

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 May 11, 2017 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 consolidated interim financial statements and notes thereto as at and for the three months ended March 31, 2017 (the "financial statements") and the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2016. All documents are available on STEP's website at www.stepenergyservices.com and on SEDAR at www.sedar.com. Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A. All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated. Readers should review the section regarding "Non-IFRS Measures".

During the first quarter of 2017, the Company's board of directors approved the consolidation of the Company's issued and outstanding shares on a 5 to 1 basis. Unless otherwise stated, all share capital and per share amounts in this MD&A have been adjusted to give retroactive effect to the share consolidation.

CORPORATE OVERVIEW

STEP is an oilfield service company with operations in Canada and the United States ("U.S."). The Company's completion focused services consist of fully integrated deep capacity coiled tubing and fracturing solutions.

(\$000's except per share, per day, days, units, and horsepower ("HP"))	Three months ended March 31	
	2017	2016
Consolidated revenue	\$ 117,984	\$ 27,577
Net income (loss) attributable to shareholders	\$ 8,992	\$ (8,626)
Per share-basic & diluted	\$ 0.18	\$ (0.27)
Adjusted EBITDA ⁽¹⁾	\$ 21,140	\$ (334)
Adjusted EBITDA % ⁽¹⁾	18%	n/m
Total fracturing operating days ⁽²⁾	361	36
Fracturing revenue per operating day	\$ 219,781	\$ 104,134
Fracturing capacity (HP):		
Average active HP	133,500	50,000
Exit active HP	145,000	50,000
Total HP ⁽³⁾	297,500	115,000
Total coiled tubing operating days ⁽²⁾	906	613
Coiled tubing revenue per operating day	\$ 42,652	\$ 38,872
Coiled tubing capacity:		
Average active coiled tubing units	14	12
Exit active coiled tubing units	14	12
Total coiled tubing units	16	14
Capital expenditures	\$ 20,943	\$ 6,562

⁽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 145,000 HP is currently deployed and the remainder of which requires certain maintenance and refurbishment.

(000's except per share amounts)	As at March 31, 2017	As at December 31, 2016
Cash and cash equivalents	\$ 8,864	\$ 2,151
Working capital	\$ 49,258	\$ 29,872
Total long-term financial liabilities	\$ 35,472	\$ 33,994
Total assets	\$ 392,481	\$ 335,140

FINANCIAL AND OPERATING HIGHLIGHTS

Quarterly Highlights

STEP realized increased utilization across its entire fleet in the first quarter of 2017 compared to the first and fourth quarters of 2016. Strong demand and improved pricing combined with additional U.S. coiled tubing and Canadian fracturing capacity enabled the Company to achieve record quarterly revenue in the three months ended March 31, 2017.

- Quarterly revenue of \$118.0 million was a 328% increase from the first quarter of 2016 and an 84% increase from the fourth quarter of 2016.
- Adjusted EBITDA of \$21.1 million (or 18%), was an improvement of \$21.5 million compared to an Adjusted EBITDA loss incurred in the same period in 2016, and an improvement of \$15.8 million compared to fourth quarter 2016 Adjusted EBITDA.
- Net income of \$9.0 million was an improvement of \$17.6 million and \$11.6 million compared to a net loss of \$8.6 million and \$2.6 million in the first and fourth quarters of 2016, respectively. Net income for the quarter includes \$0.8 million of transaction costs related to the initial public offering (“IPO”).
- Two additional fracturing spreads were deployed during the quarter resulting in average active HP of 133,500 HP compared to 50,000 HP in the first quarter of 2016. At quarter-end, STEP had 145,000 active HP.
- In the first quarter of 2017, STEP’s Canadian operating segment generated revenue of \$109.8 million, a 342% increase compared to the first quarter of 2016. The U.S. operating segment generated first quarter 2017 revenue of \$8.2 million, a 197% increase compared to the first quarter of 2016.

