

STEP Energy Services Ltd.

STEP-TSX

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Oil & Gas Energy Services | Pressure Pumps

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Company Report - Initiation of Coverage

Strong Buy 1
C\$24.00 target price

Serving Top-tier Economic Performance: S.T.E.P.

Recommendation

By almost every objective measure, STEP quantifiably screens as a top-tier operator in each basin in which it operates. In addition, it also screens as an extraordinarily value-priced investment, both on an absolute basis and relative to its Canadian and US-based peer groups. Accordingly, we are very comfortable in recommending STEP Energy Services to energy investors with a Strong Buy rating. Our target price is \$24.00.

Analysis

- One of STEP's key differentiating features is its best-in-class margin generation and unit economics. This is true of both its Canadian and US fracturing businesses as well as its coiled tubing service line.
- A second differentiating feature is the fit of STEP's coiled tubing business within its broader service offering in Canada. STEP was conceived as a coiled tubing provider before entering the fracturing business. As such, coiled tubing is operated as a distinct service line with dedicated marketing, as opposed to an ancillary service, secondary to fracturing. The result of these combined factors are materially wider coiled tubing margins plus the *potential* for some measure of marketing advantage for its fracturing services.
- STEP has demonstrated adaptability to changing customer spending patterns. STEP continued to generate top-tier efficiencies and margins in 4Q17, even when its core customers cut their fracturing operations materially. We expect STEP will need to continue demonstrating this adaptability into 2H18 as its core 2017 customers have less ambitious capital plans for 2018.
- Canadian E&Ps have been underspending given our estimates of their run-rate cash flows. This is somewhat understandable given the regulatory issues, transportation constraints, and that budgets were set in a lower price environment during 4Q17. We suspect several E&Ps will increase budgets in the coming months.

Valuation

If STEP were to be priced at parity with its Canadian-listed peer group in terms market value per unit horsepower, EBITDA multiples, or 'Free EBITDA' multiples, its share price would be between \$13.50 and \$15.00, or somewhere between 30% and 45% higher than today. However, we recognize the market is applying a substantial liquidity discount to STEP's shares (approximately 20% to 25%) owing to some combination of its low public float, low daily trading volumes, and a perceived 'overhang' from the combined 61% control blocks held in ARC Financial's funds.

We target STEP at a 20% discount to our typical 7.0x 2019E EBITDA baseline target, yielding our \$24.00 target price.

EBITDA (mln)	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	Cash Flow (mln)
2017A	C\$21	C\$16	C\$50	C\$36	C\$124	C\$553	C\$114
2018E	42A	29	76	71	218	957	164
2019E	76	50	78	76	280	1,172	217

Source: Raymond James Ltd., Thomson One

Current Price (Jun-19-18)	C\$10.36
Total Return to Target	132%
52-Week Range	C\$15.93 - C\$7.77
Suitability	High Risk/Growth

Market Data

Market Capitalization (mln)	C\$682
Current Net Debt (mln)	C\$226
Enterprise Value (mil.)	C\$908
Shares Outstanding (mln, f.d.)	79.3
10 Day Avg Daily Volume (000s)	106
Dividend/Yield	C\$0.00/0.0%

Key Financial Metrics

	2017A	2018E	2019E
EV/EBITDA	4.6x	3.7x	3.1x
P/E	13.2x	7.5x	6.1x
EPS	C\$0.78	C\$1.38	C\$1.68
Capex (mln)	C\$95	C\$424	C\$100
BVPS	C\$7.14	C\$8.93	C\$11.02
Dividend (mln)	C\$0	C\$0	C\$0
Debt/EBITDA	0.1x	1.3x	0.6x
ROE	17.3%	20.7%	20.5%

Company Description

STEP is a North American fracturing business and operates coiled tubing rigs in Canada and the US.

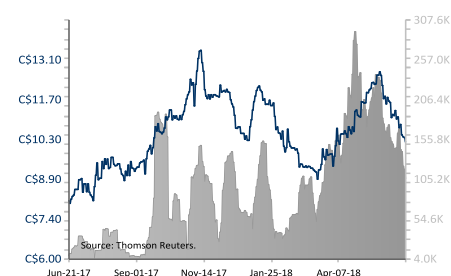


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Investment Overview & Thesis

STEP is a highly suitable investment for energy investors with tolerances for lower trading liquidity, though we expect liquidity will improve over time. Based on 4 separate peer group analyses, we estimate that if STEP were to trade on-par with its Canadian and/or US peers it would be priced at between \$13.50 and \$15.00 today. We chalk-up the difference between this range and today's \$10.36 share price to the combination of a liquidity discount and market mispricing.

While we target STEP's direct competitors in the 7.0x to 7.5x EBITDA range, we think it's reasonable to expect STEP's liquidity discount will persist over our 6 to 12-month target horizon. As such, we arrive at our \$24.00 price target by applying a 20% liquidity discount to our typical 7.0x 2019E EBITDA baseline target. (See Exhibit 28 for an historical view of Canadian fracturing EBITDA multiple ranges).

STEP is Quantifiably a 'Top-Tier' Operator of Fracturing Equipment.

STEP, and its acquired company Tucker, generate more EBITDA from their fracturing equipment than any of their respective Canadian or US comparable companies. That is, both STEP and Tucker are demonstrably 'best in class' in terms of unit economics. We measure this as EBITDA per unit of both 'fleet' horsepower and activated or 'crewed' horsepower – though we prefer fleet horsepower as it is a more consistent/reliable figure. (See "The Canadian Fracturing Market" section of this report for a comparative analysis of STEP's unit economics.)

By Far, STEP Produces Best in Class Performance and Margins from its Canadian Coiled Tubing Business.

STEP's Canadian coiled tubing fleet is certainly the most modern, but is also the most concentrated high-spec fleet available. This has the effect of concentrating STEP's coiled-tubing business on multi-well leases, which lends to higher average utilization, efficiency, and margins. Coiled tubing is STEP's traditional core business, and as such, it has a dedicated marketing infrastructure for this service line that other fracturing companies have not replicated. We estimate STEP extracts margins that are as much as 3x greater than comparatively-sized coil fleets.

STEP's High EBITDA Yield Should have Positive Implications for its Trading Multiple.

Not all EBITDA dollars are created equal. We estimate investors receive 18% more 'Free EBITDA' per dollar of *reported* EBITDA from STEP than from comparable companies. To see this, consider that STEP's maintenance costs per horsepower are no different than for any other fracturing company – we estimate that each unit of working horsepower will require \$100 to \$125 in direct plus accrued maintenance annually. But because STEP generates more EBITDA per unit of horsepower and maintenance costs are the same, investors receive more 'Free EBITDA' per dollar of EBITDA from STEP than from comparable fracturing companies – 18% more by our arithmetic. Which implies STEP's EBITDA should be 'worth' 18% more and all else equal, should trade at a higher multiple to reflect this higher yield. We take a pragmatic view to target pricing, so we don't include this premium in our target. But we expect investors will realize on this 'Free EBITDA' advantage through higher accrued free cash over time. Not incidentally, we estimate STEP investors today are enjoying a 13% free cash flow yield. (See the Valuation & Recommendation section for a discussion of 'Free EBITDA'.)

The Illiquidity in STEP's Shares Detracts from its Market Value.

STEP is just over 60% owned by two of ARC Financial's private equity funds; management owns another 1%. So while STEP has a \$682 mln market cap its float cap is only \$266 mln – and this is after giving effect to its recent \$56 mln equity issue. As a partial consequence, traditional institutional involvement in STEP is lower than for comparable companies – STEP's top 5 institutional investors own 8% of the company versus 21% and 23% for its comparative group. This could be a contributing factor in its low rate of float turnover – on average 1% of STEP's floating shares trade in a day versus 1.6% for comparable companies. The ultimate consequence is that STEP's daily volume is about \$2.9 mln compared to \$16.5 mln and \$6.6 mln for its direct Canadian comps.

Rating: Strong Buy

Target: \$24.00

**Definition: 'Free EBITDA':
EBITDA less both incurred and accrued
maintenance costs.**

Canadian Fracturing Economics are in the ‘Goldilocks Range’ – Warm Enough to Generate Attractive Yields on Market Values but Not so Hot as to Drive a ‘New-Build Arms Race’.

Based on our estimates, Canadian fracturing assets will generate \$156 ‘Free EBITDA’ per unit horsepower on average over the 2018 calendar year - \$180 per unit horsepower in STEP’s case. The fully-loaded cost of new-build equipment is approximately \$1,400 per unit horsepower, implying a 9.0-year ‘Free EBITDA’ payout for the average fracker in Canada or 7.8-years in STEP’s case. Either way, these economics are insufficient to prompt new builds.

But, the *equity markets* are effectively valuing Canadian fracturing assets at approximately \$700 per unit horsepower (\$496 for STEP) – and in either event far below new-build costs. At this level, STEP’s equity investors can enjoy a 2.8-year ‘Free EBITDA’ payback on equipment or a 36% ‘Free EBITDA’ yield. In short, the economics are attractive relative to market values, but not so attractive to result in an over-built market.

STEP has Shown that it Can Adapt to Significant Changes in Customer Demands Without Materially Negative Impacts on its Unit Economics or Margins.

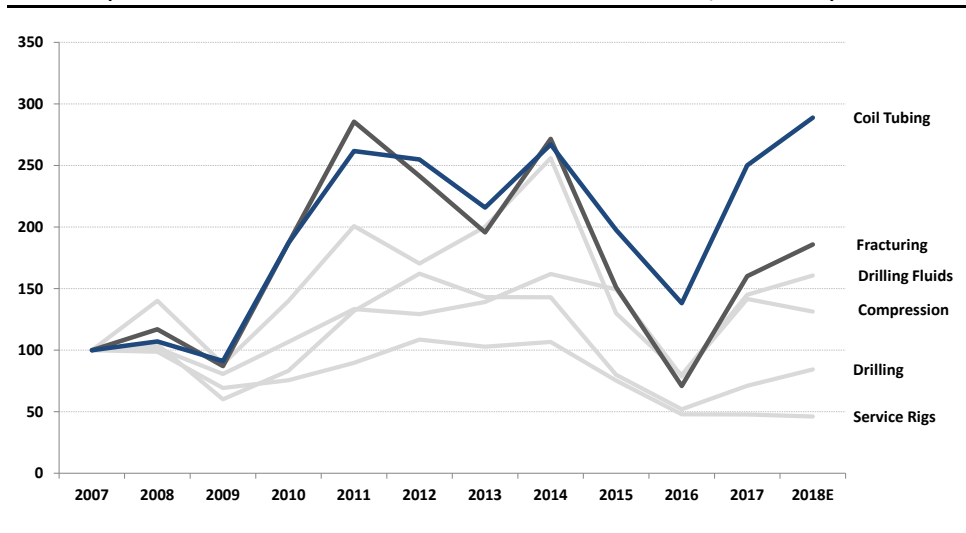
Several of STEP’s larger traditional customers cut their capital spending and fracturing programs significantly in 4Q17. This included Canadian Natural Resources and ARC Resources. Together these two producers were 38% of STEP’s 3Q17 fracturing business, but this dropped to just 2% in 4Q17. STEP responded by partially backfilling with increased penetration into its other existing customers and by adding several new customers to its mix. While there was a detectable impact on STEP’s unit economics, it nonetheless preserved its top-rank position in unit economics among its Canadian peer group despite losing more sequential revenue than the same group. [See “Some Specifics on STEP’s Customer Concentration and Penetration” section for a discussion of STEP’s customer base.]

STEP’s Two Primary Services Lines – Fracturing and Coiled Tubing – have Been the Two Greatest Gainers in Terms of Share of Canadian Producers’ Capital Spending Dollars.

Over the period 2007 to 2009, we estimate producers allocated 0.5% of their capital spending dollars to deep coiled tubing services. By 2014, this had grown to 1.1% – which works-out to a 200% increase relative to other service lines. We expect coiled tubing will grab a similar share of producers spending in 2018 with continued relative growth in 2019 forward.

STEP’s fracturing equipment generates very attractive economic yields on today’s equity value, but not so high as to prompt new-builds.

**Exhibit 1: Revenue Growth Has Been Strongest in STEP’s Two Primary Service Lines
(Indexed Revenue Growth for Canadian Oilfield Service Lines, 2007 = 100)**



Source: CAODC, geoLOGIC Systems, Company Reports, Raymond James Ltd.

We Believe \$65 WTI Crude is a Reasonable Basis from which to Forecast STEP's Activity, Pricing, and Margins.

US\$65 WTI translates to roughly C\$78/bbl for Canadian light and C\$87/bbl for condensate. At the same time, we aren't expecting producers will generate any netbacks on unhedged dry gas production, so essentially all of the basin's economics are predicated on crude and liquids production. (See Exhibit 33 for a comprehensive outline of our macro-level oilfield services forecasts.)

We're Expecting Crude and Condensate Producers will Move Capital Budgets Higher over the Coming Weeks and Months.

Canadian producers are spending on aggregate 7% less than we would expect given their run-rate cash flow generation over the last three quarters. This is somewhat understandable given capital budgets were set in the lower crude price environment in 4Q17. We've already noted some budgets have moved higher, while other producers have simply been spending at higher rates than their stated budgets would suggest.

Horsepower Demand was Higher Year-Over-Year in 1Q; We Expect it Will be Lower in 2Q and Roughly Flat in 3Q Before it will Flip Back to Year-Over-Year Growth Again in 4Q and Through 2019.

We're forecasting overall Canadian horsepower demand to be 13% higher in 2018 versus 2017 and 12% higher again in 2019.

We're Not Expecting Much in Terms of Pricing Increases Through 2018 or 2019.

Fracturing pricing recovered 35% through the first three quarters of 2017, though it hasn't moved much since, nor does our modeling suggest we should expect material pricing gains until perhaps late in 2019 if demand continues to move higher.

Company Overview

Founded in 2011, and backed by ARC Financial, STEP began providing coiled tubing ("CT") and nitrogen services in 2012 after acquiring 2 CT units and 5 nitrogen units as part of its acquisition of Kamber Nitrogen Services. In 2015, STEP made its first move into the fracturing business when it acquired Gasfrac Energy Services' 115,000 horsepower through insolvency proceedings and another 165,000 horsepower from Sanjel Energy Services in 2016 under similar circumstances. STEP completed its \$100 mln IPO in May 2017 at \$10 per share.

In April 2018, STEP entered the US fracturing market via the acquisition of **Tucker Energy Services Holdings**. STEP acquired Tucker's 3 fracturing spreads with 142,500 horsepower and acquired the delivery rights of a fourth spread of 50,000 horsepower, delivered late in May 2018. Tucker also operates 2 coiled tubing units and 15 wireline units.

STEP's fleet today consists of 13 coiled tubing spreads and 297,500 fracturing horsepower (10-15 crews) in Canada and 10 coiled tubing spreads and 192,500 horsepower in the US (Texas, Louisiana, and Oklahoma). STEP also provides nitrogen and fluid pumping services as non-core operations that support its fracturing business. STEP has plans to expand its Canadian coiled tubing fleet to 16 spreads, its Canadian fracturing capacity to 305,000 horsepower and its US coiled tubing fleet to 13 by the end of 2018.

STEP's two core business lines are fracturing and coiled tubing, each of which is outlined in brief below.

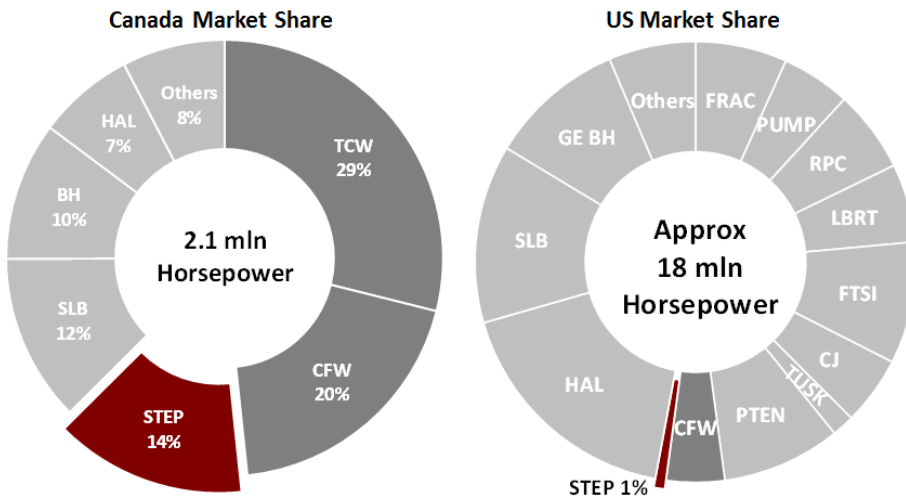
Fracturing: 65% of 2018E and 67% of 2019E EBITDA

With 297,500 hp in Canada, STEP's fleet ranks as the third largest in Canada (see Exhibit 2). STEP currently has roughly 225,000 hp crewed and marketed. STEP plans to activate equipment through 2018 to reach 305,000 horsepower.

STEP's Major Service Lines (in order of 2019E EBITDA contribution)

1. Canadian Fracturing	36%
2. US Fracturing	31%
3. US Coiled Tubing	17%
4. Canadian Coiled Tubing	15%
5. US Wireline	1%

Exhibit 2: Fracturing Market Shares by Total Fleet Horsepower

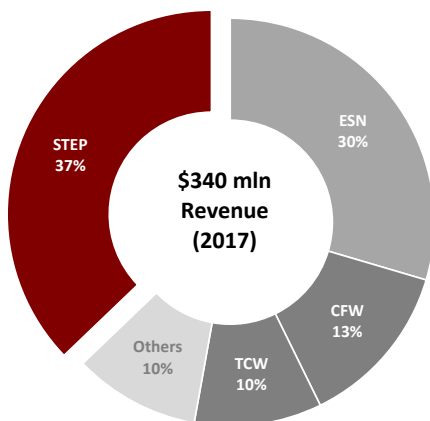


Source: Company Reports, Raymond James Ltd.

Coiled Tubing: 34% of 2018E and 32% of 2019E EBITDA

By revenue, STEP is the largest deep coil provider in Canada. STEP has 13 deep CT spreads in Canada and another 10 in the US (including 2 acquired with Tucker). By the end of 2018, STEP plans to have grown its Canadian CT fleet to 16 and its US fleet to 13.

Exhibit 3: Canadian Deep Coiled Tubing Market Share



We don't expect significant changes in coiled tubing market share over 2018, but STEP's additions should increase its market share in 2019.

Notes: We define 'Deep Coiled Tubing' as units with depth capabilities greater than 15,000 feet using 2-3/8" coil and at least 100,000-lb injector capacities. "Other" providers are based on RJL estimates.

Source: Company Reports, Raymond James Ltd.

Wireline: 1% of 2018E and 2019E EBITDA

STEP provides wireline services in Oklahoma and Texas through the Tucker acquisition. Tucker's assets included 10 open hole and 5 cased hole wireline units.

Coiled Tubing in Canada and STEP's Competitive Positioning

Despite its evolution over recent years into a key service line, Canada's coiled tubing (CT) market isn't well-defined for investors. In this section we characterize Canada's CT market and describe STEP's positioning within it.

Key takeaways from this section include:

- ◆ STEP produces, by far, the best performance and EBITDA margins of any coiled tubing operator in Western Canada.
- ◆ We estimate the relevant coiled tubing market in Canada at roughly \$405 mln in 2018
- ◆ STEP has the largest share of this market at roughly 37%.
- ◆ Coiled Tubing has been grabbing an increasing share of producers' capital spending, similar to fracturing.
- ◆ Similar to drilling rigs, 'specification creep' means that newer, larger units have been displacing lower-capacity units. As a relatively new entrant into the CT market, STEP's margins aren't encumbered with a fleet of lower-spec equipment.

