STEP energy services

TSX STEP

Consolidated

Financial Statements

As at and for the year ended December 31, 2021

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of STEP Energy Services Ltd. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in these financial statements. The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of net loss and comprehensive loss, consolidated changes in equity and consolidated cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments.

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

The Audit Committee is appointed by the Board of Directors and monitors management's financial and accounting policies and practices and the preparation of these consolidated financial statements. The Audit Committee reviews with management and the external auditors the consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed KPMG LLP as the external auditors of the Company and, in that capacity, they have examined the consolidated financial statements for the year ended December 31, 2021. The Auditors' Report to the shareholders is presented herein.

SIGNED "Regan Davis"

Regan Davis
CHIEF EXECUTIVE OFFICER

SIGNED "Klaas Deemter"

Klaas Deemter
CHIEF FINANCIAL OFFICER

March 16, 2022

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of STEP Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of STEP Energy Services Ltd. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of net loss and other comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of indicators of impairment or reversal of impairment losses of the Entity's Cash Generating Units

Description of the matter

We draw attention to Note 1, Note 2, and Note 7 to the financial statements. The carrying amounts of the Entity's non-financial assets including right-of-use assets, property and equipment, and intangibles are reviewed at each reporting date to determine whether impairment indicators exist, and impairment testing is required for a CGU. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. The assessment of indicators of impairment is based on management's judgement of whether there are internal and external factors that would indicate that a CGU and specifically the non-financial assets within the CGU are impaired. The assessment of external indicators considers expected industry activity levels, commodity price environment and market capitalization. The assessment of internal indicators considers forecasted adjusted EBITDA. Forecasted adjusted EBITDA means net income (loss) plus or minus: finance costs, taxes, depreciation, amortization, gains or losses on the sale of assets, non-cash impairment charges, foreign exchange gains or losses, and share based compensation. On December 31, 2021, the Company did not identify any indicators of impairment or reversals of previous impairments on any of its CGUs and therefore impairment tests were not performed.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment or reversal of impairment losses of the Entity's CGUs as a key audit matter. Significant auditor judgement was required in evaluating the assessment of internal and external indicators.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included evaluating the Entity's assessment of impairment or reversal of impairment indicators which included:

- comparing the Entity's forecasted adjusted EBITDA for the CGUs to 2021 actual results considering the impact of actions implemented by the Entity and changes in conditions and events affecting the CGUs
- comparing 2022 expected industry activity levels and the 2022 oil and natural gas commodity price environment as compared to 2021 industry activity levels and the 2021 oil and natural gas commodity price environment
- comparing the Entity's market capitalization to the carrying amount of the Entity's shareholders' equity at December 31, 2021.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis ("MD&A") filed with the relevant Canadian securities commissions and regulators.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the MD&A filed with the relevant Canadian securities commissions and regulators as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Richard John Mussenden.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 16, 2022

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, (in thousands of Canadian dollars)	Notes		2021		2020
ASSETS					
Current Assets					
Cash and cash equivalents		$	**3,698**	$	1,266
Trade and other receivables	17		**86,644**		63,471
Income tax receivable			**103**		1,960
Inventory	4		**32,732**		26,990
Prepaid expenses and deposits			**10,078**		5,782
			133,255		99,469
Property and equipment	5		**335,499**		368,164
Right-of-use assets	6		**14,788**		11,453
Intangible assets			**306**		773
		$	**483,848**	$	479,859
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables	11,17	$	**95,183**	$	48,816
Income tax payable			**-**		88
Current portion of lease obligations	6		**6,210**		5,919
Current portion of loans and borrowing	8		**27,950**		-
			129,343		54,823
Deferred tax liabilities	16		**1,374**		3,830
Lease obligations	6		**9,163**		6,798
Other liabilities	11		**4,519**		2,199
Loans and borrowings	8		**162,007**		207,630
			306,406		275,280
Shareholders' equity					
Share capital	10		**435,768**		431,798
Contributed surplus			**30,820**		32,371
Accumulated other comprehensive income			**2,383**		3,812
Deficit			**(291,529)**		(263,402)
			177,442		204,579
		$	**483,848**	$	479,859

See accompanying notes to the consolidated financial statements
See Note 9 – Commitments
See Note 19 – Contingencies and provisions

Approved by the Board of Directors:

SIGNED "Douglas Freel"

Douglas Freel
Chairman

SIGNED "Regan Davis"

Regan Davis
Director

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF NET LOSS AND OTHER COMPREHENSIVE LOSS

For the year ended December 31, (in thousands of Canadian dollars, except per share amounts)	Notes		2021		2020
Revenue		$	536,309	$	368,945
Operating expenses	3,13		518,552		402,355
Gross profit			17,757		(33,410)
Selling, general and administrative expenses	3,13		34,433		27,704
Results from operating activities			(16,676)		(61,114)
Finance costs	15		14,624		14,663
Foreign exchange (gain) loss			(165)		443
Gain on disposal of property and equipment			(969)		(3,777)
Amortization of intangible assets			459		555
Impairment	7		-		72,345
Loss before income tax			(30,625)		(145,343)
Income tax recovery					
Current	16		(88)		(981)
Deferred	16		(2,410)		(25,004)
			(2,498)		(25,985)
Net loss			(28,127)		(119,358)
Other comprehensive (loss) income					
Foreign currency translation gain (loss)			(1,429)		(2,040)
Total comprehensive loss		$	(29,556)	$	(121,398)
Loss per share:					
Basic	12	$	(0.41)	$	(1.77)
Diluted	12	$	(0.41)	$	(1.77)

See accompanying notes to the consolidated financial statements

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Deficit	Total
Balance at January 1, 2020		$ 428,817	$ 32,198	$ 5,852	$ (144,044)	$ 322,823
Net loss for the year		-	-	-	(119,358)	(119,358)
Foreign currency translation loss		-	-	(2,040)	-	(2,040)
Share-based compensation	11	-	2,922	-	-	2,922
Exercise of equity instruments	10	2,981	(2,749)	-	-	232
Balance at December 31, 2020		$ 431,798	$ 32,371	$ 3,812	$ (263,402)	$ 204,579
Balance at January 1, 2021		$ 431,798	$ 32,371	$ 3,812	$ (263,402)	$ 204,579
Net loss for the year		-	-	-	(28,127)	(28,127)
Foreign currency translation loss		-	-	(1,429)	-	(1,429)
Share-based compensation	11	-	2,419	-	-	2,419
Exercise of equity instruments	10	3,970	(3,970)	-	-	-
Balance at December 31, 2021		**$ 435,768**	**$ 30,820**	**$ 2,383**	**$ (291,529)**	**$ 177,442**

See accompanying notes to the consolidated financial statements

STEP ENERGY SERVICES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, (in thousands of Canadian dollars)	Notes	2021	2020
Operating activities:			
Net loss		$ (28,127)	$ (119,358)
Adjusted for the following:			
Depreciation and amortization	5,6	73,381	88,940
Share-based compensation	11	6,717	3,610
Unrealized foreign exchange (gain) loss		(272)	721
Gain on disposal of property and equipment		(969)	(3,777)
Impairment	7	-	72,345
Finance costs	15	14,624	14,663
Income tax recovery	16	(2,498)	(25,985)
Cash finance costs paid		(12,801)	(14,842)
Income taxes recovered		1,856	8,046
Changes in non-cash working capital from operating activities	22	6,935	22,440
Net cash provided by operating activities		58,846	46,803
Investing activities:			
Purchase of property and equipment	5	(37,242)	(17,826)
Proceeds from disposal of equipment and vehicles		1,104	6,685
Changes in non-cash working capital from investing activities	22	5,430	(5,411)
Net cash used in investing activities		(30,708)	(16,552)
Financing activities:			
Repayment of loans and borrowings	8	(19,266)	(30,409)
Repayment of obligations under finance lease		(6,405)	(6,088)
Net cash used in financing activities		(25,671)	(36,497)
Impact of exchange rate changes on cash		(35)	245
Increase (decrease) in cash and cash equivalents		2,432	(6,001)
Cash and cash equivalents, beginning of year		1,266	7,267
Cash and cash equivalents, end of year		$ 3,698	$ 1,266

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2021 and 2020.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

STEP Energy Services Ltd. (the “Company”, “STEP Energy Services” or “STEP”) is a publicly traded company domiciled in Canada, incorporated under the laws of the Province of Alberta on March 25, 2011 and is listed under the symbol “STEP” on the Toronto Stock Exchange. The registered office of the Company is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5 and the principal place of business is 1200, 205-5th Ave SW, Calgary, Alberta T2P 2V7. STEP provides specialized coiled tubing and associated pumping and fracturing equipment to service the oil and gas industry in Canada and the United States (“U.S.”).

