,946	1,903	290,734	(28,399)
Repayment of obligations under finance lease		(1,699)	(770)	(4,114)	(2,178)
Payment of foreign currency hedge		-	-	(1,219)	-
Changes in working capital from financing activities		-	(576)	-	(698)
Net cash provided by financing activities		9,243	257	338,845	76,939
Impact of exchange rate changes on cash		(6)	(126)	347	(197)
Increase (decrease) in cash and cash equivalents		(7,739)	3,155	(32,187)	58,055
Cash and cash equivalents, beginning of period		12,411	57,051	36,859	2,151
Cash and cash equivalents, end of period		\$ 4,672	\$ 60,206	\$ 4,672	\$ 60,206

See accompanying notes to the unaudited condensed interim consolidated financial statements

STEP ENERGY SERVICES LTD.

Notes to the unaudited condensed interim consolidated financial statements

As at and for the three and nine months ended September 30, 2018 and 2017.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

STEP Energy Services Ltd. (the “Company” or “STEP”) is a publically traded company domiciled in Canada and was incorporated under the laws of the Province of Alberta on March 25, 2011 and is listed under the symbol “STEP” on the Toronto Stock Exchange. The registered office is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5. STEP provides specialized coiled tubing and associated pumping and fracturing equipment to service the oil and gas industry in Canada and the United States (“U.S.”). 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 unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board including International Accounting Standard 34, Interim Financial Reporting. These unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual consolidated financial statements as at and for the year ended December 31, 2017.

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

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

Critical accounting estimates and judgments

The preparation of these unaudited condensed interim consolidated financial statements require that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management’s judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the consolidated financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes. Except for as noted below, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017.

Business Combination

The Company estimates the fair value of assets acquired and liabilities incurred as well as any fair value of intangible assets identified as a result of business combinations. This requires an assessment of estimated cash flows and market conditions in order to determine the fair value of net identifiable assets. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets, goodwill, and deferred taxes in the purchase price equation. Goodwill is allocated to the Cash Generating Unit (“CGU”) which represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

The Company updated its assessment of its CGUs as a result of the business combination with Tucker (see note 2) which occurred on April 2, 2018. Considerations set out in management's analysis included cash inflows by business line, operational considerations and the nature of asset usage. The Company's CGUs post acquisition are defined as: Canadian Coil, Canadian Fracturing, U.S. Coil, and U.S. Fracturing.

The business combination with Tucker resulted in the recognition of intangible assets including contracts, non-compete and a license. These intangibles are amortized over their estimated useful economic lives using the straight-line method over the following periods:

Contracts	4 to 7 years
Non-compete	4 years
License	1 year

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.

Changes in significant accounting policies

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

IFRS 15: Revenue from Contracts with Customers

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

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Under IAS 18 Revenue, the Company recognized revenue from oil and gas services over time. The Company concluded that revenue from oil and gas services under IFRS 15 will continue to be recognized over time because the customer simultaneously receives and consumes the benefits provided. Invoices for services rendered are issued upon completion of the work, generally within the same period. The Company follows the general guidance in the standard on allocating variable consideration entirely to distinct services that form part of a performance obligation.

As required for the unaudited condensed interim consolidated financial statements, the Company disaggregated revenue into service line and country to depict the nature of revenue. Refer to note 16 for the disclosure of revenue.

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

IFRS 9: Financial Instruments

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Company's accounting results related to classification of financial assets and liabilities. See note 12 – Financial Instruments for classifications.

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

The Company measures potential loss exposures on trade and other receivables at an amount equal to lifetime ECL's. At every point after the initial recognition, there is at least some risk of default. To assess this risk, the Company considers quantitative and qualitative information based on the Company's historical experience and forward-looking information. Factors considered include customer payment history, customer credit ratings, customer cash flows, industry trends, and commodity pricing forecasts. The Company assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. Loss allowances for trade and other receivables included in selling, general and administrative expenses are disclosed in note 10 and 12. The implementation of this methodology did not have a material impact on the provision for doubtful accounts.

