Consolidated Financial Statements

As at and for the year ended December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of STEP Energy Services Ltd. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in these financial statements. The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of net income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with external auditors and management to review the work of each and the propriety of the discharge of their responsibilities. Specifically, the Audit Committee reviews with management and the external auditors the financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed KPMG LLP as the external auditors of the Company and, in that capacity, they have examined the financial statements for the year ended December 31, 2017. The Auditors' Report to the shareholders is presented herein.

SIGNED "Regan Davis"

Regan Davis
PRESIDENT & CHIEF EXECUTIVE OFFICER

SIGNED "Robert Sprinkhuysen"

Robert Sprinkhuysen
CHIEF FINANCIAL OFFICER

March 19th, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of STEP Energy Services Ltd.

We have audited the accompanying consolidated financial statements of STEP Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of net income (loss) and other comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the

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appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of STEP Energy Services Ltd. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 19, 2018
Calgary, Canada

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, (in thousands of dollars)	Notes		2017		2016
ASSETS					
Current Assets					
Cash and cash equivalents		$	36,859	$	2,151
Trade and other receivables	14		139,273		47,907
Current tax receivable			-		744
Inventory	3		17,461		13,760
Prepaid expenses and deposits			3,515		2,054
			197,108		66,616
Property and equipment	4		336,378		266,975
Intangible assets			359		844
Deferred tax assets			-		705
		$	533,845	$	335,140
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables		$	70,548	$	33,588
Current portion of loans and borrowings			604		-
Current portion of obligations under finance lease	6		4,924		3,156
			76,076		36,744
Deferred tax liabilities	13		18,680		4,463
Obligations under finance lease	6		6,840		3,692
Loans and borrowings	5		1,209		30,302
			102,805		75,201
Shareholders' equity					
Share capital	7		369,436		258,144
Contributed surplus			24,664		19,895
Accumulated other comprehensive income (loss)			(2,357)		321
Retained earnings (Deficit)			39,297		(18,421)
			431,040		259,939
		$	533,845	$	335,140

See accompanying notes to the consolidated financial statements
See Note 16 – Commitments
See Note 21 – Subsequent events

Approved by the Board of Directors:

SIGNED "Douglas Freel"

Douglas Freel
Chairman

SIGNED "Regan Davis"

Regan Davis
Director

STEP ENERGY SERVICES LTD.

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

For the year ended December 31, (in thousands of dollars, except per share amounts)	Notes		2017		2016
Revenue		$	553,220	$	169,153
Cost of sales	10		448,477		178,397
Gross profit (loss)			104,743		(9,244)
Selling, general and administrative expenses	10		21,610		15,659
Results from operating activities			83,133		(24,903)
Finance costs	12		1,110		937
Foreign exchange loss			708		84
Gain on disposal of property and equipment			(1,849)		(1,511)
Transaction costs			2,158		-
Amortization of intangibles			485		576
Net income (loss) before income tax			80,521		(24,989)
Income tax expense (recovery)	13				
Current			6,079		(41)
Deferred			16,724		(4,992)
			22,803		(5,033)
Net income (loss)			57,718		(19,956)
Other comprehensive income (loss)					
Foreign currency translation (loss) gain			(2,678)		(676)
Total comprehensive income (loss)		$	55,040	$	(20,632)
Basic net income (loss) per share	9	$	1.02	$	(0.47)
Diluted net income (loss) per share	9	$	1.00	$	(0.47)

See accompanying notes to the consolidated financial statements

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings / (deficit)	Total
Balance at January 1, 2016		$ 180,480	$ 10,977	$ 997	$ 1,535	$ 193,989
Net loss for the year		-	-	-	(19,956)	(19,956)
Foreign currency translation loss		-	-	(676)	-	(676)
Share-based compensation	8	-	8,918	-	-	8,918
Shares issued	7	77,664	-	-	-	77,664
Balance at December 31, 2016		258,144	19,895	321	(18,421)	259,939
Balance at January 1, 2017		258,144	19,895	321	(18,421)	259,939
Net income for the year		-	-	-	57,718	57,718
Foreign currency translation loss		-	-	(2,678)	-	(2,678)
Share-based compensation	8	-	6,033	-	-	6,033
Exercise of stock options and performance warrants	7	1,264	(1,264)	-	-	-
Shares issued (net of share issue costs and deferred tax)	7	110,028	-	-	-	110,028
Balance at December 31, 2017		**$ 369,436**	**$ 24,664**	**$ (2,357)**	**$ 39,297**	**$ 431,040**

See accompanying notes to the consolidated financial statements

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, (in thousands of dollars)	Notes	2017	2016
Operating activities:			
Net income (loss)		$ 57,718	$ (19,956)
Adjusted for the following:			
Depreciation and amortization		34,413	22,783
Share-based compensation	8	6,523	8,918
Unrealized foreign exchange (gain) loss		(65)	33
Gain on disposal of property and equipment		(1,849)	(1,511)
Finance costs	12	1,110	937
Deferred income tax expense (recovery)	13	16,724	(4,992)
Cash finance costs paid		(1,629)	(937)
Cash tax received		648	194
Changes in working capital from operating activities	20	(64,450)	(21,436)
Net cash provided by (used in) operating activities		49,143	(15,967)
Investing activities:			
Purchase of property and equipment		(101,422)	(95,440)
Proceeds on disposal of property and equipment		6,044	7,572
Purchase of intangible assets		-	(438)
Changes in working capital from investing activities	20	5,094	(3,537)
Net cash used in investing activities		(90,284)	(91,843)
Financing activities:			
Issuance of share capital (net of share issue costs)	7	108,209	77,664
Proceeds from exercise of stock options	8	5	-
Issuance (repayment) of loans and borrowings	5	(28,488)	26,133
Repayment of obligations under finance lease	6	(3,017)	(1,947)
Changes in working capital from financing activities	20	(711)	-
Net cash provided by financing activities		75,998	101,850
Impact of exchange rate changes on cash		(149)	(115)
Increase (decrease) in cash and cash equivalents		34,708	(6,075)
Cash and cash equivalents, beginning of year		2,151	8,226
Cash and cash equivalents, end of year		$ 36,859	$ 2,151

See accompanying notes to the consolidated financial statements

As at December 31, 2017 and 2016 and for the years ended December 31, 2017 and 2016.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

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

Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities to fair value. These consolidated financial statements are presented in Canadian dollars, which is the presentation currency of the Company. All financial information has been rounded to the nearest thousands, except where indicated.