Statement of Compliance

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

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

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current period. $1.8 million of deferred share units were reclassified from trade and other payables to other liabilities as at December 31, 2020.

These consolidated financial statements were approved by the Board of Directors (“Board”) on March 16, 2022.

Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make certain estimates and judgments concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management’s judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the consolidated financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes.

COVID-19

COVID-19 has created many uncertainties with respect to counterparty credit risk, liquidity and the valuation of long-lived assets, inventory and right-of-use assets. While the impacts of these uncertainties were more pronounced in fiscal 2020 than in 2021, management has incorporated the anticipated impact of COVID-19 in estimates and judgments in the preparation of these audited consolidated financial statements for the year ended December 31, 2021 to the extent known at this time. Outcomes that are different from assumptions used in estimates could require a material adjustment within the next financial year.

Business combination

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

Allowance for doubtful accounts

The Company performs ongoing credit evaluations of its customers and provides credit based on a review of historical collections, current aging status, the customer’s financial condition and anticipated market conditions. Customer payments are regularly monitored. A provision of doubtful accounts is established based off the Company's lifetime expected credit losses ("ECLs") for trade receivables and probability weighted collectability of significant accounts.

Impairment

Management judgment is required to assess when impairment indicators exist and impairment testing is required. The assessment of impairment indicators is based on management's judgment of whether there are internal and external factors that would indicate that a CGU and specifically the non-financial assets within the CGU are impaired. The assessment of external indicators considers expected industry activity levels, commodity price environment and market capitalization. The assessment of internal indicators considers forecasted adjusted EBITDA. Forecasted adjusted EBITDA means net income (loss) plus or minus: finance costs, taxes, depreciation, amortization, gains or losses on the sale of assets, non-cash impairment charges, foreign exchange gains or losses, and share based compensation.

The determination of CGUs is based on management's judgment regarding shared equipment, mobility of equipment, geographical proximity and materiality. The Company's CGUs are defined as: Canadian Coiled Tubing, Canadian Fracturing, U.S. Coiled Tubing, and U.S. Fracturing. Considerations set out in management's analysis included cash inflows by business line, operational considerations and the nature of asset usage.

The recoverable amount of CGUs is determined as the greater of fair value less costs to sell ("FVLCTS") or value in use ("VIU"). These calculations require the use of estimates applied by management regarding forecasted activity levels, expected future results, and discount rates among others, and are subject to changes as new information becomes available. Changes in assumptions used in determining the recoverable amount could have a material effect on the carrying value of the related assets and CGUs. In determining the estimated recoverable amount for a specific asset that is inactive with no expectation of returning to active cash generating use, the Company uses recent market transactions, if available, or other valuation models.

Net realizable value of inventory

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

Depreciation and amortization

Depreciation and amortization of the Company's property and equipment, right-of-use assets and intangible assets incorporates estimates of useful lives and residual values. These estimates may change as more knowledge is obtained or as general market conditions change, or technological advancements are made.

Lease liabilities and right-of-use assets

The measurement of lease liabilities and right-of-use assets incorporates an estimate of lease terms. The term of a lease is determined as the non-cancellable period of a lease and includes periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. In considering the option to extend a lease, the Company considers all relevant facts and circumstances that create an economic incentive to exercise or not exercise the option. The lease term is revised if there is a change in circumstances in which the Company does or does not extend the lease extension option previously included in the initial measurement of a lease, or an event occurs that obliges or prohibits the Company from further extending the lease. In the event there is a change in estimate of a lease term, the Company remeasures lease liabilities and right-of-use assets at the date of the change in estimate.

Functional currency

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

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax basis. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The calculation of income taxes involves many complex factors including the Company's interpretation of the relevant tax legislation and regulations.

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than a Company's functional currency are recognized in the consolidated statement of net loss.

The financial statements of foreign subsidiaries that have a different functional currency are translated into Canadian dollars whereby assets and liabilities are translated at the rate of exchange at each reporting date, revenue and expenses are translated at average exchange rates for the period, any gains and losses in translation are initially recognized in other comprehensive income and reclassified to profit or loss on disposal or partial disposal of the foreign subsidiary. The U.S. entities' functional currency is the U.S. Dollar.

Business Combinations
The Company applies the acquisition method to account for business combinations whereby the assets and liabilities of its acquired entities are measured at their estimated fair value at acquisition date. The Company measures goodwill as the fair value of the consideration transferred, less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date.

Financial Instruments
Financial instruments are recognized at fair value on initial recognition less transaction costs directly attributable to the acquisition or issue of the financial instrument. Measurement in subsequent periods depends on the purpose for which the instruments were acquired. Financial assets are subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the Company's business model and contractual cash flows of the financial asset. Financial liabilities are subsequently measured at amortized cost with the exception of financial liabilities measured at fair value through profit or loss, such as the Company's foreign exchange forward contracts. Gains or losses on financial instruments measured at fair value are recognized in profit or loss.

The Company directly writes off the gross carrying amount of financial assets when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company recognizes loss allowances for ECLs that reflect probability-weighted amounts that are determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

Transaction costs include only those costs that are directly attributable to the acquisition or origination of a financial asset or issue of a financial liability. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other transaction costs are amortized using the effective interest method.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a reduction of equity, net of any tax effects.

Cash and Cash Equivalents

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

Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventories comprised of all costs of purchase, costs of conversion, and other costs incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling prices in the ordinary course of business. The Company writes down inventory to net realizable value when it is determined the cost of inventories may not be recoverable. Any write downs of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. Coiled tubing string inventory cost is determined on a specific item basis. All other inventory value is determined using weighted average cost.

Property and Equipment

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

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

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

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

Buildings	20 years
Field Equipment	3- 15 years
Office Equipment	3 – 5 years
Vehicles	3 years

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

Impairment

The carrying amounts of the Company's non-financial assets including right-of-use assets, property and equipment, and intangibles are reviewed at each reporting date to determine whether impairment indicators exist, and impairment testing is required for a CGU. If any such indication exists, then the CGUs recoverable amount is estimated. The Company also reviews for indicators of impairment with respect to specific assets, that are inactive with no expectation of returning to active cash generating use, at each reporting date.

Assets are grouped into CGUs, the lowest level with separately identifiable cash inflows that are largely independent of the cash inflows of other assets, for the purposes of measuring recoverable amounts. The recoverable amount of a CGU is the greater of its VIU and its FVLCTS. In assessing VIU, the Company uses a discounted cash flow model with significant assumptions including the forecasted revenue growth rates, forecasted adjusted EBITDA, forecasted sustaining capital and using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. In assessing FVLCTS, recent market transactions are considered, if available. If no such transactions can be identified, an appropriate approach to valuation is used, which may include internal valuation estimates.

The recoverable amount for specific assets is determined based on recent market transactions, if available, or other valuation models.

Goodwill, if present, is reviewed for impairment annually or any time there is an indicator of impairment. Goodwill acquired through a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the related business combination. The CGU represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or non-financial assets within the CGU are considered impaired and their carrying value is reduced to their recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying value of goodwill, if present, and then to reduce the carrying amounts of the other non-financial assets on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the assumptions or data used to determine the estimated recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Lease Liabilities and Right-of-Use Assets

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to perform this assessment, the Company determines whether: i.) The Company has the right to obtain substantially all of the economic benefits from use of the asset through the period of use; and ii.) The Company has the right to direct the use of the identified asset.

The term of the lease is determined as the non-cancellable period of a lease and periods in which there is reasonable certainty the Company will exercise an option to extend or cancel a lease. The Company considers all relevant facts and circumstances that would create an economic incentive to extend or terminate a lease.

At the commencement date of a lease, the Company measures lease liabilities at the present value of remaining estimated lease payments, discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. Subsequently, the carrying amount of lease liabilities is increased by interest, offset by lease payments made.

The initial cost of right-of-use assets is measured as the value of the lease liability, adjusted for any lease incentives received and initial direct costs. Right-of-use assets are recognized at cost less any accumulated depreciation and any accumulated impairment losses. The Company primarily leases light duty vehicles, office buildings, service centers, and copiers. Recognition exemptions permitted include short term leases or leases for which the underlying asset is of low value. If a contract meets these criteria the Company expenses the payments in the consolidated statements of net loss and other comprehensive loss.