IFRS 9 also includes a new general hedge accounting model. The Company previously used forward foreign exchange contracts to hedge variability in the acquisition of Tucker that was denominated in a foreign currency. The Company does not currently apply hedge accounting.

Future accounting pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective.

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 Leases, which required lessees to recognize virtually all leases on the balance sheet. Exceptions include short term leases or leases for which the underlying asset is of low value. IFRS 16 replaces existing lease guidance including IAS 17, Leases.

Under IFRS 16, a lessee will recognize right of use assets and corresponding lease liabilities at inception of the lease. Anticipated impacts of IFRS 16 include an increase in assets and liabilities as well as accelerated timing of expense recognition. Upon application of this standard, it is expected that the operating lease commitments disclosed in note 14 will be the primary source of changes to the statements of financial position and the timing of expenses in the statements of net income. The Company is currently assessing the impact of IFRS 16 and actual impacts of adoption are subject to change. The Company intends to adopt IFRS 16 in its annual period beginning on January 1, 2019.

NOTE 2 – BUSINESS COMBINATION

Effective April 2, 2018, the Company acquired all of the issued and outstanding shares of Tucker for total consideration of U.S. \$275 million, before closing adjustments (the “Acquisition”). Tucker provides oil and gas services to the U.S. oil and gas industry, primarily in the SCOOP/STACK and Woodford plays in Oklahoma. Tucker offers fracturing solutions, coiled tubing, and wireline services, and its primary customer base includes supermajor oil and gas companies and large independent exploration and production companies. The acquisition of Tucker allows for the expansion of STEP’s fracturing capacity and strategic entry into the U.S. fracturing market. Acquisition related expenses were \$2.9 million relating to advisory, due diligence, and legal fees. These have been expensed in the consolidated statements of net income and other comprehensive income as transaction costs.

The Acquisition has been accounted for as a business combination using the acquisition method on April 2, 2018, whereby the acquired tangible and intangible assets and assumed liabilities are recorded at their estimated fair values at the date of acquisition. In the second quarter of 2018, STEP made a preliminary assessment of the purchase price equation which is subject to finalization. The Company has one year from the acquisition date to obtain information about facts and circumstances that existed as of the acquisition date which could have an impact on the measurement of amounts recognized. The actual amount assigned to the fair value of the identifiable assets and liabilities acquired could result in changes to earnings in periods subsequent to Acquisition, and those changes could be material. The estimate of the purchase price allocation is based on the best available information and certain assumptions that management of STEP believe are reasonable under the circumstances. The final purchase price is dependent on the finalization of independent valuator reports and of working capital. In the current period, adjustments to the purchase price equation were made which increased the fair value of deferred tax liabilities by U.S. \$547 thousand and increased working capital by U.S. \$93 thousand. Downward adjustments of U.S. \$5.1 million were made to preliminary closing adjustments. A net increase of U.S. \$5.6 million was made to goodwill as a result of the adjustments disclosed.

The determination of the fair values of net identifiable assets required management to make assumptions about market conditions and future estimated cash flows. The surplus of consideration transferred over the fair value of net identifiable assets is recorded as goodwill. Goodwill results from STEP’s ability to leverage an existing workforce, utilize established facilities and fully implemented processes, and build upon established client relationships. Goodwill arising on the acquisition is denominated in U.S. dollars and as a result is subject to foreign currency fluctuations. All recognized goodwill is not expected to be deductible for income tax purposes. Estimated fair values of the Acquisition are as follows:

