STEP energy services

TSX STEP

Third Quarter

Management Discussion and Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for STEP Energy Services Ltd. ("STEP" or the "Company") has been prepared by management as of November 6, 2019 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards ("IFRS"). It should be read in conjunction with the unaudited condensed consolidated interim financial statements and notes thereto as at and for the three and nine months ended September 30, 2019 (the "Financial Statements") and the audited consolidated financial statements as at and for the year ended December 31, 2018 and related MD&A (the "Annual MD&A"). Readers should also refer to the "Forward-looking information & statements" legal advisory and the section regarding "Non-IFRS Measures" at the end of this MD&A. All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated. Additional information about STEP is available on the SEDAR website at www.sedar.com, including the Company's Annual Information Form for the year ended December 31, 2018 dated March 5, 2019 (the "AIF"). Tucker Energy Services Holdings, Inc. was acquired by STEP to form the U.S. fracturing operations effective April 2, 2018 (the "Tucker Acquisition") and was a provider of fracturing, coiled tubing, and wireline services.

STEP is an oilfield service company that provides stand-alone and fully integrated fracturing, coiled tubing and wireline solutions. Our combination of modern equipment along with our commitment to safety and quality execution has differentiated STEP in plays where wells are deeper, have longer laterals and higher pressures.

Founded in 2011 as a specialized deep capacity coiled tubing company, STEP now provides an integrated solution for deep capacity coiled tubing services and fracturing to exploration and production ("E&P") companies in Canada and the U.S. Our Canadian integrated services are focused in the Western Canadian Sedimentary Basin ("WCSB"), while in the U.S., our fracturing and coiled tubing services are focused in the Permian and Eagle Ford in Texas, the Haynesville in Louisiana and the SCOOP/STACK in Oklahoma.

Our four core values; Safety, Trust, Execution and Possibilities inspire our team of professionals to provide differentiated levels of service, with a goal of flawless execution and an unwavering focus on safety.

CONSOLIDATED HIGHLIGHTS

FINANCIAL

($000s except percentages and per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Consolidated revenue	**$ 178,745**	$ 240,541	**$ 541,790**	$ 612,735
Net (loss) income attributable to shareholders	**$ (112,843)**	$ 9,260	**$ (119,471)**	$ 19,245
Per share-basic	**$ (1.69)**	$ 0.14	**$ (1.79)**	$ 0.30
Per share-diluted	**$ (1.69)**	$ 0.14	**$ (1.79)**	$ 0.29
Weighted average shares – basic	**66,767,919**	66,595,729	**66,733,701**	64,497,647
Weighted average shares – diluted	**66,767,919**	67,087,768	**66,733,701**	65,673,283
Adjusted EBITDA [(1)]	**$ 22,690**	$ 42,451	**$ 69,644**	$ 105,335
Adjusted EBITDA % [(1)]	**13%**	18%	**13%**	17%

[(1)] See Non-IFRS Measures. "Adjusted EBITDA" is a financial measure not presented in accordance with IFRS and is equal to net (loss) income before finance costs, depreciation and amortization, loss (gain) on disposal of property and equipment, current and deferred income tax provisions and recoveries, share-based compensation, transaction costs, foreign exchange forward contract (gain) loss, foreign exchange (gain) loss, and impairment losses. "Adjusted EBITDA %" is calculated as Adjusted EBITDA divided by revenue.

($000s except shares and per share amounts)	**As at September 30,**	As at December 31,
	2019	2018
Cash and cash equivalents	**$ 23,436**	$ 364
Working capital (including cash and cash equivalents) [(2)]	**$ 96,066**	$ 67,158
Total assets	**$ 766,890**	$ 887,908
Total long-term financial liabilities [(2)]	**$ 266,544**	$ 260,451
Net debt [(2)]	**$ 235,870**	$ 254,210
Shares outstanding	**66,799,296**	66,682,319

[(2)] See Non-IFRS Measures. "Working capital", "Total long-term financial liabilities" and "Net debt" are financial measures not presented in accordance with IFRS. "Working capital" is equal to total current assets less total current liabilities. "Total long-term financial liabilities" is comprised of Loans and borrowings, Long-term lease obligations and Other liabilities. "Net debt" is equal to loans and borrowings before deferred financing charges less cash and cash equivalents.

OVERVIEW

Through challenging market conditions STEP was able to generate strong margin performance by remaining focused on high equipment utilization, strong project execution and a low-cost structure. In Canada, the political headwinds and an ongoing focus on conservative spending programs continued to reduce overall industry activity with rig counts decreasing approximately 40% from the third quarter of 2018. The Company's focus on efficiencies and cost reductions in conjunction with our alignment with clients with large pad completion programs supported strong operational and financial performance. In the U.S., clients continued to slow drilling and completion programs as they remain focused on executing capital programs within cash flows. These factors have led to an oversupplied market which has decreased demand, put service pricing under pressure, negatively impacted equipment utilization and resulted in weaker financial performance.

In reaction to these challenging market conditions the Company continued to focus on the factors within its control to optimize margins. The Company achieved success implementing cost control measures, securing and executing larger strategic work programs, improving pumping efficiencies and relocating assets to create new opportunities while maintaining a conservative deployment of capital. These activities allowed the Company to maintain positive margins and generate improved year to date margins from Canadian operations relative to 2018.

Highlights for the quarter included:

- Quarterly consolidated revenue for the three months ended September 30, 2019 of $178.7 million compared to $240.5 million in the same period of 2018. The 26% decrease in quarterly revenue is primarily attributable to slower industry activity in both Canada and the U.S. with approximately 100 fewer fracturing days worked in 2019 when compared to 2018. Although quarterly consolidated revenue fell versus the prior year, performance was strong relative to an overall reduction in rig activity of 37% in Canada and 20% in our principal US markets in the third quarter of 2019 compared to the previous year third quarter.
- Consolidated revenue for the nine months ended September 30, 2019 of $541.8 million decreased by 12% from $612.7 million over the prior year primarily due to slower industry activity partially offset by a full nine-month contribution of the U.S. fracturing operations compared to six months in 2018. As with the quarterly performance, the reduction in year over year revenue belied a more pronounced drop in rig activity of 30% in Canada from the peak winter drilling season to the end of September of 2019 and a year to date rig activity decline of 28% in our principal US markets through the end of September.
- Quarterly adjusted EBITDA was $22.7 million (or 13% of revenue) in the third quarter of 2019 compared to $42.5 million (or 18%) in the same period of 2018. Quarterly adjusted EBITDA margins decreased by five percentage points primarily due to decreased pricing as a result of declining activity and demand for services. The Company effectively managed cost of sales and equipment utilization to offset some of the pricing compression and preserve margins. Consolidated selling, general and administrative expenses remained relatively consistent to 2018 third quarter levels.
- For the nine months ended September 30, 2019, Adjusted EBITDA decreased by 34% compared to the prior year primarily due to decreased revenue and margin compression combined with severance and restructuring costs incurred in the first quarter of 2019. Adjusted EBITDA margin percent for the nine month period of 13% compared well to 17% for the same period in the prior year again reflecting the Company's ability to preserve margin in a difficult operating environment.
- During the third quarter of 2019, the Company recorded a non-cash impairment charge with respect to goodwill and intangible assets in the U.S. fracturing segment of $113.5 million. The Company anticipates 2020 to be similar to 2019 with sustained pressure on commodity prices and the expectation that our clients will maintain a conservative focus on capital spending. These factors have a negative impact on the Company's outlook for these operations and have resulted in an impairment to the carrying value of these assets.
- As a result, net loss for the three and nine months ended September 30, 2019 was $112.8 million and $119.5 million, respectively, compared to net income of $9.3 million and net income of $19.2 million in the same periods of 2018. Net losses in 2019 are the result of the impairment and slowing activity partially offset by a full nine-month contribution of U.S. fracturing operations.
- Effective January 1, 2019, the Company implemented the following accounting change: The Company reorganized the composition of its operating segment disclosure to reflect how management makes strategic decisions and assesses the performance of the Company's operations. Corporate activities are now separated from Canadian and U.S. Operations. The Company has reclassified prior period information to align with the new composition of operating segments.

