



Fourth Quarter

Management Discussion and Analysis

As at and for the three and twelve months ended December 31, 2021

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 March 16, 2022 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 audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2021 (the “Financial Statements”). Readers should also refer to the “Forward-looking information & statements” legal advisory and the section regarding “Non-IFRS Measures and Ratios” 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, 2021 dated March 16, 2022 (the “AIF”).

STEP is an oilfield service company that provides stand-alone and fully integrated fracturing, fluid and nitrogen pumping, and coiled tubing 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. STEP has a high-performance, safety-focused culture and its experienced technical office and field professionals are committed to providing innovative, reliable and cost-effective solutions to its E&P clients.

Founded in 2011 as a specialized deep capacity coiled tubing company, STEP has grown into a North American service provider delivering completion and stimulation services to exploration and production (“E&P”) companies in Canada and the U.S. Our Canadian 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 basins in Texas, the Uinta-Piceance and Niobrara-DJ basins in Colorado and the Bakken basin in North Dakota.

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.

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CONSOLIDATED HIGHLIGHTS

FINANCIAL REVIEW

(\$000s except percentages, per share amounts, days, proppant pumped, horsepower, and units)	Three months ended			Years ended		
	December 31,	December 31,	September 30,	December 31,		
	2021	2020	2021	2021	2020	2019
Consolidated revenue	\$ 158,716	\$ 71,568	\$ 133,235	\$ 536,309	\$ 368,945	\$ 668,297
Net loss	\$ (6,212)	\$ (17,045)	\$ (3,388)	\$ (28,127)	\$ (119,358)	\$ (143,883)
Per share-basic	\$ (0.08)	\$ (0.25)	\$ (0.05)	\$ (0.41)	\$ (1.77)	\$ (2.16)
Per share-diluted	\$ (0.08)	\$ (0.25)	\$ (0.05)	\$ (0.41)	\$ (1.77)	\$ (2.16)
Weighted average shares – basic	68,141,058	67,588,137	68,112,520	68,007,878	67,321,951	66,763,210
Weighted average shares – diluted	68,141,058	67,588,137	68,112,520	68,007,878	67,321,951	66,763,210
Adjusted EBITDA ⁽¹⁾	\$ 17,340	\$ 2,447	\$ 17,988	\$ 62,963	\$ 30,881	\$ 78,809
Adjusted EBITDA % ⁽¹⁾	11%	3%	14%	12%	8%	12%
Fracturing services						
Fracturing operating days ⁽²⁾	508	261	439	1,681	1,129	2,000
Proppant pumped (tonnes)	495,000	318,394	496,000	1,972,000	1,376,064	1,525,000
Active horsepower (“HP”), ending ⁽³⁾	365,000	260,000	365,000	365,000	260,000	382,500
Total HP, ending	490,000	490,000	490,000	490,000	490,000	490,000
Coiled tubing services						
Coiled tubing operating days ⁽²⁾	955	567	850	3,307	2,583	4,172
Active coiled tubing units, ending	15	11	15	15	11	17
Total coiled tubing units, ending	29	29	29	29	29	29

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is a non-IFRS financial ratio. These metrics are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.

⁽²⁾ An operating day is defined as any coiled tubing or fracturing work that is performed in a 24-hour period, exclusive of support equipment.

⁽³⁾ Active horsepower denotes units active on client work sites. An additional 15-20% of this amount is required to accommodate equipment maintenance cycles.

(\$000s except shares)	2021	2020	2019
As at December 31,			
Cash and cash equivalents	\$ 3,698	\$ 1,266	\$ 7,267
Working capital (including cash and cash equivalents) ⁽¹⁾	\$ 3,912	\$ 42,867	\$ 72,156
Total assets	\$ 483,848	\$ 479,859	\$ 686,039
Total long-term financial liabilities ⁽¹⁾	\$ 175,689	\$ 214,848	\$ 247,481
Net debt ⁽¹⁾	\$ 186,885	\$ 208,735	\$ 232,552
Shares outstanding	68,156,981	67,713,824	66,942,830

⁽¹⁾ Working capital, Total long-term financial liabilities and Net debt are non-IFRS financial measures. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.