Right-of-use assets are depreciated using the straight-line method from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The useful lives of right-of-use assets are over the following periods:

Buildings	2 - 7 years
Office Equipment	3 - 5 years
Vehicles	2 - 3 years

Borrowing Costs

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

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

Intangible Assets

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

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

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

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

Technology license	11 years
Non-compete	4 years

Income Taxes

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

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

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates substantially enacted at the reporting date. Deferred tax assets are recognized to the extent it is probable that future taxable profits will be available against which they can be applied.

The Company maintains provisions, if necessary, for uncertain tax positions that it believes appropriately reflect the risk of tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the Company’s best estimate of the amount expected to be paid based on an assessment of all relevant factors, which are reviewed at the end of each reporting period.

Provisions

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

Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Revenue is recognized once performance obligations are satisfied. The Company's performance obligations are satisfied from oil and gas services performed over time as customers simultaneously receive and consume the benefits provided. Invoices for services rendered are issued upon completion of the work, generally within the same period.

The consideration for services rendered is measured at the fair value of the consideration received and allocated based on their standalone selling prices. Revenue is measured net of returns, trade discounts and volume discounts.

Share-based Compensation

The Company has equity-settled long-term incentive share-based compensation plans which provide for the granting of options, performance warrants, performance share units and restricted share units to directors, officers, and employees. There are no provisions for cash settlement in these plans.

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

The fair value of each tranche within an award is measured at the date of the grant using the Black-Scholes option pricing model. Assumptions used in the model include interest rates, underlying volatility, expected life of the tranche, estimated performance metrics and estimated forfeiture rates. The number of awards expected to vest is reviewed on an ongoing basis. The Company also has a cash-settled long-term incentive plan ("the Phantom PRSU Plan") for its employees and executives and a deferred share unit ("DSU") plan for its directors. At each reporting date between the grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in the consolidated statement of net loss and other comprehensive loss.

Earnings per Share

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated through the adjustment of profit or loss and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares.

Segment Reporting

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

Government Grants and Disclosure

Government grants are not recognized until there is reasonable assurance that the Company will comply with conditions attached to them and the grants will be received. The Company uses the income approach in which government grants are recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Grants receivable as compensation for expenses or losses already incurred for the purpose of giving immediate financial support to the Company, with no future related costs shall be recognized in profit or loss in the period in which it becomes available.

Future Accounting Pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements include:

1) Amendments to IAS 1 Presentation of Financial Statements– Classification of liabilities as current or non-current

This proposed standard is subject to revision and is expected to be effective for reporting periods starting January 1, 2024. The Company does not expect any significant impact from adoption of these amendments.

NOTE 3 – GOVERNMENT GRANTS

Due to COVID-19 (see Note 1 – *COVID-19*) the Government of Canada implemented the COVID-19 Economic Response Plan. Under the plan, the Company was eligible for the Canada Emergency Wage Subsidy ("CEWS") in which Canadian businesses impacted by COVID-19 were eligible for wage subsidies for any week from March 15, 2020 to October 23, 2021. CEWS was primarily calculated using a sliding scale of subsidy based on overall revenue reductions in each period. For the year end December 31, 2021, the Company recognized $6.8 million (December 31, 2020 - $11.7 million) in grants under the CEWS as a reduction of employee costs of $6.4 million (December 31, 2020 - $9.9 million) in operating expenses and $0.4 million (December 31, 2020 - $1.8 million) in selling, general, and adminstrative expenses.

In addition, Canadian businesses who saw a drop in revenue due to COVID-19 were eligible for the Canadian Emergency Rent Subsidy ("CERS") to cover part of their commercial rent or property expenses retroactive from September 27, 2020 to October 23 2021. Claim periods are divided into four week periods. The Company met the eligibility requirements and CERS was calculated based on overall revenue reductions in each period. For the year ended December 31, 2021, the Company recognized $0.3 million (2020 - $0.03 million) in grants under CERS as a reduction to selling, general, and adminstrative expenses.

NOTE 4 – INVENTORY

As at December 31,		**2021**		2020
Coiled tubing	$	**6,319**	$	4,975
Sand and chemicals		**9,323**		10,364
Spare equipment and parts		**17,090**		11,651
Total Inventory	$	**32,732**	$	26,990

The cost of inventories recognized in operating expenses during the year ended December 31, 2021 was $164.5 million (2020 – $117.0 million).

During the year ended December 31, 2021, the Company incurred write-downs to net realizable value of $0.7 million (December 31, 2020 – $0.8 million) respectively comprised of coiled tubing and chemicals.

NOTE 5 – PROPERTY AND EQUIPMENT

	Land and buildings	Vehicles	Field equipment	Office equipment	Total
Cost:					
Balance at January 1, 2020	$ 37,032	$ 667	$ 698,368	$ 8,553	$ 744,620
Additions	304	-	17,281	241	17,826
Disposals	-	(41)	(6,822)	-	(6,863)
Reclassification of assets held for sale	752	-	614	-	1,366
Effect of exchange rate changes	(253)	-	(6,356)	(25)	(6,634)
Balance at December 31, 2020	37,835	626	703,085	8,769	750,315
Additions	1,118	-	35,927	197	37,242
Disposals	(781)	(512)	(15,321)	(484)	(17,098)
Effect of exchange rate changes	(100)	-	(2,085)	(8)	(2,193)
Balance at December 31, 2021	**$ 38,072**	**$ 114**	**$ 721,606**	**$ 8,474**	**$ 768,266**
Accumulated depreciation:					
Balance at January 1, 2020	$ 5,212	$ 657	$ 224,940	$ 6,766	$ 237,575
Depreciation	1,537	12	78,750	696	80,995
Impairment	3,902	-	67,702	246	71,850
Disposals	-	(35)	(3,826)	-	(3,861)
Effect of exchange rate changes	(55)	(8)	(4,326)	(19)	(4,408)
Balance at December 31, 2020	10,596	626	363,240	7,689	382,151
Depreciation	1,602	-	64,363	603	66,568
Disposals	(119)	(496)	(14,196)	(451)	(15,262)
Effect of exchange rate changes	(5)	(16)	(666)	(3)	(690)
Balance at December 31, 2021	**$ 12,074**	**$ 114**	**$ 412,741**	**$ 7,838**	**$ 432,767**
Carrying amounts:					
As at December 31, 2020	$ 27,239	$ -	$ 339,845	$ 1,080	$ 368,164
As at December 31, 2021	**$ 25,998**	**$ -**	**$ 308,865**	**$ 636**	**$ 335,499**

Included in field equipment as at December 31, 2021 were capital projects underway of $11.6 million (December 31, 2020 - $2.5 million).

For the year ended December 31, 2020, the Company recognized an impairment expense of $71.9 million related to buildings, field equipment and office equipment and a $0.5 million write down of specific assets. See Note 7 for further discussion on the Company's impairment tests.

NOTE 6 – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

		Buildings		Vehicles		Office equipment		Total
Balance at January 1, 2020		9,002		22,448		270		31,720
Additions		3,431		938		9		4,378
Disposals		(744)		(10,912)		-		(11,656)
Effect of exchange rate changes		(362)		(99)		(1)		(462)
Balance at December 31, 2020	$	11,327	$	12,375	$	278	$	23,980
Additions		2,056		8,171		160		10,387
Disposals		(159)		(2,359)		(170)		(2,688)
Effect of exchange rate changes		(42)		(42)		-		(84)
Balance at December 31, 2021		13,182		18,145		268		31,595
Accumulated depreciation:								
Balance at January 1, 2020		2,225		10,632		70		12,927
Depreciation		2,931		4,385		74		7,390
Disposals		(705)		(6,904)		-		(7,609)
Effect of exchange rate changes		(63)		(115)		(3)		(181)
Balance at December 31, 2020	$	4,388	$	7,998	$	141	$	12,527
Depreciation		2,994		3,296		64		6,354
Disposals		(159)		(1,762)		(125)		(2,046)
Effect of exchange rate changes		(1)		(26)		(1)		(28)
Balance at December 31, 2021	**$**	**7,222**	**$**	**9,506**	**$**	**79**	**$**	**16,807**
Carrying amounts:								
As at December 31, 2020	$	6,939	$	4,377	$	137	$	11,453
As at December 31, 2021	**$**	**5,960**	**$**	**8,639**	**$**	**189**	**$**	**14,788**

With respect to the right-of-use assets above, the Company has lease contracts for light duty vehicles, office buildings, service centers, and copiers. The maturity dates of these contracts range from January 2022 to November 2026 with interest rates ranging from 2.68% to 8.04% per annum. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are as follows:

As at		**December 31, 2021**		December 31, 2020
Future minimum lease payments	**$**	**16,704**	$	13,868
Discount		**(1,331)**		(1,151)
Present value of minimum lease payments	**$**	**15,373**	$	12,717
Presented as:				
Current portion of lease obligations	**$**	**6,210**	$	5,919
Lease obligations	**$**	**9,163**	$	6,798

NOTE 7 – IMPAIRMENT ASSESSMENT

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment or reversal of previous impairments.