INDUSTRY CONDITIONS & OUTLOOK

During the third quarter, commodity prices remained volatile with WTI crude prices spiking to almost US$63 per barrel related to the drone attacks on Saudi Arabian oil facilities, then retreating to around US$55 per barrel towards the end of the quarter. Global trade, geopolitical and economic uncertainty are impacting global supply and demand outlooks, which continue to influence commodity prices and demand for our services. Our clients remain focused on spending within their cash flows and are facing budget exhaustion as they near completion of their 2019 capital programs. The Company expects this will result in decreased drilling and completion spending and lower demand for our services in the fourth quarter. Lower activity levels coupled with equipment over-supply in the oilfield services market are expected to continue to pressure pricing and equipment utilization for the balance of the year. Industry participants have noted that recent reductions in manned equipment in both Canada and the US will serve to begin balancing supply and demand for pumping services in 2020 which could contribute to stabilizing pricing and margins. Client work programs for 2020 are under consideration with full visibility not expected until later in the year. However, the Company expects with the renewal of capital plans in the New Year, demand for services should improve over the last quarter of 2019.

CANADIAN OPERATIONS

During the third quarter, both fracturing and coiled tubing services improved utilization on manned capacity over last year's third quarter, despite lower levels of industry activity. This utilization, along with larger pad work, contributions from key contracts, and effective cost management contributed to positive third quarter results and relatively strong adjusted EBITDA margins. STEP anticipates that activity will slow through the remainder of the year due to reduced activity from budget exhaustion and the traditional holiday season. As anticipated STEP maintained second quarter manned capacity levels through the third quarter. In anticipation of lower activity levels in 2019, late in 2018 the Company reduced its manned fracturing capacity by 25% and coiled tubing capacity by 30%. Over recent quarters, the Company has seen other industry players also reduce manned capacity which should serve to better balance the near-term market. Additional active capacity adjustments may be made as management continues to monitor industry demand and evaluate economic returns. Pricing is expected to remain generally stable from current levels for coiled tubing services, with fracturing pricing remaining under pressure.

U.S. OPERATIONS

End-of-the-year activity slowdowns have occurred earlier than expected impacting STEP's third quarter results. The fracturing market remains over-supplied causing further pricing pressure and reducing utilization. Coiled tubing operations achieved increased operating days which benefitted asset utilization but witnessed continued pricing pressure which negatively impacted the third quarter results. The outlook for the remainder of the year remains cautious for both services lines as activity is expected to decline due to budget exhaustion and year end holidays. As was noted for Canadian operations, the Company has seen a recent reduction in manned equipment in the markets in which it competes which should help balance near term market conditions. Client programs for 2020 are still under review however Management believes demand for services should improve relative to the last quarter of 2019 as clients renew capital programs commencing January 2020.

CAPITAL UPDATE

In light of the ongoing uncertainty regarding near-term demand for services, STEP has maintained a cautious capital program. Management has also worked hard to optimize maintenance spending while maintaining its fleet in a field ready state. This work has included a number of initiatives to optimize fleet performance and extend asset life. Initiatives include pairing assets to match work intensity, installation of reliability systems to increase assets lives and successful negotiations with capital vendors to reduce costs. As a result of these measures, STEP has been able to reduce its 2019 capital program by $20.0 million bringing the total down to $44.0 million.

CANADIAN OPERATIONS REVIEW

STEP maintains a fleet of 16 coiled tubing units in the WCSB, of which nine are currently operating. The Company's coiled tubing units are designed to service the deepest wells in the region. STEP's fracturing business is primarily focused on the deeper, more technically challenging plays in Alberta and northeast British Columbia, with growing exposure to oilier plays in eastern Alberta and south Saskatchewan. Canadian operations currently include six fracturing spreads representing 225,000 HP (including approximately 117,500 HP with dual fuel capabilities). STEP has an additional 72,500 HP available for deployment, some of which will require capital for maintenance and refurbishment. The Company will deploy or idle coiled tubing or fracturing units as dictated by the market's ability to support targeted utilization, pricing and returns on capital employed.

($000's except per day, days, units, proppant pumped and HP)		Three months ended September 30,			Nine months ended September 30,		
		2019		2018[4]		2019		2018[4]
Revenue:								
Fracturing	$	65,754	$	108,191	$	201,329	$	276,815
Coiled tubing		32,080		39,773		80,836		104,317
		97,834		147,964		282,165		381,132
Expenses:								
Cost of sales		84,149		120,178		257,581		333,704
Selling, general and administrative		2,453		4,183		7,238		11,659
Results from operating activities	$	11,232	$	23,603	$	17,346	$	35,769
Add non-cash items:								
Depreciation		11,319		11,681		37,057		32,304
Share-based compensation		534		714		1,409		1,911
Adjusted EBITDA [1]	$	23,085	$	35,998	$	55,812	$	69,984
Adjusted EBITDA % [1]		24%		24%		20%		18%
Sales mix (% of segment revenue)								
Fracturing		67%		73%		71%		73%
Coiled tubing		33%		27%		29%		27%
Fracturing services								
Fracturing revenue per operating day[1]	$	186,272	$	244,777	$	198,942	$	245,186
Number of fracturing operating days [2]		353		442		1,012		1,129
Proppant pumped (tonnes)		255,000		198,000		676,000		509,000
Stages completed		3,768		5,062		9,360		11,403
Horsepower								
Active pumping HP, end of period		225,000		225,000		225,000		225,000
Idle pumping HP, end of period		72,500		72,500		72,500		72,500
Total pumping HP, end of period [3]		297,500		297,500		297,500		297,500
Coiled tubing services								
Coiled tubing revenue per operating day[1]	$	53,916	$	49,163	$	51,259	$	45,713
Number of coiled tubing operating days [2]		595		809		1,577		2,282
Active coiled tubing units, end of period		9		13		9		13
Idle coiled tubing units, end of period		7		-		7		-
Total coiled tubing units, end of period		16		13		16		13

[1] See Non-IFRS Measures.
[2] An operating day is defined as any coiled tubing and fracturing work that is performed in a 24-hour period, exclusive of support equipment.
[3] Represents total owned HP, of which 225,000 HP is currently deployed and some of the remainder requires certain maintenance and refurbishment.
[4] 2018 amounts were reclassified as the Company reorganized the composition of its operating segments. See "Corporate review" section.