(in thousands of dollars – amounts converted into Canadian dollars using the rate in effect at April 2, 2018 of 1.29 CAD/USD)	At fair value	
	<i>In U.S. \$.</i>	<i>In CAN \$</i>
Purchase price consideration	275,000	354,970
Preliminary closing adjustments	(13,000)	(16,780)
	262,000	338,190
Allocated as:		
Working capital	3,925	5,067
Property and equipment	160,873	207,655
Intangibles	27,412	35,383
Goodwill	97,987	126,482
Deferred tax liabilities	(25,883)	(33,410)
Obligations under finance lease	(2,314)	(2,987)
	262,000	338,190

The Company financed the acquisition with cash, drawings on its new credit facility and the issuance of common shares. The Company secured a new \$330.0 million revolving syndicated credit facility, \$10.0 million operating facility, and U.S. \$7.5 million operating facility (together, the “New Credit Facilities”). The New Credit Facilities replaced STEP’s existing credit facilities. Costs incurred to arrange the new credit facilities were \$2.4 million and are recorded as deferred financing costs and expensed over the life of the facility. As well, STEP converted the previously announced bought-deal equity financing subscription receipts to common shares of the Company. The equity financing raised \$56.3 million through the issuance of 6,055,000 common shares for \$9.30 per common share, which included 675,000 common shares issued pursuant to the partially exercised over-allotment option granted to the syndicate of underwriters. Total costs related to the equity offering were \$2.9 million less \$0.8 million deferred tax.

From the date of the acquisition to September 30, 2018, Tucker contributed \$155.6 million of revenue and \$16.6 million of net loss before tax. Had the business combination occurred on January 1, 2018, revenue contributed by Tucker would have been \$235.4 million and net loss before tax would have been \$19.7 million for the period January 1, 2018 to September 30, 2018.

NOTE 3 – INVENTORY

As at	September 30, 2018	December 31, 2017
Coiled tubing	\$ 6,853	\$ 5,568
Sand and chemicals	11,121	9,262
Spare equipment/parts	16,548	2,631
Wireline	552	-
Total Inventory	\$ 35,074	\$ 17,461

During the nine months ended September 30, 2018 the Company incurred a \$0.6 million write down to reflect the net realizable value of sand and chemicals inventory (September 30, 2017 - \$0.5 million). \$13.5 million in inventory was acquired as part of the Tucker Acquisition.

NOTE 4 – PROPERTY AND EQUIPMENT

	Land and buildings	Vehicles	Field equipment	Office equipment	Total
Cost:					
Balance at January 1, 2017	\$ 22,197	\$ 10,165	\$ 280,515	\$ 5,204	\$ 318,081
Additions	1,510	9,757	99,058	630	110,955
Disposals	(34)	(3,709)	(5,336)	-	(9,079)
Effect of exchange rate changes	(50)	(148)	(2,218)	(1)	(2,417)
Balance at December 31, 2017	23,623	16,065	372,019	5,833	417,540
Acquisition through business combination	10,358	7,800	188,969	528	207,655
Additions	1,012	6,823	89,970	437	98,242
Disposals	-	(1,820)	(1,017)	-	(2,837)
Effect of exchange rate changes	33	98	1,368	3	1,502
Balance at September 30, 2018	\$ 35,026	\$ 28,966	\$ 651,309	\$ 6,801	\$ 722,102
Accumulated depreciation:					
Balance at January 1, 2017	\$ 1,560	\$ 3,066	\$ 43,478	\$ 3,002	\$ 51,106
Depreciation	976	3,697	28,143	1,112	33,928
Disposals	(34)	(2,265)	(1,237)	-	(3,536)
Effect of exchange rate changes	(4)	(34)	(297)	(1)	(336)
Balance at December 31, 2017	2,498	4,464	70,087	4,113	81,162
Depreciation	1,007	5,601	51,327	994	58,929
Disposals	-	(1,206)	(287)	-	(1,493)
Effect of exchange rate changes	1	18	37	3	59
Balance at September 30, 2018	\$ 3,506	\$ 8,877	\$ 121,164	\$ 5,110	\$ 138,657
Carrying amounts:					
As at January 1, 2017	\$ 20,637	\$ 7,099	\$ 237,037	\$ 2,202	\$ 266,975
As at December 31, 2017	\$ 21,125	\$ 11,601	\$ 301,932	\$ 1,720	\$ 336,378
As at September 30, 2018	\$ 31,520	\$ 20,089	\$ 530,145	\$ 1,691	\$ 583,445

Included in field equipment at September 30, 2018 were assets under construction of \$56.6 million (December 31, 2017 - \$32.7 million). Assets under construction are not depreciated until they are substantially complete and available for use.