December 31, 2021

On December 31, 2021, the Company did not identify any indicators of impairment or reversals of previous impairments on any of its CGUs and therefore impairment tests were not performed. STEP has identified four CGUs for purposes of impairment testing: Canadian Coiled Tubing, Canadian Fracturing, U.S. Coiled Tubing and U.S. Fracturing.

December 31, 2020

As at December 31, 2020, the Company assessed that despite improvements in the outlook for future periods there remained uncertainty as to the roll out of COVID-19 vaccines and the potential spread of new variants and the related impact on demand for crude oil. The Company tested the Canadian and U.S. Fracturing CGUs and the U.S. Coiled Tubing CGU. The Canadian Coiled Tubing CGU was not tested as previous impairment tests in 2020 indicated significant excess recoverable amounts compared to the carrying amounts.

The recoverable amounts of the CGUs were determined using the value in use method, based on multi-year discounted cashflows to be generated from continuing operations. Cash flow assumptions were based on a combination of expected future results, including management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and a post-tax discount rate of 14.0% (pre-tax 18.1%). Discount rates were calculated using the Company's weighted-average cost of capital adjusted for uncertainties in forecasting. A terminal growth rate of 2.0% was applied for all cash flows beyond 2025.

A comparison of the recoverable amounts of the Canadian and U.S. Fracturing CGUs and the U.S. Coiled Tubing CGU to the respective carrying values resulted in no additional impairment charges required. A 1% increase in the discount rate would not have resulted in any additional impairment.

The Company also identified a market decline in specific assets and wrote the assets down to their recoverable value during the second quarter of 2020 resulting in an impairment charge of $0.5 million.

June 30, 2020

As at June 30, 2020, the Company assessed that indicators of impairment identified at March 31, 2020 were still present as economic uncertainty continued for all of the Company's CGUs.

The recoverable amounts of the CGUs were determined using the same methodology described above. A post-tax discount rate of 14.75% (pre-tax 18.6%) was used for all CGUs. Discount rates were calculated using the Company's weighted average cost of capital adjusted for forecast risk.

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in an impairment charge in the U.S. Fracturing CGU against property and equipment of $13.1 million. The recoverable amount for the U.S. Fracturing CGU was determined to be $126.4 million. A post-tax discount rate of 14.1.% (pre-tax 17.71%) would have caused the recoverable amount of the U.S. Fracturing CGU to be equal to the carrying value. A 1% increase in the discount rate would have resulted in an additional impairment charge of $17.1 million in the U.S. Fracturing CGU and impairment of $4.6 million in the Canadian Fracturing CGU. Increasing the discount rate by 1% would not have resulted in impairment for the Canadian Coiled Tubing CGU or U.S. Coiled Tubing CGU as at June 30, 2020.

March 31, 2020

As at March 31, 2020, government and health authority responses to the COVID-19 global pandemic led to demand destruction for crude oil. OPEC+ crude oil production increases caused an oversupply of crude oil, at a time when demand was falling. The demand destruction and oversupply concerns caused a significant deterioration in economic conditions and increased economic uncertainty for the oil and gas industry. The combined impact of the two events materially reduced client spending and demand for STEP's services. As a result, the Company performed an impairment test on its long-lived assets (non-financial assets) of all the Company's CGUs.

The recoverable amounts of the CGUs were determined using the same methodology described above. A post-tax discount rate of 15.4% (pre-tax 18.8%) was used for all CGUs. Discount rates were calculated using the Company's weighted average cost of capital adjusted for forecast risk.

A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in an impairment charge in the Canadian Fracturing CGU against property and equipment of $58.8 million for the period ended March 31, 2020. The recoverable amount of the Canadian Fracturing CGU was $168.0 million. A post-tax discount rate of 12.7% (pre-tax 15.8%) would have caused the recoverable amount of the Canadian Fracturing CGU to be equal to the carrying value. A 1% increase in the discount rate would have resulted in an additional impairment charge of $16.1 million in the Canadian Fracturing CGU and impairment of $5.6 million in the U.S. Fracturing CGU. Increasing the discount rate by 1% would not have resulted in impairment for the Canadian Coiled Tubing CGU or U.S. Coiled Tubing CGU as at March 31, 2020.

Assumptions that are valid at the time of preparing the impairment test may change significantly when new information becomes available.

NOTE 8 – LOANS AND BORROWINGS

As at December 31, 2021, the Company's Credit Facilities with a syndicate of lenders were comprised of a Canadian $200.0 million term loan facility, a Canadian $30.0 million revolving facility, a Canadian $10.0 million operating facility and a U.S. $15.0 million operating facility. The maturity date of the Credit Facilities is July 30, 2023, and the Covenant Relief Period (as defined in the Credit Facilities) ends June 30, 2022. The Credit Facilities include a general security agreement, providing a security interest over all present and after acquired personal property of the Company and all its subsidiaries including mortgages on certain properties. Any current and future leases that would have been accounted for as an operating lease on December 31, 2018 will continue to be recognized as operating leases for purposes of calculating financial covenants.

Scheduled quarterly repayments of the term loan facility of $7.0 million per quarter commence on March 31, 2022. The balance is due on the maturity date. The sum of any amounts outstanding under the revolving facility, the Canadian operating facility and the U.S. operating facility may not exceed the Borrowing Base. The Borrowing Base is defined as the aggregate of: (1) 85% of U.S. and Canadian based investment grade eligible accounts receivable under 120 days from the invoice date, (2) 75% of U.S. and Canadian based non-investment grade eligible accounts receivable under 90 days from the invoice date and (3) 50% of U.S. and Canadian based eligible inventory subject to a maximum of $10.0 million less priority payables and certain liquidity requirements (see item three below). As at December 31, 2021, the Company's Borrowing Base was $59.0 million compared to $49.3 million as at December 31, 2020. Mandatory repayments are required anytime the amount outstanding under the revolving facility and Canadian and U.S. operating facilities exceeds the Borrowing Base. The Credit Facilities include certain financial and non-financial covenants, including:

1. An Interest Coverage Ratio. This refers to the ratio of Adjusted Bank EBITDA to interest expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance and LIBOR advances. Interest on lease obligations for current and future leases, which would have been accounted for as an operating lease on December 31, 2018 is not included in interest expense for purposes of calculating financial covenants. The Company is required to meet the following interest coverage ratios:

Quarters Ended	Interest Coverage ratio minimum permitted
December 31, 2021	3.00:1
March 31, 2022	3.00:1
June 30, 2022	3:00:1
September 30, 2022 and thereafter	3.00:1

On December 31, 2021, STEP's Interest Coverage ratio was 4.80:1.

2. A Funded Debt to Adjusted Bank EBITDA ratio. This refers to total outstanding interest-bearing debt including lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to Adjusted Bank EBITDA. Adjusted Bank EBITDA means the net income (loss) on a consolidated basis plus or minus: interest expense, the provision for income taxes, depreciation, amortization, deferred income tax expense or recovery, gains or losses on the sale of assets, allowance for doubtful account provisions, non-cash impairment charges, unrealized foreign exchange gains or losses and marking to market hedging instruments, discretionary management bonuses, severance and share based compensation, and any non-typical and non-recurring transactions. Lease expense for current and future finance leases, which would have been accounted for as an operating lease on December 31, 2018, is deducted from net income (loss) when calculating Adjusted Bank EBITDA. The ratio is calculated quarterly on the last day of each fiscal quarter on a four-quarter rolling basis.