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

These consolidated financial statements were approved by the Board of Directors on March 19th, 2018.

Critical accounting estimates and judgments

The preparation of the 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.

Allowance for doubtful accounts
The Company performs ongoing credit evaluations of its customers and provides credit based on a review of historical collections, current aging status, the customer's financial condition and anticipated market conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions.

Business Combinations
The Company performs an assessment to ascertain if an acquisition constitutes a business in accordance with IFRS 3. This evaluation requires significant judgment to determine if the acquisition includes the inputs and processes to be considered a business.

Net realizable value of inventory
The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of items based on historical usage patterns, known changes to equipment or processes, estimated replacement costs and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of expense recognized.

Depreciation
Depreciation of the Company's property and equipment incorporates estimates of useful lives and residual values. These estimates may change as more knowledge is obtained or as general market conditions change, consequently affecting the value of the Company's property and equipment.

Functional Currency
Management applies judgment in determining the functional currency of its foreign subsidiaries. The decision is influenced by the currency that is used for sales prices, labour, materials and other costs as well as financings and receipts from operations.

Impairment
Property and equipment, intangible assets and goodwill are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds the recoverable amount.

The determination of Cash Generating Units ("CGUs") is based on management's judgment regarding shared equipment, mobility of equipment, geographical proximity and materiality. The recoverable amount of CGUs is determined based on either the fair value less costs to sell or the value in use calculations as defined by IFRS. These calculations require the use of estimates applied by management regarding the forecasted activity levels, expected future results, and discount rates among others. The calculations identified above require the use of estimates and assumptions and are subject to changes as new information becomes available. Changes in assumptions used in determining the recoverable amount could have a material effect on the carrying value of the related assets and CGUs.

Goodwill represents an excess of the purchase price over the fair value of the net assets acquired, and is not amortized. The Company assesses goodwill for impairment at least annually. Goodwill is allocated to the CGU which represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax basis to the extent they are more likely than not to be realized. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The calculation of income taxes involves many complex factors including the Company's interpretation of the relevant tax legislation and regulations.

Share-based payments
The fair value of stock based compensation instruments is estimated at the grant date using the Black-Scholes option pricing model, which includes estimating underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

Litigation
The Company establishes provisions for legal claims when the outcome of such matters is probable. Facts and circumstances surrounding the matter and input from legal and other advisors is considered in establishing the estimate.

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 all leases on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The Company is completing an assessment of the potential impacts of IFRS 16 on its consolidated financial statements. Some anticipated impacts of IFRS 16 include an increase in assets and liabilities as well as a front end increase in expense. Upon application of this standard, it is expected that the operating lease commitments disclosed in note 16 will be the primary source of changes to the statements of financial position and the timing of expenses in the statements of net income (loss).

IFRS 15: Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard is required to be adopted either retrospectively or by using a modified transition approach for fiscal years beginning on or after January 1, 2018, with early adoption permitted. The Company does not anticipate any adjustments to revenue upon the adoption of IFRS 15. The standard will also require additional disclosures.

IFRS 9: Financial Instruments

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The Standard supersedes earlier versions of IFRS 9 and completed the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9, as amended, includes a principle based approach for classification and measurement of financial assets, a single “expected loss” impairment model and a subsequently reformed approach to hedge accounting. IFRS 9 will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company expects IFRS 9 will impact the Company’s current policies and procedures regarding provisions on trade receivables. Trade receivables are recorded at its original invoice less any amounts specifically estimated to be uncollectable. Under IFRS 9, the expected loss impairment model will replace the Company’s current method and will be based on lifetime expected credit losses. Given the strong history of collectability, the Company does not anticipate these changes to have a material impact on its provisions on trade receivables

The Company’s initial assessments on the IFRS 9, IFRS 15, and IFRS 16 are based on work completed to date and are subject to change.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are entities over which the Company has control. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the investee. The financial results of the Company's subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of the Company's subsidiaries have been aligned with the policies adopted by the Company. All inter-company balances and transactions, and any income and expenses arising from inter-company transactions have been eliminated upon preparation of these consolidated financial statements.

Foreign Currency Translation

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

The financial statements of foreign subsidiaries that have a different functional currency are translated into Canadian dollars whereby assets and liabilities are translated at the rate of exchange at the balance sheet date, revenue and expenses are translated at average exchange rates for the period, any gains and losses in translation are recognized as a cumulative translation adjustment in shareholders' equity. The U.S. entity's functional currency is the U.S. Dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than a Company's functional currency are recognized in the Consolidated Statement of Net Income (Loss).

Business Combinations

The Company applies the acquisition method to account for business combinations. The Company measures goodwill as the fair value of the consideration transferred, less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the right to receive cash flows from the asset has expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial instruments are recorded at fair value on initial recognition. Measurement in subsequent periods depends on the purpose for which the instruments were acquired. Cash and cash equivalents are designated as "held for trading" and trade and other receivables are designated as "loans and receivables". Trade and other payables and loans and borrowings are designated as "other liabilities" and are carried at amortized cost.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest method.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are recognized at the amount expected to be received less any required discount to reduce their value to fair value.

At each reporting date, the Company assesses whether there are any indicators that its financial assets are impaired. An impairment loss is only recognized if there is evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with original maturities of three months or less.

Inventory

Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less estimated costs of completion and selling expenses. Coil tubing string inventory cost is determined on a specific item basis. All other inventory value is determined using weighted average cost.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the assets, and subsequent expenditures to the extent that they can be measured and future economic benefit is probable.

The carrying amount of an asset is derecognized when the asset is replaced. Major improvements or retrofits are capitalized. Repairs and maintenance are charged to the consolidated statement of net income (loss) during the period in which they are incurred.

Property and equipment are depreciated over their estimated useful economic lives using the straight line method over the following periods:

Buildings	20 years
Office and computer equipment	3 to 5 years
Light duty vehicles	3 years
Field equipment	2 to 15 years

Depreciation of an asset begins when it is available for use, and ceases at the earlier of the date the asset is derecognized or classified as available for sale. Depreciation does not cease when an asset becomes idle or is retired from active use unless the asset is fully depreciated to its estimated salvage value. Assets under construction are not depreciated until they are substantially complete and available for use.