FINANCIAL HIGHLIGHTS

Revenue for the three and nine months ended September 30, 2019 was $97.8 million and $282.2 million, respectively, compared to $148.0 million and $381.1 million for the same periods in 2018. The decrease in quarterly revenue is primarily due to ongoing industry slowdown in the WCSB. Canadian fracturing operations worked 20% fewer days in the third quarter of 2019 compared to the same period of 2018 while rig counts decreased approximately 40% over the same period. Management anticipated this slow down in the fourth quarter of 2018 and reduced manned equipment by 25%. As we have seen in other quarters this year, clients provided approximately 63% of the proppant pumped in the quarter compared to 16% in the prior year third quarter. Client provided proppant decreases revenue and revenue per day but typically yields higher operating margins. Despite the 40% reduction in industry activity as noted by the rig count, coiled tubing revenue decreased by 19% and operating days decreased by 27% in the third quarter of 2019 compared to the same period of 2018. As a result of these factors, revenue for the nine months ended September 30, 2019 decreased by 26% compared to the prior year.

Adjusted EBITDA for the three and nine months ended September 30, 2019 was $23.1 million (or 24% of revenue) and $55.8 million (or 20%), respectively, compared to $36.0 million (or 24%) and $70.0 million (or 18%) for the same periods in 2018. Despite pricing pressure, Adjusted EBITDA Margin percentage was maintained on a quarterly basis and slightly improved on a year to date basis, due to field execution, management of manned equipment and cost controls. Over the last 12 months STEP has reduced headcount, deferred and cancelled growth capital and re-evaluated overhead and selling, general and administrative spending. The third quarter 2019 Adjusted EBITDA decrease of $12.9 million over the third quarter of 2018 is primarily due to decreased fracturing activity. Although adjusted EBITDA for the nine months ended September 30, 2019 decreased by $14.2 million compared to the prior year, the Company was able to improve year to date adjusted EBITDA percentage by two percentage points due to the impact of the optimization measures outlined above.

Management is committed to improving returns on capital employed by managing capacity and focusing on efficiency and cost control.

OPERATING HIGHLIGHTS – FRACTURING SERVICES

- The Company's strategy to align with clients who were expected to remain active in the WCSB in 2019 resulted in six fracturing spreads being staffed and deployed with active horsepower of 225,000 HP.
- Working for larger clients in the Montney and Duvernay regions along with increased pad work has resulted in high efficiencies and record proppant pumped in a quarter, with an all time monthly high of 117,000 tonnes pumped in August. During the third quarter of 2019 the Company increased efficiency, pumping 722 tonnes/day compared to 448 in the third quarter of 2018.
- STEP capitalizes fluid ends when it is determined that it has an estimated useful life that exceeds 12 months. Fluid ends are capitalized in Canada based on a review of usage history, however had the Company expensed fluid ends, the cost of sales for the three and nine months ended September 30, 2019 would have been increased by approximately $1.6 million and $5.7 million, respectively.

OPERATING HIGHLIGHTS – COILED TUBING SERVICES

- The Company staffed an average of nine units throughout the third quarter of 2019 down from the 13 units deployed at the end of September 2019. The number of units staffed and deployed will continue to be adjusted depending on market conditions and economic returns.
- STEPs commitment to technology and deep capacity equipment are a differentiator to our clients, resulting in enhanced utilization in an otherwise challenging market. Clients have provided positive support for the STEP-IQ suite of products and services. STEP-conneCT is a downhole data acquisition tool that provides real time data to the surface during milling operations. This data allows operators to evaluate critical job parameters and make instant decisions to reduce motor stalls and non-productive time.

UNITED STATES OPERATIONS REVIEW

STEP's U.S. business commenced operations in 2015 with coiled tubing services. STEP currently maintains a fleet of 13 coiled tubing units in the Permian and Eagle Ford basins in Texas, the SCOOP/STACK in Oklahoma and the Haynesville shale basin in Louisiana, of which eight are currently operating. STEP closed the Tucker Acquisition on April 2, 2018, which established its U.S. fracturing operations. The fracturing operations include four available fracturing spreads (representing 192,500 HP), of which three spreads are currently operating.

($000's except per day, days, units, proppant pumped and HP)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018[4]	2019	2018[4]
Revenue:				
Fracturing	$ 56,835	$ 65,079	$ 182,228	$ 153,604
Coiled tubing	24,076	27,498	77,397	77,999
	80,911	92,577	259,625	231,603
Expenses:				
Cost of sales	86,576	94,226	262,102	210,201
Selling, general and administrative	2,946	2,364	8,449	5,373
Results from operating activities	$ (8,611)	$ (4,013)	$ (10,926)	$ 16,029
Add non-cash items:				
Depreciation	11,859	12,877	35,599	26,321
Share-based compensation	521	704	1,730	1,768
Adjusted EBITDA [1]	$ 3,769	$ 9,568	$ 26,403	$ 44,118
Adjusted EBITDA % [1]	5%	10%	10%	19%
Sales mix (% of segment revenue)				
Fracturing	70%	70%	70%	66%
Coiled tubing	30%	30%	30%	34%
Fracturing services				
Fracturing revenue per operating day [1]	$ 336,302	$ 359,552	$ 375,728	$ 404,221
Number of fracturing operating days [2]	169	181	485	380
Proppant pumped (tonnes)	171,000	115,000	489,000	274,000
Stages completed	994	776	2,605	1,840
Horsepower				
Active pumping HP, end of period	142,500	142,500	142,500	142,500
Idle pumping HP, end of period	50,000	50,000	50,000	50,000
Total pumping HP, end of period [3]	192,500	192,500	192,500	192,500
Coiled tubing services				
Coiled tubing revenue per operating day[1]	$ 44,585	$ 54,344	$ 48,132	$ 52,953
Number of coiled tubing operating days [2]	540	506	1,608	1,473
Active coiled tubing units, end of period	8	9	8	9
Idle coiled tubing units, end of period	5	2	5	2
Total coiled tubing units, end of period	13	11	13	11

[1] See Non-IFRS Measures.
[2] An operating day is defined as any coiled tubing and fracturing work that is performed in a 24-hour period, exclusive of support equipment.
[3] Represents total owned HP, some of which will require capital for maintenance and refurbishment.
[4] 2018 amounts were reclassified as the Company reorganized the composition of its operating segments. See "Corporate review" section.

FINANCIAL HIGHLIGHTS

Revenue of $80.9 million in the three months ended September 30, 2019 decreased by $11.7 million from the same quarter in 2018. Fracturing services worked 7% fewer operating days in the third quarter of 2019 compared to 2018. Industry activity, as reflected by rig count, has continued to decline throughout 2019, resulting in an over-supplied market which has increased pressure on pricing and decreased utilization. Coiled tubing worked 34 more days in the third quarter of 2019 compared to 2018 due to equipment repositioning which improved utilization, however, the market pressure continues to weigh on pricing with day rates declining 18% compared to third quarter 2018. For the nine months ended September 30, 2019 revenue was $259.6 million, a 12% increase from $231.6 million in 2018. The year to date increase in revenue of $28.0 million is primarily due to operating the U.S. fracturing assets for nine months versus only six months in the prior year, increasing fracturing revenue by 19%. Coiled tubing worked 135 more days in the nine months ended September 30, 2019 compared to the same period of 2018 due to more equipment deployed on average over the nine month period. Continued excellent execution by the fracturing and coiled tubing operations have supported these results in a challenging market. Management will continue to monitor and adjust operating capacity and regional deployment to manage utilization and financial performance.