While there are Nominally about 375 CT Units in Canada, we Believe the Functional Market is Fewer than 75

Those with a long history in oilfield services investing will recall a time when coiled tubing was 'all the rage'. Well, maybe not quite all the rage, but many public market companies featured coiled tubing prominently among their service lines. Similar to other oilfield service lines, the specification demands on CT have increased, i.e. **more power, smaller footprint, and deeper capacities**. As a result, the vast majority of the 375 units in Canada are probably not working anymore and may never work again.

The bulk of Canadian completions work has migrated to the deeper plays (e.g. Deep Basin, Duvernay, Montney), which has had a wide range of impacts on oilfield services companies – from drilling rig specs to fracturing-intensity, and unsurprisingly, to coiled tubing capacities. In retrospect, prior to the onset of the downturn in 2014, we had been openly suggesting that the reach of coiled tubing was likely a constraining factor on well depths in Canada.

This became less of an issue when activity plummeted in 2015 and 2016, but the drive to execute on longer horizontal wells is still exerting pressure on CT providers to 'up their game' with higher capacities and greater capabilities.

By contrast, the mass-produced shallow gas and oil wells in the southeast portions of the basin have been unable to compete economically, and as such, the utilization of the OFS infrastructure to service them has been in steep decline toward near-extinction. For this reason, we suggest the previous definitions and characterizations of the CT market are things of the past and the focus for investable coiled tubing operators must be on those with the capabilities to service the deeper formations of the basin.

This dynamic left traditional shallow coiled service providers with a choice: either invest in higher capacity units or exit the market (sometimes by choice or, less fortunately, through bankruptcy). Notable providers who have effectively exited the CT market by choice are Precision Drilling, Baker Hughes (BJ Services), Halliburton, and Schlumberger. We believe Baker Hughes, HAL, and SLB's decisions not to invest in Canadian CT capacity is emblematic of their philosophies towards the Canadian market as a whole – that is, Canada is a highly nuanced, seasonal, and small market (in a global context). The 'Big Three' have tended to invest less here, ceding market share to domestic providers. We have seen similar dynamics play-out in their fracturing and drilling fluids product lines.

As a result of the shift toward higher specified CT units, what was once a low-entry-barrier service line with dozens of competing operators, collectively marketing hundreds of CT units, is now a higher-entry-barrier service line in which the top four operators run about 70% of the relevant capacity – and control a higher percentage of the 'west of 5' and 'west of 6' markets. The differences between the shallow and deep CT market is most easily visualized by contrasting the equipment, which we do in Exhibit 4.

Exhibit 4: Shallow vs. Deep Coiled Tubing Capacity



Source: Courtesy of National Oilwell Varco.

CT Service Providers are Investing in Equipment with Ever-Greater Capabilities

While the likes of STEP have edged-out or completely displaced traditional CT service providers, it hasn't been a free ride. Today's CT providers have had to invest in their deeper capacity fleets, changing their configurations and upping their capabilities along the way. Depending on specifications and layout, a deep capacity CT unit costs between \$6 mln and \$8 mln.

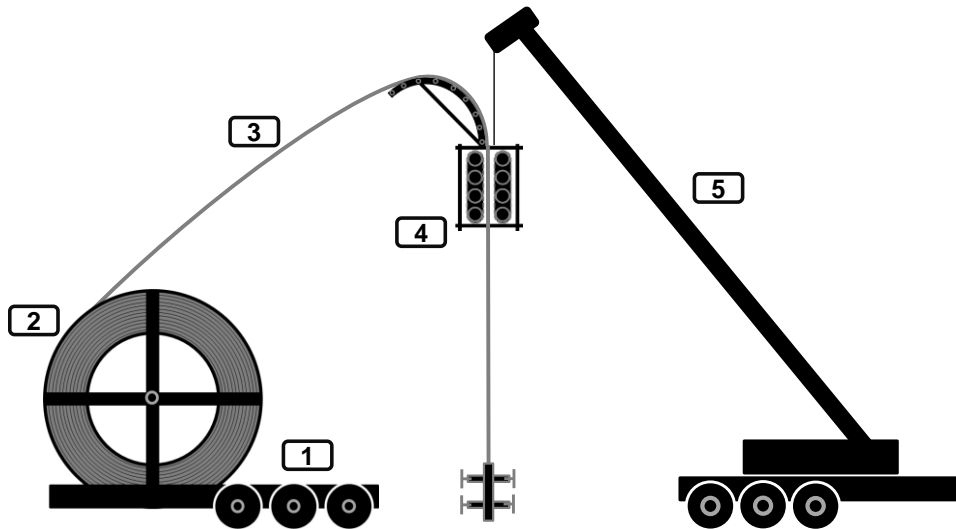
STEP's new Ultra Capacity CT units likely cost closer to \$8 mln, though they feature greatly enhanced capabilities.

Why 'Upgrades' Aren't a Substitute for 'New' in Coiled Tubing

Those familiar with the US drilling market have grown accustomed to contractors 'upgrading' their equipment – sometimes with walking systems, higher-pressure fluid systems, or additional pumps, etc.

Upgrading is less of an option for CT. To see why, consider the primary factors that effectively limit a unit's capacity. We show a conventional CT layout in Exhibit 5. In the text that follows, we describe how each major component constrains the depth capacity of that unit, such that changing one component without changing the others usually won't enhance depth capacity.

Exhibit 5: A Conventional Coiled Tubing Layout



Source: Raymond James Ltd.

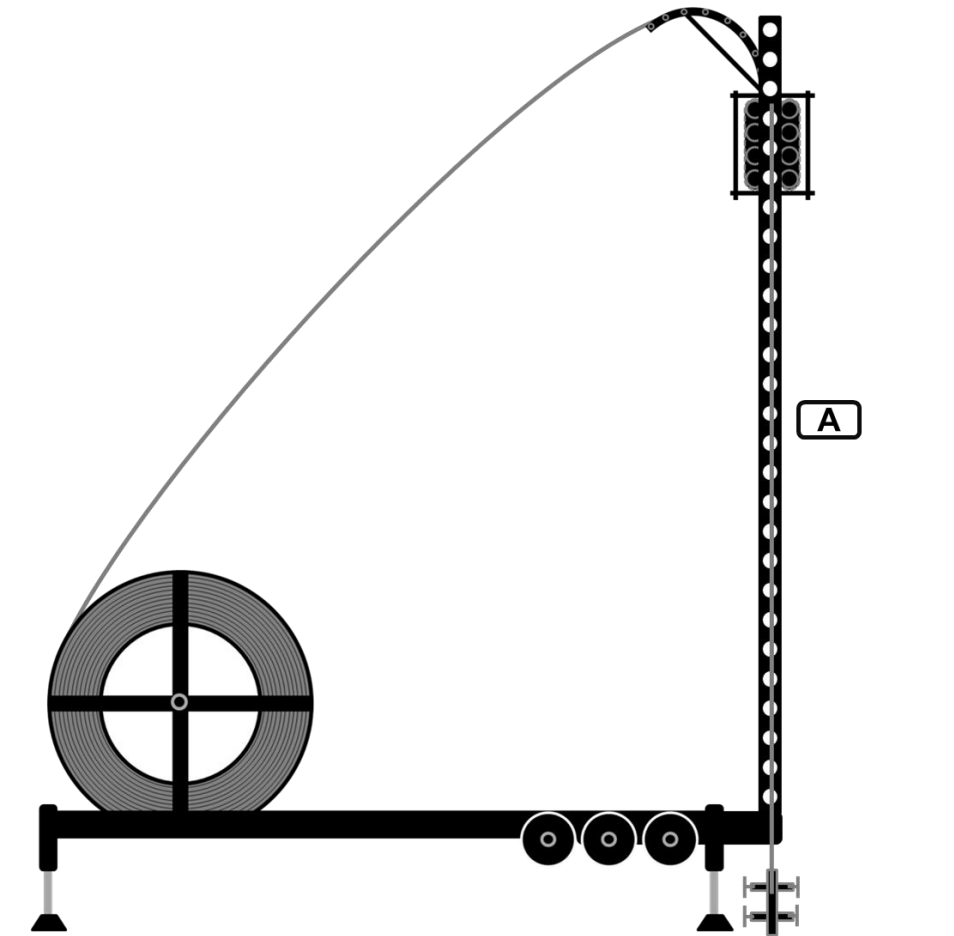
- ❶ **Carrier or Trailer.** In conventional CT units, the carrier holds the reel and the injector. These are heavy items. In fact, CT carriers are usually the heaviest regular loads in the oilpatch. Ignoring the weight of the spool, the injector, and the trailer itself, the weight of the coil alone can reach 100,000 lb. Depending on wall thickness, 6,300 meters (20,700 feet) of standard 2 3/8" coil weighs around 80,000 lb. A trailer designed to carry a specific load-weight needs to be changed entirely to accommodate lengthier coil.
- ❷ **Reel and Spool.** The combination of width, spool diameter, and spool core diameter jointly determine the amount of coil any reel can hold. But there are other less obvious limitations to upgrading the reel. Bridge clearance is one. Many bridges in Western Canada have 17 ½ foot clearances; some are only 15 ½ feet. A large reel from NOV is 15-feet 10-inches, before adding the trailer's ground clearance. To compensate, some trailers are slung low to provide maximum spool height, but then these trailers are more difficult to pull across rough lease roads.
- ❸ **Coiled Tubing.** Coiled tubing is described by its outer diameter ("OD"), its wall thickness, whether it's straight or tapered (the wall thickness increases from the beginning to the end), and its composition (different types of steel for corrosive sour gas applications for instance). In addition, specialized coil may have embedded electrical lines for logging or perforating. By far, the most popular tubing diameter in Canada is 2 3/8" whether it's used in shallow applications like the Viking or the deepest 6,000-meter applications in the Duvernay or Montney.
- ❹ **Injector.** It's the injector's job to push or "snub" the tubing into the wellbore and to pull it back out. As such, injectors are typically defined by their snubbing and lifting capacities. A 130,000 lb lift capacity is sufficiently-specified for just about any of the deepest onshore applications, though some CT providers in Canada are using 160,000 lb injectors to widen the safety margin. Beyond cost, the operational trade-off of using a high-spec injector is the load weight vs. the likelihood of needing that margin of safety. There isn't a material weight difference between the HR-680 injector with 80,000 lb lift capacity used on STEP's conventional CT units and the CSI-130K injector with 130,000 lb lift capacity. But the load weight difference between the CSI-130K and the CSI-160K injector is almost a factor of 2 times or about 7,300-lb. This higher weight layers-on an additional design challenge when it comes to distributing that weight on the trailers, and has the potential to limit mobility. By far, the most prevalent injector in Canada is 100,000-lb, with only higher capacity reel units using 130,000 lb or 160,000 lb injectors.

- ☐ **Crane.** These need to be sufficiently-spec'd to support the full pulling force of the injector plus the weight of the injector itself along with associated rigging.

Other key components include:

- ◆ **Power Unit.** This provides hydraulic power to the injector and to the reel.
- ◆ **Command Center.** A command trailer holds an operating station to control the coil, crane or mast, power unit, and fluid pumps.
- ◆ **Stripper.** The stripper provides a lubricated seal around the coiled tubing above the wellhead and blowout preventor stack.
- ◆ **Fluid Pumps.** Pumps are used to circulate fluids in the wellbore.

Exhibit 6: Masted Coiled Tubing Unit



Source: Raymond James Ltd.

Well leases are very crowded with equipment, especially during completion operations. To minimize the footprint on the lease, CT operators began constructing so-called 'masted' coiled tubing units. These units substituted a mast, A in Exhibit 6, for the crane of a conventional unit. This did away with the crane and guy wires to secure the injector in place, freeing-up considerable space. As CT providers constructed more of these masted units, they simultaneously increased depth capacities. As such, 'masted' units became synonymous with 'deep capacity' units. However, this is a functional oversimplification.

The U-Turn in Masted CT Unit Popularity

There is a discernible trend away from masted CT units in preference of more conventional crane layouts.

The primary advantage masted CT units have over their conventional trailer-and-crane counterpart is that a mast consumes less lease space than a crane. Masted CT units also tend to rig-up and down faster, which made them especially popular in the ‘cookie cutter’ shallow gas plays in eastern Alberta 10 to 15 years ago.

Masted units have since faded in popularity as the shallow gas plays became less economically appealing. Today masted units present new disadvantages vis-à-vis craned units. High pressure wells, like those found in the Montney, Duvernay, and Deep Basin, require large well control stacks, which are often too high to ‘fit’ under the confines of the mast. Another challenging feature of masted CT units is the requirement for the trailer to back right up to the wellhead. This crowds the area around well and can present risks and other operational challenges.

Beyond the imitations around ground clearance, the speed advantages that masted units offer with faster rig-up and the smaller surface areas they consume are less important on large multi-well pads. A conventional crane set up on a multi-well pad can access each well head without having to rig down and move. These pads are, by definition, larger and can more easily accommodate another truck and trailer.

Masted units also present logistical difficulties versus crane units. While adding a mast to the coil and injector trailer reduces the number of vehicles on a lease, it also adds weight to an already heavy trailer.

The limitations of the masted units in addition to the weight constraints have resulted in a resurgence in the popularity of craned CT units in Canada, with some providers converting masted units to cranes.

Expanding Applications for Coiled Tubing

Coiled tubing units are remarkably handy tools and the scope of their uses has been expanding since their introduction in the 1970s. While coil has applications to all phases in well construction, completion, and production, coil has also become important to the fracturing process. Completions activities such as perforating, setting plugs, packers & retainers, milling, setting completion tools, and stimulation and fracturing through coil have become the prevalent applications.

Exhibit 7: Typical Coil Applications

Well Completion	Remedial Work	Tool Conveyance
Cementing	Cement Squeeze	Memory Probes
Perforating	Acid Squeeze	Logging
Fracturing thru Coil	Chemical Wash	Cameras
Annular Fracturing	Cleanouts	Fishing Tools
Nitrogen Injection	Setting Velocity Tubes	
CO2 Injection		
Setting Packers		
Setting Bridge Plugs		
Milling-Out Packers and Plugs		
Well Deepening		

Source: Raymond James Ltd.

Many of the completion and intervention work performed by coiled tubing can alternatively be completed with a service rig. But despite the increasing complexity of completions work on modern horizontal wells, demand for service rigs has declined while coil has become increasingly popular. Between 2007 and 2017, we estimate services rigs’ share of producers capital spending declined by 50% while coiled tubing’s share grew by 200%.

Coiled Tubing Advantages vis-à-vis Service Rigs

- ◆ **CT units are quicker at running tools into and out of the wellbore.** The continuous pipe of a CT unit means that there is no ‘screwing’ and ‘unscrewing’ pieces of straight pipe together.
- ◆ **CT units are safer when working on live wells.** The use of one continuous pipe means no making and breaking joints, so they maintain a closed system.

STEP’s Competitive Position Among Deep Coil Providers

STEP’s coiled tubing fleet is well-specified versus the largest deep coil providers in Canada. Coiled tubing units are generally classified by depth capacity at a given outer diameter and injector size. We have benchmarked STEP’s CT fleet versus the other major providers of coil in Exhibit 8 and 9.

Across the deep CT fleet in Canada, the most prevalent specification/configuration is a reel capacity between 20,000 – 25,000 ft and a 100,000 lb injector in conjunction with 2 3/8” coil. Coiled tubing rigs with these specifications are well-suited to the deeper Montney and most Duvernay wells, which have median measured depths of 17,500 ft and 20,000 ft, respectively.

The deepest Duvernay wells, however, are approaching 24,000 ft measured depth, which is beyond the capabilities of ‘standard’ deep coiled tubing rigs. Thus the drive to even higher reel capacity units, such as Essential’s Generation IV, Trican’s largest capacity unit, and STEP’s ‘Ultra-Capacity’ CT unit.

It is worth noting that for operational reasons, CT units are never pushed to the limits of their nameplate depth capacities as tubing that becomes ‘stuck’ in a well can have enormous financial consequences.

Exhibit 8: STEP’s Deep Coil Fleet and Peer Fleets

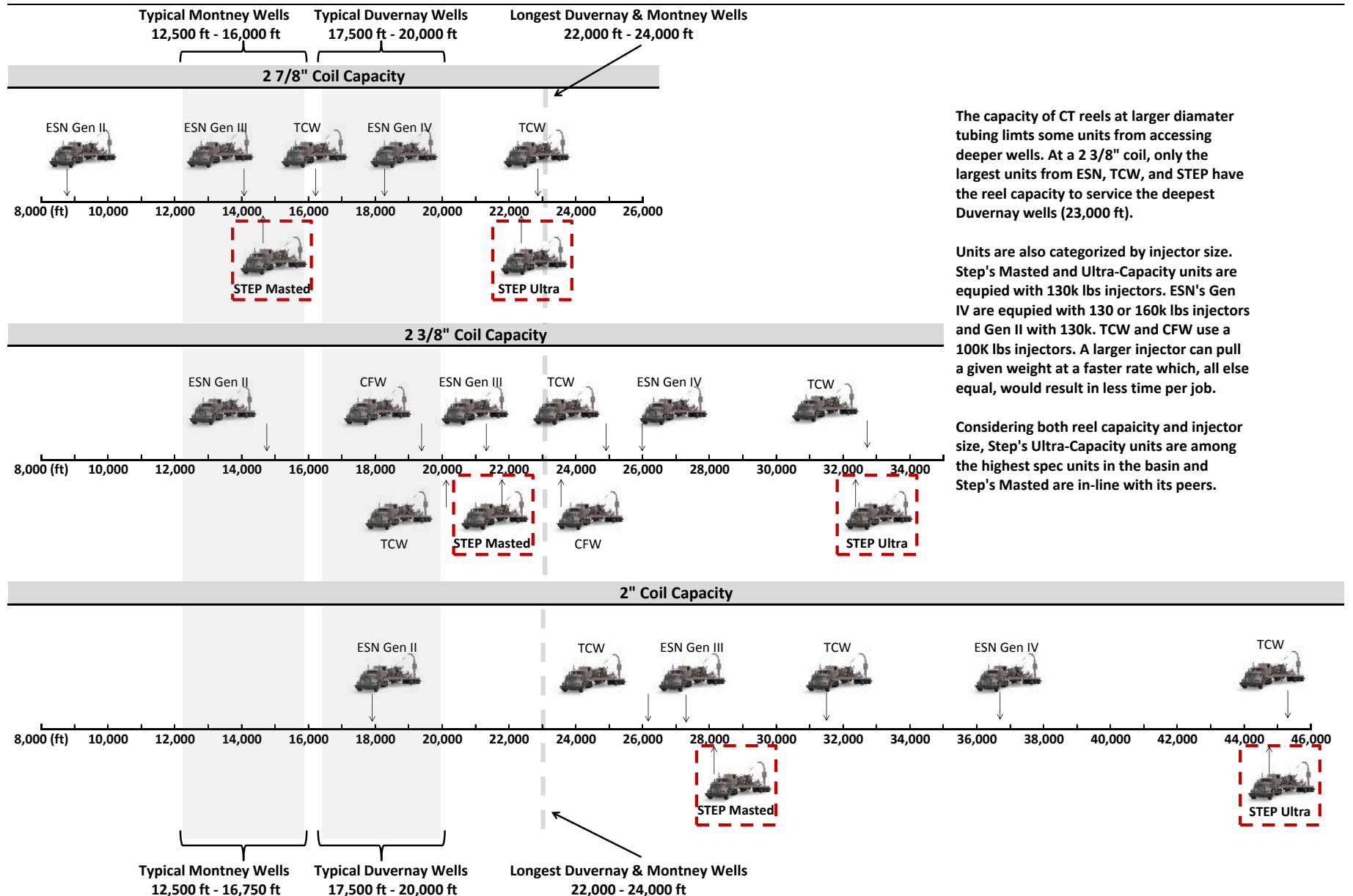
Operator	CT Unit Description	Number of Units	Injector Pulling Capacity (lbs)	2-3/8" Coil Capacity (ft)	Suitable for Deepest Wells:	
					Montney	Duvernay
Step	Conventional	3	100	19,000	✓	
	Masted/Large Conventional	4	130	21,600	✓	
	Ultra	6	130	32,500	✓	✓
Essential	Gen I	5	70	8,900		
	Gen II	14	100	14,800		
	Gen III	8	130	21,300	✓	
	Gen IV	4	130 - 160	26,000	✓	✓
Trican		4	100	20,700	✓	
		4	100	25,000	✓	✓
		1	100	25,590	✓	✓
		2	100-130	32,800	✓	✓
Calfrac		2	80	18,000	✓	
		3	100	18,000	✓	
		2	100	19,700	✓	
		1	100	23,600	✓	✓

Source: Company Reports, Raymond James Ltd.