The Company allocates the amounts initially recognized in respect of an item of property and equipment to its significant components and depreciates each component separately. Residual values, methods of amortization and useful lives are reviewed annually and adjusted, if appropriate.

Impairment

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. Assets are grouped into CGUs, the lowest level with separately identifiable cash inflows that are largely independent of the cash inflows of other assets, for the purposes of measuring recoverable amounts. The recoverable amount is determined as the greater of the CGU's value in use ("VIU") and fair value less costs to sell ("FVLCTS"). CGUs are not larger than an operating segment. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. FVLCTS is defined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable parties, less the costs to dispose of the CGU.

Goodwill is reviewed for impairment annually or any time there is an indicator of impairment. Goodwill acquired through a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the related business combination. The operating segment represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Impairment losses for assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the assets' carrying value does not exceed the carrying amount that would be determined, net of amortization or depreciation, if no impairment loss had been recognized.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date of the contract. Leases which transfer substantially all the risks and rewards of ownership to the Company are classified as finance leases. Finance leases are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, and are depreciated over the useful life of the asset. Other leases are classified as operating leases and payments are recognized as an expense in the period incurred.

Intangible Assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on fair values.

Expenditures incurred to acquire, develop, maintain and enhance intangible assets are recognized as assets only if they arise from contractual or other legal rights; it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company; and the cost can be reliably measured.

Subsequent expenditures to maintain such expected economic benefits are only capitalized to the carrying amount of the existing intangible asset if these expenditures separately meet the prescribed criteria for recognition as an intangible and that these costs could be directly attributable to a specific intangible rather than to the business as a whole.

Intangible assets are amortized on a straight line basis over their estimated useful lives as follows:

Client relations	5 years
Technology license	11 years

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are defined as assets which take a substantial time period (greater than a year) to construct. The Company does not currently have any qualifying assets.

All other borrowing costs are recognized as interest expense in the consolidated statement of net income (loss) in the period in which they are incurred.

Income Taxes

Income taxes comprise current and deferred tax. Income tax is recognized in the consolidated statement of net income (loss) except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on taxable income for the year, using the tax rates effective at the end of the reported period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates substantially enacted at the balance sheet date. Deferred tax assets are recognized to the extent that it is more likely than not that the assets can be recovered.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount rate is recognized as a finance cost.

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

Revenue Recognition

Revenue is recognized for services as work progresses, provided it is probable that the economic benefits will flow to the Company, the sale price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the services are performed and have been accepted by the customer.

Share-based Compensation

The Company has a stock option plan, a performance warrant plan and a performance and restricted share unit plan, which provide for the granting of options, performance warrants, performance share units and restricted share units to directors, officers and employees. All of these plans are equity settled and there are no provisions for cash settlement.

The Company follows the fair value method of valuing share-based compensation instruments. Under this method, compensation costs are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of an instrument, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The fair value of each tranche within an award is measured at the date of the grant using the Black-Scholes option pricing model. Assumptions used in the model include interest rates, underlying volatility, expected life of the tranche, estimated performance metrics and estimated forfeiture rates. The number of awards expected to vest is reviewed on an ongoing basis.

The Company also has a cash-settled deferred share unit (DSU) plan for its directors. At each reporting date between grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in the consolidated statement of net income (loss) in the period.

Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating results are reviewed regularly on a segmented basis by the Company's executive officers to make decisions about resources to be allocated to the segment and to assess its performance.

NOTE 3 – INVENTORY

As at December 31,		**2017**		2016
Coiled tubing	$	**5,568**	$	4,227
Sand and chemicals		**9,262**		7,843
Spare equipment parts		**2,631**		1,690
Total Inventory	$	**17,461**	$	13,760

The cost of inventories recognized in cost of sales during the year ended December 31, 2017 was $182.2 million (2016 - $53.9 million).

During the year ended December 31, 2017, the Company incurred a write-down of $0.5 million (2016 - nil) to reflect the net realizable value of sand and chemicals inventory.

NOTE 4 – PROPERTY AND EQUIPMENT

	Land and buildings	Vehicles	Field equipment	Office equipment	Total
Cost:					
Balance at January 1, 2016	$ 13,691	$ 8,489	$ 203,207	$ 3,416	$ 228,803
Additions	8,517	4,793	85,026	1,788	100,124
Disposals	-	(3,086)	(7,379)	-	(10,465)
Effect of exchange rate changes	(11)	(31)	(339)	-	(381)
Balance at December 31, 2016	22,197	10,165	280,515	5,204	318,081
Additions	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**
Accumulated depreciation:					
Balance at January 1, 2016	$ 940	$ 2,509	$ 26,493	$ 2,049	$ 31,991
Depreciation	620	2,165	18,469	953	22,207
Disposals	-	(1,610)	(1,507)	-	(3,117)
Effect of exchange rate changes	-	2	23	-	25
Balance at December 31, 2016	1,560	3,066	43,478	3,002	51,106
Depreciation	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**
Carrying amounts:					
As at January 1, 2016	$ 12,751	$ 5,980	$ 176,714	$ 1,367	$ 196,812
As at December 31, 2016	$ 20,637	$ 7,099	$ 237,037	$ 2,202	$ 266,975
As at December 31, 2017	**$ 21,125**	**$ 11,601**	**$ 301,932**	**$ 1,720**	**$ 336,378**

Included in field equipment at December 31, 2017 were assets under construction of $32.7 million (2016 - $8.3 million). Assets under construction are not depreciated until they are substantially complete and available for use.

In the second quarter of 2016, the Company purchased certain Canadian fracturing, coiled tubing and nitrogen assets of an energy services corporation under a court monitored sales process for $61.5 million, of which $59.7 million was allocated to property and equipment.