In the U.S., seasonality is generally not a factor and the prior quarter is often utilized when comparing financial results. Revenue and adjusted EBITDA decreased by 27% and 76%, respectively compared to the prior quarter. In the second quarter of 2019, STEP intermittently deployed it's fourth fracturing spread, however this equipment was parked in this quarter due to the weak near term demand outlook. The market experienced an earlier than expected seasonal slow down as 2019 customer capital spending programs matured and activity slowed exacerbating the over-supply of equipment. As a result, STEP experienced, lower activity and ongoing competitive pressure which resulted in 21% fewer fracturing operating days and 9% fewer stages completed in the third quarter. Day rates for both fracturing and coiled tubing services were also impacted by the slowing activity and increased competition which decreased rates from the prior quarter by 16% and 10% respectively. Coiled tubing utilization increased quarter over quarter due to the management of staffed equipment.

Adjusted EBITDA for the third quarter 2019 was $3.8 million (or 5% of revenue) compared to $9.6 million (or 10%) for the same quarter in the prior year. Much of the Adjusted EBITDA percentage decline was due to the overall decline in demand for services and increased pricing pressure across all service lines. Compared to the prior year, the nine-month ended September 30, 2019 Adjusted EBITDA decreased by 40%.

OPERATING HIGHLIGHTS – FRACTURING SERVICES

- Management focused on scaling operations to suit current market needs by managing staffed equipment and regional deployment. Three fracturing spreads were staffed and deployed during the quarter (142,500 HP). The fourth fracturing spread will be recommissioned, staffed and deployed when market conditions support adequate returns and visibility for sustained demand.
- In the third quarter, STEP pumped 171,000 tonnes (376 million pounds) of proppant over 994 stages (172 tonnes/stage) compared to the third quarter of 2018 where the Company pumped 115,000 tonnes (253 million pounds) of proppant over 776 stages (148 tonnes/stage).
- In the nine-month period ended September 30, 2019, U.S. fracturing pumped an average of 188 tonnes/stage compared to 149 tonnes/stage for the 2018 period.
- STEP capitalizes fluid ends when it is determined that they have an estimated useful life that exceeds 12 months. Based on a review of usage history in the U.S. fluid ends are expensed. U.S. fracturing expensed fluid ends for the three and nine months ended September 30, 2019 of $2.1 million (U.S. $1.6million) and $8.2 million (U.S. $6.1 million), respectively.

OPERATING HIGHLIGHTS – COILED TUBING SERVICES

- U.S. coiled tubing staffed an average of nine units in the third quarter of 2019 but reduced active units to eight by the end of the quarter. Additional capacity has come to the market and is resulting in increased competition and deceasing utilization and pricing. These conditions are expected to persist until industry demand increases or additional equipment is parked.
- Management will continue to adjust capacity and regional deployment, in an attempt to optimize utilization, efficiency and drive returns.

CORPORATE REVIEW

Effective January 1, 2019, the Company reorganized the composition of its operating segments to reflect how management makes strategic decisions and assesses the performance of the Company's operations. Corporate activities are separated from Canadian and U.S. Operations. Corporate costs include the executive team, Board of Directors, and other activities that benefit Canadian and U.S. operating segments collectively. The Company has reclassified prior period information to align with the new composition of operating segments.

($0 00's)	Three months ended September 30, 2019	Three months ended September 30, 2018[3]	Nine months ended September 30, 2019	Nine months ended September 30, 2018[3]
Expenses:				
Cost of sales	$ 666	$ 553	$ 1,865	$ 1,687
Selling, general and administrative	4,478	3,189	14,074	10,526
Results from operating activities	(5,144)	(3,742)	(15,939)	(12,213)
Add non-cash items:				
Depreciation	270	120	897	304
Share-based compensation	710	507	2,471	3,142
Adjusted EBITDA [1]	$ (4,164)	$ (3,115)	$ (12,571)	$ (8,767)
Adjusted EBITDA % [1,2]	(2%)	(1%)	(2%)	(1%)

[1] *See Non-IFRS Measures.*
[2] *Adjusted EBITDA percentage calculated using the Consolidated revenue for the period.*
[3] *2018 amounts were reclassified as the Company reorganized the composition of its operating segments.*

FINANCIAL HIGHLIGHTS – CORPORATE

Adjusted EBITDA loss for the third quarter of 2019 was $4.2 million compared to a $3.1 million loss in 2018. The increased loss is due to the transfer of professionals from operating segments to work on corporate initiatives, new professionals that will provide cost savings of consulting fees in the future, professional fees for benefits and legal consulting, integration of information technology data centers and increased system security.

For the nine month period ended September 30, 2019, corporate Adjusted EBITDA was a $12.6 million loss compared to $8.8 million loss in 2018. During the year, management has undertaken a detailed cost review with the goal to reduce professional, consulting, information technology and legal charges. This has included maturing internal capabilities to reduce reliance on third party consulting. 2019 results also include expenses related to restructuring and severance, professional fees for benefits and legal consulting, integration of information technology data centers and the costs associated with our ongoing efforts to maintain appropriate IT system security.

CONSOLIDATED FINANCIAL REVIEW

($000's except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	$ 178,745	$ 240,541	$ 541,790	$ 612,735
Cost of sales	171,391	214,957	521,548	545,592
Gross profit	7,354	25,584	20,242	67,143
Selling, general and administrative	9,877	9,736	29,761	27,558
Results from operating activities	(2,523)	15,848	(9,519)	39,585
Finance costs	4,022	4,100	10,947	7,723
Foreign exchange loss (gain)	473	(1,069)	(1,376)	(680)
Gain on disposal of property and equipment	(806)	(951)	(1,815)	(1,373)
Transaction costs	-	(4)	-	2,921
Amortization of intangible assets	1,553	1,588	4,883	3,016
Foreign exchange forward contract loss	-	-	383	1,219
Impairment	113,546	-	113,546	-
Net (loss) income before income tax	(121,311)	12,184	(136,087)	26,759
Income tax expense (recovery)	(8,468)	2,924	(16,616)	7,514
Net (loss) income	(112,843)	9,260	(119,471)	19,245
Other comprehensive income (loss)	4,501	(7,471)	(11,944)	1,102
Total comprehensive (loss) income	$ (108,342)	$ 1,789	$ (131,415)	$ 20,347
Earnings (loss) per share – basic	$ (1.69)	$ 0.14	$ (1.79)	$ 0.30
Earnings (loss) per share – diluted	$ (1.69)	$ 0.14	$ (1.79)	$ 0.29
Adjusted EBITDA [(1)]	$ 22,690	$ 42,451	$ 69,644	$ 105,335
Adjusted EBITDA % [(1)]	13%	18%	13%	17%

[(1)] See Non-IFRS Measures.