Overview of Canadian Operations

The Canadian operating segment provides fracturing and coiled tubing services to oil and natural gas companies operating in the Western Canadian Sedimentary Basin. The Company’s client base in Canada ranges from large multi-national public companies to private companies. During the first quarter of 2017, STEP deployed two additional fracturing spreads representing 45,000 HP. At March 31, 2017, STEP’s Canadian operations had 10 of its 12 coiled tubing spreads staffed and active and operated five fracturing spreads representing 145,000 HP.

Overview of United States Operations

The U.S. operating segment provides coiled tubing services in the Permian and Eagle Ford basins in Texas and the Haynesville basin in Louisiana. The expanded fleet enabled the Company to meet increased demand, improve utilization and diversify its client base in the first quarter of 2017 compared to the same period in 2016. At March 31, 2017, STEP’s U.S. operations had four active coiled tubing spreads.

Significant Events

On March 10, 2017, the Company amended its credit facilities with an agreement involving a syndicate of lenders. The new facilities consist of a \$10.0 million committed operating line and a \$90.0 million committed revolving facility, expandable with a \$25.0 million accordion upon request of the Company, and subject to lender approval. Total drawings on the credit facility were \$32.0 million at March 31, 2017. STEP also had a positive cash balance of \$8.9 million. As at March 31, 2017, STEP had an asset base of \$392.5 million, an increase from \$335.1 million at December 31, 2016.

In February 2017 the company issued 2.4 million common shares for aggregate proceeds of \$15.0 million pertaining to a subscription agreement entered into between the Company and ARC Energy Fund 8 Canadian Limited Partnership, ARC Energy Fund 8 United States Limited Partnership, ARC Energy Fund 8 International Limited

Partnership and ARC Capital 8 Limited Partnership (collectively, “ARC Energy Fund 8”) on April 2, 2015. This represents the final financing under the subscription agreement.

Subsequent to the end of the quarter, STEP completed an IPO raising gross proceeds of \$100 million. The proceeds were used to repay indebtedness and position the Company to execute on its capital program.

CONSOLIDATED STATEMENT OF OPERATIONS

(\$000's except per share amounts)	Three months ended March 31,	
	2017	2016
Revenue	\$ 117,984	\$ 27,577
Cost of sales	100,723	32,153
Gross Profit	17,261	(4,576)
Selling, general and administrative expenses	5,171	5,620
Results from operating activities	12,090	(10,196)
Finance expense	569	183
Foreign exchange (gain) loss	(13)	(28)
Gain on disposal of property and equipment	(1,882)	(227)
Transaction costs	785	-
Amortization of intangibles	193	144
Income (loss) before income tax	12,438	(10,268)
Income tax expense (recovery)	3,446	(1,642)
Net Income (loss)	8,992	(8,626)
Other comprehensive income (loss)	(278)	(1,515)
Total comprehensive income (loss)	\$ 8,714	\$ (10,141)
Net income (loss)	\$ 8,992	\$ (8,626)
Net income (loss) per share – basic & diluted	\$ 0.18	\$ (0.27)
Adjusted EBITDA ⁽¹⁾	\$ 21,140	\$ (334)

⁽¹⁾ See Non-IFRS Measures.

Overall Performance and Results of Operations

The growth of STEP’s Canadian fracturing and U.S. coiled tubing services and increased activity in Canadian coiled tubing has allowed the Company to report increased utilization and record quarterly revenue of \$118.0 million for the first quarter of 2017. Revenue increased by 328% for the three months ended March 31, 2017, compared to \$27.6 million in the same period of 2016. The revenue growth is primarily the result of increased activity, deployed equipment and improved pricing. The deployment of two additional fracturing spreads in Canada and increased Canadian coiled tubing activity, combined with two additional coiled tubing spreads in the U.S., allowed the Company to report increased utilization across all service offerings.

For the three months ended March 31, 2017, STEP generated positive Adjusted EBITDA of \$21.1 million, or 18% of revenue, in comparison with an Adjusted EBITDA loss of \$0.3 million, in same period of 2016. The strong Adjusted EBITDA can be attributed to an efficient cost structure, pricing improvements, and economies of scale as the new service offerings begin to mature. STEP recorded net income in the three months ended March 31, 2017 of \$9.0 million, compared to a net loss of \$8.6 million in the comparable period of 2016.