(unaudited)	Three months ended				
	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
AECO-C Spot Average Price (CAD/MMBtu)	\$ 4.75	\$ 3.57	\$ 3.10	\$ 3.10	\$ 2.66
WTI – Average Price (USD/bbl)	\$ 77.31	\$ 70.61	\$ 66.19	\$ 58.04	\$ 42.72
WCS – Average Price (USD/bbl)	\$ 60.84	\$ 57.64	\$ 53.29	\$ 46.21	\$ 31.44
Condensate – Average Price (USD/bbl)	\$ 79.53	\$ 70.85	\$ 64.87	\$ 59.16	\$ 43.08
Average Exchange Rate (USD/CAD)	\$ 0.79	\$ 0.79	\$ 0.81	\$ 0.79	\$ 0.77
Canadian Average Drilling Rig Count ⁽⁴⁾	159	150	71	144	88
U.S. Average Drilling Rig Count ⁽⁴⁾	545	484	437	378	297

⁽⁴⁾ Only includes land-based rigs.

Source: PSAC, Baker Hughes, Bank of Canada

FINANCIAL HIGHLIGHTS – 2021 ANNUAL

- Consolidated revenue for the year ended December 31, 2021 of \$536.3 million increased by 45% from \$368.9 million in the prior year.
- Net loss for the year ended December 31, 2021 was \$28.1 million compared to a net loss of \$119.4 million in 2020.
- For the year ended December 31, 2021, Adjusted EBITDA was \$63.0 million or 12% of revenue compared to \$30.9 million or 8% of revenue in the prior year.
- During the year ended December 31, 2021, the Company received \$6.8 million in the Canadian Emergency Wage Subsidy (“CEWS”) program and \$0.3 million in grants under the Canadian Emergency Rent Subsidy (“CERS”) program, compared to \$11.7 million and \$0.03 million in 2020, respectively. The grants were recorded as a reduction to wage and rent expenses.
- STEP has made significant progress on debt reduction. The Company had net debt of \$186.9 million at December 31, 2021 compared to \$209.7 million as at December 31, 2020.
- On August 3, 2021, STEP entered into a Second Amending Agreement to its Second Amended and Restated Credit Agreement with its syndicate of lenders dated as of August 13, 2020, as previously amended November 3, 2020, March 17, 2021, and May 12, 2021, which includes a Canadian \$200.0 million term facility, a Canadian \$30.0 million revolving facility, a Canadian \$10.0 million operating facility, and a U.S. \$15.0 million operating facility (collectively, the “Credit Facilities”).
- STEP had \$57.5 million of liquidity at December 31, 2021 (December 31, 2020 - \$49.0 million) and was compliant with all covenants in the Credit Facilities at December 31, 2021.

FOURTH QUARTER 2021 OVERVIEW

The fourth quarter of 2021 continued the recovery in oilfield services across North America. The land drilling rig count is often used as an indicator of service sector activity levels. Led by higher commodity prices, the land rig count increased in both Canada and the US, with counts hitting levels not seen since before the onset of the Covid-19 pandemic (the “Pandemic”). Canada averaged 159 rigs, up modestly from 150 in the third quarter and up significantly from the 88 rigs recorded in the fourth quarter of 2020. The US averaged 545 rigs, up significantly from the 484 in the third quarter and the 297 rigs in the fourth quarter of 2020.

The increase in rig counts drove completions activity higher in the fourth quarter, benefitting STEP’s fracturing and coiled tubing service lines. Utilization was strong through most of the quarter outside of the typical holiday slowdowns around U.S. Thanksgiving and Christmas. STEP had 508 fracturing operating days and 955 coiled tubing operating days, a sequential and year over year increase for both service lines. The Canadian fracturing division was negatively impacted by extended delays on a client location due to challenging well conditions which resulted in some December work being pushed into the first quarter of 2022. The U.S. fracturing division had strong performance through the quarter, with high utilization across all three crews. Canada had some delays in late December due to weather, as did our northern based coiled tubing services in the U.S.

Total proppant pumped of 495,000 tonnes was in line with the third quarter of 2021 but significantly higher than the fourth quarter of 2020. The volume of proppant pumped per day was lower sequentially due to Canadian operations, where delays caused by challenging well conditions on a client location and a shift in job mix to include a higher proportion of smaller jobs with reduced efficiency. The increase in smaller completion jobs is the result of improving oil prices, which is incenting operators to revisit oil producing fields that previously had unfavourable economics.

STEP generated revenue of \$158.7 million in fourth quarter 2021, which is STEP’s highest fourth quarter revenue since Q4 2018. The fourth quarter is typically impacted by lower utilization resulting from client budget exhaustion, which can also drive down pricing as equipment availability increases. STEP’s strong relationships with anchor clients resulted in steady activity through the quarter, including some work that was accelerated from 2022 into the fourth quarter of 2021 to take advantage of strong commodity prices and available fracturing capacity. STEP was successful in bringing pricing sequentially higher through the quarter, although cost inflation limited margin expansion.