OTHER ITEMS

Depreciation and amortization

For the three months ended September 30, 2019, depreciation and amortization expense decreased to $25.0 million from $26.3 million in the same period of 2018. The decrease in quarterly expense is to due certain field equipment becoming fully depreciated. For the nine months ended September 30, 2019, depreciation and amortization expense increased to $78.4 million from $61.9 million in the same period of 2018. The year to date increase was due to the additional depreciation of the assets acquired in the Tucker Acquisition, additional equipment deployments over the past 12 months, and additional right-of-use assets from the implementation of IFRS 16.

Finance costs

STEP's finance costs of $4.0 million for the three months ended September 30, 2019 decreased from $4.1 million in the corresponding period of 2018. The decrease is due to the average balance outstanding on the Company's Credit Facilities having decreased year over year. For the nine-month period ended September 30, 2019, finance costs of $10.9 million increased $3.2 million from the prior year primarily due to higher average borrowing levels. STEP drew on the Credit Facility to fund the purchase of the U.S fracturing operations in April 2018. The effective borrowing rate for loans and borrowings for the three months ended September 30, 2019 is approximately 4.56%, decreasing slightly from 4.7% in the third quarter of 2018. Additionally, interest on lease obligations increased due to the adoption of IFRS 16 Leases.

Foreign exchange gains and losses

STEP recorded a foreign exchange loss of $0.5 million and a gain $1.4 million for the three and nine months ended September 30, 2019, respectively, compared to losses of $1.1 million and $0.7 million in the corresponding periods of 2018. Foreign exchange gains and losses arise from the translation of assets or liabilities that are held in U.S. dollars by Canadian operations.

The increase year to date over prior year to date is primarily due to movement in the exchange rate. From December 31, 2018 to September 30, 2019 the Canadian to United States dollar exchange rate changed from $1.364:$1.00 to $1.324:$1.00.

Gains or losses on disposal of property and equipment

The Company recorded gains on disposal of property and equipment of $0.8 million and $1.8 million for the three and nine months ended September 30, 2019, respectively, compared to $1.0 million and $1.4 million in the same periods of 2018. The increase in the nine-month period is related to the disposal of more light duty vehicles in 2019 as the Company reduced its vehicle fleet. Cash proceeds were $1.3 million in the three months ended September 30, 2019.

Impairment

As required by IAS 36, the Company performed its annual impairment tests on goodwill for the U.S fracturing Cash Generating Unit ("CGU"). A comparison of the recoverable amounts with the carrying amounts resulted in an impairment against goodwill of $87.6 million (U.S. $66.2 million) in the three months ended September 30, 2019 (September 30, 2018 - nil).

The Company also determined that no future economic benefits are expected from the continued use of certain of its U.S. segment intangibles. As such, the Company has recognized an impairment expense of $25.9 million (U.S. $ 19.6 million) in intangible assets for the period ending September 30, 2019 (September 30, 2018 - nil).

As a result of continued market uncertainty and the oversupply of equipment in North America, STEP performed impairment tests on the remaining CGUs during the quarter. Based on the results of the tests, no impairments were required.

Transaction costs

There were no transaction costs recorded in 2019. Transaction costs in 2018 relate to pre-acquisition, due diligence and legal costs related to the Tucker Acquisition.

Foreign exchange forward contract gains and losses

For the nine months ended September 30, 2019, STEP recorded a foreign exchange forward contract loss of $0.4 million compared to a loss of $1.2 million in the comparable period of 2018. Occasionally, the Company enters into U.S. dollar denominated forward contracts for the purposes of mitigating foreign exchange risk. Cash outflows related to the instrument was $0.3 million in the first quarter of 2019.

Share-based compensation

For the three and nine months ended September 30, 2019, STEP recorded share-based compensation expense of $1.8 million and $5.6 million, respectively, compared to $1.9 million and $6.8 million in the same periods of 2018. The decrease in expense from 2018 is due to the vesting of prior options and performance warrants, the effect of the 2018 performance multiplier and the decreasing share price offset by new instruments granted in the year.

Income taxes

STEP recorded a total income tax recovery of $8.5 million for the three months ended September 30, 2019, compared to an expense of $2.9 million for the comparable period in 2018. For the nine months ended September 30, 2019, STEP recorded an income tax recovery of $16.6 million compared to an expense of $7.5 million for the comparable period in 2018. The decrease in taxes is predominantly due to the decrease in income (loss) before taxes. Furthermore, the effective tax rates in 2019 are much lower than the comparable periods in 2018. The effective tax rates for the three and nine month periods ending September 30, 2019 were 7.0% and 12.2% respectively. This is primarily attributed to an impairment on goodwill in 2019 which is not deductible for tax purposes.

TOTAL CAPITAL EXPENDITURES

($000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Capital program additions	$ 12,144	$ 32,064	$ 34,621	$ 91,467
Lease right-of-use asset additions	604	2,236	10,911	6,775
Total capital expenditures	$ 12,748	$ 34,300	$ 45,532	$ 98,242
Capital was incurred for:				
Canada	$ 5,697	$ 22,589	$ 28,382	$ 68,299
United States	$ 7,051	$ 11,711	$ 17,150	$ 29,943

STEP funds capital expenditures from a combination of cash, cash provided by operating activities, issuance of share capital and available credit facilities.

LIQUIDITY AND CAPITAL RESOURCES

($000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 (1)	2019	2018(1)
Net cash provided by (used in)				
Operating activities	$ 34,411	$ 22,565	$ 52,905	$ 57,323
Investing activities	(11,149)	(39,494)	(31,249)	(428,442)
Financing activities	(1,190)	9,243	862	338,845
Impact of foreign exchange on cash	251	(57)	554	334
Increase (decrease) in cash and cash equivalents	$ 22,323	$ (7,743)	$ 23,072	$ (31,940)
Opening cash balance	1,113	12,662	364	36,859
Ending cash balance	$ 23,436	$ 4,919	$ 23,436	$ 4,919

1) The Company restated certain 2018 amounts as a result of the finalization of the purchase price allocation for the Tucker Acquisition which occurred in the fourth quarter of 2018.

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities totaled $34.4 million and $52.9 million for the three and nine months ended September 30, 2019, respectively, compared to $22.6 million and $57.3 million in the comparable periods of 2018. Net cash provided by operating activities increased by $11.8 million for the three months ended September 30, 2019 compared to the same period in 2018 primarily due to changes in non-cash working capital offset by lower operating results in 2019. Net cash provided by operating activities decreased by $4.4 million for the nine months ended September 30, 2019 compared to the same period in 2018. This was primarily due to lower net income offset by changes in non-cash working capital on the collection of Trade and other receivables.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities totaled $11.1 million and $31.2 million for the three and nine months ended September 30, 2019, respectively. The decrease in the three-month period is due to less maintenance capital expenditures in 2019 versus 2018 growth and maintenance capital expenditures. By focusing on staffed equipment, the maintenance focused capital program is actively being managed and will be reduced where possible. The nine-month period ended September 30, 2018 included $340.2 million purchase price related to the Tucker Acquisition.

NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES

For the three months ended September 30, 2019, net cash used in financing activities totaled $1.2 million, compared to net cash provided by financing activities of $9.2 million in the same period of the prior period. For the nine months ended September 30, 2019, net cash provided by financing activities was $0.9 million compared to $338.8 million in the prior year. Current year movements in financing activities consist of borrowings on the facilities to fund working capital, offset by payments related to leases. Prior year amounts include equity financing and borrowings on the credit facilities primarily used to fund the Tucker Acquisition.

WORKING CAPITAL[1] AND CASH REQUIREMENTS

As at September 30, 2019, STEP had positive working capital[1] of $96.1 million, compared to $67.2 million as at December 31, 2018. Trade and other receivables increased from $124.6 million as at December 31, 2018 to $135.9 million as at September 30, 2019, primarily due to a major client who is undergoing an amalgamation that is lengthening the client's payment cycles. Trade and other payables increased to $98.8 million at quarter end from $84.1 million as at December 31, 2018 as a result of less activity around the holiday season in December resulting in fewer payables at year end. Available financial resources as at September 30, 2019 were $113.9 million, consisting of cash and cash equivalents on hand and the remaining capacity on the Credit Facilities. With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its operations, financial obligations and planned capital expenditures through 2020.

CAPITAL MANAGEMENT

As at ($000s)	September 30, 2019	December 31, 2018
Shareholders' equity	$ 351,426	$ 478,604
Lease obligations	19,651	16,499
Loans and borrowings	256,661	252,441
Total capital	$ 627,738	$ 747,544

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.

Equity:

As at November 6, 2019, there were 66,799,296 Common Shares issued and outstanding.

Debt:

At September 30, 2019 the Company has a borrowing agreement with a syndicate of financial institutions. The Company's agreement is comprised of operating facilities and a revolving facility (together the "Credit Facilities"). The Credit Facilities mature on June 25, 2022 and include a Canadian $313.3 million revolving credit facility, a Canadian $10.0 million operating facility and a U.S. $20.0 million operating facility. The maturity date of the Credit Facilities may be extended for a period of up to three years with syndicate approval. The Credit Facilities include a general security agreement providing a security interest over all present and after acquired personal property of the Company and all of its subsidiaries including mortgages on certain properties. An equity cure is available for the purposes of determining compliance with the Funded debt to Adjusted bank EBITDA ratio. The equity cure is available for use up to two times, in non-consecutive quarters. Each use of the equity cure is limited to $25.0 million from the issuance of equity securities and must be utilized to repay borrowings under the Credit Facilities. Under the Credit Facilities, any current and future leases that would have been accounted for as an operating lease at December 31, 2018 will continue to be recognized as operating leases for purposes of calculating financial covenants.

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

1) Funded debt to Adjusted bank EBITDA ratio refers to the ratio of total outstanding interest-bearing debt including lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange gains and losses, taxes, depreciation, amortization, impairment, unrealized foreign exchange forward contract (gain) loss and transaction costs ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Also, realized foreign exchange (gain) loss is excluded from Adjusted bank EBITDA. This is a difference from the Company's non-IFRS measure "Adjusted EBITDA"[1].

[1] See Non-IFRS Measures.

The Company is required to meet the following funded debt to adjusted bank EBITDA ratios:

Quarters Ended	Required Funded debt to Adjusted bank EBITDA ratio
September 30, 2019 and December 31, 2019	4.50:1 or less
March 31, 2020	4.00:1 or less
June 30, 2020	3.50:1 or less
September 30, 2020 and thereafter	3.00:1 or less

At September 30, 2019, the Funded debt to Adjusted bank EBITDA ratio was 3.17:1.00.

2) Interest coverage ratio refers to the ratio of Adjusted bank EBITDA to interest expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance and LIBOR advances. Interest on lease obligations for current and future leases which would have been accounted for as an operating lease at December 31, 2018 is not included in interest expense for purposes of calculating financial covenants. This ratio is not to fall below 3.00:1.

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

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 50 basis points to 300 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the third quarter of 2019 was approximately 4.56%. At September 30, 2019, the full amount of the facility was available to be drawn on the Credit Facilities of which there was $259.3 million outstanding ($256.7 million net of deferred financing costs of $2.6 million). The Company was in compliance with all covenants.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS

($000s)	2019	2020	2021	2022	2023	Thereafter	Total
Trade and other payables	$ 89,513	$ 9,299	$ -	$ -	$ -	$ -	$ **98,812**
Income tax payable	-	192	-	-	-	-	**192**
Operating commitments [1,2]	257	1,323	1,306	1,253	1,241	407	**5,787**
Short-term and low value lease obligations[2]	110	212	-	-	-	-	**322**
Lease obligations [2,3]	3,395	9,092	5,449	1,663	1,545	-	**21,144**
Loans and borrowings [4]	2,980	11,857	11,824	265,008	-	-	**291,669**
Capital expenditure commitments [5]	3,363	-	-	-	-	-	**3,363**
Total commitments	$ 99,618	$ 31,975	$ 18,579	$ 267,924	$ 2,786	$ 407	$ **421,289**

[1] The Company leases certain office and operating facilities that contain an operating expense commitment. The lease terms range from one to seven years with an option to renew upon expiry.
[2] Balance includes U.S. obligations at a forecast exchange rate of 1 USD = 1.32 CAD.
[3] Balance includes interest portion of lease obligations.
[4] Includes estimated interest and principle repayments, based on current amounts outstanding and current interest rates at September 30, 2019. Both are variable in nature.
[5] A capital expenditure commitment is defined as a purchase agreement between the Company and the supplier as it relates to the Company's capital program.

LITIGATION

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

In January 2017, Calfrac Well Services Ltd. ("Calfrac") filed a statement of claim in the Judicial District of Calgary in the Court of Queen's Bench against the Company and an employee of the Company seeking $10.0 million in damages among other relief.

Calfrac alleges that the employee, who is a former employee of Calfrac, misappropriated certain competitively sensitive materials from Calfrac. Calfrac further alleges that STEP benefited or made use of such materials, resulting in damages to Calfrac. STEP is presently investigating the claim and at this time intends to contest allegations made in the claim. While management does not believe that this action will have a material adverse effect on the business or financial condition of the Company, no assurance can be given as to the final outcome of this or any other legal proceeding. If this claim, or any claims to which the Company may be subject in the future, were to be concluded in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

SELECTED QUARTERLY INFORMATION

STEP's quarterly financial performance is affected by the seasonality[1] of the business in Canada, assets deployed, asset utilization, pricing, changes in STEP's clients' capital programs, foreign exchange rates, product costs, and other significant events impacting operations.