CANADIAN OPERATIONS

(\$000's except per day, units, days and HP)	Three months ended March 31,	
	2017	2016
Revenue	\$ 109,778	\$ 24,810
Expenses:		
Cost of sales	92,874	28,656
Selling, general and administrative	4,476	5,353
Results from operating activities	\$ 12,428	\$ (9,199)
Add non-cash items:		
Depreciation	6,457	4,479
Share-based compensation	1,560	4,654
Adjusted EBITDA ⁽¹⁾	\$ 20,445	\$ (66)
Adjusted EBITDA % ⁽¹⁾	19%	0%
Sales mix (% of segment revenue)		
Fracturing	72%	15%
Coiled tubing	28%	85%
Fracturing services		
Fracturing revenue per operating day	\$ 219,781	\$ 104,134
Number of fracturing operating days ⁽²⁾	361	36
Active pumping HP, end of period	145,000	50,000
Idle pumping HP, end of period	152,500	65,000
Total pumping HP, end of period ⁽³⁾	297,500	115,000
Coiled tubing services		
Coiled tubing revenue per operating day	\$ 42,929	\$ 38,223
Number of coiled tubing operating days ⁽²⁾	709	551
Active coiled tubing units, end of period	10	10
Idle coiled tubing units, end of period	2	2
Total coiled tubing units, end of period	12	12

⁽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 145,000 HP is currently deployed and the remainder of which requires certain maintenance and refurbishment.

STEP reported record quarterly revenue from the Canadian operations during the three months ended March 31, 2017 of \$109.8 million, compared to \$24.8 million in same period of 2016. The 342% increase in revenue is primarily attributable to the expansion of fracturing services, generating 361 operating days during the period and average revenue per operating day of \$219,781, in comparison with 36 operating days and revenue per operating day of \$104,134 for the same period of 2016. The growth in fracturing revenue per day is the result of an increase in the number of stages and proppant pumped per well. Coiled tubing operating days increased by 29% relative to the comparable period of 2016 and revenue per coiled tubing operating day increased by 12%. The increase in operating day rates for STEP's coiled tubing fleet was due to increased demand, resulting in stronger pricing. STEP's Canadian operations continued to expand its client base while delivering positive Adjusted EBITDA and net income in the quarter.

Adjusted EBITDA in Canada during the three months ended March 31, 2017 was \$20.4 million, or 19% of revenue, compared to an Adjusted EBITDA loss of \$0.1 million in 2016. The impacts of increased pricing, improved utilization,

cost reduction measures, and operating efficiencies have allowed the Canadian operations to report record Adjusted EBITDA in the quarter.

UNITED STATES OPERATIONS

(\$000's except per day, units, and days)	Three months ended March 31,	
	2017	2016
Revenue	\$ 8,206	\$ 2,767
Expenses:		
Cost of sales	7,849	3,497
Selling, general and administrative	695	267
Results from operating activities	\$ (338)	\$ (997)
Add non-cash items:		
Depreciation	895	572
Share-based compensation	138	157
Adjusted EBITDA ⁽¹⁾	\$ 695	\$ (268)
Adjusted EBITDA % ⁽¹⁾	8%	(10%)
Coiled tubing services		
Coiled tubing revenue per operating day	\$ 41,654	\$ 44,632
Number of coiled tubing operating days ⁽²⁾	197	62
Active coiled tubing units, end of period	4	2
Idle coiled tubing units, end of period	-	-
Total coiled tubing units, end of period	4	2

⁽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.

Revenue from STEP's U.S. operations for the three months ended March 31, 2017 was \$8.2 million, compared to \$2.8 million in the comparable period of 2016. Operating days improved 218% to 197 days in the first quarter of 2017, compared to the same period of the prior year, as a result of the additional capacity, increased demand, and geographic expansion. Two additional coiled tubing spreads were active in the first quarter of 2017 compared to the same period in 2016. The decline in revenue per operating day is the result of a stronger Canadian dollar and less operating hours worked per day in the current quarter compared to the same period of the prior year.