STEP’s CT fleet consists of 3 conventional CT units, 4 masted/large conventional CT units and 6 “Ultra Capacity” spreads. Both STEP’s masted and Ultra Capacity units are equipped with 130,000 lb injectors while the conventional units have 100,000 lb injectors. The ‘Ultra-Capacity’ unit has one of the largest capacity reels in the Canadian basin, capable of holding 32,500 ft of 2 3/8” coil, surpassed only by TCW’s 32,800 ft capacity unit. STEP’s conventional and masted CT units have 2 3/8” reel capacities around 20,000-ft.

The 130,000 lb injector on the masted units are larger than the more common 100,000 lb injectors on CT units of similar reel capacities from other fracking companies and same as the 130,000 lb injectors used by ESN. The 100,000 lb injectors are typically sufficient for most deep basin operations in Canada but the 130,000 lb injector does provide STEP with an extra zone of comfort and allows the units to pull faster at a given weight.

Exhibit 9: Canadian Coiled Tubing Fleet Specifications



The capacity of CT reels at larger diameter tubing limits some units from accessing deeper wells. At a 2 3/8" coil, only the largest units from ESN, TCW, and STEP have the reel capacity to service the deepest Duvernay wells (23,000 ft).

Units are also categorized by injector size. Step's Masted and Ultra-Capacity units are equipped with 130k lbs injectors. ESN's Gen IV are equipped with 130 or 160k lbs injectors and Gen II with 130k. TCW and CFW use a 100K lbs injectors. A larger injector can pull a given weight at a faster rate which, all else equal, would result in less time per job.

Considering both reel capacity and injector size, Step's Ultra-Capacity units are among the highest spec units in the basin and Step's Masted are in-line with its peers.

Source: Company Reports, Raymond James Ltd.

STEP's Coiled Tubing Service Line as a Competitive Advantage/Differentiator

In terms of how companies market their services, pressure pumpers understandably lead with their largest revenue generator first, which is almost always fracturing. By contrast, STEP was conceived as a coiled tubing provider, and therefore began with a dedicated and well-supported coiled tubing marketing group. While it might seem trivial, we think this has been an important differentiator for STEP and has likely helped to advance its fracturing services in a highly competitive market.

A Brief Review of the Interplay between Fracturing and Coiled Tubing Services

Coiled tubing is often provided as an adjunct to fracturing services in completion operations. Most fracturing companies have historically employed their own coiled tubing fleets, and as producers spec'd coiled tubing equipment for the fracturing treatment, fracturing companies would invariably supply their own. In busier times, when fracturing providers reached the limits of their respective coil fleets, it would begin to subcontract third-party coiled tubing providers. This was the challenge for Technicoil – acquired by Essential Energy Services in 2011 (and not incidentally, originally financed by ARC Financial). Despite its competitive high-spec fleet (for the time), it became the *de facto* swing provider: its equipment would only become highly utilized once the fracturing companies exhausted their own fleets. This was particularly true for the relationship between Calfrac and Technicoil. Investors in Technicoil were afforded little downside protection as Calfrac protected its own utilization during softer periods.

Fast-forward to today. Well designs are considerably deeper with horizontal runs often beyond 8,000 ft. Most investors appreciate these more technical wells have required everything from higher-spec drilling rigs and more technical drilling fluids to novel downhole tools and exponentially higher sand-loadings. But completing these wells also requires coiled tubing injectors capable of hoisting the greater lengths of coil to reach the toes of these deeper wells, all without sacrificing tubing size and without occupying too much available lease area. Just 10-years ago, a state-of-the-art, high-spec coil unit would be a fraction today's capabilities. Today, the state-of-the-art coil units have 160,000 lb injectors and can reach up to 35,000' with 2 3/8" coil.

Since coiled tubing specifications have become increasingly important for the successful completion of deep horizontal wells, E&P companies have increasingly contracted directly with the coiled tubing provider, independently of the fracturing provider. This corresponds with (a) STEP gaining coiled tubing market share over the last four years and (b) using its coil services to cross sell into fracturing, thus similarly gaining fracturing market share.

That is, STEP has parlayed its high-spec coiled tubing into a marketing tool to grab fracturing market share. Ironic that fracturing used to be the differentiated service used to pull-through coiled tubing services and today high-spec coiled tubing is the differentiated service pulling-through fracturing services. STEP's coil has acted as a loss leading product that makes a higher margin than the service it leads.

STEP's coiled tubing service line is like a 'loss leader' that not only doesn't lose – it likely generates higher margins than fracturing.

The Canadian Fracturing Market and STEP's Competitive Positioning

Key takeaways from this section include:

- ◆ Fracturing's share of producer spending continues to increase, supported by higher pricing and higher fracking intensity.
- ◆ STEP's share of the fracturing market has been growing since entering the market in 2016.
- ◆ STEP's EBITDA yield per horsepower consistently ranks at the upper end of its peer group.
- ◆ Despite leveling-off in certain key plays, such as the Montney, basin wide fracturing intensity continues to grow as producer capital is drawn to the higher returns found in the most fracturing-intensive plays, including the Montney.
- ◆ Pricing in Canada is up 51% off of the bottom, but still has 11% to go return to 2014 levels. We expect only small pricing gains in fracturing through 2019.
- ◆ Importantly, we expect Canadian fracturing economics will remain in a range where existing equipment provides attractive returns for equity holders, but not so attractive as to prompt wholesale equipment additions.
- ◆ STEP's 2017 customer mix presents some challenges for 2018. STEP has demonstrated, and will have to continue demonstrating, an adaptability to preserve superior margins as its customer mix changes.

Producers are Allocating an Increasing Portion of their Capital Spending Dollars to Fracturing Services

The following considerations point to fracturing taking an increased share of the capital spending dollar again in 2018:

- ◆ Pricing for fracturing services is up more year-over-year than for any other major service line. Fracturing pricing is up 9% entering 2018 over the average of 2017. By comparison, pricing for drilling services by comparison are up 4% entering 2018 over the 2017 average.
- ◆ The Montney and Duvernay together consume approximately 75% of all fracturing services in Western Canada – the Montney is approximately 55% by itself. As such, trends in the Montney and Duvernay *de facto* represent average trends in the Basin. These are the most fracturing intensive plays in Western Canada and they continue to attract a growing share of capital spending in the basin, thus increasing basin wide fracturing intensity.

The combination of increased fracturing intensity and pricing means fracturing revenues are poised to increase by 14% in 2018 while we expect aggregate producer cash flow to increase by 7%. (See Exhibit 15.)

STEP Generates Best in Class Returns from its Fracturing Equipment

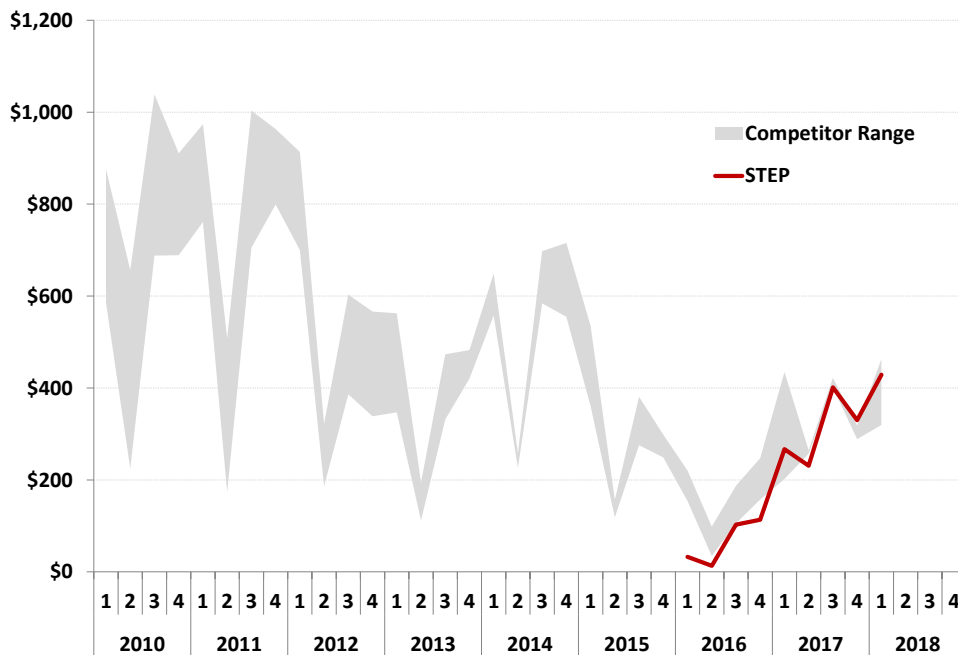
Revenue per Unit Horsepower ("Asset Turnover") Climbing Steadily Relative to Competitor Group

Because STEP purchased its fracturing equipment through two bankruptcy sales, and because 115,000 horsepower of that equipment was profoundly underutilized at the best of times, STEP's fracturing fleet started out less utilized than its industry peers in 2016. This resulted in lower revenue per fleet horsepower yields than the competitor group (Exhibit 10).

By 3Q17 the revenue gap was almost completely closed. STEP's aggressive recommissioning program had put its revenue generation on an equal footing with its competitors, generating \$401 per unit of fleet horsepower compared to \$409 for the peer group average.

STEP continued to perform well against its competitor group in 1Q18, generating \$430 in revenue per unit of fleet horsepower compared to \$370 for the peer group average.

Exhibit 10: Revenue per Unit Horsepower (Canada) – STEP vs. Competitor Group



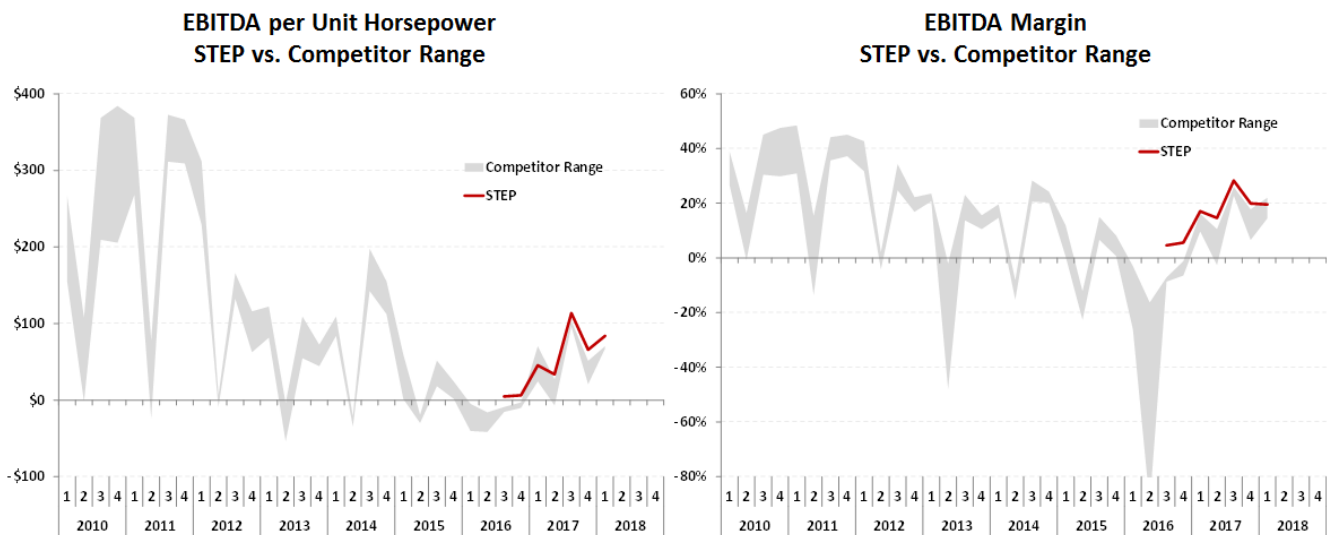
Note: Competitor group is comprised of Calfrac Well Services, Canyon Technical Group, and Trican Well Service.

Source: Company Reports, Raymond James Ltd.

Regardless of STEP’s Revenue-per-Unit-Horsepower, EBITDA per unit of Fleet Horsepower has Consistently Been Best in Class

STEP has generated Canada’s highest EBITDA contribution per unit horsepower in every quarter since beginning operations, with the exception of 1Q17 when it was edged out by Canyon Technical Group. Moreover, STEP has been widening the gap as its revenue per horsepower caught-up to its competitor group. This is an impressive result considering STEP’s historically lower revenue yields and its ‘newcomer’ status on the fracturing scene.

In 1Q18, STEP generated \$84 EBITDA per unit fleet horsepower compared to \$69 average for the competitor group (both figures are Raymond James Ltd. estimates). In 4Q17, STEP’s EBITDA was \$66 per unit fleet horsepower while its competitors averaged \$40. We show STEP’s EBITDA per horsepower and EBITDA margin compared to its competitive group range in Exhibit 11.

Exhibit 11: EBITDA per Unit Horsepower and EBITDA Margin (Canada) – STEP vs. Competitor Group

Note: Competitor group is comprised of Calfrac Well Services, Canyon Technical Group, and Trican Well Service.

Source: Company Reports, Raymond James Ltd.

It would be impossible for STEP to produce highly competitive EBITDA yields without an abiding focus on efficiency and cost controls. That said, we identify two *additional* factors that likely contribute to STEP's strong EBITDA margins:

- ◆ First, it's our view that STEP's superior margins are partly a function of its clean slate as an operator. STEP functionally purchased all of its fracturing equipment via bankruptcy proceedings. Therefore, STEP had no legacy cost structure or well-grooved procedures to re-evaluate and rationalize as it began operations, conferring it with a sizeable cost advantage.
- ◆ Second, STEP doesn't offer many lower-margin ancillary services to pull down its reported margins. This favourable service line mix contributes – to some degree – to its best-in-industry margins.

STEP's EBITDA Yield Advantage Won't Last Forever, But It Could Easily Last Through 2019

STEP's product mix isn't likely to change materially – at least not relative to the competitive group – so we don't envision the service mix influencing relative margins over our forecast horizon. That said, our view is that it's unlikely any cost structure advantage could survive for long through a very busy oilpatch. High levels of demand are the breeding ground for mercenary employees seeking the best compensation schemes amongst STEP and its competitors with little regard for fealty. However, we are not forecasting a 'very busy' oilpatch in either 2018 or 2019. If the oilpatch were to heat up unexpectedly, we could see some closing of the margin gap between STEP and its competitors, but a very busy oilpatch would be a welcome scenario for all fracturing company shareholders, STEP's included.

It's difficult for a low cost structure to survive a very busy oilpatch – however, we aren't forecasting a 'very busy' oilpatch.

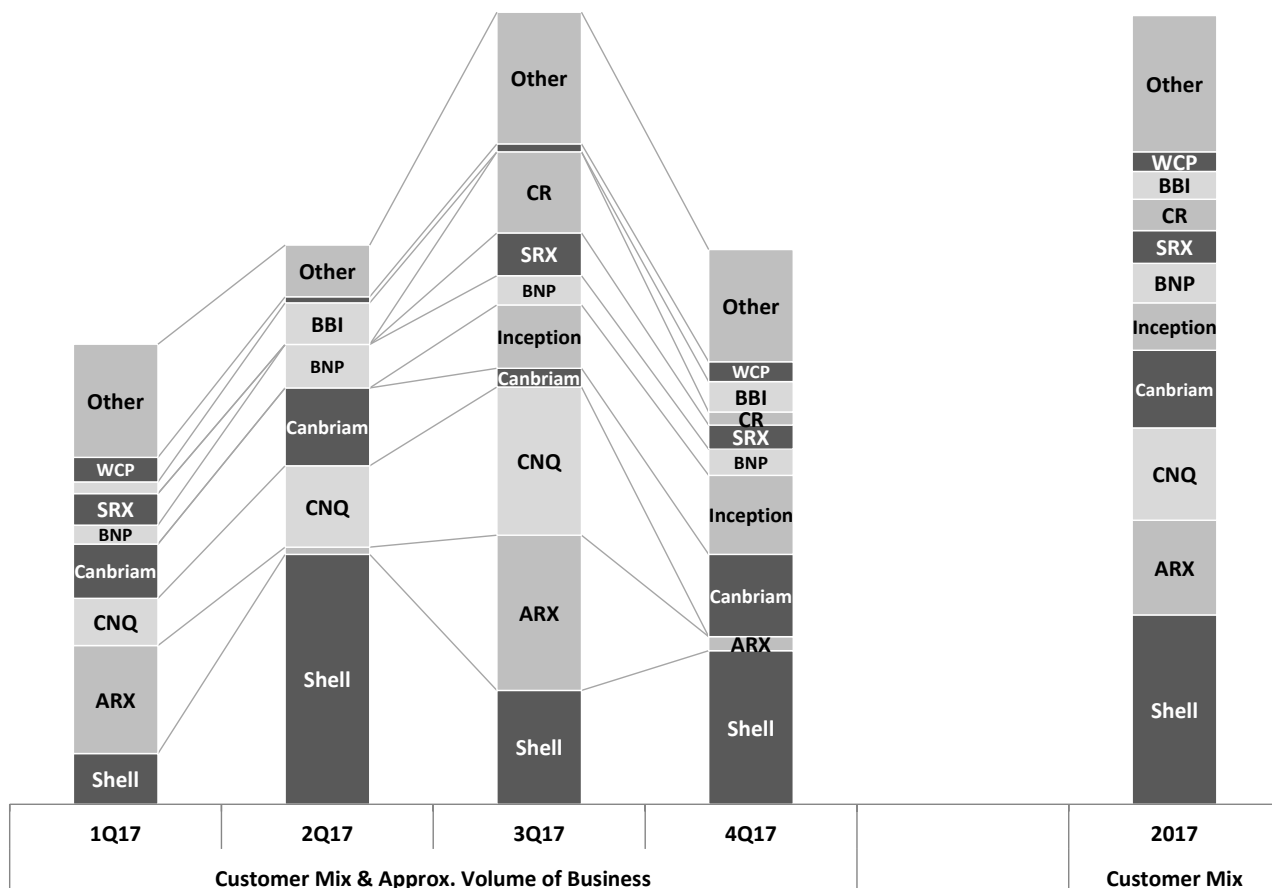
Some Specifics on STEP's Customer Concentration and Penetration

STEP provided fracturing services for over 35 different producers in 2017. Shell Canada, ARC Resources, Canadian Natural Resources, and Canbriam Energy jointly represented approximately 58% of STEP's 2017 fracturing business.