Finance lease assets

The Company has entered into finance lease contracts for light duty vehicles. The net carrying amount of these leases is included in property and equipment as follows:

As at December 31,	**2017**	2016
Cost	**$ 15,201**	$ 8,815
Less: Accumulated depreciation	**(3,710)**	(1,980)
Carrying amount	**$ 11,491**	$ 6,835

Impairment

The Company's non-financial assets are tested for impairment in accordance with the accounting policy set out in Note 2. The Company reviews the carrying value of its property and equipment and intangible assets at each reporting period for indicators of impairment. Goodwill must be tested at least annually.

The Company has identified three CGUs for the purposes of impairment testing: Canadian Coil, Canadian Fracturing and U.S. Coil.

At December 31, 2017, an impairment test was not required to be performed for any of its CGUs.

NOTE 5 – LOANS AND BORROWINGS

The Company has a borrowing agreement with a syndicate of financial institutions. The Company's agreement is comprised of an operating facility and a revolving facility (together the "Existing Credit Facilities").

The Existing Credit Facilities mature May 31, 2020 and include a committed operating facility up to a maximum of $10.0 million and a committed revolving facility up to a maximum of $90.0 million with an additional $25.0 million accordion feature available upon request by the Company, subject to review and approval by the agent and syndicate. The maturity date of the Existing Credit Facilities may be extended for a period of up to 3 years. The Existing Credit Facilities include a general security agreement providing a security interest over all present and after acquired personal property of the Company and all of its subsidiaries.

The amount of Existing Credit Facilities available to the Company is the lower of $100.0 million and the following:

1. 85% of the eligible accounts receivable owed by investment grade debtors at such time and 75% of the eligible accounts receivable owed by non-investment grade debtors; plus

2. 50% of the net book value (as determined in accordance with IFRS) of all eligible inventory, to a maximum of $5.0 million; plus

3. 50% of the net book value (as determined in accordance with IFRS) of all eligible real estate and eligible equipment, to a maximum of $65.0 million; less

4. Priority payables.

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

1. Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including capital lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions ("Funded debt") to earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange gains and losses, taxes, depreciation, amortization, and impairment ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Adjusted bank EBITDA for the purposes of the covenant calculations differs from the Company's non-IFRS measure "Adjusted EBITDA" by the exclusion of realized foreign exchange (gain) loss and transaction costs. Funded debt to Adjusted bank EBITDA ratio will not be tested until the first quarter of 2018 when it is required to be 4.00:1 or less for the fiscal quarter ending March 31, 2018, 3.75:1 or less for the fiscal quarter ending June 30, 2018, 3.50:1 or less for the fiscal quarter ending September 30, 2018, and 3.00:1 for the fiscal quarters ending December 31, 2018 and thereafter. During the year end 2017, the Funded debt to Adjusted bank EBITDA ratio will not be tested pursuant to the agreement.

   Although not required to be measured per the agreement, at December 31, 2017, the Funded debt to Adjusted bank EBITDA ratio was 0.00:1 (December 31, 2016 – 5.83:1).

2. Funded debt to capitalization ratio refers to the ratio of Funded debt, defined above, to shareholders' equity and Funded debt. The Funded debt to capitalization ratio is required to be 0.30:1 or less.

   At December 31, 2017, the Funded debt to capitalization ratio was 0.00:1 (December 31, 2016 - 0.12:1).

3. Debt service coverage ratio is calculated as Adjusted bank EBITDA, defined above, to interest expense and scheduled principal repayments in respect of Funded debt. This ratio is not to fall below 1.25:1.

   At December 31, 2017, the Debt service coverage ratio was 19.05:1 (December 31, 2016 – 1.70:1).

The Company shall ensure that, as at the end of each fiscal quarter:

1. The tangible assets of STEP and the guarantors (material subsidiaries) are not less than 95% of the consolidated tangible assets; and

2. The Adjusted bank EBITDA of STEP and the guarantors (material subsidiaries) is not less than 95% of the Adjusted bank EBITDA of STEP on a consolidated basis.

Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 450 basis points, depending on certain financial ratios of the Company. At December 31, 2017, the full amount was available to be drawn on the Existing Credit Facilities of which there were no amounts outstanding and the Company was in compliance with all covenants.

At December 31, 2017, loans and borrowings outstanding are comprised of long term vendor financing related to the acquisition of property and equipment. Amounts incur no interest and payments commence in the fourth quarter 2018.

See Note 21 subsequent events regarding loans and borrowings.

NOTE 6 – FINANCE LEASE OBLIGATIONS

The Company has entered into finance lease contracts for light duty vehicles. The maturity date of these contracts ranges from January 2018 to December 2020 with interest rates of 2.13% to 10.67% and are collateralized by a general security agreement in the underlying assets. Lease payments made by the Company are blended interest and principal payments. The Company's finance lease obligations are payable as follows:

As at December 31,		**2017**		2016
Future minimum lease payments	$	**12,339**	$	7,224
Discount		**(575)**		(376)
Present value of minimum lease payments	$	**11,764**	$	6,848
Presented as:				
Current portion of obligations under finance lease	$	**4,924**	$	3,156
Obligations under finance lease	$	**6,840**	$	3,692

See Note 14 regarding timing of finance lease obligation settlements.

NOTE 7 – SHAREHOLDERS' EQUITY

Share capital

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

	Shares #		Amount
Balance at January 1, 2016	32,185,974	$	180,480
Issued during 2016	15,533,729		77,664
Balance at December 31, 2016	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**

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.

Accumulated Other Comprehensive Income

Other comprehensive income is comprised of foreign currency differences arising from the translation of the financial statements of the Company's U.S. operations. At December 31, 2017 the Company had an accumulated foreign currency loss of $2.7 million (2016 – loss $0.7 million).

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 year.

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

As at December 31,	2017	2016
Restricted share units	223,467	-
Performance share units	208,079	-
Prior stock options	4,074,849	4,249,250
Performance warrants	8,758,680	8,850,600
Total equity settled units	13,265,075	13,099,850
Deferred share units (cash settled)	47,742	-
Total outstanding units	13,312,817	13,099,850

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.

New stock options

Options may be granted at the discretion of the Board of Directors and all officers and employees of the Company are eligible for participation in the New Stock Option Plan. The option price is equal to the volume-weighted-average closing price of the Company's shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant. Grants vest in three equal portions on the first, second and third anniversary of the grant date and have a maximum life of five years, or as otherwise set out by the Board in the applicable grant agreement. As at December 31, 2017, there were no instruments granted under this plan.