The increased activity levels brought on by higher commodity prices delivered Adjusted EBITDA of \$17.3 million in Q4 2021, modestly lower than the \$18.0 million in Q3 2021 but significantly higher than the \$2.4 million earned in Q4 2020. Inflationary pressures were felt acutely in the fourth quarter across all categories. The cost of labour continued to escalate in Q4 2021 relative to the comparative period as higher activity levels across the oilfield service sector tightened the supply of available field professionals. STEP is focused on creating an exceptional employee experience for our professionals, which meant sharing our strengthening margins through enhanced total rewards in the form of increased base and incentive pay, as well as reinstating various benefits and allowances. Management is very grateful for our professionals’ commitment to delivering an

exceptional client experience, particularly with the added stresses of the Pandemic. STEP will continue to invest in these and other initiatives to remain an employer-of-choice.

The Company recorded a net loss of \$6.2 million (\$0.08 basic loss per share) in the fourth quarter 2021, an improvement from the net loss of \$17.0 million (\$0.25 basic loss per share) incurred in the same period last year but weaker than the net loss of \$3.4 million (\$0.05 basic loss per share) in the third quarter of 2021. The Q4 2021 net loss includes \$4.2 million in finance costs (Q4 2020 - \$3.3 million, Q3 2021 - \$3.9 million) and \$0.1 million in share-based compensation (Q4 2020 - \$1.6 million, Q3 2021 - \$0.3 million). The net loss was smaller on a year over year basis due to stronger Company and industry activity levels, but larger sequentially due to higher depreciation and amortization expense.

The Company managed its balance sheet cautiously, closing the quarter with a net debt position of \$186.9 million (December 31, 2020 - \$208.7 million). Working capital was \$3.9 million at December 31, 2021 (December 31, 2020 - \$42.9 million). The lower working capital balance was impacted by the inclusion of \$28.0 million in current liabilities related to the scheduled debt repayments commencing in 2022 (December 31, 2020 - \$nil), as well as the sequentially higher capital investment into our fleet to maintain our high standard of operational readiness. Total liquidity was \$57.5 million at December 31, 2021 (December 31, 2020 - \$49.0 million). The Company remained in compliance with all financial and non-financial covenants under our Credit Facilities as at December 31, 2021.

INDUSTRY CONDITIONS AND OUTLOOK

INDUSTRY CONDITIONS

The Russian invasion of Ukraine has added a significant level of geopolitical risk to our outlook. STEP does not have operations that are directly affected by the conflict, but like many North American companies, we have many employees of Ukrainian descent. We feel for our employees and the citizens of Ukraine and will support our employees and the industry however we can.

The geopolitical tensions have added a risk premium to oil and gas prices, but even before this conflict erupted, prices were forecasted to stay elevated throughout 2022 and into 2023, supported by a recovery in the world's major economies. The strong price environment is expected to drive continued strong exploration and production ("E&P") company cash flows, which will support higher oilfield service activity levels.

Public commentary from larger E&P companies has been broadly consistent around the need for measured growth that shows capital discipline and returns capital to shareholders, something we expect will continue unless there is an explicit call to increase North American production following a move to ban Russian oil. We are seeing private and smaller public E&P companies taking advantage of the strong cash flows generated by the high commodity prices to increase their investment into drilling and completions activity. This investment was a significant factor in 2021, and we expect that it will continue in 2022.

There were already signs that the global crude oil market is tightening, with some forecasters calling for an undersupplied crude oil market in the second half of 2022 following a prolonged period of underinvestment. The U.S. Energy Information Administration ("EIA") reported in January that the inventory of drilled but uncompleted wells ("DUCs") in the U.S. has steadily dropped, declining from a peak of 8,853 in June 2020 to 4,616 in December 2021. DUCs are an indicator of E&P company sentiment around increased capital spending, and the steady drawdown of DUCs through the last several years was reflective of the increased capital discipline. E&P companies have kept their drilling costs low through that drawdown, but the DUCs are now reaching a critical point where reinvestment is required to keep their oil and gas production flat, and growth will require considerably more investment. Capital spending by E&P companies in Canada has been depressed for a longer period compared to the U.S., with spending largely kept in check by concerns over pipeline egress and market access since the crash in oil prices in 2015.

The underinvestment in North America is mirrored globally, contributing to the current environment where world crude oil inventories are under pressure after world consumption has outpaced world production since mid 2020. The EIA estimates that global oil inventories have fallen for six consecutive quarters, declining at an average rate of 2.1 million barrels per day ("bbl/d") in the second half of 2020 and by 1.4 million bbl/d in 2021. The scarcity of supply and the increase in demand as the world emerges from Pandemic induced lockdowns has created an environment that has contributed to the rise in price of the benchmark West Texas Intermediate ("WTI") and Brent oil prices from \$38.31 and \$40.27 respectively in June 2020 to \$71.71 and \$74.17 in December 2021 (reported in U.S. dollars per barrel).