NOTE 5 – INTANGIBLE ASSETS AND GOODWILL

	Intangibles	Goodwill
Cost:		
Balance at January 1, 2017	\$ 3,543	\$ -
Additions	-	-
Balance at December 31, 2017	3,543	-
Acquisition through business combination	35,383	126,482
Effect of exchange rate changes	5	72
Balance at September 30, 2018	\$ 38,931	\$ 126,554
Accumulated depreciation:		
Balance at January 1, 2017	\$ 2,699	\$ -
Amortization	485	-
Balance at December 31, 2017	3,184	-
Amortization	3,016	-
Effect of exchange rate changes	31	-
Balance at September 30, 2018	\$ 6,231	\$ -
Carrying amounts:		
As at January 1, 2017	\$ 844	\$ -
As at December 31, 2017	\$ 359	\$ -
As at September 30, 2018	\$ 32,700	\$ 126,554

Intangible assets include intangibles acquired upon the Acquisition and include customer contracts, a non-compete, and a license. Amounts are subject to change as the Company finalizes the fair value of identifiable assets and liabilities acquired on the acquisition date and independent valuations.

NOTE 6 – LOANS AND BORROWINGS

At September 30, 2018, the Company has a borrowing agreement with a syndicate of financial institutions. The Company's agreement is comprised of operating facilities (one Canadian and one U.S.) and a revolving facility (together the "New Credit Facilities"). The New Credit Facilities mature on April 2, 2021 and include a \$330.0 million revolving credit facility, Canadian \$10.0 million operating facility and U.S. \$7.5 million operating facility. The maturity date of the New Credit Facilities may be extended for a period of up to 3 years with syndicate approval. The New 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. Under the New Credit Facilities, net proceeds raised pursuant to one or more equity issuances or proceeds of the issuance of any subordinated debt shall be applied to reduce the New Credit Facility to not less than \$300.0 million.

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

- 1) Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including capital lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange gains and losses, taxes, depreciation, amortization, impairment, unrealized foreign exchange forward contract (gain) loss and transaction costs ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Adjusted bank EBITDA includes the twelve month historical results of Tucker as though the Company owned Tucker throughout the measurement period. Also, realized foreign exchange (gain) loss is excluded from Adjusted bank EBITDA. These are differences from the Company's non-IFRS measure "Adjusted EBITDA". Funded debt to Adjusted bank EBITDA ratio is required to be 3.00:1 or less.

At September 30, 2018, the Funded debt to Adjusted bank EBITDA ratio was 1.93:1.00.

- 2) Fixed Charge Coverage Ratio is calculated as Free Cash Flow to cash interest expense and scheduled principal repayments in respect of indebtedness. "Free Cash Flow" is defined as Adjusted Bank EBITDA, defined above, less maintenance capital expenditures, cash distributions and cash tax. This ratio is not to fall below 1.20:1.

At September 30, 2018, the Fixed Charge Coverage Ratio was 8.06:1.00.

Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 200 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the third quarter of 2018 was approximately 4.7%. At September 30, 2018, the full amount of the facility was available to be drawn on the New Credit Facilities of which there was \$290.6 million outstanding and the Company was in compliance with all covenants.