Adjusted EBITDA in the U.S. for the three months ended March 31, 2017 was \$0.7 million, or 8% of revenue, compared to an Adjusted EBITDA loss of \$0.3 million in the comparable period of 2016. The increase in Adjusted EBITDA is a result of higher utilization and cost efficiencies gained as the business continues to mature.

OTHER ITEMS

Depreciation and amortization

For the three months ended March 31, 2017, depreciation and amortization expense increased by 45% to \$7.6 million from \$5.2 million in the same period of 2016. The increase was the result of assets acquired and deployed over the past twelve months.

Finance costs

The Company's finance costs of \$0.6 million for the three months ended March 31, 2017 increased from \$0.2 million in the same period of 2016 as the outstanding balance on the Company's credit facilities was higher in the first quarter of 2017 due to funding working capital and the Company's capital program. Additionally, interest on finance

leases increased as a result of an expanded fleet of leased vehicles. The Canadian Chartered Banks' prime lending rate remained unchanged at 2.70% through the three months ended March 31, 2016 and 2017.

Foreign exchange gains and losses

The Company recorded a foreign exchange gain of \$13 thousand for the three months ended March 31, 2017, versus a gain of \$28 thousand in the comparable period of 2016. Foreign exchange gains and losses arose primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars.

Gains or losses on disposal of property and equipment

The Company recorded gains on disposal of property and equipment of \$1.9 million for the three months ended March 31, 2017, compared to \$0.2 million in comparable period of 2016. The increase is due to the disposal of more non-core assets in the first quarter of 2017 versus 2016.

Impairment

The Company reviews for indicators of impairment at each reporting period. Based on management's review, no indicators of impairment exist at March 31, 2017.

Income taxes

The Company recorded an income tax expense of \$3.4 million in the three months ended March 31, 2017, compared to a recovery of \$1.6 million in the comparable period of 2016. The expected combined tax rate was approximately 27% in both the three months ended March 31, 2017 and 2016.

Share-based compensation

For the three months ended March 31, 2017, the Company recorded share-based compensation expense of \$1.7 million, a decrease of \$3.1 million compared to the same period in 2016. Options and performance warrant grants issued in 2011 that were set to expire in 2016 were extended to April 2, 2020 resulting in a charge to share-based compensation expense in the three months ended March 31, 2016.

SELECTED QUARTERLY INFORMATION ⁽¹⁾

Trends in STEP's quarterly financial performance are affected primarily by the seasonality of the business in Canada, assets deployed, asset utilization, services pricing, major maintenance events, 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)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2017	2016	2016	2016	2016	2015	2015	2015
Revenue								
Canadian Operations	109,778	54,368	51,088	16,907	24,810	29,115	28,492	22,839
United States Operations	8,206	9,794	7,094	2,323	2,767	6,155	514	-
	117,984	64,162	58,182	19,230	27,577	35,270	29,006	22,839
Net income (loss) attributable to shareholders								
Canadian Operations	10,258	(2,660)	(1,312)	(6,201)	(8,077)	(3,644)	(1,095)	(33)
United States Operations	(1,266)	45	70	(1,270)	(549)	(80)	(470)	(223)
	8,992	(2,615)	(1,242)	(7,471)	(8,626)	(3,724)	(1,565)	(256)
Adjusted EBITDA ⁽³⁾								
Canadian Operations	20,445	2,668	3,640	(3,019)	(66)	3,007	2,685	3,003
United States Operations	695	2,587	1,314	(634)	(268)	1,311	(420)	(172)
	21,140	5,255	4,954	(3,653)	(334)	4,318	2,265	2,831
Capital expenditures								
Canadian Operations	14,459	9,263	11,946	66,125	5,555	18,841	5,567	72,049
United States Operations	6,484	2,359	3,625	244	1,007	1,145	610	-
	20,943	11,622	15,571	66,369	6,562	19,986	6,177	72,049
Per common share								
Net income (loss) –basic & diluted	0.18	(0.05)	(0.03)	(0.18)	(0.27)	(0.12)	(0.05)	(0.01)

⁽¹⁾ The Company's business is seasonal in nature 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.