FULL YEAR OUTLOOK

Industry forecasts for 2022 are predicting a steady increase in activity across the oilfield service sector. Rig counts in 2022 are expected to track approximately 20% higher in Canada relative to 2021, and 25% or more in the U.S. relative to 2021. The increase in rig counts will drive demand for fracturing higher, pushing providers in Canada and the U.S. to the limits of their fleet capacity. The prolonged period of underinvestment by E&P companies required pressure pumping companies to cut costs and limited capital spending to the minimum required to keep their equipment operational. This limited investment will delay how quickly pressure pumping companies can return equipment to service, as much of the idled equipment will require significant investment. Energy research and business intelligence firm Rystad Energy estimates that approximately 4.2 million HP of the approximately 17.5 million total HP in the U.S. may not return to service given the cost of reactivation. The Canadian market has approximately 1.7 million HP and a similar proportion of that equipment is unlikely to be reactivated.

The tightness in equipment supply will be exacerbated by the difficulty in recruiting personnel to staff active equipment. The industry was forced to layoff thousands of qualified personnel, many of whom have found employment in competing industries and are unlikely to return given the volatility experienced in the oil and gas industry since 2015. STEP retained a highly trained core group of professionals through the downturn and has been able to distribute this experience through the company as we recruit lesser experienced professionals to join our company, but there is a limit to how many new recruits can be added safely and not compromise execution. STEP has already experienced higher third-party non-productive time in Q1 2022 on client well sites, underscoring the need for the industry to be measured in its recruitment so as not to compromise operational effectiveness.

As demand for fracturing services continues to recover, the market is moving to an undersupplied position in 2022, creating an environment where service providers will be able to capture pricing improvement beyond cost inflation. STEP has raised prices through Q4 2021 and into Q1 2022 for all clients, pushing to capture margin beyond inflation. STEP has remained disciplined and supportive of the need for higher pricing and is confident that as available capacity shrinks, all service providers will participate in raising prices and margins. STEP will continue to move pricing higher, targeting peak returns experienced in previous industry cycles.

FIRST AND SECOND QUARTER 2022 OUTLOOK

STEP is currently operating three large fracturing crews in the U.S. and four large fracturing crews in Canada. Through use of STEP's purpose built, electric powered integrated combination unit (EPIC) that combines hydration, chemical storage, data van, and blender capabilities into one unit, one of the Canadian crews can be split into two smaller crews. These crews operate in the lower pressure regions in the WCSB that do not require as much pumping horsepower on location. STEP is also operating eight coil units in the U.S. and eight coil units in Canada.

The U.S. and Canadian operations have experienced strong levels of activity through the first quarter. Extreme cold in January resulted in some operational delays, but favourable conditions through February and into March have resulted in highly efficient operations. Inflation has continued to increase costs, but we have been successful in working with our clients to raise prices to offset this impact. It is clear from public commentary of our peers that supply has tightened and that pricing increases are occurring broadly across the sector, signalling that the oilfield service sector is positioned to deliver stronger margins going forward.

Our fracturing and coiled tubing crews are booked through the balance of the first quarter with strong utilization expected to continue into the second quarter. STEP's northern US and Canadian operations will be affected by the seasonal spring break up conditions, which restrict our ability to move equipment in order to protect roads from damage as the ground thaws. The strong activity forecast is expected to keep second quarter pricing in line with first quarter pricing in Canada, in contrast to the typical practice of pricing break up work lower. Our U.S. operations are expected to continue testing the market for higher pricing.

STEP anticipates releasing its inaugural Environmental, Social and Governance ("ESG") report in the second quarter. The themes of environmental protection, social engagement and governance accountability have deep roots in our Company, particularly as it relates to lowering emissions. STEP was an early adopter of dual fuel fracturing equipment that reduces the consumption of diesel and its associated emissions in favour of cleaner burning natural gas, and also operates 80,000 HP of Tier 4 equipment in the U.S. In total, 54% of STEP's equipment has a low emissions profile. STEP has designed purpose built

integrated coiled tubing and fracturing equipment that includes electric driven technology to reduce emissions and equipment noise.

CAPITAL EXPENDITURES

Total capital expenditures in the year ended December 31, 2021 were \$37.2 million, comprised of \$33.7 million from the 2021 budget, with the balance carried forward from the 2020 capital budget. STEP will carry approximately \$5.4 million forward into 2022, in addition to the 2022 capital program.