Restricted share units

The Board grants restricted share units ("RSUs") to its employees. RSUs granted under the PRSU Plan provide the holder a right to receive a common share for each whole vested share unit. The RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in shares of the company on those vesting dates. The fair value of the RSU is recognized over the vesting period and is based on volume-weighted-average closing price of the Company's shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant. All outstanding instruments were granted on December 4, 2017 and none have vested.

When RSUs are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of units granted in 2017, determined using the Black-Scholes pricing model, was $11.99 per unit.

Performance share units

The Board grants performance share units ("PSUs") to eligible employees and executives. PSUs granted under the PRSU Plan provide the holder a right to receive a common share for each whole vested share unit. Vesting is based on the achievement of performance measures as specified by the Board of Directors. The Board of Directors assesses performance of the company to determine the vesting percentage, which can range from 0 percent to 200

percent. 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. The PSU fair value approximates the volume-weighted-average closing price of the Company's shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant. All outstanding instruments were granted on December 4, 2017 and none are vested.

When PSUs are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of units granted in 2017, determined using the Black-Scholes pricing model, was $11.99 per unit.

Deferred share units (cash-settled)

During the year, the Company implemented a cash-settled deferred share unit (DSU) plan for its directors. DSUs awarded vest immediately and will be settled in cash in the amount equal to the closing price of the Company's common shares on the day before the Company elects to pay. The Company may elect to pay the DSUs at any point after the resignation is received from the Board member and before the last business day of the following year. Since the DSUs vest immediately, the fair value of the liability and the corresponding expense is charged to net income (loss) at the grant date. Subsequently, at each reporting date between grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in net income (loss) for the period.

At December 31, 2017, there were 47,742 DSUs outstanding and the liability, included in trade and other payables, is $0.5 million (2016 – nil).

Prior stock options

Grants under the prior stock option plan are exercisable for common shares, vest over a period of three years and have a maximum life of five or seven years, or as otherwise set out by the Board in the applicable grant agreement or amendment. Effective May 2, 2017, no further awards under the prior stock option plan may be granted.

	2017			2016		
	Prior stock options		**Weighted average exercise price**	Prior stock options		Weighted average exercise price
Outstanding at beginning of year	**4,249,250**	**$**	**5.45**	2,207,000	$	5.95
Granted	**145,400**		**10.00**	2,148,350		5.00
Exercised	**(262,405)**		**5.29**	-		-
Forfeited / Cancelled	**(57,396)**		**7.03**	(106,100)		6.40
Outstanding at end of year	**4,074,849**	**$**	**5.50**	4,249,250	$	5.45
Exercisable at end of year	**2,174,609**	**$**	**5.45**	1,321,895	$	5.50

As at December 31, 2017	Prior stock options Outstanding				Prior stock options Exercisable		
Exercise price	Number outstanding	Weighted average remaining life		Weighted average exercise price	Number exercisable		Weighted average exercisable price
$5.00	2,817,978	3.41	$	5.00	1,413,452	$	5.00
$6.25	1,118,971	2.74		6.25	742,988		6.25
$7.00	13,500	1.69		7.00	13,500		7.00
$10.00	124,400	4.09		10.00	4,669		10.00
	4,074,849	3.24	$	5.50	2,174,609	$	5.45

When prior stock options are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of options granted in 2017, determined using the Black-Scholes pricing model, was $4.80 per option (2016 - $2.30 per option).

Performance warrants

Grants under the performance warrant plan are exercisable for common shares, vest over a period of five years and have a maximum life of five or seven years, or as otherwise set out by the Board in the applicable grant agreement or amendment. Effective May 2, 2017, no further awards under the performance warrant plan may be granted.

	2017			2016		
	Performance warrants		**Weighted average exercise price**	Performance warrants		Weighted average exercise price
Outstanding at beginning of year	**8,850,600**	**$**	**10.80**	5,669,800	$	10.55
Granted	**290,800**		**14.50**	3,375,020		11.25
Exercised	**(219,787)**		**9.65**	-		-
Forfeited / Cancelled	**(162,933)**		**12.59**	(194,220)		11.55
Outstanding at end of year	**8,758,680**	**$**	**10.91**	8,850,600	$	10.80
Exercisable at end of year	**4,460,440**	**$**	**10.43**	3,499,276	$	10.15

As at December 31, 2017	Performance warrants outstanding				Performance warrants exercisable		
Exercise price	Number outstanding	Weighted average remaining life		Weighted average exercise price	Number exercisable		Weighted average exercisable price
$7.50-$9.99	2,852,975	2.81	$	8.37	1,624,457	$	8.24
$10.00-$12.49	2,915,511	2.83		10.70	1,637,233		10.66
$12.50-$14.99	2,348,272	3.11		12.91	1,047,606		12.72
$15.00-$17.49	592,162	3.57		15.68	151,144		15.65
$17.50+	49,760	4.28		17.50	-		-
	8,758,680	2.96	$	10.91	4,460,440	$	10.43

When performance warrants are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. The weighted average grant date fair value of performance warrants granted in 2017, determined using the Black-Scholes pricing model, was $3.86 per warrant (2016 - $1.55 per warrant).

Fair Value Assumptions for Share-based Compensation

The Company uses the Black-Scholes pricing model to calculate the fair value of equity settled share-based compensation instruments. Regarding PSUs and RSUs, the estimated fair value per unit approximates the 5 day weighted average share price on grant date. Estimated fair values for the prior stock options and performance warrants granted in the year were calculated using the following weighted average assumptions:

	Prior stock options		Performance warrants	
For the year ended December 31,	**2017**	2016	**2017**	2016
Risk-free interest rate (%)	**1.07-1.31**	0.55-0.99	**1.00-1.37**	0.55-1.04
Expected life (years)	**4.99-5.00**	4.40-6.40	**4.47-8.55**	4.40-7.00
Expected forfeiture rate (%)	**10.12**	11.29	**9.67**	11.78
Expected dividend rate (%)	**-**	-	**-**	-
Expected volatility (%)	**55.40-55.60**	52.69-55.90	**52.66-59.85**	42.33-55.18

Share-based compensation expense

The composition of share-based compensation expense incurred was:

As at December 31,		2017		2016
Prior stock options	$	3,353	$	3,701
Performance warrants		2,443		5,217
Deferred share units (cash settled)		490		-
Performance share units		125		-
Restricted share units		112		-
Total share-based compensation expense	$	6,523	$	8,918

NOTE 9 – PER SHARE COMPUTATIONS

For the year ended December 31,	2017	2016
Weighted average number of shares outstanding - basic	56,528,016	42,400,845
Dilutive impact of stock based compensation instruments	1,224,851	-
Weighted average number of shares outstanding - diluted	57,752,867	42,400,845

At December 31, 2017, all stock options, PSUs and RSUs were included in the diluted weighted average number of shares calculation. Additionally, 4.7 million performance warrants were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive. Due to the net loss incurred in 2016, all equity settled share-based instruments were anti-dilutive.