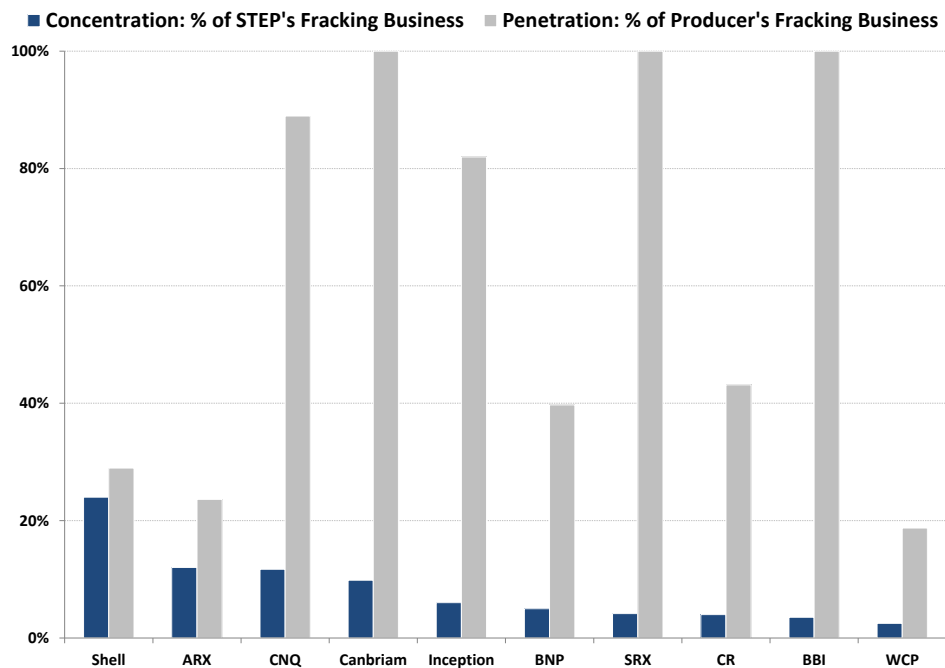
- ◆ **Shell Canada.** Shell was STEP's largest single customer through 2017, accounting for approximately 24% of its fracturing volumes. However, STEP is Shell's 2nd fracturing company behind a US-based multinational. The two split Shell's fracturing work about 70% / 30%. As such, STEP has effectively functioned as a swing supplier for Shell behind the multinational.

- ♦ **ARC Resources.** ARC tied with Canadian Natural Resources in 2017 as STEP’s 2nd largest customer with about 12% of STEP’s fracturing volumes. That said, ARC has been an inconsistent customer for STEP quarter-to-quarter. STEP performed about 25% of ARC’s 2017 fracturing volume behind a large multinational fracking company. STEP and the multinational were ARC’s only two providers until 4Q17 when ARC contracted with a 3rd supplier. STEP’s market share with ARC fell to 5% in 4Q17 and so far, it appears as though STEP has not regained this lost market share.
- ♦ **Canadian Natural Resources.** CNRL tied with ARC as STEP’s 2nd largest customer in 2017 with about 12% of STEP’s total fracturing volume. A key difference between ARC and CNRL, however, was in customer penetration. CNRL was 12% of STEP’s 2017 fracturing volumes, but STEP has been CNRL’s dominant provider performing approx. 90% of CNRL’s 2017 fracturing work. CNRL suspended fracturing altogether in 4Q17 and resumed in 1Q18 with a different provider.
- ♦ **Canbriam Energy.** Canbriam has been STEP’s 4th largest customer at 10% of STEP’s business while STEP performed all (100%) of Canbriam’s 2017 fracturing work. Importantly, Canbriam has been a reasonably consistent customer for STEP quarter-to-quarter.

Exhibit 12: STEP’s 2017 Customer Mix



Source: GeoLOGIC Systems Ltd., Raymond James Ltd.

Exhibit 13: STEP's 2017 Custer Concentration and Penetration

Source: GeoLOGIC Systems Ltd., Raymond James Ltd.

A Word on Resiliency and Adaptability

When two of STEP's largest customers dropped-away in 4Q17, STEP increased its business with several other customers and maintained its superior margin spread above its competitive group.

Referring back to Exhibit 12, ARC and CNRL jointly represented roughly 30% of STEP's total fracturing business over the first three quarters of 2017 and 38% in 3Q17. However, this dropped to roughly 2% in 4Q17 as CNRL essentially shut down fracturing and ARC shifted the vast majority of its work to a multinational competitor.

As a consequence, STEP's fracturing volumes dropped materially in 4Q17 – by roughly 30% compared to 3Q17. This wasn't entirely unique to STEP – overall industry demand sequentially dropped by 20% in 4Q17. But clearly the loss of business from CNRL and ARC had a differentially negative impact on STEP's top line.

STEP's response was to increase its business among several of its other important customers, including its top customer: Shell Canada. Moreover, it's apparent from Exhibit 11 that STEP was able to make these transitions while at the same time preserving its margin spread over the competitive group. That is, even though STEP's revenue declined by more than the industry average sequentially, it maintained its EBITDA margin spread above the industry average.

STEP's Adaptability Could Come-In Handy Again in 2018

Producers representing 40% of STEP's 2017 business have formal plans to reduce their drilling and completion spending in 2018. These include ARC (28% less), Canadian Natural Resources (4% less – RJL est.), Bonavista Energy (50% less), and Crew (58% less).

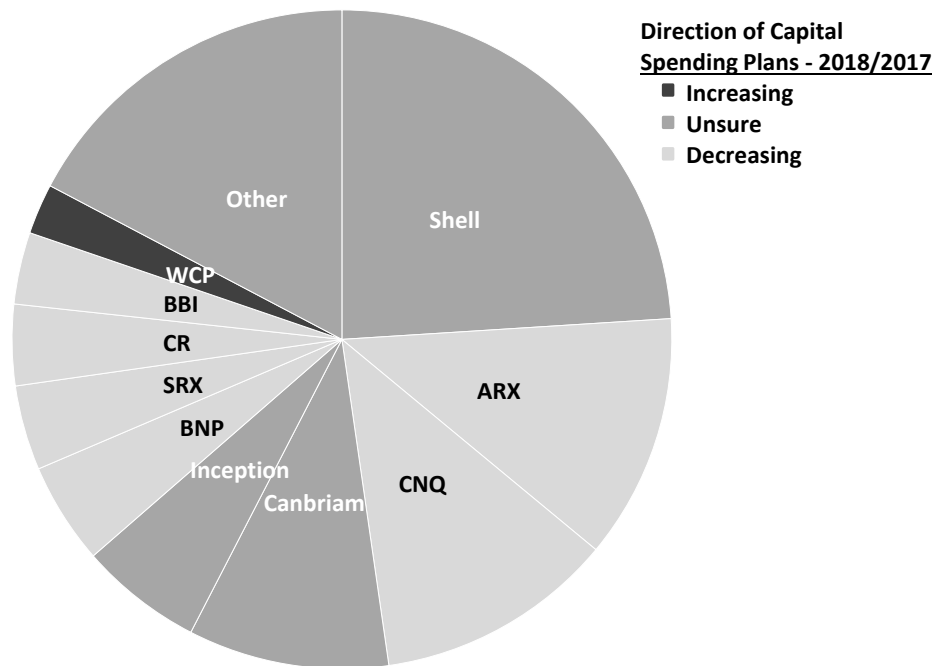
At the same time Whitecap's planned budget is increasing by 19% in 2018, though Whitecap was only about 2% of STEP's fracturing business in 2017, so the impact of Whitecap's spending is limited.

Shell screens as STEP’s largest single customer through 2017. Unfortunately, Shell doesn’t disclose spending plans on a regional basis, but it has outlined a goal for meaningful production growth from Canada, which suggests at least flat and perhaps growing spending plans in 2018. And at the other end of the spectrum, STEP derives substantial revenue from smaller producers, which we feel have much more malleable capital spending habits than their larger counterparts.

On balance, the tally of budget planning as we know it today suggests STEP’s customers plan to curtail spending by upwards to 10% in 2018. However, factoring in (a) fracturing’s increased share of spending, (b) that most budgets were formalized in a lower crude price environment and are more likely to be revised upward than down, and (c) STEP’s demonstrated adaptability in shifting customer concentration, we believe STEP’s top line fracturing revenue will increase 26% in 2018.

Between STEP’s adaptability to changing conditions, higher-year-over-year pricing, and further increases in fracturing intensity, we expect 26% revenue growth for STEP’s Canadian fracturing business.

Exhibit 14: STEP’s 2017 Customer Mix and 2018 Spending Plans



Shell does not disclose country level spending but we suspect increased spending in Canada given the progression in liquids pricing versus 2017.

Source: GeoLOGIC Systems Ltd., Company Reports, Raymond James Ltd.

‘Tailwinds’ on the Macro Front and Attractive Free Cash Flow Yields at Today’s Demand Levels and Share Prices

- ◆ So far through 2018, producers are generally underspending relative to their aggregate cash flows. We expect this will change as producers adjust spending in light of higher liquids pricing.
- ◆ Despite the structural trend of rising horsepower intensity, reduced E&P spending negatively impacted the demand for Canadian horsepower in 2017. We’re forecasting that this will change in 2018. We expect 13% horsepower demand growth in 2018 as higher cash flows in the second half of the year drive fracturing demand.
- ◆ We expect fracturing revenues will be 14% higher in 2018, largely driven by 11% higher pricing in 2018 vis-à-vis the 2017 average. For context however, our revenue and revenue per unit horsepower forecasts are still well-below historical peaks.
- ◆ Even so, current demand for fracturing services is sufficient to generate attractive ‘Free EBITDA’ for fracturing companies, with approximately the same EBITDA per horsepower and ‘Free EBITDA’ per unit horsepower as the late-2013/early-2014 time frame.

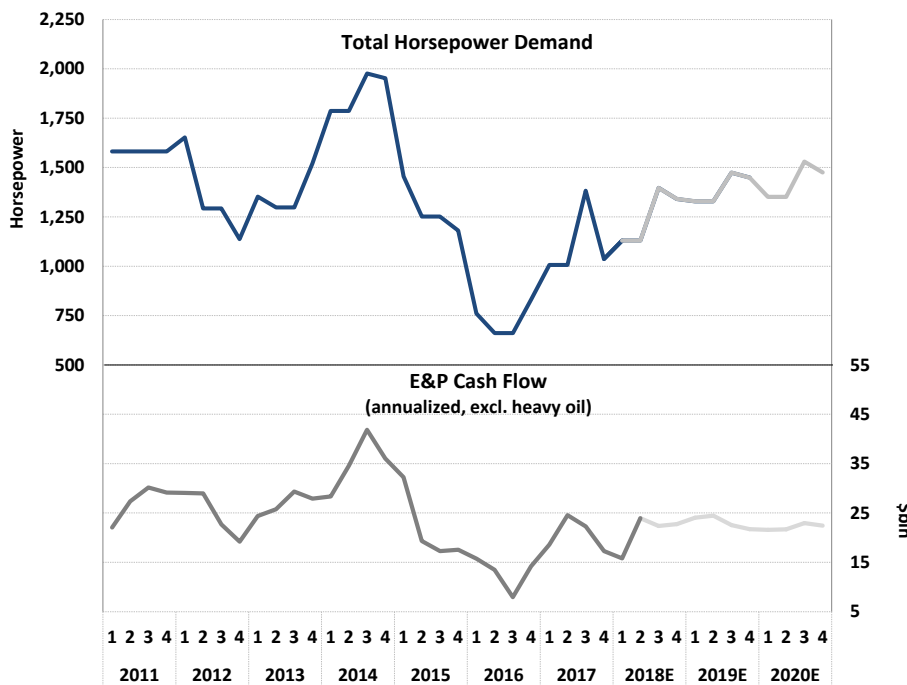
Definition: ‘Free EBITDA’:
EBITDA less both incurred and accrued maintenance costs.

- ◆ While current free cash flow is certainly nowhere near the heights seen in 2010 and 2011, it is nonetheless sufficient to imply a 13% free cash flow yield for STEP equity holders at today's \$10.36 share price.
- ◆ We foresee little risk in Canadian fracturing companies launching into new-builds over our forecast horizon. 'Free EBITDA' generation per unit horsepower is positive, but not sufficiently positive to prompt new builds. This means cash flow with either build on the balance sheet, get allocated to geographic expansion (such as STEP's Tucker acquisition – see relevant section in this report), or it will find its way back into shareholders' hands through share buy backs and/or dividends.

Demand for Fracturing Horsepower up 13% in 2018 and 12% in 2019

The demand for fracturing horsepower is moving structurally higher amid increased overall fracturing intensity across Western Canada. We expect average demand will be 13% higher year-over-year in 2018 but that it won't surpass the anomalous spike in 3Q17 that was driven by the *non-structural* drawdown of the drilled-uncompleted well inventory.

Exhibit 15: Total Canadian Horsepower Demand and E&P Cash Flow



We forecast rising horsepower demand in Canada despite flat E&P cash flows

(See Exhibit 33 for our comprehensive macro OFS forecasts.)

Source: CAPP, Bloomberg, National Energy Board, Company Reports, Raymond James Ltd.

Gap Between Producer Cash Flow and Spending is Unusually Wide – Expect Spending to Catch-Up

Producers have recently been underspending relative to their cash flow – or at least, they are allocating a smaller portion of their aggregate cash flow to capital spending than usual. It might be tempting to chalk this up to a renewed sense of E&P capital discipline, but we believe it relates more to frustration over pipeline maintenance schedules, takeaway capacity, and Canada's uncertain policies on pipeline construction/expansion.

Pipeline maintenance schedules should be less of an interruption for summer gas deliverability beyond 2018. This in turn should provide producers with more comfort in allocating cash flow to

drilling and completion work. However, for the balance of 2018, our estimates embody US\$1.80/mcf AECO-Nymex differentials in the summer months netting a C\$1.33 AECO price for the year. Netbacks for unhedged dry gas production are likely negative at this price. Offsetting the weak gas market, liquids pricing in general and condensate pricing in particular are supporting producer cash flows and will be the likely motivator for 2H18 horsepower demand.

Fracturing Intensity – Still Growing, But the Rate of Growth Now Slowing

Taken together, the Montney and Duvernay plays represent 75% of all Canadian fracturing demand. We've watched fracturing intensity increase within these two plays since their earliest days of development – 2009 in the case of the Montney and 2012 in the Duvernay.

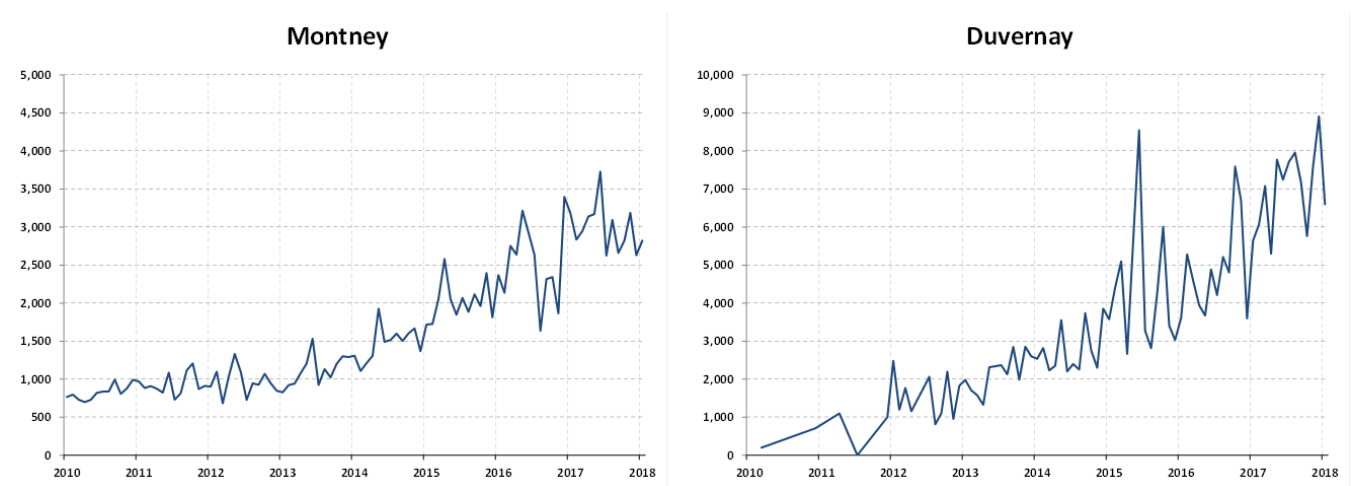
It should be clear from Exhibit 16 that intensity is growing sharply in the Duvernay, where proppant placement per well is up 14% year over year and is showing no signs of slowing.

However, fracturing intensity in the Montney began flattening early in 2017 and at this point isn't showing any signs of resuming its former growth trajectory. This flattening is influenced in large part by the play's two largest producers. These two producers have been, and still are employing the most fracturing-intensive completion designs within the play, even though their sand placement per meter has been moving lower. At the same time, most other producers within the play are increasing proppant loading in their well designs, albeit from a lower base. Our expectation is that the two largest producers will stabilize their fracturing designs while the smaller producers continue to converge upon the leaders. This implies some resumption of growing intensity in the Montney, though that rate of growth will be noticeably slower than in prior years.

Just over 50% of all Western Canada fracturing demand comes from the Montney and 20% comes from the Duvernay. So on a weighted basis, even if Montney growth were zero, the Duvernay would push overall growth among these two plays to 5% - sufficient to influence structural growth in horsepower demand.

'Fracturing Intensity' has no universally agreed-upon definition, but can be thought of generally as pumping volumes and effort per well, per stage, per meter of measured depth, or per unit of drilling rig time.

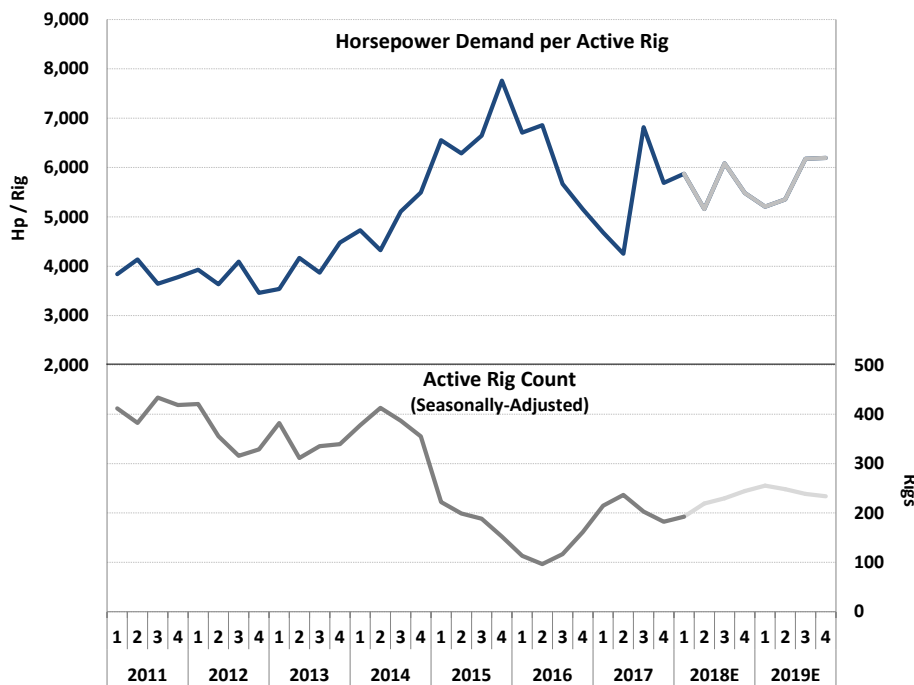
Exhibit 16: Average Proppant Placed per Well (tonnes)



Source: GeoLOGIC Systems Ltd., Raymond James Ltd.

Given the historical increases in fracturing intensity within these two key plays, it's unsurprising that fracturing demand has grown structurally relative to drilling rig demand (Exhibit 17). Our horsepower demand forecasts imply and are implied by a moderated continuation of this trend.