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, 2017	47,719,703	\$ 258,144
Issued – private placement – February 7, 2017	2,400,000	15,000
Issued – initial public offering – May 2, 2017	10,000,000	100,000
Issued – exercise of stock options and performance warrants	190,035	1,264
Share issue costs (net of deferred tax)	-	(4,972)
Balance at December 31, 2017	60,309,738	369,436
Issued – public offering – April 2, 2018	6,055,000	56,312
Issued – exercise of stock options and performance warrants	231,906	1,810
Share issue costs (net of deferred tax)	-	(2,094)
Balance at September 30, 2018	66,596,644	\$ 425,464

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

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

On April 2, 2018, the Company closed an equity financing raising gross proceeds of \$56.3 million by issuing 6,055,000 subscription receipts for \$9.30 each. The proceeds of the offering were used to partially fund the Acquisition. Total costs related to the equity offering were \$2.9 million less \$0.8 million deferred tax. These were classified as a reduction of share capital.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) arises from foreign translation adjustments of the results and financial position of foreign subsidiaries. At September 30, 2018, the Company had \$1.2 million in accumulated other comprehensive loss (December 31, 2017 – \$2.4 million loss).

NOTE 8 – SHARE-BASED COMPENSATION

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

Equity settled share-based instruments

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

	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2017	-	-	4,249,250	8,850,600	13,099,850
Granted	223,467	208,079	145,400	290,800	867,746
Exercised	-	-	(262,405)	(219,787)	(482,192)
Forfeited/cancelled	-	-	(57,396)	(162,933)	(220,329)
Outstanding at December 31, 2017	223,467	208,079	4,074,849	8,758,680	13,265,075
Exercisable at December 31, 2017	-	-	2,174,609	4,460,440	6,635,049

	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	373,217	318,819	-	-	692,036
Exercised	-	-	(244,824)	(317,932)	(562,756)
Forfeited/cancelled	(27,388)	-	(25,998)	(130,820)	(184,206)
Outstanding at September 30, 2018	569,296	526,898	3,804,027	8,309,928	13,210,149
Exercisable at September 30, 2018	-	-	2,389,908	4,667,888	7,057,796

The maximum number of common shares issuable under the New Stock Option Plan and all other share based compensation arrangements (excluding the prior options and performance warrants) must not exceed 5% of the aggregate of the number of outstanding common shares. Fair value per restricted share unit or performance share unit is determined on grant date using the Black-Scholes option pricing model. The result approximates the underlying five-day volume weighted average share price. The weighted average fair value per unit granted in the third quarter of 2018 was \$8.47.

Cash settled share-based instruments

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

	September 30, 2018	December 31, 2017
Outstanding units at beginning of period	47,742	-
Granted	70,404	47,742
Outstanding units at end of period	118,146	47,742
Exercisable at end of period	118,146	47,742

Share-based compensation expense

The composition of share-based compensation expense was:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Prior stock options	\$ 407	\$ 742	\$ 1,375	\$ 2,731
Performance warrants	440	270	1,469	1,874
Deferred share units (cash settled)	(539)	73	195	454
Performance share Units	789	-	2,011	-
Restricted share units	828	-	1,771	-
Total share-based compensation expense	\$ 1,925	\$ 1,085	\$ 6,821	\$ 5,059

NOTE 9 – PER SHARE COMPUTATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Weighted average number of shares outstanding - basic	66,595,729	60,120,191	64,497,647	55,408,863
Dilutive impact of stock options and performance warrants	492,039	1,659,160	1,175,636	855,047
Weighted average number of shares outstanding - diluted	67,087,768	61,779,351	65,673,283	56,263,910

As at September 30, 2018, 1.2 million prior stock options and 8.3 million performance warrants were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (September 30, 2017: no stock options and 4.8 million performance warrants).