NOTE 10 – PRESENTATION OF EXPENSES

For the year ended December 31,		2017		2016
Cost of sales				
Employee costs	$	125,862	$	57,753
Operating expense		100,011		41,053
Materials and inventory costs		186,527		55,258
		412,400		154,064
Depreciation		32,858		21,233
Share-based compensation		3,219		3,100
Total cost of sales	$	448,477	$	178,397
Selling, general and administrative expenses				
Employee costs	$	10,225	$	4,983
General expenses		7,274		3,475
		17,499		8,458
Allowance for doubtful accounts expense (recovery)		(263)		409
Depreciation		1,070		974
Share-based compensation		3,304		5,818
Total selling, general and administrative expenses	$	21,610	$	15,659

NOTE 11 – EMPLOYEE EXPENSES

For the year ended December 31,		2017		2016
Salaries and short term benefits	$	135,329	$	62,399
Post-employment benefits		635		40
Share-based compensation		6,523		8,918
Termination benefits		123		297
Total employee expenses	$	142,610	$	71,654
Included in:				
Cost of sales	$	129,081	$	60,853
Selling, general and administrative		13,529		10,801
Total employee expenses	$	142,610	$	71,654

NOTE 12 – FINANCE COSTS

For the year ended December 31,		2017		2016
Interest on loans and borrowings	$	852	$	649
Interest on finance leases		382		247
Interest income		(415)		(28)
Deferred financing charges		171		-
Other		120		69
Total finance costs	$	1,110	$	937

NOTE 13 – INCOME TAXES

Income tax expense

The components of income tax expense (recovery) are:

For the year ended December 31,		2017		2016
Current income tax expense (recovery)	$	6,079	$	(41)
Deferred income tax expense (recovery)		16,724		(4,992)
	$	22,803	$	(5,033)

The provision for income taxes in the consolidated statement of net income (loss) varies from the amount that would be computed by applying the combined Federal and Provincial income tax rates of 27% (2016 – 27%) to net income or loss before income tax.

On December 22, 2017, the US government enacted new tax legislation, originally known as the Tax Cuts and Jobs Act, which includes a decrease to the US federal corporate income tax rate from 35% to 21%. The Corporation's net deferred tax balance associated with its directly owned US operations has therefore decreased by $0.5 million, all of which is recorded as deferred tax expense.

The reasons for the differences between the expected income tax expense (recovery) and the amounts recorded are:

For the year ended December 31,		2017		2016
Net income (loss) before income tax expense	$	80,521	$	(24,989)
Income tax rate %		27%		27%
Computed expected income tax recovery		21,741		(6,747)
Increase (decrease) in income taxes resulting from:				
Share-based compensation		1,777		2,473
Change in income tax rate		(500)		(90)
Capital gains		(507)		(420)
Other non-deductible items		292		(249)
Total income tax expense (recovery)	$	22,803	$	(5,033)

Deferred tax balances

The following table summarizes the income tax impact of temporary differences that give rise to the deferred tax liability:

As at December 31,		2017		2016
Tax losses	$	1,085	$	15,422
Property and equipment		(26,322)		(22,050)
Intangible assets		4		(115)
Obligation under capital lease		2,703		1,467
Deferred financing		1,932		8
Other		1,918		1,510
Deferred tax liability (net)	$	(18,680)	$	(3,758)
Deferred Tax (liability) asset by Jurisdiction:				
Canada	$	(17,493)	$	(4,463)
United States		(1,187)		705
Deferred tax liability (net)	$	(18,680)	$	(3,758)

Changes in net deferred income tax balances during the year:

		Tax losses		Property and equipment		Intangible assets		Capital lease obligation		Deferred financing		Other		Total
Balance at January 1, 2016:	$	2,495	$	(11,019)	$	(265)	$	-	$	-	$	-	$	(8,789)
Recognized in profit or loss		12,927		(11,031)		150		1,467		8		1,471		4,992
Recognized in equity		-		-		-		-		-		39		39
Balance at December 31, 2016		15,422		(22,050)		(115)		1,467		8		1,510		(3,758)
Recognized in profit or loss		(14,353)		(4,217)		119		1,236		105		386		(16,724)
Recognized in equity		16		(55)		-		-		1,819		22		1,802
Balance at December 31, 2017	**$**	**1,085**	**$**	**(26,322)**	**$**	**4**	**$**	**2,703**	**$**	**1,932**	**$**	**1,918**	**$**	**(18,680)**

As at December 31, 2017, the Company has tax assets that relate to $5.1 million of non-capital losses in the United States (2016 – Canada $42.0 million and USA $11.9 million). The losses expire beginning in 2035.

NOTE 14 – FINANCIAL INSTRUMENTS

The Company's financial instruments included in the consolidated statement of financial position are comprised of cash and cash equivalents, trade and other receivables, trade and other payables, loans and borrowings and finance lease obligations.

Fair values of financial assets and liabilities

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.

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and due to their short term nature, fair market value approximates carrying value.

Credit risk

Credit risk is the risk that a counterparty to a financial asset will not discharge its obligations, resulting in a financial loss to the Company. The majority of the Company's accounts receivable are with clients in the oil and natural gas industry and are subject to normal industry credit risks that include fluctuations in oil and natural gas prices and the ability to secure adequate debt or equity financing. The Company's clients are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients.

The Company held cash and cash equivalents of $36.9 million as at December 31, 2017 (2016 - $2.2 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major bank and financial institution counterparties (level 1).