Quarterly Operating Summary								
(000's, except units)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2017	2016	2016	2016	2016	2015	2015	2015
Canada								
Active HP (000's)	145	100	100	50	50	50	-	-
Total HP (000's)	298	298	298	290	115	115	115	115
Active coiled tubing units	10	10	8	7	10	10	11	10
Total coiled tubing units	12	12	12	12	12	12	13	14
United States								
Active coiled tubing units	4	4	3	2	2	2	-	-
Total coiled tubing units	4	4	3	3	2	2	1	-

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

(\$000's)	Three months ended March 31,	
	2017	2016
Net cash provided by (used in)		
Operating activities	\$ 3,453	\$ (588)
Investing activities	(12,791)	(8,003)
Financing activities	16,028	5,825
Impact of foreign exchange on cash	23	(69)
Increase (decrease) in cash and cash equivalents	\$ 6,713	\$ (2,835)
Ending cash balance	\$ 8,864	\$ 8,226

Capital resources

(\$000's)	as at March 31, 2017	as at December 31, 2016
Total equity	\$ 285,351	\$ 259,939
Total debt	39,246	37,150
Total capital	\$ 324,597	\$ 297,089

Net cash provided by (used in) operating activities

Net cash provided by operating activities totaled \$3.5 million for the three months ended March 31, 2017, compared to net cash used in operating activities of \$0.6 million in the comparable period of 2016. The increase in net cash provided by operating activities was due to positive net income offset by an increase in non-cash working capital. Trade and other receivables increased from \$47.9 million at December 31, 2016 to \$84.6 million at March 31, 2017 as a result of the 84% increase in revenue in the first quarter of 2017 compared to the fourth quarter of 2016.

Financing

Equity:

In February 2017 the company issued 2.4 million common shares for aggregate proceeds of \$15.0 million pertaining to a subscription agreement entered into between the Company and ARC Energy Fund 8 on April 2, 2015. This represents the final financing under the subscription agreement.

Debt:

During the quarter, the Company entered into a new agreement with a syndicate of financial institutions. The Company's agreement is comprised of an operating facility and a revolving facility (together the "Facilities"). The Facilities mature May 31, 2020 and include a committed operating facility up to a maximum of \$10.0 million and a committed revolving facility up to a maximum of \$90.0 million, with an additional \$25.0 million accordion feature which is available upon request by the Company, subject to review and approval by the agent and syndicate. The maturity date of the Facilities may be extended once for a period of up to 3 years. The 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.

(\$000's)	as at March 31, 2017	as at December 31, 2016
Drawn on credit facility	\$ 32,000	\$ 30,302
Finance leases	7,246	6,848
Cash & cash equivalents	(8,864)	(2,151)
Bank indebtedness net of cash and cash equivalents	\$ 30,382	\$ 34,999

Working capital and cash requirements

As at March 31, 2017, STEP had a working capital balance of \$49.3 million, compared to \$29.9 million as at December 31, 2016.

As at March 31, 2017, trade and other receivables increased to \$84.6 million from \$47.9 million as at December 31, 2016. Accounts receivable increased due to higher activity across the Canadian service offerings, primarily fracturing services. The Company continually monitors individual client trade receivables, taking into account numerous factors including industry conditions, payment history and financial condition in assessing credit risk. The Company establishes an allowance for doubtful accounts for specifically identifiable client balances which are assessed to have credit risk exposure. As at March 31, 2017, accounts receivable includes a provision of \$1.0 million for doubtful receivables (December 31, 2016 - \$0.3 million). Inventories increased by \$2.2 million due to increased raw material levels required to support operations as well as additional coiled tubing strings to support growing activity levels in the U.S. and Canada.