STEP's Board of Directors has approved a 2022 capital program of \$47.6 million based on expected work activity, in addition to the carry forward amounts from 2021. The approved capital program is comprised of \$40.2 million in maintenance capital and \$7.4 million in optimization capital. The program is roughly split 60/40 between Canada and the U.S.

STEP will continue to evaluate and manage its manned equipment fleet and capital program based on market demand for STEP's services.

CANADIAN OPERATIONS REVIEW

STEP has a fleet of 16 coiled tubing units in the WCSB. The Company's coiled tubing units are designed to service the deepest wells in the WCSB. STEP's fracturing business primarily focuses on the deeper, more technically challenging plays in Alberta and northeast British Columbia. STEP has 282,500 fracturing HP of which approximately 132,500 HP has dual-fuel capability. The Company deploys or idles coiled tubing units or fracturing HP as dictated by the market's ability to support targeted utilization and economic returns.

(\$000's except per day, days, units, proppant pumped and HP)	Three months ended			Years ended	
	December 31, 2021	December 31, 2020	September 30, 2021	December 31, 2021	December 31, 2020
Revenue:					
Fracturing	\$ 68,590	\$ 28,191	\$ 65,336	\$ 277,076	\$ 144,564
Coiled tubing	22,868	12,782	18,210	80,455	63,896
	91,458	40,973	83,546	357,531	208,460
Expenses:					
Operating expenses	85,391	44,705	74,216	321,678	204,583
Selling, general and administrative	1,820	851	1,748	7,113	5,116
Results from operating activities	\$ 4,247	\$ (4,583)	\$ 7,582	\$ 28,740	\$ (1,239)
Add:					
Depreciation	9,294	9,777	9,598	37,923	45,012
Share-based compensation	50	348	127	1,397	818
Adjusted EBITDA ⁽¹⁾	\$ 13,591	\$ 5,542	\$ 17,307	\$ 68,060	\$ 44,591
Adjusted EBITDA % ⁽¹⁾	15%	14%	21%	19%	21%
Sales mix (% of segment revenue)					
Fracturing	75%	69%	78%	77%	69%
Coiled tubing	25%	31%	22%	23%	31%
Fracturing services					
Fracturing revenue per operating day ⁽¹⁾	\$ 245,842	\$ 204,283	\$ 267,770	\$ 283,599	\$ 205,347
Number of fracturing operating days ⁽²⁾	279	138	244	977	704
Proppant pumped (tonnes)	193,000	134,000	218,000	1,012,000	776,000
Stages completed	3,593	1,640	3,474	12,222	8,000
Proppant pumped per stage	54	82	63	83	97
Horsepower					
Active pumping HP, end of period ⁽³⁾	200,000	150,000	200,000	200,000	150,000
Total pumping HP, end of period	282,500	282,500	282,500	282,500	282,500
Coiled tubing services					
Coiled tubing revenue per operating day ⁽¹⁾	\$ 51,045	\$ 46,480	\$ 51,152	\$ 51,278	\$ 46,538
Number of coiled tubing operating days ⁽²⁾	448	275	356	1,569	1,373
Active coiled tubing units, end of period	7	5	7	7	5
Total coiled tubing units, end of period	16	16	16	16	16

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % and Revenue per operating day are non-IFRS financial ratios. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.

⁽²⁾ An operating day is defined as any coiled tubing or fracturing work that is performed in a 24-hour period, exclusive of support equipment.

⁽³⁾ Active horsepower denotes units active on client work sites. An additional 15-20% of this amount is required to accommodate equipment maintenance cycles

FULL YEAR 2021 COMPARED TO FULL YEAR 2020

For the year ended December 31, 2021, Canadian operations had revenue of \$357.5 million compared to \$208.5 million in 2020. The 71% increase was a result of increased utilization and pricing for both fracturing and coiled tubing services as a result of the improved macro-economic environment and oilfield activity levels, relative to the difficult conditions throughout much of 2020.

Operating expenses scaled with increased activity levels with product and hauling costs increasing with the increase in STEP supplied proppant work. Personnel related costs increased as a result of the additional professionals that were hired to operate the equipment that was activated through the year, along with increases to base and incentive pay and the reinstatement of various benefits and allowances that were eliminated during the Pandemic to reduce costs. Inflationary pressures became more acute towards the end of the year, with supply chain disruptions, commodity price appreciation, and increased industry activity resulting in costs escalating across all expense categories. The Company received \$6.7 million in CEWS for the year ended December 31, 2021, compared to \$10.7 million in 2020, which was recorded as a reduction to wage expenses.