During the year ended December 31, 2017, five clients represented 39% of revenue (2016 – 48% of revenue). These top five clients contribute 12%, 8%, 8%, 6% and 5% of revenue respectively, all of which are operated in the Canadian segment.

As at December 31, 2017, 14% of trade receivables are held with one client within the Canadian segment (2016 – 13%), and as such, the Company is exposed to concentration of credit risk. As at December 31, 2017, approximately 45% of the total accounts receivable balance was due from five clients (2016 – 49%). The Company's aged trade and accounts receivable are as follows:

As at December 31,		**2017**		2016
Current (0 to 30 days from invoice date)	**$**	**73,829**	$	27,020
31 - 60 days		**44,793**		14,733
61 - 90 days		**13,354**		2,879
91+ days		**6,780**		3,574
Receivables from trade clients		**138,756**		48,206
Other amounts		**939**		1
Allowance for doubtful accounts		**(422)**		(300)
Total trade and other receivables	**$**	**139,273**	$	47,907

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

Liquidity risk

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

The expected timing of cash outflows relating to financial liabilities on the statement of financial position as at December 31, 2017 are:

	2018	2019	2020	2021	Thereafter	Total
Finance lease obligations[1]	$ 5,321	$ 5,726	$ 1,292	$ -	$ -	$ 12,339
Trade and other payables	70,548	-	-	-	-	70,548
Loans and borrowings	604	1,209	-	-	-	1,813
	$ 76,473	$ 6,935	$ 1,292	$ -	$ -	$ 84,700

(1) Includes interest portion of finance lease obligations.

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

Market risk

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

Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding debt for the year, a 1.0% change in the bankers prime rate would result in a $0.1 million increase or decrease in interest expense for the 2017 twelve month period (2016 - $0.2 million).

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.

Fluctuations in the value of foreign currencies would have had the following impact on net income and other comprehensive income:

	Impact on Net Income		Impact on Other Comprehensive Income	
For the year ended December 31,	**2017**	2016	**2017**	2016
1% change in the value of the U.S. dollar	**$ 445**	$ 146	**$ 594**	$ 296

NOTE 15 – 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 December 31,		2017			2016	
Shareholders' equity	$	**431,040**	**97%**	$	259,939	88%
Obligation under finance lease		**11,764**	**3%**		6,848	2%
Loans and borrowings		**1,813**	**0%**		30,302	10%
Total capitalization	$	**444,617**		$	297,089	

The Company is subject to various financial and non-financial covenants, which are monitored on a regular basis and controls are in place to maintain compliance with these covenants (Note 5). The Company is in compliance with all financial and non-financial covenants.

NOTE 16 – COMMITMENTS

The following table summarizes the Company's estimated commitments as at December 31, 2017 for the following five years and thereafter:

	2018	2019	2020	2021	2022	Thereafter	Total
Operating lease obligations[(1)]	$ 2,126	$ 1,841	$ 2,215	$ 2,231	$ 1,198	$ 1,068	$ 10,679
Loans and borrowings[(2)]	300	300	125	-	-	-	725
Total	$ 2,426	$ 2,141	$ 2,340	$ 2,231	$ 1,198	$ 1,068	$ 11,404

(1) Includes US obligations at a forecast exchange rate of 1 USD = 1.25 CAD.
(2) Stand-by fees on the Existing Credit Facility described in note 5

Operating leases relate to leases of certain shop and office space with lease terms of between 1 years and 6 years. The cost of operating leases recognized during the year ended December 31, 2017 was $3.2 million (2016 - $2.0 million).

As at December 31, 2017, the Company has $41.3 million (2016 - $9.3 million) of commitments related to 2017 capital project carryover and commitments on 2018 expenditures. All of this commitment is expected to be incurred in fiscal 2018.

NOTE 17 - 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 18 – OPERATING SEGMENTS

The Company's oil and natural gas services are conducted in two geographical segments which are Canada and the U.S. Canadian services include fracturing, coiled tubing, nitrogen and fluid pumping. U.S. services provided are coil tubing, nitrogen and fluid pumping. Management evaluates the performance of its operating segments primarily based on revenue and Adjusted EBITDA[1] as included in the internal management reports. The revenue and Adjusted EBITDA[1] of each region are used to measure performance as management believes such information is most relevant in evaluating regional results, relative to other entities operating in the industry. Information on the results of each geographic region are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented operating results and activity

For the year ended December 31, 2017	Canadian Operations	U.S. Operations	Total
Revenue			
Fracturing	$ 365,599	$ -	$ 365,599
Coiled tubing	129,695	57,926	187,621
Total Revenue	$ 495,294	$ 57,926	$ 553,220
Adjusted EBITDA [1]	$ 107,722	$ 15,862	$ 123,584
Adjusted EBITDA %[1]	22%	27%	22%
Depreciation and amortization	$ 29,808	$ 4,605	$ 34,413
Income tax expense	$ 20,778	$ 2,025	$ 22,803
Capital expenditures	$ 79,935	$ 31,020	$ 110,955

For the year ended December 31, 2016		Canadian Operations		U.S. Operations		Total
Revenue						
Fracturing	$	75,290	$	-	$	75,290
Coiled tubing		71,883		21,980		93,863
Total Revenue	$	147,173	$	21,980	$	169,153
Adjusted EBITDA [1]	$	3,223	$	2,999	$	6,222
Adjusted EBITDA %[1]		2%		14%		4%
Depreciation and amortization	$	20,174	$	2,609	$	22,783
Income tax (recovery)	$	(4,434)	$	(599)	$	(5,033)
Capital expenditures	$	92,889	$	7,235	$	100,124

Segmented assets and liabilities

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**

As at December 31, 2016		Canadian Operations		U.S. Operations		Total
Assets						
Current assets	$	55,861	$	10,755	$	66,616
Property and equipment		237,228		29,747		266,975
Intangible assets		844		-		844
Deferred tax assets		-		705		705
Total assets	$	293,933	$	41,207	$	335,140
Current liabilities	$	33,491	$	3,253	$	36,744

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

For the year ended December 31,		**2017**		2016
Net income (loss)	**$**	**57,718**	$	(19,956)
Add (deduct):				
Depreciation and amortization		**34,413**		22,783
Gain on disposal of property and equipment		**(1,849)**		(1,511)
Finance costs		**1,110**		937
Income tax expense (recovery)		**22,803**		(5,033)
Share-based compensation		**6,523**		8,918
Transaction costs		**2,158**		-
Foreign exchange (gain) loss		**708**		84
Adjusted EBITDA[1]	**$**	**123,584**	$	6,222

(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, impairments, transaction costs and foreign exchange (gain) loss.