Capital management

The Company's objectives when managing its capital structure are to maintain a balance between debt and equity capitalization so as to withstand industry and seasonal volatility, maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes the current and long-term portions of bank indebtedness less cash. Capitalization is calculated as debt, as described above, plus finance leases and shareholders' equity.

The amount of Facilities available to the Company is the lesser of \$100 million and the sum of the following:

1. 85% of the Eligible Accounts Receivable owed by Investment Grade Debtors at such time and 75% of the Eligible Accounts Receivable owed by Non-Investment Grade Debtors; plus
2. 50% of the net book value (as determined in accordance with IFRS) of all Eligible Inventory, to a maximum of \$5 million; plus
3. 50% of the net book value (as determined in accordance with IFRS) of all Eligible Real Estate and Eligible Equipment, to a maximum of \$65 million; less
4. Priority payables.

The Facilities require the Company to maintain certain covenants, including:

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

for the fiscal quarter ending June 30, 2018, 3.50:1 or less for the fiscal quarter ending September 30, 2018, and 3.00:1 or less for the fiscal quarters ending December 31, 2018 and thereafter.

During the fiscal quarters ending in 2017 the Funded debt to Adjusted bank EBITDA ratio will not be tested pursuant to the credit agreement.

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

At March 31, 2017, funded debt to capitalization ratio was 0.10:1 (December 31, 2016 - 0.12:1)

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

At March 31, 2017 Debt service coverage ratio was 6.14:1 (December 31, 2016 – 1.70:1)

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

1. The tangible assets of STEP and the Guarantors (material subsidiaries) are not less than 95% of the consolidated tangible assets; and
2. The Adjusted bank EBITDA of STEP and the Guarantors (material subsidiaries) is not less than 95% of the Adjusted bank EBITDA of STEP on a consolidated basis.

The Facilities are secured by all present and after acquired personal property of the Company and all of its subsidiaries. Interest is payable monthly, at the bank's prime lending rate plus 50 basis points to 450 basis points, dependent on certain financial ratios of the Company. At March 31, 2017, the full amount was available to be drawn on the Facilities of which \$32.0 million was outstanding (\$31.4 million net of unamortized debt issue costs of \$0.6 million) and the Company was in compliance with all covenants.

Contractual obligations and commitments

(\$000's)	Total	<1 year	1-3 years	4-5 Years	>5 years
Trade and other payables	\$ 60,256	\$ 60,256	\$ -	\$ -	\$ -
Bank indebtedness ⁽¹⁾ and finance leases	45,904	4,481	41,423	-	-
Operating leases and office space	11,562	2,152	5,393	3,013	1,004
Capital expenditure commitments ⁽²⁾	33,171	33,171	-	-	-
Total commitments	\$ 150,893	\$ 100,060	\$ 46,816	\$ 3,013	\$ 1,004

(1) Includes applicable interest.

(2) A capital expenditure commitment is defined as a legally binding purchase agreement between the Company and the supplier as it relates to the Company's capital program (See "Industry Conditions and Outlook – Capital Program").

The Company leases a number of office and warehouse facilities under operating leases. The lease terms range from one to seven years with an option to renew each lease upon expiry. Subsequent to quarter end, the Company signed a lease for a new office space with a total commitment of approximately \$5.0 million over a term of seven years. Capital expenditure commitments include additions to the fourth, fifth and sixth fracturing spreads in Canada, while commitments in the U.S. relate to the fifth and sixth coiled tubing spread. STEP incurred \$20.9 million of capital expenditures in the first quarter of 2017 and currently has commitments of an additional \$33.2 million pertaining to its capital program. The Company plans to spend the remaining \$54.9 million of the approximate \$109.0 million in planned capital expenditures.

Litigation

From time to time, the Company may become involved in, named as a party to, or be the subject of various legal proceedings which are usually related to normal operational or labor issues. The results of such legal proceedings or related matters cannot be determined with certainty. The Company's assessment of the likely outcome of such

matters is based on input from internal examination of the facts of the case and advice from external legal advisors, which is based on their judgment of a number of factors including the applicable legal framework and precedents, relevant financial and operational information, and other evidence and facts specific to the matter as known at the time of the assessment.