Quarterly Results Summary [2] ($000's, except per share amounts)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Revenue								
Canadian Operations	**97,834**	76,105	108,226	97,756	147,964	68,038	165,130	133,868
United States Operations	**80,911**	110,472	68,243	71,272	92,577	116,563	22,463	20,385
	178,745	186,577	176,469	169,028	240,541	184,601	187,593	154,253
Net (loss) income attributable to shareholders	**(112,843)**	(6,024)	(602)	(58,549)	9,260	(8,431)	18,416	17,548
Adjusted EBITDA [3,4]								
Canadian Operations	**23,085**	8,872	23,856	8,995	35,998	(2,517)	36,505	30,199
United States Operations	**3,769**	15,627	7,009	8,816	9,568	26,462	8,086	7,926
Corporate [4]	**(4,164)**	(4,160)	(4,248)	(5,509)	(3,115)	(2,841)	(2,811)	(2,163)
	22,690	20,339	26,617	12,302	42,451	21,104	41,780	35,962
Capital expenditures [5]								
Canadian Operations	**5,697**	11,081	11,605	12,835	22,589	29,368	16,342	23,685
United States Operations	**7,051**	2,892	7,207	13,950	11,711	9,977	8,255	8,335
	12,748	13,973	18,812	26,785	34,300	39,345	24,597	32,020
Per Common Share								
Net (loss) income – basic	**(1.69)**	(0.09)	(0.01)	(0.88)	0.14	(0.13)	0.30	0.29
Net (loss) income – diluted	**(1.69)**	(0.09)	(0.01)	(0.89)	0.14	(0.13)	0.29	0.28
Adjusted EBITDA [3] – basic	**0.34**	0.30	0.40	0.18	0.64	0.32	0.70	0.60
Adjusted EBITDA [3] – diluted	**0.34**	0.30	0.40	0.18	0.63	0.31	0.68	0.57

[1] STEP's business is seasonal with the periods of greatest activity in Canada being in the first, third and fourth quarters. The U.S. is generally not affected by seasonality.
[2] Totals may not add due to rounding.
[3] See Non-IFRS Measures.
[4] Prior years amounts were reclassified as the Company reorganized the composition of its operating segments. See "Corporate review" section.
[5] Capital expenditures include amounts added in respect of finance right-of-use assets.

Quarterly Operating Summary (000's, except units)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Canada								
Exit active fracturing spreads	**6**	6	6	6	8	8	8	7
Exit active HP (000's)	**225**	225	225	225	225	225	225	209
Total HP (000's)	**298**	298	298	298	298	298	298	298
Exit active coiled tubing units	**9**	9	9	9	13	13	13	13
Total coiled tubing units	**16**	16	14	14	13	13	13	13
United States								
Exit active fracturing spreads	**3**	3	3	3	3	4	-	-
Exit active HP (000's)	**143**	143	143	143	143	193	-	-
Total HP (000's)	**193**	193	193	193	193	193	-	-
Exit active coiled tubing units	**8**	9	9	8	9	8	8	6
Total coiled tubing units	**13**	13	12	12	11	10	8	6

FINANCIAL INSTRUMENTS

Financial instruments included in the Company's consolidated balance sheets are cash and cash equivalents, trade and other receivables, current tax receivable, trade and other payables, income tax payable, lease obligations and loans and borrowings.

FAIR VALUES

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

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 quarter a 1.0% change in the bankers' prime rate would result in a $0.7 million increase or decrease in interest expense for the three-month period ended September 30, 2019.

CREDIT RISK

The majority of the Company's accounts receivable are with clients in the oil and natural gas industry and are subject to normal industry credit risks that include fluctuations in oil and natural gas prices and the ability to secure adequate debt or equity financing. The Company's clients are subject to an internal credit review, considering numerous quantitative and qualitative factors including industry conditions, payment history and financial conditions in assessing credit risk. This review, together with ongoing monitoring of the amount and age of balances outstanding minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure and management's assessment of the credit risk associated with the balance. The Company uses an 'expected credit loss' ("ECL") model to value the impairment of accounts receivable. The Company measures potential loss exposure on trade and other receivables at an amount equal to lifetime ECL's adjusted for management's estimate of current and future market conditions.

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. As at September 30, 2019, the Company did not have any open forward contracts.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at September 30, 2019 other than the commitments described under "Contractual obligations, commitments and provisions".

NON-IFRS MEASURES

This MD&A includes terms and performance measures commonly used in the oilfield services industry that are not defined under IFRS. The terms presented are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-IFRS measures have no standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. The non-IFRS measure should be read in conjunction with the Company's audited and unaudited Financial Statements and the accompanying Notes thereto.

"Adjusted EBITDA" is a financial measure not presented in accordance with IFRS and is equal to net (loss) income before finance costs, depreciation and amortization, loss (gain) on disposal of property and equipment, current and deferred income tax provisions and recoveries, share-based compensation, transaction costs, foreign exchange forward contract (gain) loss, foreign exchange (gain) loss, and impairment losses. Adjusted EBITDA is presented because it is widely used by the investment community as it provides an indication of the results generated by the Company's normal course business activities prior to considering how the activities are financed and the results are taxed. Transaction costs related to the Tucker Acquisition have been adjusted for as they are not reflective of operating activities. The Company uses Adjusted EBITDA internally to evaluate operating and segment performance, because management believes it provides better comparability between periods. "Adjusted EBITDA %" is calculated as Adjusted EBITDA divided by revenue.

The following table presents a reconciliation of the non-IFRS financial measure of Adjusted EBITDA to the IFRS financial measure of net (loss) income.

($000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net (loss) income	$ (112,843)	$ 9,260	$ (119,471)	$ 19,245
Add (deduct):				
Depreciation and amortization	25,001	26,266	78,436	61,945
Gain on disposal of property and equipment	(806)	(951)	(1,815)	(1,373)
Finance costs	4,022	4,100	10,947	7,723
Income tax expense (recovery)	(8,468)	2,924	(16,616)	7,514
Foreign exchange forward contract (gain) loss	-	-	383	1,219
Share-based compensation	1,765	1,925	5,610	6,821
Transaction costs	-	(4)	-	2,921
Foreign exchange (gain) loss	473	(1,069)	(1,376)	(680)
Impairment	113,546	-	113,546	-
Adjusted EBITDA	$ 22,690	$ 42,451	$ 69,644	$ 105,335

"Revenue per operating day" is a financial measure not presented in accordance with IFRS and is calculated based on total revenue divided by total operating days. An operating day is defined as any coiled tubing and fracturing work that is performed in a 24-hour period, exclusive of support equipment. This calculation may fluctuate based on both pricing and sales mix.

"Working capital", "Total long-term financial liabilities" and "Net debt" are financial measures not presented in accordance with IFRS. "Working capital" is equal to total current assets less total current liabilities. "Total long-term financial liabilities" is comprised of Loans and borrowings, Long-term lease obligations and Other liabilities. "Net debt" is equal to loans and borrowings before deferred financing charges less cash and cash equivalents. The data presented is intended to provide additional information about items on the statement of financial position and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

The following table presents the composition of the non-IFRS financial measure of Net debt.

As at ($000s)	September 30, 2019	December 31, 2018
Loans and borrowings	$ 256,661	$ 252,441
Deferred financing costs	2,645	2,133
Cash and cash equivalents	(23,436)	(364)
Net debt	$ 235,870	$ 254,210

ACCOUNTING POLICIES AND ESTIMATES

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 16: Leases

IFRS 16 is effective as of January 1, 2019. IFRS 16 replaces existing lease guidance including IAS 17, Leases and related interpretations. Upon identification of a lease contract, IFRS 16 requires the recognition of a right-of-use asset and lease liability. The Company has applied the standard using the modified retrospective approach in which the cumulative impact of initial application is recognized as an adjustment to the opening balance of retained earnings with no restatement of prior period information, subject to elected practical expedients.