NOTE 10 – PRESENTATION OF EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cost of sales				
Employee costs	\$ 58,024	\$ 34,655	\$ 152,147	\$ 89,633
Operating expense	53,485	28,692	132,557	70,026
Materials and inventory costs	79,157	57,738	203,354	139,073
	190,666	121,085	488,058	298,732
Depreciation	24,296	8,696	57,982	23,626
Share-based compensation	1,414	686	3,616	2,477
Total cost of sales	216,376	130,467	549,656	324,835
Selling, general and administrative expenses				
Employee costs	4,452	2,564	11,667	7,185
General expenses	2,235	1,730	6,165	5,197
	6,687	4,294	17,832	12,382
Allowance for doubtful accounts expense (recovery)	737	115	1,510	232
Depreciation	382	259	947	845
Share-based compensation	511	399	3,205	2,582
Total selling, general and administrative expenses	\$ 8,317	\$ 5,067	\$ 23,494	\$ 16,041

NOTE 11 – FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest on borrowings	\$ 3,562	\$ 87	\$ 6,753	\$ 783
Interest on finance leases	272	104	526	269
Interest income	(13)	(156)	(175)	(256)
Deferred financing charges	238	55	521	146
Other	41	9	98	61
Total finance costs	\$ 4,100	\$ 99	\$ 7,723	\$ 1,003

NOTE 12 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

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

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

Credit risk

The Company held cash and cash equivalents of \$4.7 million as at September 30, 2018 (December 31, 2017 - \$36.9 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major bank and financial institution counterparties (level 1).

During the quarter ended September 30, 2018, five clients represented 42% of revenue (September 2017 – 45% of revenue). These top five clients contribute 11%, 10%, 9%, 6%, and 6% of revenue respectively, three of which are operated in the Canadian segment.

As at September 30, 2018, 13% of trade receivables are held with one client within the U.S. segment (December 31, 2017 – 14% in the Canadian segment), and as such, the Company is exposed to concentration of credit risk. As at September 30, 2018, 41% of the total accounts receivable balance was due from five clients (December 31, 2017 – 45%).

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

As at	September 30, 2018	December 31, 2017
Current (0 to 30 days from invoice date)	\$ 120,045	\$ 73,829
31 - 60 days	46,249	44,793
61 - 90 days	8,465	13,354
91+ days	1,434	6,780
Receivables from trade clients	176,193	138,756
Other amounts	19,041	939
Allowance for doubtful accounts	(1,823)	(422)
Total trade and other receivables	\$ 193,411	\$ 139,273

The Company's objective is to minimize credit losses. The Company's objectives, processes and policies for managing credit risk have not changed from the prior year. Other amounts receivable include a \$16.8 million preliminary closing adjustment pertaining to the Tucker Acquisition.

Liquidity risk

The expected timing of cash outflows relating to financial liabilities on the statement of financial position as at September 30, 2018 are:

	2018	2019	2020	2021	Thereafter	Total
Finance lease obligations ⁽¹⁾	\$ 2,479	\$ 8,745	\$ 4,551	\$ 1,687	\$ -	\$ 17,462
Trade and other payables	100,976	7,282	-	-	-	108,258
Income tax payable	7,174	-	-	-	-	7,174
Loans and borrowings ⁽²⁾	3,208	12,726	12,761	293,763	-	322,458
	\$ 113,837	\$ 28,753	\$ 17,312	\$ 295,450	\$ -	\$ 455,352

(1) Includes interest portion of finance lease obligations.

(2) Includes interest calculated based on principle and rate outstanding at September 30, 2018, both amounts 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 our clients' cash flow or difficulty in their ability to source debt or equity could negatively impact the Company's assessment of liquidity risk.

Market risk

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

Interest rate risk

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

Foreign currency risk

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

During the first quarter of 2018, the Company entered into several forward contracts. The goal of these instruments was to limit exposure to U.S. dollar fluctuations as it related to the purchase price of the Acquisition as discussed in note 2. Upon the closing of the Acquisition in the second quarter, the forward contracts were settled. The total realized loss on the forward contracts was \$1.2 million.