Canadian operations generated Adjusted EBITDA of \$68.1 million (19% of revenue) for fiscal 2021 compared to \$44.6 million (21% of revenue) in 2020. The \$23.5 million increase was primarily the result of increased revenue from improved activity and modestly higher pricing for both fracturing and coiled tubing services.

Fracturing

STEP operated four fracturing spreads with 200,000 HP throughout 2021, compared to three spreads and 150,000 HP operated throughout most of 2020. Canadian fracturing revenue of \$277.1 million for the year ended December 31, 2021 increased by 92% from \$144.6 million for the year ended 2020. The increase was attributed to a 39% increase in operating days as a result of increased drilling activity combined with a 38% increase in revenue per day as a result of increased proppant sales and pricing improvements. Utilization increased as the service line completed 977 operating days, compared to 704 operating days in 2020, with notable contributions coming during the second and fourth quarters which have historically had lower revenues.

Coiled Tubing

Canadian coiled tubing revenue of \$80.5 million for the year ended December 31, 2021 increased 26% from \$63.9 million for the year ended 2020. The service line operated seven units for 1,569 operating days in 2021 compared to five units and 1,373 operating days in 2020. The increase in utilization followed increases in drilling and completions activity but pricing gains were limited due to the persistently competitive pricing environment in the WCSB.

FOURTH QUARTER 2021 COMPARED TO THIRD QUARTER 2021

Revenue for the three months ended December 31, 2021 of \$91.5 million increased 10% from \$83.5 million from the quarter ended September 30, 2021 due to an overall increase in utilization. The fourth quarter is typically lower on a sequential basis for STEP, but strong commodity pricing in the fourth quarter of 2021 and E&P concern around available capacity and higher service company pricing in 2022 drove strong drilling and completions activity.

Fracturing experienced a 14% increase in operating days which was partly offset by an 8% reduction in revenue per day as the job mix shifted towards more annular fracturing, resulting in decreased proppant pumped. Annular fracturing is typically done on single wells, which has lower efficiency relative to multi well pads. December efficiency and revenue per day was also impacted by significant delays on a client location due to challenging well conditions, causing some work slated for Q4 2021 to be moved into Q1 2022. Coiled tubing had 448 operating days in the fourth quarter of 2021 compared to 356 in the third quarter of 2021 while revenue per day remained consistent.

Canadian operations had Adjusted EBITDA of \$13.6 million (15% of revenue) in the fourth quarter of 2021 compared to \$17.3 million (21% of revenue) in the third quarter of 2021. The reduction in operational efficiency was a factor in the lower Adjusted EBITDA, as were sequentially higher personnel and repair costs, as the Company prepared for anticipated high activity through the first quarter of 2022.

FOURTH QUARTER 2021 COMPARED TO FOURTH QUARTER 2020

Revenue for the three months ended December 31, 2021 was \$91.5 million compared to \$41.0 million for the fourth quarter of 2020. Revenue increased due to a substantial increase in utilization for both service lines from an industry wide increase in activity and increases in service company pricing as a result of the strong commodity price environment. Operating days across the four fracturing crews increased to 279 in fourth quarter of 2021 from 138 days across three crews during fourth quarter of 2020. Revenue per day increased by 20% primarily due an increase in pricing and proppant supplied by STEP. Coiled tubing operating days increased to 448 in fourth quarter of 2021 from 275 during fourth quarter of 2020 while revenue per day increased by 10%.

Adjusted EBITDA for the fourth quarter of 2021 was \$13.6 million (15% of revenue) versus \$5.5 million (14% of revenue) in the fourth quarter of 2020. Operating expenses were higher as a result of inflationary pressures. The increase in revenue outpaced the increased costs, resulting in higher year over year Adjusted EBITDA.

UNITED STATES OPERATIONS REVIEW

STEP's U.S. business commenced operations in 2015 with coiled tubing services. STEP has a fleet of 13 coiled tubing units in the Permian and Eagle Ford basins in Texas, the Bakken shale in North Dakota, and the Uinta-Piceance and Niobrara-DJ basins in Colorado. STEP entered the U.S. fracturing business in April 2018 and has 207,500 fracturing HP, of which approximately 50,000 HP has dual-fuel capabilities. Fracturing primarily operates in the Permian and Eagle Ford basins in Texas. Management continues to adjust capacity and regional deployment to optimize utilization, efficiency and returns.