Exhibit 17: Horsepower Intensity – Horsepower Demand per Active Rig



Source: CAPP, Bloomberg, National Energy Board, Company Reports, Raymond James Ltd.

Further Pricing Increases Won’t Be Required to Meet Demand – Forecasting a 260 bp Increase Over the Remainder of 2018 and Another 260 bp Increase through 2019

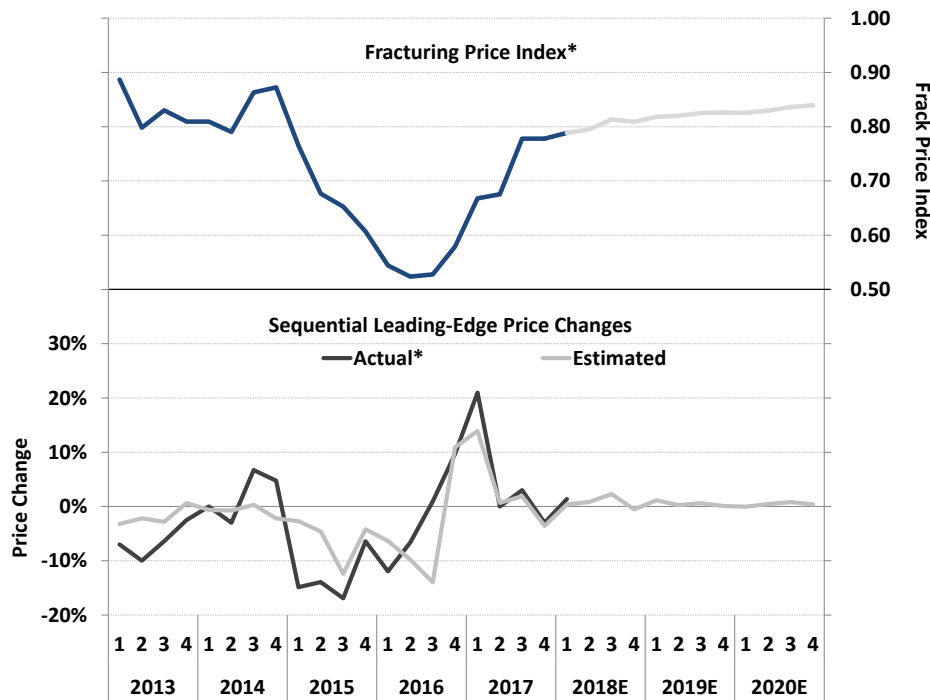
Fracturing pricing is highly elastic to equipment and personnel scarcity. When both equipment and labour are over-supplied pricing can drop until it approaches marginal field costs (which translated to negative reported EBITDA margins). This was the case in 2015 and 2016 when the cumulative 60% drop in horsepower demand prompted a corresponding 45% price decline. In 2015 and 2016 the remaining field margin was insufficient for frackers to cover their fixed costs – primarily salaries. They responded by reducing headcounts and parking 48% of their fracturing equipment in an effort to ‘right-size’ their operating scales to match current demand.

Then the demand for horsepower reversed, growing 80% in 2017 and strained frackers’ abilities to rehire and train field personnel. Many field workers had since moved on in their careers within Alberta and many to other parts of Canada. The shortage of available trained field staff translated into a scarcity of available crewed equipment. So even though 35% of the industry’s fracturing equipment was still parked at mid-year 2017, pricing had risen 48% as producers competed for fracturing crews.

Even though we’re forecasting 13% fracturing demand growth in 2018 over 2017, this growth is largely a function of a rising demand through mid-2017. In other words, most of the year-over-year growth for 2018 has already taken place and so has its impact on pricing.

The 12% demand growth we’re forecasting for 2018 begins late in 2018 (after the wider summer gas differentials have passed). In relative terms, 12% is a small change; since 2008 demand typically rises or falls between 30% and 35% in any given year. Our modeling suggests the relatively modest 13% demand growth in 2019 should prompt a correspondingly modest 260-basis point price increase.

Exhibit 18: Canadian Fracturing Price Index and Estimates (index; 1Q11 = 1)



Source: CAPP, Bloomberg, National Energy Board, Company Reports, Raymond James Ltd.

Equity Investors Earned an Annualized 36% ‘Free EBITDA’ Yield on STEP’s Canadian Horsepower in 1Q18 — We’re Also Expecting a 36% Yield Over Calendar 2018

We estimate STEP generated \$84 EBITDA per horsepower from its Canadian fracturing assets in 1Q18. This level of 1Q EBITDA corresponds with approximately \$245 EBITDA per horsepower on an annualized basis.

We further estimate annual maintenance capital requirements at \$120 per unit of *active or fully-utilized horsepower* (annualized \$65 per *fleet horsepower* in 1Q18), which covers both incurred and accrued costs – annual replacement of fluid ends and an eight-year life expectancy on the equipment as a whole. This level of maintenance requirement takes an approximate 35% bite out of 1Q18E annualized EBITDA per horsepower, leaving \$180 annualized ‘Free EBITDA’ per horsepower over both 2018 and 1Q18 annualized.

This Rate of ‘Free EBITDA’ Generation is Insufficient to Motivate New Equipment Additions, but is Sufficiently High to Provide an Attractive Yield on Current Market Equity Values

The cost of new equipment and related infrastructure is approximately \$1,400 per unit horsepower, so the ‘Free EBITDA’ yield on new equipment is currently 13% – or a 7.8-year payback period – too long to justify new investment. However, the market is pricing Canadian horsepower at approximately \$700 per horsepower on average, and \$496 per unit horsepower in STEP’s case. This implies a much more generous 36% ‘Free EBITDA’ yield for current equity holders.

And since organic reinvestment economics aren’t yet attractive, this ‘Free EBITDA’ is more likely to be allocated to some combination of debt reduction, shareholder distributions, strategic/geographic expansion, or cash balances. Any one of these has much more potential to enhance shareholder value than a ‘new-build arms race’ between the fracturing companies. On the contrary, Canada is leaking horsepower to the US, which when combined with natural equipment attrition, means an overall shrinking fleet.

Definition: ‘Free EBITDA’:
EBITDA less both incurred and accrued maintenance costs.

Canadian fracturing unlikely to enter into a ‘new-build arms race’ – on the contrary, it’s shrinking today.

Exhibit 19: EBITDA and 'Free EBITDA' Per Unit Horsepower, Annualized

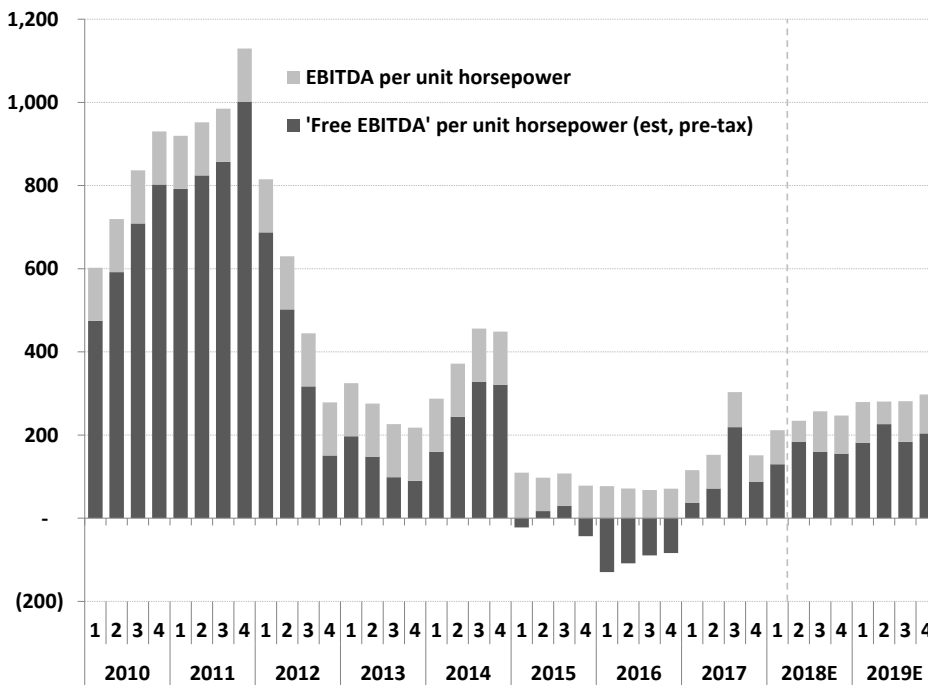


Exhibit 19 shows the progression of EBITDA and 'Free EBITDA' per unit horsepower over time. So far, with the exception of 3Q17, Canadian fracturing has only recovered to 2013-level economics.

Source: STEP Energy Services, Calfrac Well Services, Canyon Technical Group, Trican Well Service, Raymond James Ltd.

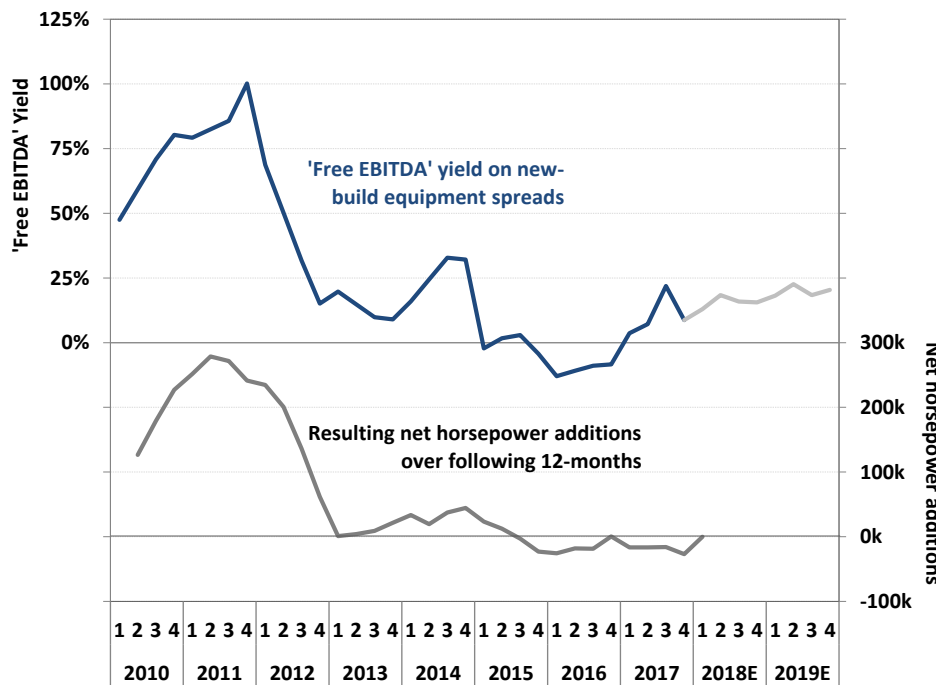
Comparing and Contrasting Today to 2013

Exhibit 19 shows that the industry is generating EBITDA and 'Free EBITDA' at a rate similar to 2013. There are, however, two key differences worth highlighting.

1. In 2013, fracturing fleets were growing; today they are shrinking. Canadian fracturing companies added about 125,000 horsepower to their fleets in 2013. This year, we are expecting the fleet to shrink marginally by 30,000 horsepower (see Exhibit 20).
2. In 2013, the equity-market-implied value of Canadian fracturing equipment was approximately \$1,630 per unit horsepower; today it is approximately \$700.

Despite similar profitability (\$/hp), the equity market in 2013 valued fracturing horsepower 2.3 times higher than today's equity market.

Exhibit 20: 'Free EBITDA' Yield Drives Equipment Orders



Canadian pressure pumpers typically begin adding capacity when the 'Free EBITDA' yield on that new capacity surpasses 20%.

Given our forecasts for horsepower economics, Canadian pumpers are unlikely to add to their fleets over our forecast horizon.

Notes: Based on RJL estimates of annualized industry free cash flow using Calfrac Well Services, Canyon Technical Group, STEP Energy Services, and Trican Well Service reported results. Based on a \$1,400 per-horsepower new-build price.

Source: CAPP, Bloomberg, National Energy Board, Company Reports, Raymond James Ltd.

The Tucker Acquisition

STEP closed its acquisition of Oklahoma-based Tucker Energy Services on April 2, 2018. Total consideration was US\$275 mln (\$348 mln). Tucker's equipment primarily includes 3 fracturing spreads with 192,500 horsepower, 10 open hole and 5 cased hole wireline units, and 2 coiled tubing rigs, plus an additional fracturing spread with 50,000 horsepower, which was delivered post-closing, late in May-2018.

Fracturing was 90% of Tucker's revenue over the first three quarters of 2017. The remaining 10% came from a combination of wireline and coiled tubing services.

Tucker: Acquisition Economics

- ◆ The US\$275 mln purchase price includes the final US\$42 mln instalment for a 4th spread of fracturing equipment (comprised of 50,000 horsepower), however; we also expect the spread will require an additional US\$6 mln in associated working capital, which was funded by STEP after the acquisition closed, **bringing the total effective acquisition cost to US\$281 mln.**
- ◆ We estimate the purchase price at approximately **3.9x 2017E EBITDA** (which excludes the cost of the 4th fracturing spread and associated working capital).
- ◆ We estimate STEP paid **3.9x 2018E EBITDA** based on a weighted-average acquisition price that excludes the cost of the 4th fracturing spread in 1Q18 and includes it for 2Q through 4Q.
- ◆ We estimate **3.6x 2018 'annualized' or 'run-rate' EBITDA** including the 4th fracturing spread.
- ◆ We estimate the acquisition price was approximately **US\$1,210 per unit horsepower** inclusive of the 4th spread of equipment. This is lower than where the market is implicitly

The acquisition metrics for Tucker imply a highly 'accretive' acquisition for STEP shareholders

pricing horsepower for every US-based public fracturing company in the comparative group, and is 21% lower than the median for the same group.

Exhibit 21: Estimates and Valuation of Tucker

Enterprise Value per Unit Horsepower of Tucker Fracturing Fleet		At Time of Acquisition		
A	Acquisition Price before 4th Fracturing Spread (\$US)		233	
B	Cost of 4th Fracturing Spread (\$US mln)	+	42	
C	Headline Acquisition Price (\$US)	=	275	A + B
D	Working Capital Investment Required for 4th Fracturing Spread (est, \$US mln)	+	6	
E	Total Acquisition Cost (\$US)	=	281	C + D
Tucker Corporate EBITDA (\$US mln)				
	9-Months Ended Sep-2017		42	
F	2017 Calendar Year (est)		59	
G	1Q18 Annualized (with 3 spreads, est)		60	
H	2018 Calendar Year (est)		69	
I	2018E Run Rate with 4 Spreads (est)		78	
Acquisition EBITDA Multiples				
J	2017 Calendar Year	÷	3.9x	A ÷ F
K	1Q18 Annualized (with 3 spreads)	÷	3.9x	A ÷ G
L	2018 Calendar Year	÷	3.9x	[(A + 3 x E) ÷ 4] ÷ H
M	2018E Run Rate with 4 Spreads	÷	3.6x	E ÷ I
N	Acquisition Price Allocated to Fracturing (\$US mln, est)		258	E - 10% x A
Working Capital Allocated to Fracturing as at...(\$US mln)				
	3Q17 estimated		18	
	1Q18 Estimated		15	
O	2018E Run Rate		25	
P	Price Allocated to Fracturing Equipment + Related Infrastructure (\$US mln)		233	N - O
Q	Horsepower in Tucker Fleet (000)		193	
R	Price/HP for Tucker Fracturing Fleet + Related Infrastructure (\$US/hp)		1,209	P ÷ Q

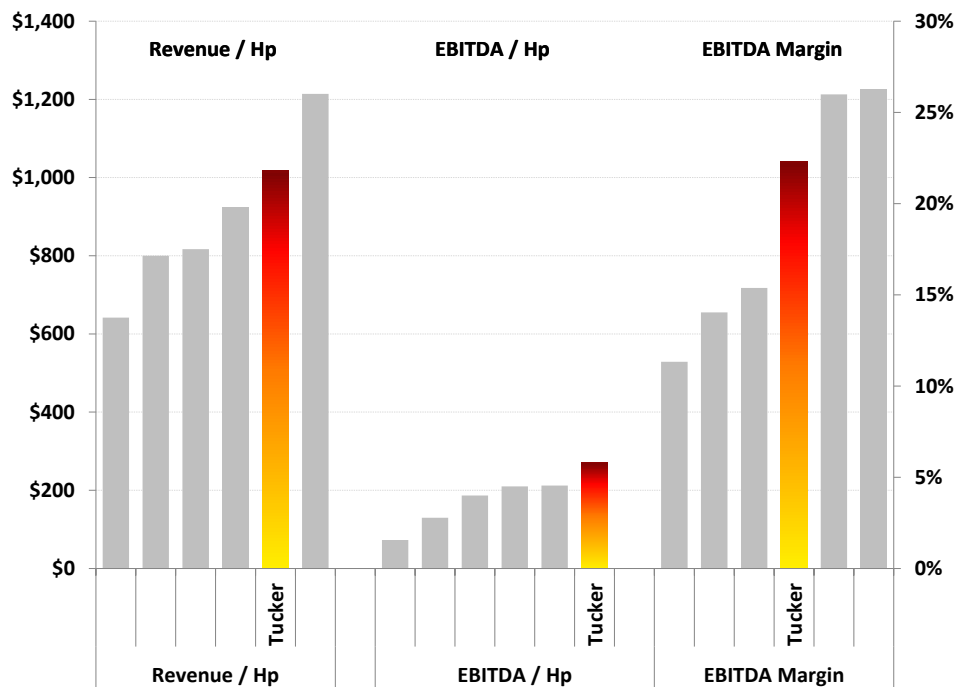
Source: STEP Energy Services Ltd., Raymond James Ltd.

Tucker: Unit Economics and Financial Outlook

We anticipate Tucker will generate US\$54 mln EBITDA for STEP over the 9 months in 2018 that it will have owned the assets. Giving effect to the timing of the 4th fracturing spread, we extrapolate this to US\$78 mln on an annualized or 'run-rate' basis.

Tucker generated US\$134 mln revenue during the first 9-months of 2017, of which 90% was from fracturing services. Assuming we can allocate EBITDA on a similar basis, Tucker's fracturing business generated US\$38 mln EBITDA over the 9-months with a weighted average of 110,000 to 115,000 active horsepower (2 spreads working in 1Q, 2 in 2Q, and 3 in 3Q). From this, we derive the following approximations:

- ◆ Revenue per active unit horsepower was US\$1,020 over the 9-months ended Sep-30-2017. This is in the upper half of a comparative group of US operators that includes Keane, RPC, Mammoth, Propetro, and Calfrac (Exhibit 22).
- ◆ Tucker generated US\$270 EBITDA per active unit horsepower over the same period. This is the highest EBITDA yield per unit horsepower in the US comparative group and is 28% above the closest comp.
- ◆ The EBITDA margin was 22% over the same period.

Exhibit 22: Comparative Economic Performance – US Fracturing 9-Months to Sep-2017

Note: Comparative group includes Calfrac Well Service, Keane, Mammoth, Propetro, and RPC

Source: Company Reports, Raymond James Ltd.

A Reasonable Estimate of Tucker's Quarterly Fracturing Revenues and Margins through 2017 Implies Modestly Higher Run-Rate Unit Economics for the Tucker Assets in 2018.