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

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

At the commencement date of a lease, the Company measures lease liabilities at the present value of remaining estimated lease payments, discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. Prospectively, the carrying amount of lease liabilities is increased by interest, offset by lease payments made. The initial cost of right-of-use assets is measured as the value of the lease liability, adjusted for any lease incentives received and initial direct costs. Right-of-use assets are depreciated over the lease term and recognized as cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are presented within Property and Equipment. The Company primarily leases light duty vehicles, office buildings, service centers, and copiers. Recognition exemptions permitted include short term leases or leases for which the underlying asset is of low value. If a contract meets these criteria the Company expenses the payments in the consolidated statements of net (loss) income and other comprehensive (loss) income.

Upon adoption, previously recognized operating commitments disclosed in the annual consolidated financial statements for the year ended December 31, 2018 meeting IFRS 16 recognition criteria were measured at the present value of remaining future lease payments using the Company's incremental January 1, 2019 borrowing rate. For leases previously recognized as finance leases under IAS 17, the carrying amounts of the lease asset and lease liability at January 1, 2019 were determined using the carrying amounts of the lease asset and lease liability under IAS 17 immediately before that date. The Company applied the following practical expedients on initial adoption of IFRS 16 for previously recognized operating commitments: account for leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases; account for lease payments as an expense for which the underlying asset is of low dollar value; and use hindsight in applying the new standard for lease terms where the contract contains options to extend or terminate the lease. The impact of adoption of IFRS 16 was a $7.2 million increase to lease liabilities, a $0.1 million decrease to accrued payables, a $6.9 million increase to property

and equipment, and a $0.2 million decrease to retained earnings as at January 1, 2019 using an average incremental borrowing rate of 5.1%.

As a result of the implementation of IFRS 16, for the three and nine months ended September 30, 2019, $0.7 million and $2.0 million of expenses that otherwise would have been booked to operating and selling, general and administrative expenses was recorded as a reduction to the lease liability, respectively.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

This MD&A is based on the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019. The preparation of the unaudited condensed consolidated interim financial statements requires that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the consolidated financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes. Refer to Note 1 to the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and Notes 1 and 2 to the audited annual consolidated financial statements for the year ended December 31, 2018 for a description of the Company's accounting policies, impacts of changes in significant accounting policies, and practices involving the use of estimates and judgments that are critical to determining STEP's financial results.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. Due to the maturation of the business and the acquisition of Tucker, STEP reassessed its operating segments. The realignment of operating segments assigned the separate disclosure of Corporate costs in addition to the Canadian Operations and U.S. Operations geographical segments. The Company also reclassified specified cost of sales and selling, general, and administrative costs.

RELATED PARTIES

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. Together, ARC Energy Fund 6 and ARC Energy Fund 8 have provided three separate rounds of financing to the Company.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's existing internal control over financial reporting ("ICFR") except as described below that occurred during the period ending September 30, 2019, which have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Since December 31, 2018, the Company has implemented changes in its ICFR related to the previous scope limitation regarding the acquisition of Tucker, in which the controls, policies and procedures of Tucker were excluded from the Company's ICFR. No limitation is required or reported as of September 30, 2019 for the design or implementation of disclosure controls and procedures and internal control over financial reporting, as the Company has now implemented its ICFR processes and controls over all aspects of the acquired Tucker business. The Company intends to confirm operating effectiveness as at December 31, 2019.

RISK FACTORS AND RISK MANAGEMENT

The oilfield services industry involves many risks, which may influence the ultimate success of the Company. The risks and uncertainties set out are not the only ones the Company is facing. There are additional risks and uncertainties that the Company does not currently know about or that the Company currently considers immaterial which may also impair the Company's business operations and can cause the price of the Common Shares to decline. Readers should review and carefully consider the disclosure provided under the heading "Risk Factors" in the AIF and "Risk Factors and Risk

Management" in the annual MD&A, both of which are available on www.sedar.com. The Company's risk factors and management thereof has not changed substantially from those disclosed in the AIF and annual MD&A.

FORWARD-LOOKING INFORMATION & STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws (collectively, "forward-looking statements"). These statements relate to the expectations of management about future events, results of operations and STEP's future performance (both operational and financial) and business prospects. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "objective" and "capable" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. While STEP believes the expectations reflected in the forward-looking statements included in this MD&A are reasonable, such statements are not guarantees of future performance or outcomes and may prove to be incorrect and should not be unduly relied upon.

In particular, but without limitation, this MD&A contains forward-looking statements pertaining to: 2019 operation outlook; anticipated market recovery; supply and demand for oilfield services and industry activity levels, including the Company's integrated service offerings; the Company's anticipated business strategies and expected success; effect of weather conditions on the Company's operations; expected completions activity, utilization levels and operating margins in 2019; expected profitability for fracturing services in 2019; ability of the Company to maintain its track record of returns and margin performance; the Company's expected performance in 2019; future development activities; planned redeployment of a fourth fracturing crew in the U.S; the Company's ability to retain existing clients and attract new business; monitoring of industry demand, client capital budgets and market conditions; and increased clarity on client activity in the third and fourth quarters of 2019.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of the Company including, without limitation: the Company will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; pricing of the Company's services; the Company's ability to market successfully to current and new clients; the Company's ability to utilize its equipment; the Company's ability to collect on trade and other receivables; the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner; levels of deployable equipment; future capital expenditures to be made by the Company; future funding sources for the Company's capital program; the Company's future debt levels; the impact of competition on the Company; the Company's ability to obtain financing on acceptable terms; completion of, and timing for availability of, additional pipeline capacity; and client activity levels. The Company believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove correct.

Actual results could differ materially from those anticipated in these forward-looking statements due to the risk factors set forth below and elsewhere in this MD&A: volatility of the oil and natural gas industry; excess equipment levels; competition in the oilfield services industry; restrictions on access to capital; reliance on suppliers of raw materials, diesel fuel and component parts; reliance on equipment suppliers and fabricators; direct and indirect exposure to volatile credit markets; fluctuations in currency exchange rates; merger and acquisition activity among the Company's clients; federal and provincial legislative and regulatory initiatives could result in increased costs and additional operating restrictions or delays; health, safety and environment laws and regulations may require the Company to make substantial expenditures or cause it to incur substantial liabilities; loss of a significant client could cause the Company's revenue to decline substantially; negative cash flows from operating activities; third party credit risk; hazards inherent in the oilfield services industry which may not be covered to the full extent by the Company's insurance policies; difficulty in retaining, replacing or adding personnel; seasonal volatility due to adverse weather conditions; reliance on a few key employees; legal proceedings involving the Company; failure to maintain the Company's safety standards and record; inability to manage growth; failure to continuously improve operating equipment and proprietary fluid chemistries; actual results may differ materially from management estimates and assumptions; and the risk factors set forth under the heading "Risk Factors" in the AIF.