(\$000's except per day, days, units, proppant pumped and HP)	Three months ended			Year ended	
	December 31, 2021	December 31, 2020	September 30, 2021	December 31, 2021	2020
Revenue:					
Fracturing	\$ 44,773	\$ 20,711	\$ 29,501	\$ 109,735	\$ 111,000
Coiled tubing	22,485	9,884	20,188	69,043	49,485
	67,258	30,595	49,689	178,778	160,485
Expenses:					
Operating expenses	66,520	40,303	50,945	195,713	196,670
Selling, general and administrative	2,496	1,450	2,340	7,788	6,954
Results from operating activities	\$ (1,758)	\$ (11,158)	\$ (3,596)	\$ (24,723)	\$ (43,139)
Add non-cash items:					
Depreciation	9,829	9,627	7,735	34,389	42,593
Share-based compensation	(59)	133	81	570	(78)
Adjusted EBITDA ⁽¹⁾	\$ 8,012	\$ (1,398)	\$ 4,220	\$ 10,236	\$ (624)
Adjusted EBITDA % ⁽¹⁾	12%	(5%)	8%	6%	(1%)
Sales mix (% of segment revenue)					
Fracturing	67%	68%	59%	61%	69%
Coiled tubing	33%	32%	41%	39%	31%
Fracturing services					
Fracturing revenue per operating day ⁽¹⁾	\$ 195,515	\$ 168,382	\$ 151,287	\$ 155,873	\$ 261,176
Number of fracturing operating days ⁽²⁾	229	123	195	704	425
Proppant pumped (tonnes)	302,000	184,394	278,000	960,000	600,064
Stages completed	1,515	831	1,396	4,636	2,823
Proppant pumped per stage	199	222	199	207	213
Horsepower					
Active pumping HP, end of period ⁽³⁾	165,000	110,000	165,000	165,000	110,000
Total pumping HP, end of period	207,500	207,500	207,500	207,500	207,500
Coiled tubing services					
Coiled tubing revenue per operating day ⁽¹⁾	\$ 44,349	\$ 33,849	\$ 40,866	\$ 39,726	\$ 40,897
Number of coiled tubing operating days ⁽²⁾	507	292	494	1,738	1,210
Active coiled tubing units, end of period	8	6	8	8	6
Total coiled tubing units, end of period	13	13	13	13	13

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % and Revenue per operating day are non-IFRS financial ratios. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.

⁽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⁾ Active horsepower denotes units active on client work sites. An additional 15-20% of this amount is required to accommodate equipment maintenance cycles

FULL YEAR 2021 COMPARED TO FULL YEAR 2020

For the year ended December 31, 2021, U.S. operations had revenue of \$178.8 million, an 11% increase compared to \$160.5 million in 2020. The continuing recovery from the Pandemic was supported by a strong commodity price environment contributing to increased drilling activity driving increased utilization and pricing for both fracturing and coiled tubing services.

Operating expenses scaled with increased activity levels with product and hauling costs decreasing with the reduction in STEP supplied proppant work. Personnel related costs increased as a result of the additional professionals that were hired to operate the equipment that was activated through the year, along with increases to base and incentive pay and the reinstatement of various benefits and allowances that were eliminated during the Pandemic to reduce costs. Inflationary pressures became more acute towards the end of the year, with supply chain disruptions, commodity price appreciation, and increased industry activity resulting in costs escalating across all expense categories.

U.S. operations generated Adjusted EBITDA of \$10.2 million (6% of revenue) for fiscal 2021 compared to a loss of \$0.6 million (negative 1% of revenue) in 2020. The improvement in revenue was combined with strong cost control and optimized field operations to return the segment to positive margins. Operations were able to achieve modest pricing improvements through a highly competitive period combined with constructive increases to utilization.

Fracturing

U.S. fracturing revenue of \$109.7 million for the year ended December 31, 2021 decreased slightly from \$111.0 million for the year ended 2020. The Company activated a third fracturing fleet midway through the third quarter, providing better scale and supporting an increase in utilization to 704 operating days in 2021 from 425 in the prior year. STEP was able to achieve modest pricing increases through the year to address the escalating cost profile, although revenue per day decreased as a shift in the client mix resulted in a reduction of STEP supplied proppant work.

Coiled Tubing

U.S. coiled tubing revenue of \$69.0 million for the year ended December 31, 2021 increased 39% from \$49.5 million for the year ended 2020. The service line experienced significant improvement in utilization as the increase in drilling and completions activity led to a higher demand for coiled tubing work. The service line had 1,738 operating days from seven units in 2021, compared 1,210 operating days from seven units in 2020. The service line pursued pricing improvements but had limited success due to an over-supply of equipment, which created a competitive pricing market.