NOTE 19 – RELATED PARTY TRANSACTIONS

Key management personnel are comprised of the Company's Board of Directors and executive officers. The compensation and other benefits paid to key management personnel are as follows:

For the year ended December 31,		2017		2016
Salaries, fees and short-term benefits	$	2,028	$	1,317
Post-employment benefits (group retirement savings plans)		23		-
Share-based compensation		3,095		5,908
	$	5,146	$	7,225

ARC Energy Fund 6 Canadian Limited Partnership, ARC Energy Fund 6 United States Limited Partnership, ARC Energy Fund 6 International Limited Partnership and ARC Capital 6 Limited Partnership (collectively, "ARC Energy Fund 6") 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"), each a private equity fund advised by ARC Financial Corp. have been investors in the Company since 2011 and 2015, respectively. 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.

NOTE 20 – SUPPLEMENTAL CASH FLOW INFORMATION

The following table reconciles the net changes in non-cash working capital from the balance sheet to the cash flow statement as at December 31, 2017 and 2016:

For the year ended December 31,		2017		2016
Net change in non-cash working capital:				
Trade and other receivables	$	(92,072)	$	(32,536)
Current tax receivable		744		153
Inventory		(3,760)		(6,810)
Prepaid expenses		(2,041)		(575)
Trade and other payables		37,062		14,989
	$	(60,067)	$	(24,779)
Net change in non-cash working capital relate to:				
Cash taxes paid	$	-	$	194
Operating activities		(64,450)		(21,436)
Investing activities		5,094		(3,537)
Financing activities		(711)		-
	$	(60,067)	$	(24,779)

NOTE 21 – SUBSEQUENT EVENTS

Acquisition

On February 22, 2018, STEP announced an agreement to acquire all of the issued and outstanding capital stock of Tucker Energy Services Holdings, Inc. ("Tucker") for total cash consideration of US$275 million, before closing adjustments (the "Acquisition").

STEP expects that the cash required to close the Acquisition of US$275 million, before closing adjustments, will be funded with cash on hand and the net proceeds of the offering ("the Offering") of common shares, with the balance funded from borrowings under the New Credit Facilities. The closing of the Acquisition remains subject to the satisfaction of certain customary closing conditions, including receipt of regulatory approvals (including expiry of the applicable waiting period under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976) and is expected to close on or about April 2, 2018.

Foreign currency forward contracts

The Company entered into several forward contracts subsequent to the year ended December 31, 2017. The goal of these instruments is to limit exposure to U.S. dollar fluctuations as it relates to the purchase price of the Acquisition.

Trade Date	Commencement Date	Expiration Date	USD$	Rate	Cdn$
March 7, 2018	March 26, 2018	April 30, 2018	$ 25,000,000	1.2920	$ 32,300,000
March 7, 2018	March 26, 2018	April 30, 2018	75,000,000	1.2981	97,357,500
March 9, 2018	March 26, 2018	April 30, 2018	25,000,000	1.2820	32,050,000
March 9, 2018	March 26, 2018	April 30, 2018	25,000,000	1.2865	32,162,500
March 15, 2018	March 26, 2018	April 30, 2018	10,000,000	1.3064	13,064,000
March 16, 2018	March 26, 2018	April 30, 2018	10,000,000	1.3099	13,099,000
March 16, 2018	March 26, 2018	April 30, 2018	10,000,000	1.3099	13,099,000
			$ 180,000,000		$ 233,132,000

Equity issuance

On March 15, 2018, STEP closed its previously announced bought-deal equity financing (the "Offering") raising gross proceeds of $56,311,500 by issuing 6,055,000 subscription receipts (the "Subscription Receipts") for $9.30 each, which included 675,000 Subscription Receipts issued pursuant to the partially exercised over-allotment option granted to the syndicate of underwriters. The proceeds of the offering will be used to partially fund the Acquisition. The conversion of the Subscription Receipts to common shares of the Company is contingent on completion of the Acquisition.

Loans and borrowings

To finance the Acquisition, the Company obtained a $330 million revolving syndicated credit facility, $10 million operating facility and U.S.$7.5 million operating facility (together the "New Credit Facilities"). The New Credit Facilities will replace STEP's existing credit facilities and are subject to the closing of the Acquisition. The New Credit Facilities mature three years from the closing date and may be extended for a period of up to 3 years with syndicate approval.

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

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

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

1. Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including capital lease obligations and letters of credit less cash and cash equivalents held with approved

financial institutions to earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange gains and losses, taxes, depreciation, amortization, impairment, and transaction costs ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Adjusted bank EBITDA for the purposes of the covenant calculations differ from the Company's non-IFRS measure "Adjusted EBITDA" by the exclusion of realized foreign exchange (gain) loss. Funded debt to Adjusted bank EBITDA ratio is required to be 3.00:1 or less.

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

CORPORATE INFORMATION

Management

Regan Davis
President & Chief Executive Officer

Rob Sprinkhuysen
Chief Financial Officer

Steve Glanville
Chief Operating Officer & Vice President Operations

Mike Burvill
Vice President Fracturing Services

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

Rory Thompson
Vice President Coiled Tubing Services – Canada

Bailey Epp
Vice President Engineering and Technology

David Johnson
Vice President Human Resources

Lori McLeod-Hill
Vice President Finance

Todd Rainville
Vice President Sales and Marketing

Directors

Douglas Freel – Chairman

Regan Davis (3)

Jeremy Gackle (1) (2)

Jason Skehar (3)

Michael Kelly (1) (2)

James Harbilas (1) (2)

Donna Garbutt (3)

Member of:
1. Audit Committee
2. Compensation and Corporate Governance Committee
3. Health and Safety Committee

Corporate office

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Registered office

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Website

www.stepenergyservices.com

Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

"STEP"
Toronto Stock Exchange