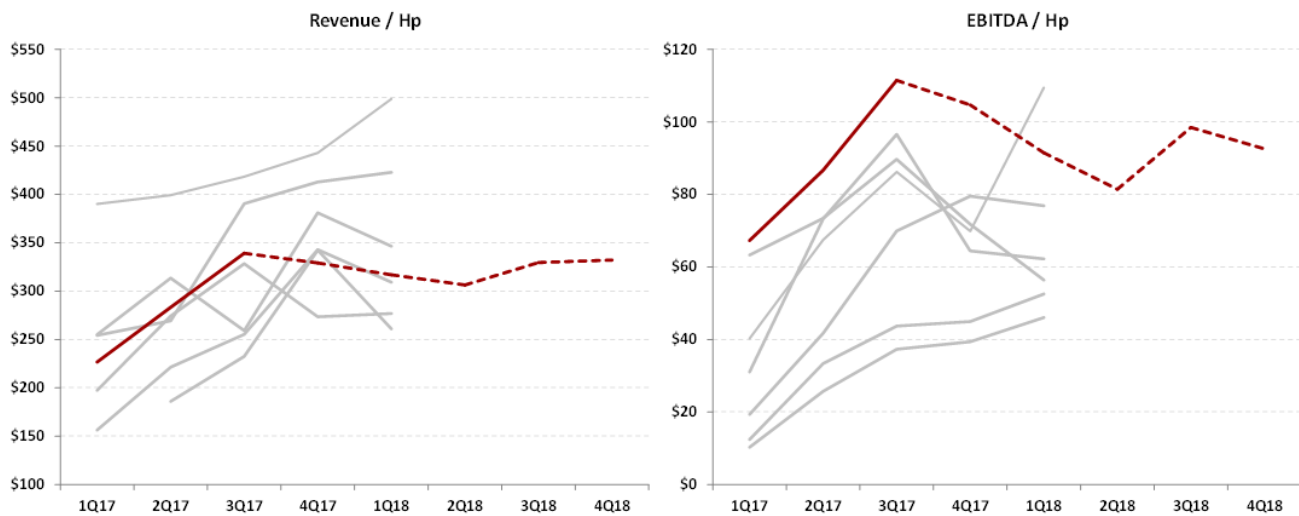
- ◆ In short, we estimate Tucker's fracturing equipment generated approx. US\$ 420 EBITDA per unit active horsepower through calendar 2017 and will generate US\$ 360 in calendar 2018.
- ◆ These unit economics surpass the economic hurdles ordinarily required to justify new-build economics. No surprise then that Tucker had ordered the 4th fracturing spread.

STEP noted in its disclosures that Tucker generated approximately \$6 mln EBITDA per active fracturing spread per quarter over the 9-months ended Sep-30. Since Tucker is now running 4 active spreads, annualized fracturing EBITDA should equate to \$96 mln if pricing, utilization, and margins were unchanged from the 9-month average.

However, we know from the comparative group that revenue per horsepower, EBITDA per horsepower and margins were all on sharply improving trends through 2017. In all cases within the US comparative group, 3Q17 economics were considerably higher than 1Q. For instance, 3Q EBITDA per unit horsepower was 144% above 1Q for the comparative group on a weighted-average basis.

We show this in Exhibit 23 where we postulate reasonable revenue per *fleet* horsepower and EBITDA per *fleet* horsepower progression for Tucker over the first 3 quarters of 2017 based on the actual progressions observed in the comparative group. We use this data, along with the 4Q and 1Q actuals and 2Q outlooks to bring our estimates for Tucker up to date and use this as a starting point to forecast rev/hp and EBITDA/hp through the forward quarters.

Given Tucker's high EBITDA and 'Free EBITDA' yields, it's unsurprising Tucker ordered a 4th newly-constructed equipment spread.

Exhibit 23: Revenue and EBITDA per *Fleet* Horsepower – STEP and US Comp Group (\$USD)

Note: The solid portion of the darkened line represents our estimates of Tucker's revenue and EBITDA per unit of fleet horsepower over the first three quarters of 2017. The dashed portion of the darkened line represents our estimates of these same measures for Tucker over the two quarters leading-up to the acquisition and over the balance of 2018.

Source: Company Reports, Raymond James Ltd.

The Tucker Acquisition: Strategic Value for STEP

To be fair, we don't think STEP has much to answer for in terms of strategic rationale given Tucker's best-in-class unit economics and the attractive purchase price metrics. That said, Tucker's platform does provide STEP with a much-needed avenue for growth.

Canada was Going to be a 'No-Growth' Market for the Foreseeable Future

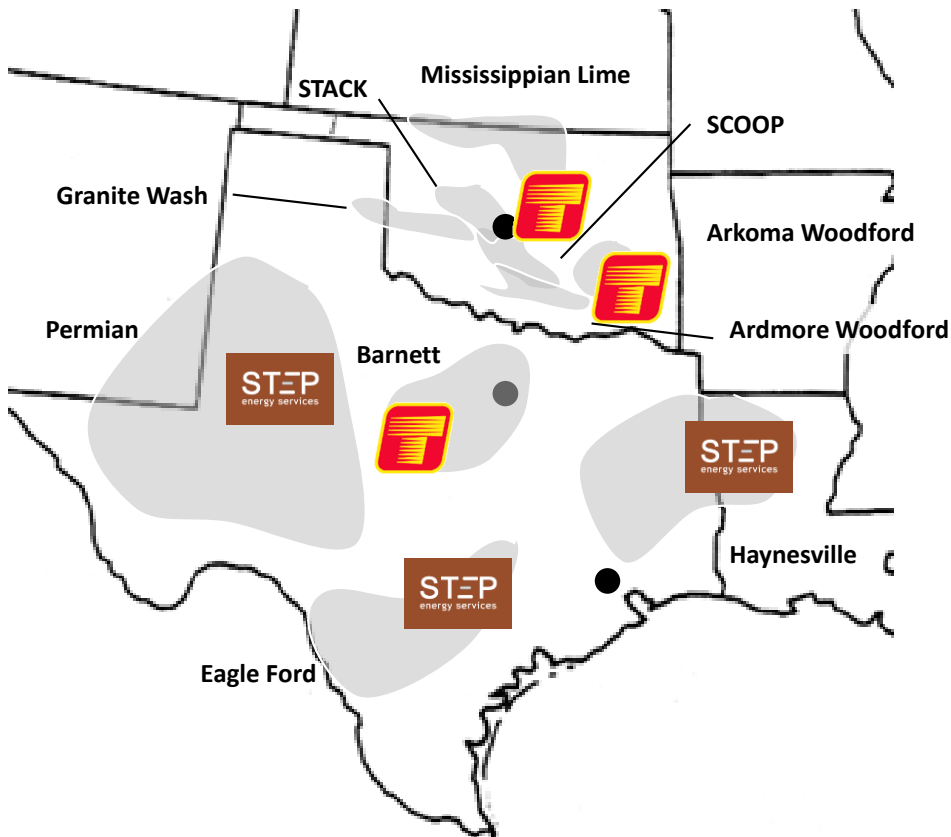
Prior to the acquisition, STEP carried essentially no debt, which provided it with substantial capacity with which to finance growth. However, approximately 85% - 90% of its total business, and 100% of its fracturing business was in Canada, which we don't envision requiring equipment additions – at least until later in 2019.

The Strategic Value in STEP's Acquisition of Tucker Doesn't Stem from Geography

Tucker's fracturing, wireline, and coiled tubing business are heavily focused on the key Oklahoma plays (SCOOP, STACK, and the Woodfords). STEP's existing coiled tubing business has traditionally been focused in Texas, and mostly in southern Texas. It's quite likely that STEP's and Tucker's equipment has never shared the same highways let alone customer base.

We Expect STEP will Ultimately Seek to Leverage its Texas-Based Coiled Tubing Business to Pull Fracturing Services into the Suite of Services. For the time being, however, Tucker has earned considerable loyalty from its Oklahoma customer base. We expect STEP will require attractive contract terms before entering the highly competitive Texas fracturing market.

Exhibit 24: Geographic Distribution of STEP and Tucker



Source: STEP Energy Services Ltd., Raymond James Ltd.

Valuation & Recommendation

By every quantifiable measure, STEP screens as highly-competitive, cost-efficient, and attractively-priced energy investment. Given the rare combination of the foregoing, we foresee above average potential for superior returns within the oilfield services complex.

STEP's competitive advantage (leading with coiled tubing) and its cost advantage (starting with an already low cost structure) are both determinants for financial performance: margins, EBITDA, and free cash generation. But market factors such as future growth prospects, capital allocation discipline, trading liquidity, and perceived equity overhangs will be the key determinants for how the market *values* that financial performance.

- ◆ STEP's operating efficiency and low cost structure contribute to its top tier unit economics ranking in Canada. Efficiency metrics and unit economics from its US-based Tucker acquisition are similarly top tier among the US comparative group. As such, we rank STEP's management and processes very high in terms of their abilities to generate consistently high free cash flow yields from its equipment.
- ◆ STEP's Enterprise Value per Unit Horsepower is 35% to 40% lower than our comparative group analyses would suggest.
- ◆ STEP's EV/EBITDA multiple is lower than its Canadian-listed competitive group.
- ◆ STEP's EV/EBITDA multiples are lower than the historical range for Canadian pressure pumpers.

- ◆ STEP's high EBITDA per horsepower yield implies higher 'Free EBITDA' as a portion of reported EBITDA. This should mean STEP's EBITDA is 'worth' more on average (approximately 18% more by our arithmetic).
- ◆ STEP's major shareholder, ARC Financial, owns 61% of the stock through two private equity funds (40.2 mln shares). ARC has sold down its position from 46.2 mln shares prior to the initial public offering via a secondary offering in Nov-2017. Notwithstanding, we estimate the market is effectively applying at least a 20% to 25% liquidity discount on STEP's shares – our targeting is not predicated on this discount going away.
- ◆ STEP has a demonstrable preference for maintaining a low-debt capital structure. We estimate total debt is approximately 1.2x trailing EBITDA (*pro forma* Tucker).

Enterprise Value per Unit Horsepower Well-Below New-Build Cost

The market is valuing STEP's North American, and especially its Canadian horsepower, below applicable replacement cost, which we peg at approximately \$1,400 per horsepower, fully-loaded (\$CAD). This includes not just the equipment but also related infrastructure, such as apportioned sand storage, rail spurs, repair and maintenance facilities, ancillary equipment and land.

We showed in Exhibit 20 that Canadian fracturing companies have tended to add capacity when 'Free EBITDA' yields on that new equipment reached around 20%. From there, the rate of capacity addition is akin to a volume dial – higher 'Free EBITDA' yields drives larger capacity additions.

Today, a requisite 20% 'Free EBITDA' yield means we could expect pumpers to *begin* adding capacity when 'Free EBITDA' reaches \$280 per unit horsepower, or \$400 of 'raw EBITDA' per unit horsepower. We expect Canadian pumpers will average \$156 'Free EBITDA' per horsepower in 2018, or \$237 raw EBITDA.

But today's investors don't have to pay \$1,400 per horsepower for fracturing capacity. The market's implied value for STEP's North American fleet is approximately \$950 (US\$740) – about 35% below replacement cost. Parsing-out the US fleet, the implied value for Canadian horsepower is lower at \$496 per unit horsepower, (US\$391) – just over one third of replacement cost.

Are the Implied Values on STEP's Assets Attractive?

We estimate STEP will generate \$340 of EBITDA - \$240 'Free EBITDA' per unit horsepower across its North American platform in 2018 (annualized to give full-year impact for the Tucker acquisition). As the market's implied price for STEP's horsepower is \$950, this implies a 25% 'Free EBITDA' yield for investors.

Parsing-out the US fracturing business, we estimate STEP will generate \$271 EBITDA and \$180 'Free EBITDA' per unit horsepower from its Canadian fracturing assets in 2018. This implies a 36% 'Free EBITDA' yield.

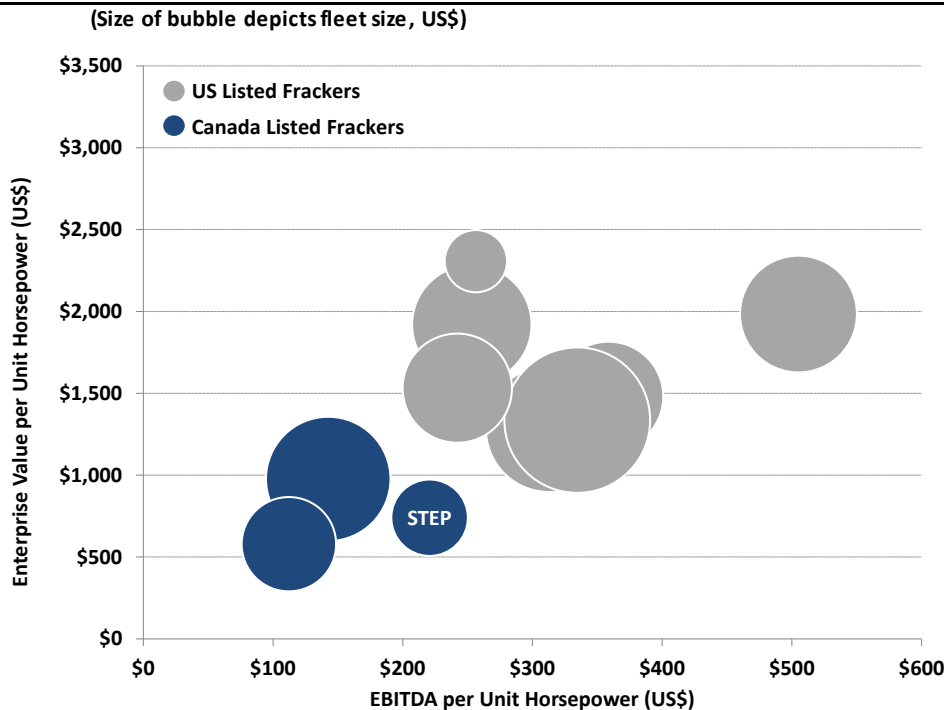
Exhibit 25: Market Value of STEP's Horsepower, Free Cash Flow and 'Free EBITDA' Yields

Enterprise Value per Unit Horsepower - Canada			
	STEP Share Price (\$)		\$10.36
	<u>Shares Outstanding (basic, mln, 2Q18E)</u>	x	<u>66</u>
A	Market Capitalization (\$mln)	=	682
	<u>Net Debt (\$mln, est 2Q18E)</u>	+	<u>226</u>
B	Enterprise Value (\$mln)	=	908
	EBITDA from CT, Wireline & US Fracturing (\$mln, 2018E, Tucker Annualized)		156
	<u>EBITDA multiple for CT, Wireline & US Fracturing (est)</u>	x	<u>4.5x</u>
C	Est. Market Value of Can + US Coiled Tubing Assets	=	703
	Mkt Value Attributable to Canadian Fracking Enterprise (\$mln)		205
	<u>Non-Cash Working Capital Assoc w/ Can Fracking (\$mln, est)</u>	-	<u>54</u>
D	Mkt Value of Canadian Fracturing Equipment & Infrastructure (\$mln)	=	151
E	Horsepower in Canadian Fleet (000s)		305
F	EV/HP of Canadian Fracturing Fleet + Related Infrastructure (\$/hp)	=	496
	EV/HP of Canadian Fracturing Fleet + Related Infrastructure (US\$/hp)	=	388
			B - C
			D ÷ E
Enterprise Value per Unit Horsepower - North America			
B	Enterprise Value (\$mln)		908
	EBITDA from Non-Fracturing Services (\$mln, 2018E, Tucker Annualized)		79
	<u>EBITDA multiple for Non-Fracturing Services (est)</u>	x	<u>4.5x</u>
G	Mkt Value of Non-Fracturing Services (\$mln)	=	355
	Mkt Value Attributable to North American Fracturing (\$mln)		553
	<u>Non-Cash Working Capital Assoc w/ Fracturing (\$mln, est)</u>	-	<u>83</u>
H	Mkt Value of Fracturing Equipment & Infrastructure (\$mln)	=	470
I	North American Horsepower (000s)		498
J	EV/HP of North American Fleet + Rel Infrastructure (\$/hp)		950
	EV/HP of North American Fleet + Rel Infrastructure (US\$/hp)		740
			B - G
			H ÷ I
Free Cash Flow Yield			
	STEP Share Price (\$)		\$10.36
	<u>Shares Outstanding (mln, 2Q18E)</u>	x	<u>66</u>
A	Market Capitalization (\$mln)	=	682
	Cash Flow from Operations (\$mln, 2018E)		164
	<u>Maintenance Capital Spending (\$mln, 2018E)</u>	-	<u>77</u>
K	Free Cash Flow (\$mln, 2018E)	=	87
L	Free Cash Flow Yield (% , 2018E, After-Tax, Corporate)		13%
			K ÷ A
'Free EBITDA' Yield per Unit Horsepower - Canada			
F	EV/HP of Canadian Fracturing Fleet + Related Infrastructure (\$/hp)	=	496
	Canadian EBITDA per Unit Horsepower (\$, 2018E)		271
	<u>Maintenance Capital Spending per Unit Horsepower (\$, est)</u>	-	<u>91</u>
M	'Free EBITDA' per Unit Horsepower Canada (est, \$)	=	180
T	'Free EBITDA' Yield	=	36%
			M ÷ F

Note: Average multiples for well completion businesses in Canada and the US are approximately 4.5x 2018 consensus EBITDA.

Source: Bloomberg, STEP Energy Services Ltd., Company Reports, Raymond James Ltd.

Exhibit 26: Relating EV/Unit Horsepower to EBITDA per Unit Horsepower



STEP is underpriced relative to the profitability of its equipment across a North American comparative group.

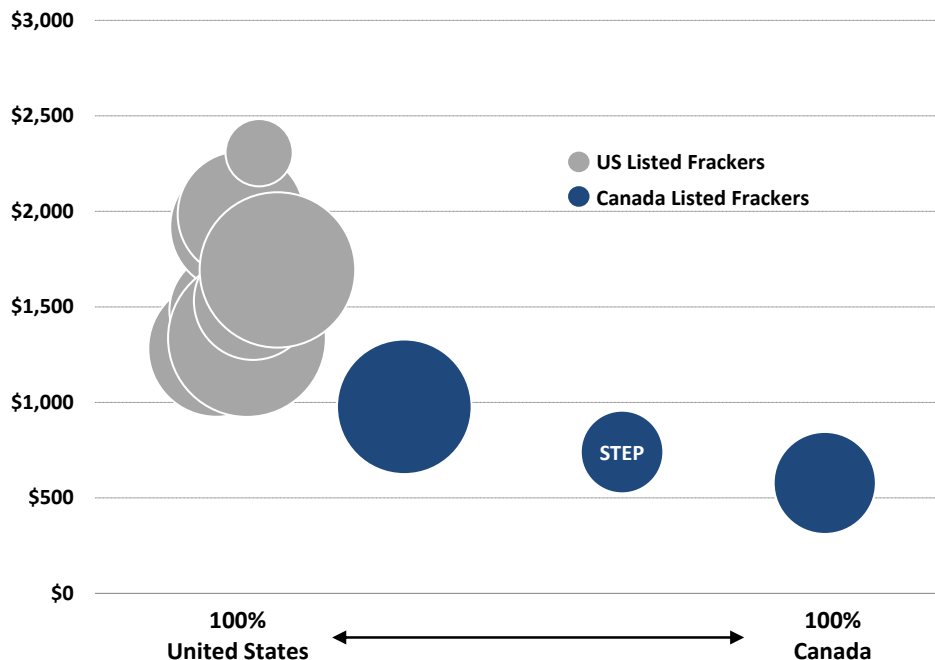
Exhibit 26 provides validation to the intuitively appealing notion that the market pays more for horsepower that generates more EBITDA.

Based solely on STEP’s 4Q17 and 1Q18 annualized EBITDA (we estimate this was US\$211/hp, including Tucker), STEP’s horsepower should be valued approx. 38% higher than the current market value.

Note: EBITDA per Unit Horsepower is calculated by annualizing 4Q17 and 1Q18 results. Chart excludes RPC because of its outlier valuation.

Source: Company Reports, Raymond James Ltd.