Quarters Ended	Funded Debt to Adjusted Bank EBITDA ratio maximum permitted
December 31, 2021	4.50:1
March 31, 2022	4.00:1
June 30, 2022	3.50:1
September 30, 2022 and thereafter	3.00:1

On December 31, 2021, STEP's Funded Debt to Adjusted Bank EBITDA ratio was 2.87:1.

3. A Minimum Liquidity Availability. This means the Company must ensure on a consolidated monthly basis during the Covenant Relief Period (as defined in the Credit Facilities) Liquidity Availability of $7.5 million or greater. Liquidity Availability means the applicable Borrowing Base minus the sum of: (a) all outstanding accommodations under the revolving facility and the operating facilities; and (b) all interest, fees, expenses, and other amounts due and payable under the Credit Facilities. The Liquidity Availability was $57.5 million on December 31, 2021 compared to $49.0 million on December 31, 2020.

The Company complied with all financial and non-financial covenants under its Credit Facilities on December 31, 2021.

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 200 basis points to 500 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the year ended December 31, 2021 was 4.94% (December 31, 2020 – 4.84%). The Company has total outstanding letters of credit of $0.03 million. The total amount of Credit Facilities outstanding on December 31, 2021 is as follows:

As at		**December 31, 2021**		December 31, 2020
Term loan facility	**$**	**189,300**	$	210,000
Canadian and U.S. operating lines		**1,283**		1
Revolving facility		**-**		-
Deferred financing costs		**(626)**		(2,371)
Total Loans and borrowings	**$**	**189,957**	$	207,630
Less: current portion of term loan facility		**(27,950)**		-
Long term portion of loans and borrowings	**$**	**162,007**	$	207,630

The following table displays the movements in loans and borrowings during the year ended December 31, 2021:

		(000's)
Balance at January 1, 2021	$	207,630
Repayment of loans and borrowings, net		(19,266)
Deferred financing incurred		(1,207)
Accretion of deferred financing costs		2,953
Effect of exchange rate changes		(153)
Balance at December 31, 2021	$	189,957

STEP is expecting compliance with the financial covenants applicable to the Credit Facilities for at least the next twelve months. A decrease or sustained period of materially reduced client spending and demand for STEP's services may result in non-compliance with our financial covenants and reduced liquidity related to changes in our Credit Facilities. Non-compliance with the financial covenants in our Credit Facilities could result in our debt becoming due and payable on demand. Should we anticipate non-compliance we will proactively approach our lending syndicate to amend the Credit Facilities to ensure their availability. There is no certainty that we will be successful in negotiating such amendments.

NOTE 9 – COMMITMENTS

The following table summarizes the Company's estimated commitments that are not included in the consolidated statement of financial position related to leases on December 31, 2021 for the following five years and thereafter:

	2022	2023	2024	2025	2026	Thereafter	Total
Operating expenses for lease obligations[1]	$ 1,322	$ 1,233	$ 360	$ 296	$ 70	$ -	$ 3,281
Short term and low value lease obligations[1]	154	-	-	-	-	-	154
Total commitments	$ 1,476	$ 1,233	$ 360	$ 296	$ 70	$ -	$ 3,435

1) Includes U.S. obligations at an estimated forecast exchange rate of 1 USD = 1.264 CAD.

Operating expenses related to lease obligations relate to leases of certain service centers and office space with lease terms of between 1 year and 5 years. The total expense recognized during the year ended December 31, 2021 for short term and low value lease obligations was $1.7 million.

December 31, 2021, the Company has $3.9 million (December 31, 2020 - $2.9 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2022.

NOTE 10 – SHARE CAPITAL

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

	Shares #	Amount
Balance at January 1, 2020	66,942,830	$ 428,817
Issued – exercise of share-based instruments	770,994	2,981
Balance at December 31, 2020	67,713,824	431,798
Issued – exercise of share-based instruments	443,157	3,970
Balance at December 31, 2021	**68,156,981**	**$ 435,768**

NOTE 11 – SHARE-BASED COMPENSATION

Prior to the initial public offering ("IPO"), the Company's share-based compensation plans for employees and directors consisted of prior stock options and performance warrants. The Company has since implemented new share-based compensation plans following the IPO including a new stock option plan (the "New Stock Option Plan"), a performance and restricted share unit plan (the "PRSU Plan"), a cash-settled deferred share unit plan (the "DSU Plan"), and a cash-settled Phantom Long-Term Incentive Plan ("The Phantom PRSU Plan"). Effective May 2, 2017, no further awards under the prior stock option plan or performance warrants may be granted.

The maximum number of common shares issuable under the New Stock Option Plan and all other share-based compensation arrangements (excluding the prior options and performance warrants) must not exceed 9.5% of the aggregate of the number of outstanding common shares. The following table summarizes the Company's outstanding equity settled share-based compensation instruments:

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2020	2,121,760	394,971	469,169	3,532,509	7,500,128	14,018,537
Granted	1,696,800	-	-	-	-	1,696,800
Exercised	-	(170,610)	(106,228)	-	-	(276,838)
Forfeited/Expired	(242,459)	(104,839)	(14,960)	(1,728,064)	(4,576,156)	(6,666,478)
Outstanding at December 31, 2020	**3,576,101**	**119,522**	**347,981**	**1,804,445**	**2,923,972**	**8,772,021**
Exercisable at December 31, 2020	717,008	-	75,771	1,804,445	2,400,232	4,997,456

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2021	3,576,101	119,522	347,981	1,804,445	2,923,972	8,772,021
Granted	967,374	761,827	-	-	-	1,729,201
Cancelled	-	-	(45,774)	-	-	(45,774)
Exercised	(46,666)	(106,380)	(302,198)	-	-	(455,244)
Forfeited/Expired	(649,004)	(71,564)	(9)	(1,556,545)	(2,404,332)	(4,681,454)
Outstanding at December 31, 2021	**3,847,805**	**703,405**	**-**	**247,900**	**519,640**	**5,318,750**
Exercisable at December 31, 2021	1,673,130	-	-	247,900	506,040	2,427,070

New stock options

New stock options may be granted at the discretion of the Board of Directors and all officers and employees of the Company are eligible for participation in the New Stock Option Plan. The option price is equal to the volume-weighted-average closing price of the Company's shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant. Grants vest in three equal portions on the first, second and third anniversary of the grant date and have a maximum life of five years, or as otherwise set out by the Board in the applicable grant agreement. Option holders have the choice of a cashless exercise which results in less shares being issued from treasury stock. When new stock options are exercised, the compensation expense previously recorded in contributed surplus is added to share capital.

	2021		2020	
	New stock options	**Weighted average exercise price**	New stock options	Weighted average exercise price
Outstanding at beginning of year	**3,576,101**	**$ 1.54**	2,121,760	$ 2.45
Granted	**967,374**	**1.42**	1,696,800	0.42
Exercised	**(46,666)**	**0.42**	-	-
Forfeited / Expired	**(649,004)**	**1.32**	(242,459)	1.74
Outstanding at end of year	**3,847,805**	**$ 1.56**	3,576,101	$ 1.54
Exercisable at end of year	**1,673,130**	**$ 2.07**	717,008	$ 2.79

As at December 31, 2021	New stock options Outstanding				New stock options Exercisable	
Exercise price	Number outstanding	Weighted average remaining life		Weighted average exercise price	Number exercisable	Weighted average exercisable price
$0.42-$0.88	1,345,567	3.41	$	0.42	470,628	$ 0.42
$0.89-$1.39	706,753	4.42		1.34	-	-
$1.40-$2.13	205,497	4.20		1.77	40,542	1.50
$2.14-$3.92	1,388,001	2.37		2.14	959,973	2.14
$3.93-$5.70	201,987	1.75		5.70	201,987	5.70
	3,847,805	**3.17**	**$**	**1.56**	**1,673,130**	**$ 2.07**

Restricted share units

The Board grants restricted share units ("RSUs") to eligible employees and executives. RSUs granted under the PRSU Plan provide the holder a right to receive a common share for each whole vested share unit. The RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in shares of the Company on those vesting dates. The fair value of the RSU is recognized over the expected life and is based on volume-weighted-average closing price of the Company's shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant. When RSUs are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. For RSUs exercised in the year, the weighted average share price on exercise date was $1.56/share. 761,827 equity settled RSUs were granted in 2021. The weighted average remaining life of RSUs outstanding at December 31, 2021 is 2.4 years.