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

Capital expenditures

(\$000’s)	Three months ended March 31,	
	2017	2016
Canada	\$ 14,459	\$ 5,555
United States	6,484	1,007
Total capital expenditures	\$ 20,943	\$ 6,562

Capital expenditures are funded from cash, net cash provided by operating activities, issuance of share capital and available credit facilities. For the three months ended March 31, 2017, STEP invested \$20.9 million in property and equipment, compared to \$6.6 million for the same period of 2016.

The capital expenditures in the first quarter of 2017 included commissioning and retrofitting equipment for the U.S. coiled tubing operation and Canadian fracturing expansion, investing in additional support equipment, facilities, and maintenance.

NON-IFRS MEASURES

This MD&A includes a term or performance measure commonly used in the oilfield services industry that is not defined under IFRS: “Adjusted EBITDA”. The data presented is 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. This non-IFRS measure has 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 income before finance costs, depreciation and amortization, loss (gain) on disposal of property and equipment, impairment, current and deferred income tax provisions and recoveries, share-based compensation, transaction costs and foreign exchange (gain) loss. 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 IPO 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.

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

(\$000's)	Three months ended March 31,	
	2017	2016
Net income (loss)	\$ 8,992	\$ (8,626)
Add (deduct):		
Depreciation and amortization	7,545	5,195
Loss (gain) on disposal of property and equipment	(1,882)	(227)
Finance costs	569	183
Income taxes	3,446	(1,642)
Share-based compensation	1,698	4,811
Transaction costs	785	-
Foreign exchange gain	(13)	(28)
Adjusted EBITDA	\$ 21,140	\$ (334)

FINANCIAL INSTRUMENTS

Fair values

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

Interest rate risk

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

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, 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.

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. 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.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements as at March 31, 2017 other than the operating leases described under "Contractual obligations and commitments".

SUBSEQUENT EVENTS

Initial public offering

On April 25, 2017, the Company filed the Prospectus for an IPO to raise gross proceeds of \$100 million through the issuance of 10 million shares at a price of \$10.00 per share. The underwriters' commission was 5.5% of the gross proceeds of the IPO. The expenses of the IPO, excluding the underwriters' commission, are estimated to be approximately \$2.5 million in total, and will be paid by the Company out of the proceeds of the treasury offering. The IPO closed on May 2, 2017. Upon completion of the IPO, the Company has 60,119,703 shares outstanding.

In connection with the IPO, the Company adopted a new option plan and a new performance and restricted share unit plan, which superseded the prior plans. A maximum of 5% of the issued and outstanding common shares are reserved for issuance under the new plans, excluding the prior options and performance warrants. As of May 11, 2017, no instruments have been issued under the new plans.

ACCOUNTING POLICIES AND ESTIMATES

Internal Control over Financial Reporting

As STEP recently became a reporting issuer, the Company is not required to make any certifications regarding the disclosure controls and procedures and internal control over financial reporting in place as at March 31, 2017.

Critical Accounting Estimates and Judgements

This MD&A is based on the Company's interim consolidated financial statements for the three months ended March 31, 2017. The preparation of the interim consolidated financial statements required 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. Please refer to the Notes 1 and 2 to the audited Consolidated Financial Statements for the year ended December 31, 2016 for a description of the Company's accounting policies and impacts of future accounting pronouncements. Please refer to the Company's MD&A dated April 7, 2017 prepared by management for the year ended December 31, 2016 for significant accounting policies and practices involving the use of estimates and judgments that are critical to determining STEP's financial results.

INDUSTRY CONDITIONS AND OUTLOOK

Industry

Increased North American drilling activity, and relative strength in crude oil prices through the fourth quarter of 2016 and the start of 2017, led to improved demand for the Company's services in the first quarter of 2017. Additionally, the current undersupply of fracturing equipment has resulted in some drilling and completion programs being deferred into the second quarter of 2017. The increase in demand for services has allowed the Company to increase pricing. The increase in industry activity has also led to some inflation in input costs, including personnel, chemicals, hauling, proppant, and coiled tubing strings.