Exhibit 27: Market Value of Fracturing Horsepower Based on Canada / US Mix



Canadian Horsepower, STEP’s included, is valued less than US horsepower, even after correcting for EBITDA generation.

After we have adjusted for EBITDA generation per unit horsepower, we still notice the Canadian-listed companies trading lower than we would expect.

In short, we find the market currently values Canadian horsepower at US\$415 lower than US horsepower generating the same EBITDA.

In STEP’s specific case, the market is valuing STEP’s horsepower US\$450 lower than US horsepower.

Source: Company Reports, Raymond James Ltd.

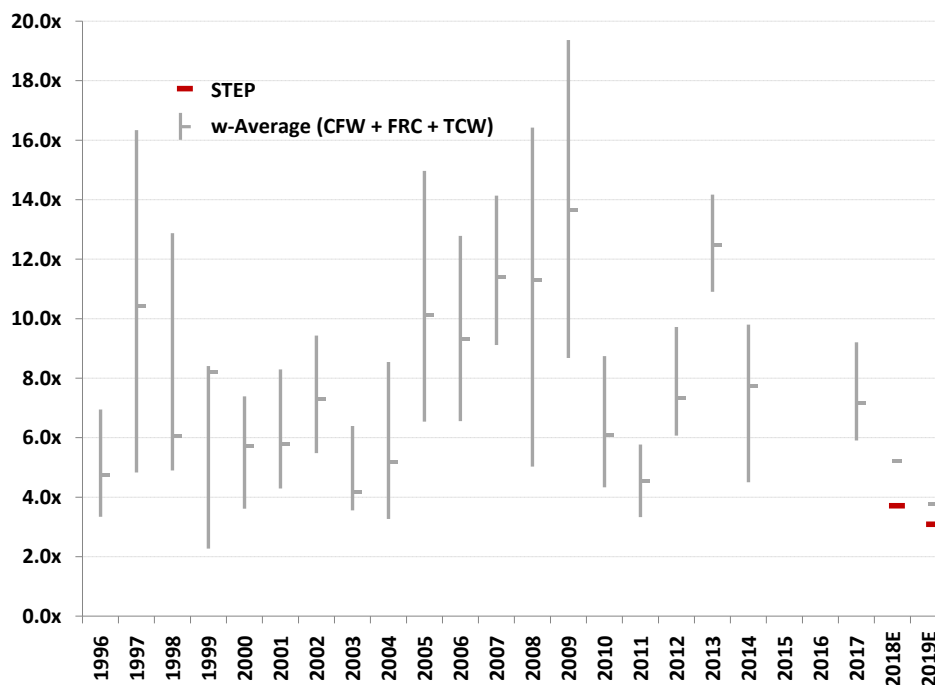
Exhibit 28: STEP's EV/EBITDA Valuation Versus Canadian Peer History

Exhibit 28 shows the history of weighted-average EBITDA multiples for Canadian pressure pumping companies, including Calfrac, Canyon, STEP, and Trican.

STEP's current-year and 2019 multiples are at the bottom-end of this historical range.

STEP's 2018 multiple is 29% below its comparative group. Its 2019 multiple is 17% below.

The 'choppiness' of the historical multiples is a function of multiples expanding during downturns and contracting during upswings.

Note: The weighted-average multiple ranges include Canyon for the years 2010-2016 inclusive, Calfrac for the years 2001-2019 inclusive, and Trican for the entire 1996-2019 period.

Source: Company Reports, Raymond James Ltd.

A Supportive Shareholder with a Large Control Block Still Results in a Liquidity Discount

We preface the following with what should be an obvious statement: STEP's commercial success is in large part due to the support and stewardship from its private equity sponsor, ARC Financial and its investors.

Notwithstanding, equity markets apportion valuation along many dimensions; trading liquidity and perceived equity overhangs are two of those dimensions. We'd estimate the combination of these two factors has the overall impact of suppressing STEP's equity value by 20% to 25%.

In total, ARC owns a total of 40.2 mln shares (61%) of STEP's outstanding common shares – 13.6 mln are held in ARC Energy Fund 6 ("Fund 6") and 26.7 mln shares are held in ARC's most recent fund – ARC Energy Fund 8 ("Fund 8"). Fund 6 has a term ending in 2020 and Fund 8 has a term ending in 2027.

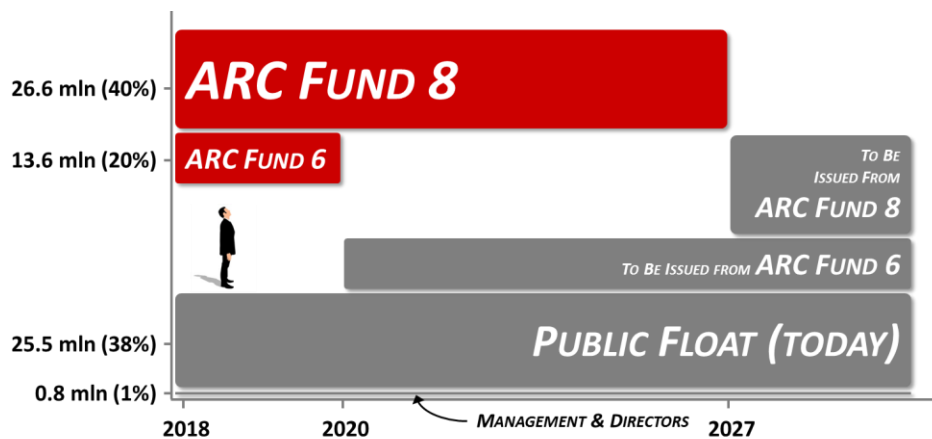
Large private equity blocks like ARC's have the potential to suppress equity values via the resulting low floating share count and concomitant trade illiquidity. It also encourages a measure of strategic gamesmanship from would-be investors, as in "why buy the stock today when I can just participate in the block when it comes out?"

Approximately 62% of STEP's shares are held either by ARC or by STEP management. So while STEP's market capitalization is \$682 mln, its 'float capitalization' is \$266 mln, which hasn't been sufficiently large to attract meaningful institutional involvement to date. STEP's top five institutional shareholders (ex-ARC) own just under 8% of its stock in aggregate, whereas comparable pressure pumping companies are 21% and 23%, respectively.

A consequence of low institutional ownership is a lower rate of trade volume or 'turnover' of the floating stock. We find that since acquiring Tucker, an average of 1.0% of STEP's floating stock has changed hands daily, compared to 1.5% and 1.6% for STEP's Canadian comparison group. Put

another way, STEP's average daily trade volume is approximately \$3 mln compared to almost \$7 mln for Calfrac and \$16 mln for Trican.

Exhibit 29: STEP's Equity Overhang



A visual representation of the perceived equity overhang

ARC's Fund 6 is scheduled to wind down in 2020 with the potential supply of \$150 mln at today's equity price (we expect ARC will look for a higher price realization).

ARC's Fund 8 has the potential to introduce an additional \$300 mln at today's share price, though the timeline could stretch as far as 2027.

Source: STEP Energy Services Ltd., Raymond James Ltd.

ARC Has Been Supportive of STEP's Growth and Orderly in its Disposition

As for the likelihood of ARC flooding the market with stock or issuing blocks in rapid succession, ARC has demonstrated itself to be both supportive of STEP's continued growth and orderly in its monetization of its position. As evidence of the former, we note that ARC did not append a secondary offering to STEP's recent \$50 mln equity raise. And as evidence for the latter, ARC's \$73 mln disposition of 6.0 mln shares by way of prospectus offering in Nov-2017 has so far been its only sale.

Keeping-Up with its Low-Debt Tradition

STEP has a demonstrable preference to maintain a safe and flexible balance sheet. We expect that STEP will be carrying \$226 mln net debt on Jun-30-18 (calculated as total debt owing less cash, i.e. not net of deferred financing charges).

As part of the financing package to acquire Tucker, STEP secured a \$330 mln revolving credit facility, a \$10 mln Canadian operating line and a US\$7.5 mln US operating line. Based on our estimate, STEP will have approximately \$120 mln of notional spare capacity on its credit lines.

STEP is required to keep its Funded Debt to trailing Adj-bank EBITDA ratio to under 3.0x and its Fixed Charge Coverage ratio to at least 1.2x. By our estimates STEP's defined Debt-to-EBITDA ratio is less than 1.5x and its Fixed Charge Coverage ratio is greater than 6.5x – both onside with its lenders by wide margins. We calculate these ratios *pro forma* the Tucker acquisition.

Appendix A: Financial Statements

Exhibit 30: Revenue, EBITDA, Earnings, and Cash Flow

	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E
Total Revenue (\$mln)	553.2	187.6	164.7	305.7	298.8	956.8	315.3	231.1	316.8	308.4	1,171.6
Fracturing - Canada	365.6	127.6	45.1	149.0	139.4	461.1	151.9	83.2	152.1	144.6	531.8
Coiled Tubing - Canada	129.7	37.5	21.9	41.6	41.8	142.8	44.8	28.9	45.4	44.6	163.8
Fracturing - USA			65.5	80.3	80.2	226.0	80.3	80.3	80.3	80.3	321.2
Coiled Tubing/Wireline - USA	57.9	22.5	32.1	34.8	37.5	126.9	38.3	38.6	39.0	39.0	154.8
Gross Margin (\$mln)	140.8	47.3	34.6	82.5	77.7	242.1	83.1	56.6	85.8	83.7	309.3
%	25%	25%	21%	27%	26%	25%	26%	25%	27%	27%	26%
EBITDA (\$mln)	123.6	41.8	28.8	76.4	71.3	218.2	76.4	49.6	78.4	75.9	280.2
Fracturing - Canada (est.)	76.9	24.9	0.6	29.8	25.6	80.8	30.1	11.4	31.2	29.1	101.8
Coiled Tubing - Canada (est.)	30.8	9.3	0.6	12.1	10.4	32.4	11.8	3.6	12.3	11.8	39.4
Fracturing - USA (est.)			16.1	22.4	22.3	60.9	21.4	21.4	21.6	21.6	86.0
Coiled Tubing/Wireline - USA (est.)	15.9	7.6	11.5	12.2	12.9	44.2	13.1	13.2	13.4	13.4	53.0
EBITDA Margin (%)	22%	22%	17%	25%	24%	23%	24%	21%	25%	25%	24%
Fracturing - Canada (est.)	21%	20%	1%	20%	18%	18%	20%	14%	20%	20%	19%
Coiled Tubing - Canada (est.)	24%	25%	3%	29%	25%	23%	26%	12%	27%	26%	24%
Fracturing - USA (est.)			25%	28%	28%	27%	27%	27%	27%	27%	27%
Coiled Tubing/Wireline - USA (est.)	27%	34%	36%	35%	35%	35%	34%	34%	34%	34%	34%
EBIT (Operating Earnings) (\$mln)	89.7	31.5	18.2	55.7	50.4	155.8	55.4	28.4	57.2	54.5	195.5
%	16%	17%	11%	18%	17%	16%	18%	12%	18%	18%	17%
Earnings (\$mln)	65.5	21.9	13.2	39.2	35.0	109.2	38.8	18.8	41.0	39.0	137.5
%	12%	12%	8%	13%	12%	11%	12%	8%	13%	13%	12%
Cash Flow (\$mln)	113.6	27.9	23.3	58.3	54.4	163.9	58.4	38.7	61.1	59.3	217.4
%	21%	15%	14%	19%	18%	17%	19%	17%	19%	19%	19%

Source: STEP Energy Services Ltd., Raymond James Ltd.

Exhibit 31: Per Share and Valuation Metrics

	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E
Per Share Metrics											
EPS (fd)	\$0.78	\$0.29	\$0.16	\$0.49	\$0.43	\$1.38	\$0.48	\$0.23	\$0.50	\$0.48	\$1.68
EPS (fd - before stock-based comp)	\$0.86	\$0.31	\$0.19	\$0.51	\$0.45	\$1.47	\$0.50	\$0.25	\$0.52	\$0.50	\$1.77
CFPS (fd)	\$0.00	\$0.39	\$0.32	\$0.75	\$0.70	\$2.18	\$0.75	\$0.50	\$0.77	\$0.75	\$2.77
BVPS (tang)	\$7.14	\$7.48	\$7.80	\$8.40	\$8.93	\$8.93	\$9.52	\$9.80	\$10.43	\$11.02	\$11.02
Price Multiples											
P/E	13.2 x					7.5 x					6.1 x
P/E (before stock based comp)	12.0 x					7.0 x					5.8 x
P/CF	nm					4.8 x					3.7 x
P/B (tang)	1.5 x	1.4 x	1.3 x	1.2 x	1.2 x	1.2 x	1.1 x	1.1 x	1.0 x	0.9 x	0.9 x
Enterprise Multiples											
EV/EBITDA	4.6 x					3.7 x					3.1 x
EV/EBITDA (fd)	4.6 x					3.7 x					3.1 x
EV/EBIT (fd)	7.1 x					4.9 x					4.3 x
Net Inv Capital (Mkt) / Net Inv Capital (Book)	1.5 x	1.4 x	1.2 x	1.2 x	1.1 x	1.1 x	1.1 x	1.1 x	1.0 x	1.0 x	1.0 x
Dividends, Yield, Payout Ratios											
Dividend per Share (annualized)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio (Div / Cash Flow)	0%					0%					0%
Returns on Investment											
ROE	17%					21%					20%
ROIC	18%					17%					17%
Shares Outstanding											
Shares Out (basic, mln)	60.3	60.4	65.8	65.8	65.8	65.8	65.8	65.8	65.8	65.8	65.8
Shares Out (fd, mln)	73.6	73.7	79.3	79.6	79.8	79.8	80.1	80.3	80.6	80.8	80.8
Weighted Shares Out (basic, mln)	56.1	60.4	63.1	65.8	65.8	63.8	65.8	65.8	65.8	65.8	65.8
Weighted Shares Out (fd, mln)	81.7	73.6	76.5	79.4	79.7	77.3	79.9	80.2	80.4	80.7	80.3
Options Out / Basic Shares Out	7.5%	7.8%	7.5%	7.9%	8.3%	8.3%	8.7%	9.0%	9.4%	9.8%	9.8%
Option Rate (options granted / shares out)	45.6%					1.3%					1.3%

Source: STEP Energy Services Ltd., Raymond James Ltd.

Exhibit 32: Cash Flow and Capital Structure Summary

	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E
Cash Sources and (Uses)											
Cash Flow from Operations (\$mIn)	113.6	27.9	23.3	58.3	54.4	163.9	58.4	38.7	61.1	59.3	217.4
Net Working Capital Investment (\$mIn)	(64.5)	(1.3)	34.5	(50.0)	(52.1)	(68.8)	(0.4)	72.5	(24.3)	(54.8)	(7.0)
Capital Spending (net, \$mIn)	(95.4)	(22.6)	(351.5)	(25.1)	(25.1)	(424.2)	(25.1)	(25.1)	(25.1)	(25.1)	(100.3)
Dividends (\$mIn)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Financing Activities (\$mIn)	76.0	(3.1)	273.0	20.0	25.0	314.9	(30.0)	(80.0)	0.0	0.0	(110.0)
<u>Other (incl. Disc Ops) (\$mIn)</u>	<u>5.1</u>	<u>2.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>2.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Net Change in Cash (\$mIn)	34.9	3.4	(20.6)	3.3	2.2	(11.8)	2.9	6.1	11.7	(20.6)	0.1
Net Debt											
Bank Debt (\$mIn)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Portion of Long Term Debt (\$mIn)	5.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Long Term Debt (\$mIn)	8.0	7.3	232.3	252.3	277.3	277.3	247.3	167.3	167.3	167.3	167.3
<u>Convertible Debentures + Prefs (\$mIn)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Debt (\$mIn)	13.6	14.3	239.3	259.3	284.3	284.3	254.3	174.3	174.3	174.3	174.3
add: Taxes Payable (net, \$mIn)	0.0	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
<u>less: Cash (\$mIn)</u>	<u>(36.9)</u>	<u>(40.3)</u>	<u>(19.7)</u>	<u>(22.9)</u>	<u>(25.1)</u>	<u>(25.1)</u>	<u>(28.0)</u>	<u>(34.1)</u>	<u>(45.8)</u>	<u>(25.3)</u>	<u>(25.3)</u>
equals: Net Debt (\$mIn)	(23.3)	(19.2)	226.4	243.2	266.0	266.0	233.0	147.0	135.2	155.8	155.8
Invested Capital											
Common Shareholder Equity (\$mIn)	431.0	452.6	513.8	553.0	587.9	587.9	626.8	645.5	686.5	725.4	725.4
Gross Invested Capital (\$mIn)	444.6	466.9	753.1	812.3	872.3	872.3	881.1	819.9	860.8	899.8	899.8
Net Invested Capital (\$mIn)	407.8	426.6	733.4	789.4	847.1	847.1	853.0	785.7	815.0	874.5	874.5
Total Assets (\$mIn)	533.8	579.9	873.2	982.7	1,034.7	1,034.7	1,044.3	965.4	1,031.0	1,059.6	1,059.6
Working Capital											
Working Capital (\$mIn)	121.0	128.1	72.9	126.2	180.4	180.4	183.8	117.4	153.4	187.5	187.5
Non-Cash Working Capital (\$mIn)	89.7	94.8	60.3	110.3	162.3	162.3	162.8	90.3	114.5	169.3	169.3
Capital Policy											
Debt / (Debt + Equity)	3%	3%	32%	32%	33%	33%	29%	21%	20%	19%	19%
Net Debt / (Net Debt + Equity)	-6%	-4%	31%	31%	31%	31%	27%	19%	16%	18%	18%
Total Debt / Current EBITDA	0.1 x	0.1 x	1.1 x	1.2 x	1.3 x	1.3 x	0.9 x	0.6 x	0.6 x	0.6 x	0.6 x
Total Debt / Trailing EBITDA	0.1 x	0.1 x	1.5 x	1.4 x	1.3 x	1.3 x	1.0 x	0.6 x	0.6 x	0.6 x	0.6 x

Source: STEP Energy Services Ltd., Raymond James Ltd.