Performance share units

The Board grants performance share units ("PSUs") to eligible employees and executives. PSUs granted under the PRSU Plan provide the holder a right to receive a common share for each whole vested share unit. The number of units that vest is based on the achievement of performance measures as specified by the Board of Directors. The Board of Directors assesses performance of the Company to determine the vesting percentage, which can range from 0% to 200%. Corporate PSUs vest at the end of three years, while instruments granted to the business unit senior officers vest in three equal portions on the first, second and third anniversary of the grant date. The PSU fair value approximates the volume-weighted-average closing price of the Company's shares on the Toronto Stock Exchange, for the five trading days preceding the date of grant. When PSUs are exercised, the compensation expense previously recorded in contributed surplus is added to share capital. For PSUs exercised in the year, the weighted average share price on exercise date was $1.26/share. No equity-settled PSUs were granted in 2021. The were no PSUs outstanding as at December 31, 2021.

Fair Value Assumptions for Share-based Compensation

The Company uses the Black-Scholes pricing model to calculate the fair value of equity settled share-based compensation instruments. Regarding PSUs and RSUs, the estimated fair value per unit approximates the five-day weighted average share price on grant date. The Company estimates volatility using the Company's historical share prices and peer information. Estimated fair values for the new stock options granted in the year were calculated using the following weighted average assumptions:

New stock options For the year ended December 31,	2021	2020
Risk-free interest rate (%)	**0.72-1.46**	0.41
Expected life (years)	**4.18-5.00**	5.00
Expected forfeiture rate (%)	**7.60-13.42**	13.81
Expected dividend rate (%)	**0.00**	0.00
Expected volatility (%)	**69.24-71.44**	75.02

Prior stock options

Grants under the prior stock option plan are exercisable for common shares, vest over a period of three years and have a maximum life of five or seven years, or as otherwise set out by the Board in the applicable grant agreement or amendment. Effective May 2, 2017, no further awards under the prior stock option plan may be granted. When prior stock options are exercised, the compensation expense previously recorded in contributed surplus is added to share capital.

	2021			2020		
	Prior stock options		**Weighted average exercise price**	Prior stock options		Weighted average exercise price
Outstanding at beginning of year	**1,804,445**	**$**	**5.25**	3,532,509	$	5.47
Forfeited / Expired	**(1,556,545)**		**5.05**	(1,728,064)		5.69
Outstanding at end of year	**247,900**	**$**	**6.51**	1,804,445	$	5.25
Exercisable at end of year	**247,900**	**$**	**6.51**	1,804,445	$	5.25

As at December 31, 2021	Prior stock options outstanding and exercisable			
Exercise price	Number outstanding	Weighted average remaining life		Weighted average exercise price
$5.00-$5.63	48,500	1.80	$	5.00
$5.64-$8.13	166,000	0.40		6.25
$8.14-$10.00	33,400	0.11		10.00
	247,900	**0.64**	**$**	**6.51**

Performance warrants

Grants under the performance warrant plan are exercisable for common shares, vest over a period of five years and have a maximum life of five or seven years, or as otherwise set out by the Board in the applicable grant agreement or amendment. Effective May 2, 2017, no further awards under the performance warrant plan may be granted. When performance warrants are exercised, the compensation expense previously recorded in contributed surplus is added to share capital.

	2021			2020		
	Performance warrants		**Weighted average exercise price**	Performance warrants		Weighted average exercise price
Outstanding at beginning of year	**2,923,972**	**$**	**11.51**	7,500,128	$	10.99
Forfeited / Expired	**(2,404,332)**		**11.29**	(4,576,156)		10.66
Outstanding at end of year	**519,640**	**$**	**12.54**	2,923,972	$	11.51
Exercisable at end of year	**506,040**	**$**	**12.48**	2,400,232	$	11.51

As at December 31, 2021	Performance warrants outstanding				Performance warrants exercisable		
Exercise price	Number outstanding	Weighted average remaining life		Weighted average exercise price	Number exercisable		Weighted average exercisable price
$7.50-$9.70	99,700	0.77	$	9.12	99,700	$	9.12
$9.71-$11.38	99,700	0.77		10.88	99,700		10.88
$11.39-$12.75	103,928	0.59		13.25	101,208		12.38
$12.76-$15.08	108,156	0.42		13.96	102,716		13.98
$15.09-$17.50	108,156	0.42		15.96	102,716		15.92
	519,640	0.59	$	12.54	506,040	$	12.48

Cash Settled Share-based Instruments

The Company has cash-settled long-term incentive plans ("the Phantom PRSU Plan") for its employees and executives as well as a deferred share unit (DSU) plan for its directors.

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2020	546,950	2,305,851	847,379	3,700,180
Granted	1,856,860	954,133	736,500	3,547,493
Added by performance factor	-	-	19,294	19,294
Exercised	-	(571,076)	(20,151)	(591,227)
Forfeited/Expired	-	(785,070)	(80,106)	(865,176)
Outstanding at December 31, 2020	**2,403,810**	**1,903,838**	**1,502,916**	**5,810,564**
Exercisable at December 31, 2020	2,403,810	-	-	-

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2021	2,403,810	1,903,838	1,502,916	5,810,564
Granted	151,707	34,402	-	186,109
Added by performance factor	-	-	-	-
Exercised	-	(809,513)	(20,155)	(829,668)
Forfeited/Expired	-	(142,751)	(581,521)	(724,272)
Outstanding at December 31, 2021	**2,555,517**	**985,976**	**901,240**	**4,442,733**
Exercisable at December 31, 2021	2,555,517	-	-	-

Deferred share units

Deferred Share Units awarded vest immediately and will be settled in cash in the amount equal to the closing price of the Company's common shares on the day before the Company elects to pay. The Company may elect to pay the DSUs at any point after the resignation is received from the Board member and before the last business day of the following year. Since the DSUs vest immediately, the fair value of the liability and the corresponding expense is charged to net loss at the grant date. The weighted average fair value for DSUs granted in 2021 was $1.50 per unit. Subsequently, at each reporting date between grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in net loss and other comprehensive loss for the period.

Cash-settled restricted share units

The Board grants cash-settled restricted share units ("Cash-settled RSUs") to eligible employees and executives under the Phantom PRSU Plan. Cash-settled RSUs granted under the Phantom PRSU Plan provide the holder a right to receive the cash equivalent of one common share for each vested RSU. The Cash-settled RSUs awarded will vest in three equal portions on the first, second and third anniversary of the grant date and will be settled in cash on those vesting dates. The weighted average fair value for RSUs granted in 2021 was $1.61 per unit. Cash-settled RSU liabilities are re-measured at each reporting period to the period end share price until they are fully vested. Any changes in fair value are recognized in net loss and other comprehensive loss for the period. The weighted average remaining life of cash settled RSUs outstanding at December 31, 2021 is 0.9 years.

Cash-settled performance share units

The Board grants cash-settled performance share units ("Cash-settled PSUs") to eligible employees and executives under the Company's Phantom PRSU Plan. Cash-settled PSUs granted under the Phantom PRSU Plan provide the holder a right to receive the cash equivalent of a common share for each vested Cash-settled PSU. The number of units that vest is based on the achievement of performance measures as specified by the Board. The Board assesses performance of the Company to determine the vesting percentage, which can range from 0% to 200%. Corporate Cash-settled PSUs vest at the end of three years, while instruments granted to the business unit senior officers vest in three equal portions on the first, second and third anniversary of the grant date. Cash-settled PSU liabilities are re-measured at each reporting period to the period end share price until they are fully vested. Any changes in fair value are recognized in net loss and other comprehensive loss for the period. The weighted average remaining life of cash-settled PSUs outstanding is 0.9 years.

The aggregate liability for all cash settled share-based instruments of $5.8 million is included in the statement of financial position with $1.3 million in trade and other payables and $4.5 million in other liabilities. Cash-settled instruments are excluded from earnings per share calculations as they are cash settled.

Share-based Compensation Expense

The composition of share-based compensation expense incurred was:

For the year ended December 31,		2021		2020
Prior stock options	$	-	$	4
New stock options		646		1,021
Performance warrants		147		686
Performance share units		1,226		849
Restricted share units		400		362
Cash-settled deferred share units		2,336		919
Cash-settled performance share units		480		55
Cash-settled restricted share units		1,482		(286)
Total share-based compensation expense	$	6,717	$	3,610

NOTE 12 – PER SHARE COMPUTATIONS

For the year ended December 31,	2021	2020
Weighted average number of shares outstanding - basic	68,007,878	67,321,951
Dilutive impact of share-based compensation instruments	-	-
Weighted average number of shares outstanding - diluted	68,007,878	67,321,951

As at December 31, 2021, 0.2 million prior stock options, 0.5 million performance warrants, 3.8 million new stock options, and 0.7 million restricted share units were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (December 31, 2020: 1.8 million prior stock options, 2.9 million performance warrants, 3.6 million new stock options, 0.1 million restricted share units, and 0.3 million performance share units).