Client discussions are supportive of robust activity levels for the balance of the year. In Canada, the strong demand currently being experienced is a positive indication that the market continues to be undersupplied. The ability for the industry to deploy additional equipment will be dependent on key component and fabrication capacity and the availability of qualified personnel to staff equipment. The Company has visibility to strong utilization of its active

fracturing fleet through the balance of the year, however seasonal limitations including road bans and weather-related delays are expected to impact utilization. In the U.S., management continues to be pleased with the growth potential and profitability of STEP's coiled tubing operation and expects to see demand for ongoing equipment deployment in these markets.

Management continues to monitor uncertainty driven by recent volatility in crude oil prices and will continually assess near term demand for its services. STEP intends to monitor client capital budgets closely to direct the pace of equipment deployment and capitalization.

Capital Program

The 2017 capital expenditures as disclosed in the Prospectus of \$102 million included \$84 million related to the 2017 capital program, \$9 million of 2016 carry-forward capital, and \$9 million of deposits that would be required for equipment deliveries in the first quarter of 2018.

Given the positive outlook provided above, the board of directors approved an increase to the 2017 capital program of \$16 million bringing the Company's 2017 program to \$100 million (plus the 2016 carry-forward capital of \$9 million). The additional capital will enable the Company to commit to delivery, should market conditions warrant, of one additional coiled tubing spread for the U.S. operation (estimated first quarter 2018 delivery), one additional fracturing spread in Canada (estimated first quarter 2018 delivery), plus support equipment to reduce reliance on third party transportation.

The aggregate 2017 capital program is comprised of one new coiled tubing spread in Canada, five fracturing spreads (including two deployed in the first quarter of 2017) representing 125,000 HP, four new coiled tubing spreads in the U.S., and maintenance and support equipment. In addition, the Company plans on re-staffing two idle mastered coiled tubing units in Canada in the second half of 2017. Once complete, the Company will have the following capacity:

- 13 coiled tubing spreads in Canada (all of which are anticipated to be deployed by year-end)
- Eight fracturing spreads in Canada representing approximately 225,000 HP (of which seven spreads representing approximately 210,000 HP are anticipated to be deployed by year-end), and
- Eight coiled tubing spreads in the U.S. (of which seven are anticipated to be deployed by year-end).

The amount and pace of capital expenditures may change based on, among other things, market conditions and client capital spending plans.

RISK FACTORS AND RISK MANAGEMENT

STEP's business is subject to a number of risks and uncertainties. We encourage investors to review and carefully consider the risks described in the Company's annual MD&A dated April 7, 2017 prepared by management for the year ended December 31, 2016, which are specifically incorporated by reference herein. The Company's risk factors and management thereof has not changed substantially from those disclosed in the annual MD&A and the Prospectus.

Forward-looking statements

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "should", "believe", "plans" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this document contains forward-looking information and statements pertaining to the following: commissioning and staffing of equipment in the second half

of 2017; the ability to deploy additional equipment; utilization; monitoring of client capital budgets; and the amount of capital expenditures in 2017.

The forward-looking information and statements contained in this document reflect several material factors and expectations and assumptions of the Company including, without limitation: that 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; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the impact of seasonal weather conditions; and certain cost assumptions. 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 to be correct.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. Such information and 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 information or statements including, without limitation: changes in the demand for or supply of the Company's services; unanticipated operating results; changes in tax or environmental laws, or other regulatory matters; changes in the development plans of third parties; increased debt levels or debt service requirements; limited, unfavourable or a lack of access to capital markets; increased costs; the impact of competitors; reliance on industry partners; attracting and retaining skilled personnel and certain other risks detailed in the Prospectus (including, without limitation, those risks identified in this document).

The forward-looking information and statements contained in this document speak only as of the date of the document, and none of the Company or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws. The reader is cautioned not to place undue reliance on forward-looking information.