Appendix B: Canadian Oilfield Services Forecasts and Assumptions

Exhibit 33: Canadian Oilfield Services Forecasts and Assumptions

	2011	2012	2013	2014	2015	2016	2017	New Estimates			Prior Estimates			Annual Change		
								2018	2019	2020	2018	2019	2020	2018	2019	2020
CDN Drilling Rigs																
Total Rig Count	415	350	340	362	181	119	205	220	246	235	198	218	232	8%	11%	-5%
Q1	542	532	491	500	281	147	294	267	356	321	267	292	315	-9%	34%	-10%
Q2	188	177	153	200	97	46	117	107	121	113	98	126	129	-9%	13%	-7%
Q3	454	339	345	377	183	112	207	236	245	234	200	217	229	14%	4%	-4%
Q4	483	353	370	369	164	172	203	272	260	271	227	236	225	34%	-4%	4%
Wells Drilled	12,910	11,055	11,025	11,175	5,375	4,070	7,095	7,600	7,675	7,540	7,375	7,390	7,560	7%	1%	-2%
CDN Fracturing																
Horsepower Demand (mln hp, est)	1.6	1.3	1.4	1.9	1.3	0.7	1.1	1.2	1.4	1.4	1.3	1.4	1.5	13%	12%	2%
Horsepower per Active Rig	3,850	3,779	4,015	4,914	6,812	6,098	5,362	5,650	5,733	6,099	6,207	6,563	6,674	5%	1%	6%
US Drilling Rigs - Onshore																
Total Onshore Rig Count	1,846	1,871	1,705	1,804	948	486	855	1,086	1,204	1,198	1,094	1,206	1,206	27%	11%	0%
Oil	970	1,335	1,334	1,485	728	389	685	874	969	963	881	972	972	28%	11%	-1%
Gas	876	536	371	319	220	97	170	211	235	235	213	234	234	24%	11%	0%
Energy Prices and Western Canada Production																
	2011	2012	2013	2014	2015	2016	2017	New Estimates			Prior Estimates			Annual Change		
								2018	2019	2020	2018	2019	2020	2018	2019	2020
Natural Gas Pricing																
Nat Gas - Nymex (\$US/mcf)	\$4.03	\$2.83	\$3.73	\$4.36	\$2.66	\$2.57	\$3.01	\$2.76	\$2.25	\$2.50	\$2.75	\$2.75	\$2.75	-8%	-18%	11%
Nat Gas - AECO (C\$/mcf)	\$3.63	\$2.32	\$3.22	\$4.65	\$2.95	\$2.19	\$2.15	\$1.33	\$1.10	\$1.55	\$1.47	\$1.95	\$2.25	-38%	-17%	41%
Crude and Liquids Pricing																
Crude - WTI (US\$/bbl)	\$95.11	\$94.15	\$98.05	\$93.25	\$49.22	\$43.50	\$51.00	\$70.00	\$70.00	\$65.00	\$63.00	\$60.00	\$60.00	37%	0%	-7%
Crude - Edmonton Par (C\$/bbl)	\$95.35	\$86.29	\$93.47	\$100.95	\$57.20	\$53.00	\$62.75	\$81.75	\$81.00	\$75.25	\$74.25	\$72.00	\$72.25	30%	-1%	-7%
Condensate (C\$/bbl)	\$104.35	\$100.79	\$105.63	\$99.90	\$61.43	\$56.07	\$67.31	\$90.29	\$89.70	\$83.98	\$81.83	\$79.66	\$79.92	34%	-1%	-6%
NGL Barrel (excl Ethane) (C\$/bbl)	\$61.09	\$46.62	\$51.05	\$53.91	\$19.35	\$21.91	\$34.85	\$37.77	\$36.24	\$33.66	\$34.57	\$32.21	\$32.31	8%	-4%	-7%
Foreign Exchange																
USD / CAD	\$1.02	\$1.01	\$0.95	\$0.88	\$0.75	\$0.76	\$0.77	\$0.79	\$0.80	\$0.80	\$0.79	\$0.78	\$0.78	2%	2%	-1%
Production Mix																
Liquid Hydrocarbons																
Light Crude (mbbl/d)	556	647	685	711	654	566	589	629	637	655	599	594	605	7%	1%	3%
Condensate (mbbl/d)	142	139	151	185	222	264	327	399	435	458	399	433	453	22%	9%	5%
Heavy Conventional (mbbl/d)	426	453	456	462	430	403	404	401	401	401	401	409	417	-1%	0%	0%
Natural Gas Liquids (mbbl/d)	190	204	209	214	217	246	247	246	249	256				-1%	1%	3%
Total (mbbl/d)	1,313	1,443	1,501	1,572	1,523	1,479	1,567	1,674	1,723	1,770				7%	3%	3%
Gas Hydrocarbons																
Natural Gas (mmcf/d)	13,441	13,287	13,179	13,414	13,891	14,764	14,863	14,776	14,989	15,413	15,289	15,176	15,242	-1%	1%	3%
Ethane (mmcf/d)	1,389	1,344	1,396	1,337	1,366	1,419	1,428	1,420	1,440	1,481				-1%	1%	3%
Total (mmcf/d)	14,830	14,631	14,575	14,751	15,257	16,183	16,292	16,196	16,430	16,894						
Total (boe/d)	3,785	3,881	3,930	4,031	4,066	4,176	4,283	4,374	4,461	4,586						
Conventional Producer Cash Flow - RJL Estimated																
	2011	2012	2013	2014	2015	2016	2017	New Estimates			Prior Estimates			Annual Change		
								2018	2019	2020	2018	2019	2020	2018	2019	2020
Conventional Revenue (\$bln)	\$60.3	\$53.4	\$62.5	\$71.9	\$42.2	\$36.8	\$44.8	\$52.9	\$53.0	\$54.0	\$48.7	\$51.5	\$54.7	18%	0%	2%
Unhedged Cash Flows (\$bln)	\$39.2	\$32.2	\$38.4	\$46.3	\$22.4	\$20.3	\$27.2	\$33.1	\$32.1	\$32.3	\$27.5	\$29.0	\$31.2	22%	-3%	1%
Unhedged Dry Gas Netback (\$/mcf)	\$2.08	\$0.97	\$1.57	\$2.66	\$1.25	\$1.01	\$0.94	\$0.12	\$0.13	\$0.24				nm	nm	nm
Unhedged Liquids Netback (\$/bbl)	\$58.25	\$51.45	\$54.93	\$56.10	\$27.83	\$26.80	\$37.68	\$52.84	\$52.38	\$47.68				40%	-1%	-9%

Source: CAPP, Baker Hughes, Bloomberg, National Energy Board, Raymond James Ltd.

Appendix C: Canadian Oilfield Services Comparables

Exhibit 34: Canadian Oilfield Services Comparables

Company Name	Symbol	Closing Price	Stock Rating	Mkt Cap (\$mln)	Dividends		EPS (fd)			EBITDA			EV/EBITDA			Debt/EBITDA	Current P/B (tang.)	ROE		
					\$/sh	Yield	17E	18E	19E	17E	18E	19E	17E	18E	19E			17E	18E	19E
Contract Drillers																				
Ensign	ESI	\$5.90	MP 3	\$925	\$0.48	8.1%	(\$0.21)	(\$0.83)	(\$0.47)	\$202	\$225	\$265	8.0x	7.3x	5.9x	3.7x	0.6x	-2%	-8%	-5%
Precision	PD	\$4.24	SB 1	\$1,243	\$0.00	0.0%	(\$0.40)	(\$0.21)	\$0.17	\$312	\$423	\$602	9.5x	6.9x	4.4x	5.1x	0.9x	-6%	-3%	3%
Trinidad	TDG	\$1.82	OP 2	\$498	\$0.00	0.0%	(\$0.25)	(\$0.20)	\$0.13	\$122	\$173	\$262	8.0x	6.0x	3.7x	5.5x	0.4x	-5%	-5%	3%
Western	WRG	\$1.07	OP 2	\$99	\$0.00	0.0%	(\$0.48)	(\$0.25)	(\$0.14)	\$36	\$47	\$56	8.6x	6.7x	5.1x	6.3x	0.3x	-9%	-6%	-4%
Pressure Pumpers																				
Calfrac	CFW	\$5.77	OP 2	\$829	\$0.00	0.0%	(\$0.20)	\$0.36	\$0.73	\$185	\$300	\$374	9.2x	5.8x	4.3x	3.9x	1.5x	-3%	9%	16%
STEP	STEP	\$10.36	SB 1	\$682	\$0.00	0.0%	\$0.78	\$1.38	\$1.68	\$124	\$218	\$280	4.6x	3.7x	3.1x	1.5x	1.3x	17%	21%	20%
Trican	TCW	\$2.94	SB 1	\$984	\$0.00	0.0%	\$0.01	\$0.11	\$0.25	\$163	\$195	\$249	4.2x	3.7x	2.4x	0.3x	1.2x	0%	3%	7%
Ancillary Wellsite Svcs																				
Essential	ESN	\$0.57	OP 2	\$81	\$0.00	0.0%	\$0.01	\$0.06	\$0.16	\$22	\$31	\$52	4.1x	2.8x	1.3x	0.9x	0.5x	1%	5%	13%
Strad	SDY	\$1.55	SB 1	\$89	\$0.00	0.0%	(\$0.12)	(\$0.04)	\$0.09	\$25	\$30	\$35	4.4x	3.2x	2.3x	0.5x	0.7x	-5%	-2%	4%
Blended Production/Midstream/Wellsite Svcs																				
CDN Energy Svcs	CEU	\$4.65	SB 1	\$1,250	\$0.03	0.6%	\$0.17	\$0.18	\$0.32	\$153	\$168	\$221	10.6x	9.9x	7.2x	2.4x	4.6x	10%	11%	15%
Enerflex	EFX	\$14.06	OP 2	\$1,241	\$0.34	2.4%	\$1.16	\$1.29	\$1.39	\$254	\$295	\$317	5.9x	5.2x	4.5x	1.5x	2.3x	10%	10%	10%
Mullen	MTL	\$14.68	MP 3	\$1,522	\$0.60	4.1%	\$0.51	\$0.68	\$0.95	\$182	\$189	\$219	10.7x	10.3x	8.7x	2.7x	2.8x	7%	7%	10%
Secure	SES	\$7.28	SB 1	\$1,197	\$0.26	3.5%	(\$0.02)	\$0.05	\$0.22	\$157	\$176	\$220	9.0x	8.7x	7.0x	2.0x	1.5x	2%	4%	7%
Workforce Accommodations																				
Black Diamond	BDI	\$3.38	OP 2	\$186	\$0.00	0.0%	(\$1.59)	(\$0.03)	\$0.06	\$28	\$35	\$40	10.1x	7.1x	0.0x	2.9x	0.9x	-32%	-3%	-1%
Horizon North	HNL		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Median							(\$0.07)	\$0.06	\$0.19				8.3x	6.3x	4.4x	2.5x	1.0x	-1%	3%	7%

Source: S&P Capital IQ, Raymond James Ltd.

Appendix D: Management & Board of Directors

Regan Davis is the President and Chief Executive Officer and a Director of STEP Energy Services. Mr. Davis is the co-founder of STEP and has held the CEO position since inception; he was appointed President in December 2013. Prior to his tenure at STEP, Mr. Davis held various positions within the energy industry over the past 25 years including CEO and president roles at Flexpipe Systems Ltd. and Severo Energy Ltd. Mr. Davis is also the chairman of the Board of Directors for CORE Linepipe. Mr. Davis is a certified director from the Institute of Corporate Directors.

Steve Glanville is the Vice President, Operations and the Chief Operating Officer of STEP Energy Services. Mr. Glanville is a co-founder of STEP and has held the COO position since inception; he was appointed to the vice-president operations position in November 2013. Prior to his time at STEP, Mr. Glanville amassed over 20 years' of experience in the oil and gas industry and held management positions within Schlumberger, Sanjel and Calfrac. His prior experience was heavily focused on coiled tubing operations.

Robert W. Sprinkhuysen is the Vice President, Finance and Chief Financial Officer of STEP Energy Services. Mr. Sprinkhuysen has held his current position with STEP since September 2011. Prior to joining STEP, Mr. Sprinkhuysen held the CFO position at Technicoil Corp. (2008-2011) and held various finance related roles at Enerflex Ltd. Mr. Sprinkhuysen holds the Chartered Accountant designation.

Douglas Freel is the Chairman of the Board of Directors of STEP Energy Services. Mr. Freel has served as a director since inception in March 2011. Mr. Freel is a managing director with ARC Financial Corp, and has over 20 years' experience in the oilfield services industry in both investment and engineering capacities. Mr. Freel holds a Master of Business Administration from the University of Toronto.

Jeremy Gackle is a member of the Board of Directors of STEP Energy Services. Mr. Gackle has served as a director since STEP's inception in March 2011. Mr. Gackle is a Vice President focused on the oilfield services industry with Arc Financial Corp. Mr. Gackle holds the Chartered Financial Analyst designation and is a certified director from the Institute of Corporate Directors.

Jason Skehar is a member of the Board of Directors of STEP Energy Services. Mr. Skehar has served as a director since June 2012. Mr. Skehar currently holds the position of President and Chief Executive Officer of Bonavista Energy Corp. Mr. Skehar has accumulated over 18 years of E&P experience in western Canada and has held various operational, managerial and executive roles over his career.

Michael Kelly is a member of the Board of Directors of STEP Energy Services. Mr. Kelly has served as a director since March 2014. Mr. Kelly has over 20 years' experience in the energy industry, and has held various executive roles, including 16 years as an executive at Trican Well Service where he held the Vice President, Finance and Chief Financial Officer position for 12 years. Mr. Kelly holds the Chartered Accountant designation and is a certified director from the Institute of Corporate Directors.

James Harbilas is a member of the Board of Directors of STEP Energy Services. Mr. Harbilas has served as a director since May 2017. Mr. Harbilas has held various finance related roles over his career including Vice President, Finance and Chief Financial Officer at Fortis Alberta Inc., and senior management roles at SNC-Lavalin and AltaLink. Mr. Harbilas currently holds the position of Executive Vice President and Chief Financial Officer at Enerflex. Mr. Harbilas holds the Chartered Accountant designation and the Ordre des Comptables Agréés du Québec and Financial Executive Institute.

Donna Garbutt is a member of the Board of Directors of STEP Energy Services. Ms. Garbutt has served as a director since May 2017. Ms. Garbutt has amassed over 25 years' experience in the Energy industry, 20 years of which spent with Schlumberger where she held various roles including President of Schlumberger Canada. Ms. Garbutt currently serves as the Chief Executive Officer of Maxxam Analytics Corp. Ms. Garbutt holds a Master of Business Administration from Athabasca University.

Risks

- i. The demand and pricing of fracturing services and coiled tubing services used in oil and gas well completions is highly dependent on the level of industry activity for oil and gas exploration and production companies. The level of industry activity is a function of a number of factors that are outside the control of STEP Energy Services including, but not limited to, oil and gas commodity prices, the price of well construction inputs, the cost of exploring for and developing resources, and the ability of project oriented resource companies to raise equity capital or debt financing.
- ii. STEP Energy Services (“STEP”) is highly susceptible to drilling cycles in North America.
- iii. STEP’s ability to grow its business is highly reliant on its ability to purchase and crew new fracturing and coiled tubing equipment both cost effectively and in a timely manner – this ability can be constrained in times of high industry demand.
- iv. Fracturing is a competitive industry which is subject to the potential for new entrants, which could hinder STEP’s ability to maintain or grow its market share, and/or render its services profitably.
- v. STEP operates in both Canada and the US which exposes it to risks relating to, but not limited to, foreign currency fluctuations, changes in tax codes and changes to legal/regulatory structures.
- vi. Attracting and retaining a sufficient number of well-qualified personnel can be challenging during times of high industry activity, and could have an adverse effect on STEP’s profitability.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
ARC Resources Ltd.	ARX	TSX	C\$	13.16	2	RJ Ltd.
Baker Hughes, a GE company	BHGE	NYSE	US\$	33.07	5	RJ & Associates
Black Diamond Group Limited	BDI	TSX	C\$	3.61	2	RJ Ltd.
Bonavista Energy Corporation	BNP	TSX	C\$	1.41	4	RJ Ltd.
Calfrac Well Services	CFW	TSX	C\$	5.78	2	RJ Ltd.
Canadian Natural Resources Limited	CNQ	TSX	C\$	42.64	2	RJ Ltd.
CES Energy Solutions Corp.	CEU	TSX	C\$	4.73	1	RJ Ltd.
Crew Energy Inc.	CR	TSX	C\$	2.00	2	RJ Ltd.
Enerflex Ltd.	EFX	TSX	C\$	13.81	2	RJ Ltd.
Ensign Energy Services Inc.	ESI	TSX	C\$	6.01	3	RJ Ltd.
Essential Energy Services Ltd.	ESN	TSX	C\$	0.55	2	RJ Ltd.
Halliburton Company	HAL	NYSE	US\$	45.71	1	RJ & Associates
Horizon North Logistics Inc.	HNL	TSX	C\$	2.70	R	RJ Ltd.
Mammoth Energy Services, Inc.	TUSK	NASDAQ	US\$	40.07	2	RJ & Associates
Mullen Group Ltd.	MTL	TSX	C\$	14.67	3	RJ Ltd.
Precision Drilling Corporation	PD	TSX	C\$	4.28	1	RJ Ltd.
ProPetro Holding Corp.	PUMP	NYSE	US\$	15.89	1	RJ & Associates
Royal Dutch Shell	RDSa.AS	AMS	€	28.98	3	RJEE/RJFI
RPC, Inc.	RES	NYSE	US\$	14.09	2	RJ & Associates
Schlumberger Limited	SLB	NYSE	US\$	65.55	3	RJ & Associates
Secure Energy Services Inc.	SES	TSX	C\$	7.32	1	RJ Ltd.
Storm Resources Ltd.	SRX	TSX	C\$	2.64	2	RJ Ltd.
Strad Energy Services Ltd.	SDY	TSX	C\$	1.55	1	RJ Ltd.
Trican Well Service Ltd.	TCW	TSX	C\$	2.94	1	RJ Ltd.
Trinidad Drilling Ltd.	TDG	TSX	C\$	1.83	2	RJ Ltd.
Western Energy Services Corp.	WRG	TSX	C\$	1.02	2	RJ Ltd.
Whitecap Resources Inc.	WCP	TSX	C\$	8.33	1	RJ Ltd.

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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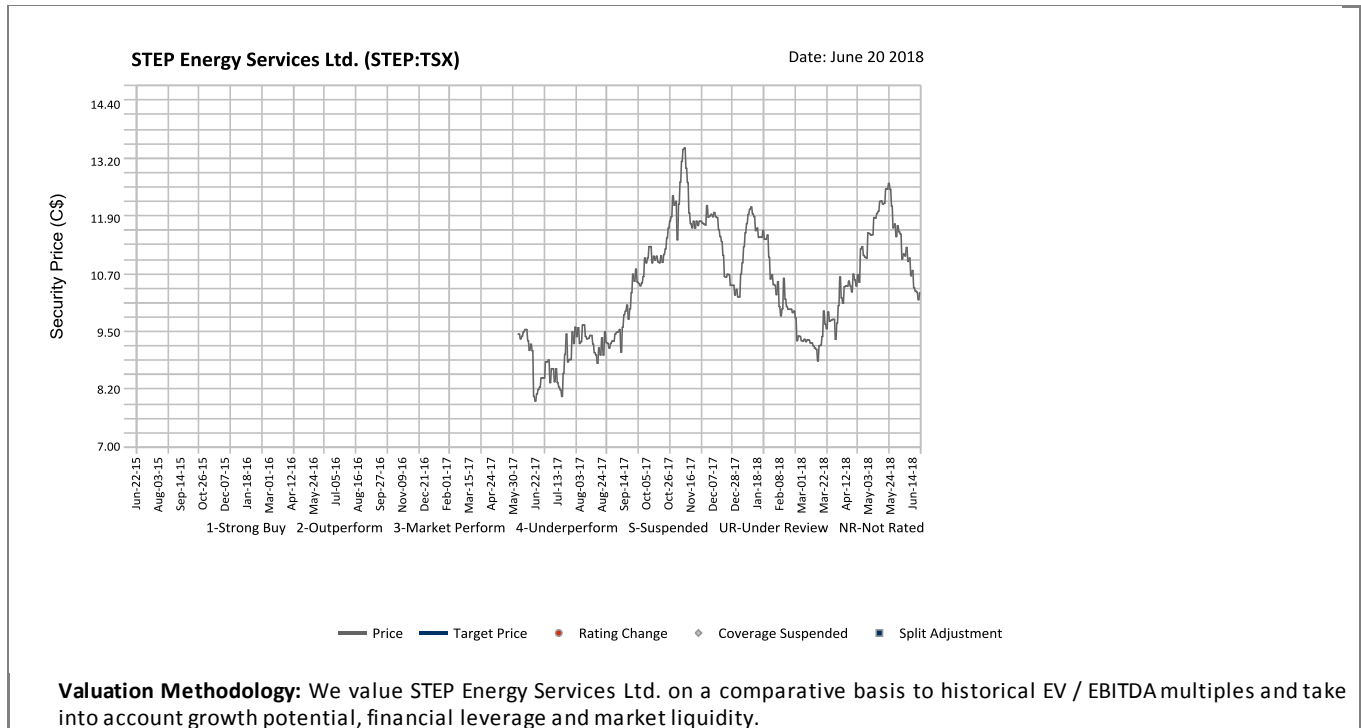
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