NOTE 13 – PRESENTATION OF EXPENSES

For the year ended December 31,		2021		2020
Operating expenses				
Employee costs(1)	$	138,559	$	101,113
Operating expense		142,220		96,401
Materials and inventory costs		164,533		116,967
		445,312		314,481
Depreciation		71,865		87,257
Share-based compensation		1,375		617
Total operating expenses	$	518,552	$	402,355
Selling, general and administrative expenses				
Employee costs(1)	$	19,716	$	12,594
General expenses(2)		8,868		7,539
		28,584		20,133
Allowance for doubtful accounts expense (recovery)		(550)		3,450
Depreciation		1,057		1,128
Share-based compensation		5,342		2,993
Total selling, general and administrative expenses	$	34,433	$	27,704

1) *Employee costs are net of CEWS issued. See Note 3 – Government Grants.*
2) *General expenses are net of CERS issued. See Note 3 – Government Grants.*

NOTE 14 – EMPLOYEE EXPENSES

For the year ended December 31,		2021		2020
Salaries and short-term benefits	$	157,089	$	109,637
Post-employment benefits		255		165
Share-based compensation		6,717		3,610
Termination benefits		931		3,905
Total employee expenses	$	164,992	$	117,317
Included in:				
Operating expenses	$	139,934	$	101,730
Selling, general and administrative		25,058		15,587
Total employee expenses	$	164,992	$	117,317

NOTE 15 – FINANCE COSTS

For the year ended December 31,		2021		2020
Interest on loans and borrowings	$	10,992	$	12,020
Interest on lease obligations		800		908
Accretion of deferred financing charges		2,952		1,448
Other		(120)		287
Total finance costs	$	14,624	$	14,663

NOTE 16 – INCOME TAXES

Income Tax Recovery

The components of income tax recovery are:

Current tax recovery

For the year ended December 31,		2021		2020
Current year tax recovery	$	-	$	(1,590)
Adjustment in respect of prior years		(88)		609
Current tax recovery	$	(88)	$	(981)

Deferred tax recovery

For the year ended December 31,		2021		2020
Origination and reversal of temporary differences	$	(2,669)	$	(25,452)
Change in income tax rate		164		169
Adjustment in respect of prior years		95		279
Deferred tax recovery	$	(2,410)	$	(25,004)

The provision for income taxes in the consolidated statement of net loss and other comprehensive income varies from the amount that would be computed by applying the combined Federal and Provincial income tax rates of 23.0% (2020 – 24.0%) to net income or loss before income tax.

On December 9, 2020 the Alberta provincial government enacted corporate income tax rate reductions of 2.0% retroactive to July 1, 2020. This dropped the 2020 provincial income tax rate down to 8.0% from 10.0%. With a mid-2020 year rate reduction the combined 2020 income tax rate is presented as 24.0% (9.0% Alberta + 15.0% Federal) in the rate reconciliation below. There are no additional income tax rate changes to consider in 2021. The combined 2021 income tax rate is presented as 23.0% (8.0% Alberta + 15.0% Federal) in the rate reconciliation below.

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

For the year ended December 31,		2021		2020
Loss before income tax	$	(30,625)	$	(145,343)
Income tax rate %		23.0%		24.0%
Computed expected income tax recovery		(7,044)		(34,882)
Increase (decrease) in income taxes resulting from:				
Non-deductible interest		-		10,820
Unrecognized Deferred Tax Asset		3,744		-
Change in income tax rate		164		169
Foreign income tax rate differentials		(48)		(4,264)
Share-based compensation		573		711
Other rate effects		-		723
Other permanent differences		105		(149)
Adjustment in respect of prior years		8		887
Total income tax recovery	$	(2,498)	$	(25,985)

Deferred Tax Balances

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

As at December 31,		2021		2020
Tax losses	$	43,892	$	37,389
Property and equipment		(51,618)		(49,044)
Intangible assets		(25)		(118)
Obligation under capital lease		2,468		2,614
Deferred financing		761		1,015
Reserves		1,409		3,033
Other		1,739		1,281
Deferred tax (liability) net	$	(1,374)	$	(3,830)
Deferred tax (liability) asset by jurisdiction:				
Canada	$	(1,374)	$	(609)
United States		-		(3,221)
Deferred tax (liability) net	$	(1,374)	$	(3,830)

A deferred tax asset has not been recognized in respect of the following temporary differences in the U.S. See below for additional discussion regarding unrecognition of the deferred tax asset in the U.S. for 2021.

For the year ended December 31,		2021		2020
Tax Losses	$	16,275	$	-
Unrecognized Temporary Differences	$	16,275	$	-

Changes in net deferred income tax balances during the year:

	Tax losses	Property and equipment	Intangible assets	Capital lease obligation	Deferred financing	Reserves	Other	Total
Balance at January 1, 2020	$ 33,382	$ (73,305)	$ (228)	$ 3,674	$ 1,440	$ 775	$ 5,247	$ (29,015)
Recognized in profit or loss	4,006	24,011	107	(1,068)	(425)	2,222	(3,849)	25,004
Recognized in equity	1	250	3	8	-	36	(117)	181
Other	-	-	-	-	-	-	-	-
Balance at December 31, 2020	37,389	(49,044)	(118)	2,614	1,015	3,033	1,281	(3,830)
Recognized in profit or loss	(31,739)	38,305	117	(1,471)	(254)	(2,786)	238	2,410
Recognized in equity	52	(9)	1	-	-	5	(3)	46
Other	-	-	-		-	-	-	-
Balance at December 31, 2021	**$ 5,702**	**$ (10,748)**	**$ -**	**$ 1,143**	**$ 761**	**$ 252**	**$ 1,516**	**$ (1,374)**

As at December 31, 2021, the Company has deferred tax assets that relate to $24.1 million of non-capital losses in Canada. (2020 – Canada $19.8 million) which begin to expire starting in 2040. The Company recognizes losses to the extent they are expected to be deductible and are presented in the table above. As at December 31, 2021, the Company has tax assets that relate to $180.8 million of non-capital losses in U.S. (2020 – U.S. $148.1 million) which begin to expire starting in 2035. As the deferred tax asset relating to U.S. was unrecognized in 2021 the amounts were presented in the table as at December 31, 2020 and then the underlying amounts was unrecognized via the profit or loss in 2021.

Unrecognized Deferred Tax Assets

Deferred income tax assets are recognized for deductible temporary differences in a jurisdiction to the extent that the realization of the related tax benefit through future taxable profits is probable. As at December 31, 2021, there are deductible temporary differences in U.S. of $16.3 million. Due to uncertainty regarding amounts and timing of future taxable earnings in the U.S. consolidated group, $16.3 million of deductible temporary differences in U.S. are unrecognized as at December 31, 2021.

As at December 31, 2021, the Company has unrecognized net-capital loss carry-forwards totaling $197.1 million in Canada (2020 – Canada $198.5 million). While these net capital losses do not expire, they are only realizable against future net capital gains in Canada. At the current time the Company does not anticipate capital gains to realize these unrecognized net-capital losses.

NOTE 17 – FINANCIAL INSTRUMENTS

Accounting Classifications and Fair Values

Cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings are initially recognized at fair value and subsequently measured at amortized cost. The carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and therefore fair market value approximates carrying value. The Company classifies its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

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

During the year ended December 31, 2021, there were no transfers between levels in the fair value hierarchy.

Credit Risk

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

The Company measures potential loss exposures on trade and other receivables at an amount equal to lifetime ECLs. At every point after the initial recognition, there is at least some risk of default. To assess this risk, the Company considers quantitative and qualitative information based on the Company's historical experience and forward-looking information. Factors considered include customer payment history, customer credit ratings, customer cash flows, industry trends, and commodity pricing forecasts. The Company assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. During the year, the Company reversed $0.6 million of the allowance for doubtful accounts and wrote-off $5.8 million of trade accounts receivable against the allowance for doubtful accounts.