NOTE 13 – CAPITAL MANAGEMENT

The Company's objectives when managing its capital structure are to maintain a balance between debt and equity so as to withstand industry and seasonal volatility, maintain investor, creditor and market confidence, and to sustain future development of the business. The Company considers the items included in shareholders' equity, loans and borrowings and finance leases as capital. Debt includes the current and long-term portions of bank indebtedness and obligations under finance leases.

As at	September 30, 2018		December 31, 2017		
Shareholders' equity	\$	512,247	63%	\$ 431,040	97%
Obligations under finance lease		16,578	2%	11,764	3%
Loans and borrowings		288,189	35%	1,813	0%
Total capitalization	\$	817,014		\$ 444,617	

The Company is subject to various financial and non-financial covenants, which are monitored on a regular basis and controls are in place to maintain compliance with these covenants (note 6). The Company is in compliance with all financial and non-financial covenants.

NOTE 14 – COMMITMENTS

The following table summarizes the Company's estimated commitments as at September 30, 2018 for the following five years and thereafter:

	2018	2019	2020	2021	2022	Thereafter	Total
Operating lease obligations ⁽¹⁾	\$ 571	\$ 3,158	\$ 3,516	\$ 3,336	\$ 2,327	\$ 2,911	\$ 15,819

(3) Includes U.S. obligations at a forecast exchange rate of 1 USD = 1.30 CAD.

Operating leases relate to leases of certain shop and office space with lease terms of between 1 years and 7 years.

As at September 30, 2018, the Company has \$17.7 million (December 31, 2017 - \$41.3 million) of commitments related to capital expenditures. This commitment is expected to be incurred in fiscal 2018.

NOTE 15 - CONTINGENCIES AND PROVISIONS

Litigation

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

In January 2017, Calfrac Well Services Ltd. ("Calfrac") filed a statement of claim in the Judicial District of Calgary in the Court of Queen's Bench against the Company and an employee of the Company seeking \$10.0 million in damages among other relief. Calfrac alleges that the employee, who is a former employee of Calfrac, misappropriated certain competitively sensitive materials from Calfrac. Calfrac further alleges that STEP benefited or made use of such materials, resulting in damages to Calfrac. STEP is presently investigating the claim and at this time intends to contest allegations made in the claim. While management does not believe that this action will have a material adverse effect on the business or financial condition of the company, no assurance can be given as to the final outcome of this or any other legal proceeding. If this claim, or any claims

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

NOTE 16 – OPERATING SEGMENTS

The Company's oil and natural gas services are conducted in two geographical segments which are Canada and the U.S. Canadian services include fracturing, coiled tubing, nitrogen and fluid pumping. U.S. services provided are fracturing, wireline, 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 segment are used to measure performance as management believes such information is most relevant in evaluating regional results, relative to other entities operating in the industry. Information on the results of each geographic region are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented operating results and activity

For the three months ended September 30, 2018	Canadian Operations	U.S. Operations	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
Adjusted EBITDA ⁽¹⁾	\$ 35,190	7,261	42,451
Adjusted EBITDA % ⁽¹⁾	24%	8%	18%
Depreciation and amortization	\$ 11,811	14,455	26,266
Income tax expense (recovery)	\$ 5,770	(2,846)	2,924
Capital expenditures ⁽²⁾	\$ 22,589	\$ 11,711	\$ 34,300

For the three months ended September 30, 2017	Canadian Operations	U.S. Operations	Total
Revenue			
Fracturing	\$ 119,375	\$ -	\$ 119,375
Coiled tubing	39,836	16,326	56,162
Total Revenue	\$ 159,211	\$ 16,326	\$ 175,537
Adjusted EBITDA ⁽¹⁾	\$ 45,483	\$ 4,560	\$ 50,043
Adjusted EBITDA % ⁽¹⁾	29%	28%	29%
Depreciation and amortization	\$ 7,838	\$ 1,245	\$ 9,083
Income tax expense (recovery)	\$ 10,165	\$ 798	\$ 10,963
Capital expenditures ⁽²⁾	\$ 17,486	\$ 7,852	\$ 25,338

For the nine months ended September 30, 2018	Canadian Operations	U.S. Operations	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
Adjusted EBITDA ⁽¹⁾	\$ 65,964	39,371	105,335
Adjusted EBITDA % ⁽¹⁾	17%	17%	17%
Depreciation and amortization	\$ 32,641	29,304	61,945
Income tax expense (recovery)	\$ 7,509	5	7,514
Capital expenditures ⁽²⁾	\$ 68,299	\$ 29,943	\$ 98,242

For the nine months ended September 30, 2017	Canadian Operations	U.S. Operations	Total
Revenue			
Fracturing	\$ 267,371	\$ -	\$ 267,371
Coiled tubing	94,055	37,541	131,596
Total Revenue	\$ 361,426	\$ 37,541	\$ 398,967
Adjusted EBITDA ⁽¹⁾	\$ 79,246	\$ 8,375	\$ 87,621
Adjusted EBITDA % ⁽¹⁾	22%	22%	22%
Depreciation and amortization	\$ 21,743	\$ 3,203	\$ 24,946
Income tax expense (recovery)	\$ 15,334	\$ 887	\$ 16,221
Capital expenditures ⁽²⁾	\$ 56,249	\$ 22,685	\$ 78,934

Segmented assets and liabilities

As at September 30, 2018	Canadian Operations	U.S. Operations	Total
Assets			
Current assets	\$ 121,536	\$ 119,292	\$ 240,828
Property and equipment	331,041	252,404	583,445
Intangible assets	3,283	29,417	32,700
Goodwill	-	126,554	126,554
Total assets	\$ 455,860	\$ 527,667	\$ 983,527
Current liabilities	\$ 77,968	\$ 46,058	\$ 124,026

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

Reconciliation of Net income to Adjusted EBITDA⁽¹⁾

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net Income	\$ 9,260	\$ 28,575	\$ 19,245	\$ 40,167
Add (deduct):				
Depreciation and amortization	26,266	9,083	61,945	24,946
Gain on disposal of property and equipment	(951)	(95)	(1,373)	(2,096)
Finance costs	4,100	99	7,723	1,003
Income tax expense (recovery)	2,924	10,963	7,514	16,221
Loss on foreign exchange forward contracts	-	-	1,219	-
Share-based compensation	1,925	1,085	6,821	5,059
Transaction costs	(4)	452	2,921	1,983
Foreign exchange loss (gain)	(1,069)	(119)	(680)	338
Adjusted EBITDA ⁽¹⁾	\$ 42,451	\$ 50,043	\$ 105,335	\$ 87,621

(1) "Adjusted EBITDA" is a financial measure not presented in accordance with IFRS and is equal to net income before finance costs, depreciation and amortization, loss (gain) on disposal of property and equipment, current and deferred income tax provisions and recoveries, share-based compensation, foreign exchange forward contract (gain) loss, transaction costs and foreign exchange (gain) loss.

(2) Capital expenditures included non-cash expenditures from the addition of capital leases for light duty vehicles.

CORPORATE INFORMATION

Management

Regan Davis
President & Chief Executive Officer

Rob Sprinkhuysen
Chief Financial Officer

Steve Glanville
Chief Operating Officer & Vice President Operations

Michael Kelly
Executive Vice President

Mike Burvill
President US Operations

Rory Thompson
President Canadian Operations

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

David Johnson
Vice President Human Resources

Lori McLeod-Hill
Vice President Finance

Shane Persad
Vice President Fracturing & Cased Hole Wireline
Services – U.S.

Todd Rainville
Vice President Sales & Marketing

Directors

Douglas Freel ⁽¹⁾ – Chairman

Regan Davis ⁽³⁾

Jeremy Gackle ⁽¹⁾⁽²⁾

Jason Skehar ⁽²⁾⁽³⁾

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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Website

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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