During the year ended December 31, 2021, one client in the Canadian segment, represented 12% of consolidated revenue. During the year ended December 31, 2020, one client in the U.S. segment, represented 22% of consolidated revenue. As at December 31, 2021, one client in the Canadian segment, accounted for 13% of trade accounts receivable. As at December 31, 2020, one client in the U.S. segment, accounted for 15% of trade accounts receivable.

The Company's aged trade and other receivables are as follows:

As at December 31,		2021		2020
Current (0 to 30 days from invoice date)	$	**66,523**	$	28,879
31 - 60 days		**17,966**		25,154
61 - 90 days		**504**		5,211
91+ days		**194**		6,609
Receivables from trade clients		**85,187**		65,853
Allowance for doubtful accounts		**(312)**		(6,707)
Other amounts		**1,769**		4,325
Total trade and other receivables	$	**86,644**	$	63,471

The Company's objective is to minimize credit losses.

The Company held cash and cash equivalents of $3.7 million as at December 31, 2021 (December 31, 2020 - $1.3 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major banks and financial institution counterparties (level 1).

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company's objective in managing liquidity risk is to maintain sufficient available resources to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in the cash and cash equivalents account. See Note 9 for commitments.

The expected timing of cash outflows relating to financial liabilities on the statement of financial position as at December 31, 2021 are:

	2022	2023	2024	2025	2026	Thereafter	Total
Lease obligations(1)	$ 6,946	$ 5,334	$ 3,383	$ 777	$ 264	$ -	**$ 16,704**
Trade and other payables	95,183	-	-	-	-	-	**95,183**
Loans and borrowings(2)	37,150	167,309	-	-	-	-	**204,459**
	$ 139,279	$ 172,643	$ 3,383	$ 777	$ 264	$ -	**$ 316,346**

1) *Includes interest portion of lease obligations.*
2) *Includes estimated interest and principal repayments, based on current amounts outstanding and current interest rates as at December 31, 2021. Both are variable in nature.*

The Company anticipates that its cash on hand, trade accounts receivable and cash provided by operating activities, will be adequate to satisfy its liquidity requirements over the next twelve months.

Market Risk

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

Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding debt for the year a 1.0% change in the bankers' prime rate would result in a $1.8 million increase or decrease in interest expense for the year ended December 31, 2021 (2020 - $2.3 million).

Foreign currency risk

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

Fluctuations in the value of foreign currencies on financial instruments denominated in U.S. dollars as at December 31, 2021 would have had the following impact on net loss and other comprehensive loss:

	Impact on Net Loss		Impact on Other Comprehensive Loss	
For the year ended December 31,	**2021**	2020	**2021**	2020
1% change in the value of the U.S. dollar	**$ 220**	$ 474	**$ 1,518**	$ 2,440

NOTE 18 – CAPITAL MANAGEMENT

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

As at December 31,	**2021**		2020	
Shareholders' equity	**$ 177,442**	**46%**	$ 204,579	48%
Lease obligations	**15,373**	**4%**	12,717	3%
Loans and borrowings	**189,957**	**50%**	207,630	49%
Total capitalization	**$ 382,772**		$ 424,926	

The Company is subject to various financial and non-financial covenants, which are monitored on a regular basis and controls are in place to maintain compliance with these covenants (Note 8). The Company is in compliance with all financial and non-financial covenants.

NOTE 19 - CONTINGENCIES AND PROVISIONS

Litigation

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

NOTE 20 – OPERATING SEGMENTS

The Company's services are conducted by the Canadian Operations and the U.S. Operations segments. The results of each operating segment are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented Operating Results and Activity

For the year ended December 31, 2021	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 277,076	$ 109,735	$ -	$ 386,811
Coiled tubing	80,455	69,043	-	149,498
Total revenue	357,531	178,778	-	536,309
Expenses				
Operating expenses	321,678	195,713	1,161	518,552
Selling, general and administrative	7,113	7,788	19,532	34,433
Results from operating activities	28,740	(24,723)	(20,693)	(16,676)
Finance costs	-	-	14,624	14,624
Foreign exchange (gain) loss	(130)	(35)	-	(165)
(Gain) loss on disposal of property and equipment	(500)	(469)	-	(969)
Amortization of intangible assets	39	420	-	459
Impairment	-	-	-	-
Income (loss) before income tax	$ 29,331	$ (24,639)	$ (35,317)	$ (30,625)
Capital expenditures (1)	$ 22,462	$ 25,167	$ -	$ 47,629
Total assets as at December 31, 2021	$ 246,502	$ 236,503	$ 843	$ 483,848
Total liabilities as at December 31, 2021	$ 253,519	$ 52,887	$ -	$ 306,406

For the year ended December 31, 2020	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 144,564	$ 111,000	$ -	$ 255,564
Coiled tubing	63,896	49,485	-	113,381
Total revenue	208,460	160,485	-	368,945
Expenses				
Operating expenses	204,583	196,670	1,102	402,355
Selling, general and administrative	5,116	6,954	15,634	27,704
Results from operating activities	(1,239)	(43,139)	(16,736)	(61,114)
Finance costs	-	-	14,663	14,663
Foreign exchange (gain) loss	465	(22)	-	443
(Gain) loss on disposal of property and equipment	(2,574)	(1,203)	-	(3,777)
Amortization of intangible assets	39	516	-	555
Impairment	59,245	13,100	-	72,345
Income (loss) before income tax	$ (58,414)	$ (55,530)	$ (31,399)	$ (145,343)
Capital expenditures (1)	$ 9,457	$ 12,747	$ -	$ 22,204
Total assets as at December 31, 2020	$ 240,456	$ 238,219	$ 1,184	$ 479,859
Total liabilities as at December 31, 2020	$ 242,385	$ 32,895	$ -	$ 275,280

1) *Capital expenditures include non-cash expenditures from the addition of leased right-of-use assets.*

NOTE 21– RELATED PARTY TRANSACTIONS

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

For the year ended December 31,		2021		2020
Salaries, fees and short-term benefits	$	2,300	$	1,784
Post-employment benefits (group retirement savings plans)		22		2
Share-based compensation		3,778		2,567
	$	6,100	$	4,353

ARC Energy Fund 6 Canadian Limited Partnership, ARC Energy Fund 6 United States Limited Partnership, ARC Energy Fund 6 International Limited Partnership and ARC Capital 6 Limited Partnership (collectively, "ARC Energy Fund 6") and ARC Energy Fund 8 Canadian Limited Partnership, ARC Energy Fund 8 United States Limited Partnership, ARC Energy Fund 8 International Limited Partnership and ARC Capital 8 Limited Partnership (collectively, "ARC Energy Fund 8"), each a private equity fund advised by ARC Financial Corp. have been investors in the Company since 2011 and 2015, respectively.

NOTE 22 – SUPPLEMENTAL CASH FLOW INFORMATION

The following table reconciles the net changes in non-cash working capital from the balance sheet to the cash flow statement:

For the year ended December 31,		2021		2020
Net change in non-cash working capital:				
Trade and other receivables	$	(22,033)	$	43,163
Inventory		(5,802)		1,314
Prepaid expenses		(4,411)		1,531
Trade and other payables		44,611		(28,979)
	$	12,365	$	17,029
Net change in non-cash working capital relate to:				
Operating activities	$	6,935	$	22,440
Investing activities		5,430		(5,411)
	$	12,365	$	17,029

CORPORATE INFORMATION

Management

Regan Davis
Chief Executive Officer

Klaas Deemter
Chief Financial Officer

Steve Glanville
President and Chief Operating Officer

Rory Thompson
President, Canadian Operations

Lori McLeod-Hill
Vice-President, Finance

Joshua Kane
Vice-President, Legal and General Counsel

Directors

Douglas Freel [1]

Evelyn Angelle [2]

Regan Davis [3][4]

Jeremy Gackle [2][5]

Donna Garbutt [6][7]

James Harbilas [8][9]

Jason Skehar [2][4][9]

1. *Chair of the Board*
2. *Member of the Audit Committee*
3. *President and Chief Executive Officer*
4. *Member of the Health, Safety and Environment Committee*
5. *Chair of the Compensation and Corporate Governance Committee*
6. *Lead Director*
7. *Chair of the Health, Safety and Environment Committee*
8. *Chair of the Audit Committee*
9. *Member of the Compensation and Corporate Governance Committee*

Corporate office

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Website

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Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

"STEP"
Toronto Stock Exchange