FOURTH QUARTER 2021 COMPARED TO THIRD QUARTER 2021

Revenue for the fourth quarter of 2021 increased \$17.6 million to \$67.3 million from \$49.7 million in the third quarter of 2021 due to increased utilization combined with modest increases in rates. Fracturing operations had 229 operating days with increased revenue per day of \$196 thousand, up from 195 operating days at \$151 thousand per day in the third quarter of 2021 as a full quarter of activity with three spreads increased utilization and change in client mix resulted in increased STEP supplied proppant work. Coiled tubing operations also experienced modest increases in utilization and rates recording 507 operating days at \$44 thousand per day in the fourth quarter of 2021 compared to 494 operating days at \$41 thousand per day.

Adjusted EBITDA of \$8.0 million (12% of revenue) for the fourth quarter of 2021 was a record for STEP's U.S. business and demonstrates the potential of this business. The increase from Adjusted EBITDA of \$4.2 million (8% of revenue) in the third quarter of 2021 was driven by increased utilization and improved pricing. The cost profile remained largely consistent, as a percent of revenue, on a sequential basis resulting in improved margins in the fourth quarter.

FOURTH QUARTER 2021 COMPARED TO FOURTH QUARTER 2020

Revenue for the three months ended December 31, 2021 was \$67.3 million compared to \$30.6 million for the fourth quarter of 2020. The improved economics for E&P companies from higher commodity prices spurred an increase in drilling and completions activity allowing the Company to increase active equipment and improve prices. We operated one additional fracturing spread in the fourth quarter of 2021 recording 229 operating days compared to 123 operating days in the fourth quarter of 2020. Coiled tubing operations were also able to add two units achieving total utilization of 507 operating days in the fourth quarter of 2021 compared to 292 in fourth quarter of 2020.

U.S. operations generated Adjusted EBITDA of \$8.0 million for fourth quarter 2021 (12% of revenue) compared to a loss of \$1.4 million (negative 5% of revenue) in the fourth quarter of 2020. The improvements in margins were primarily due to increased revenue combined with a proportionately lower fixed cost structure despite the impacts of inflation on chemicals, proppant, spare parts, and wage increases.

CORPORATE REVIEW

The Company's corporate activities are separated from Canadian and U.S. operations. Corporate operating expenses include expenses related to asset reliability and optimization teams, general and administrative costs including costs associated with the executive team, the Board of Directors, public company costs, and other activities that benefit Canadian and U.S. operating segments collectively.

(\$000's)	Three months ended			Year ended	
	December 31, 2021	December 31, 2020	September 30, 2021	December 31, 2021	2020
Expenses:					
Operating expenses	\$ 360	\$ 139	\$ 310	\$ 1,161	\$ 1,102
Selling, general and administrative	4,108	2,881	3,452	19,532	15,634
Results from operating activities	\$ (4,468)	\$ (3,020)	\$ (3,762)	\$ (20,693)	\$ (16,736)
Add:					
Depreciation	137	182	146	610	780
Share-based compensation	68	1,141	77	4,750	2,870
Adjusted EBITDA ⁽¹⁾	\$ (4,263)	\$ (1,697)	\$ (3,539)	\$ (15,333)	\$ (13,086)
Adjusted EBITDA % ⁽¹⁾	(3%)	(2%)	(3%)	(3%)	(4%)

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is a non-IFRS financial ratio. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.

FULL YEAR 2021 COMPARED TO FULL YEAR 2020

Expenses from corporate activities were \$20.7 million for the year ended December 31, 2021, an increase of 24% from \$16.7 million for the year ended December 31, 2020. Payroll costs increased as the Company increased total rewards to retain and attract talented professionals while CEWS benefits reduced from \$1.0 million in 2020 to \$0.1 million in 2021. Share-based compensation increased as STEP's improved results and overall economic recovery resulted in a higher share price throughout the year. Severance of \$0.5 million was incurred for the year ended December 31, 2021 compared to \$0.7 million in 2020. STEP recorded a recovery of \$0.6 million to bad debt expense during 2021 (2020 – expense of \$3.5 million) due to a reduction in credit risk as the global economic recovery from the impacts of the Pandemic continued. During 2021, STEP also recorded \$1.6 million of incremental costs related to legal expenses and the settlement of a litigation matter.

FOURTH QUARTER 2021 COMPARED TO THIRD QUARTER 2021

Expenses from corporate activities increased 18% to \$4.5 million in the fourth quarter of 2021 from \$3.8 million in the third quarter of 2021. The third quarter of 2021 included a \$0.6 million recovery to bad debt expense due to a reduction in credit risk as the global economic recovery from the impacts of the Pandemic continued.

FOURTH QUARTER 2021 COMPARED TO FOURTH QUARTER 2020

For the three months ended December 31, 2021 expenses from corporate activities were \$4.5 million compared to \$3.0 million for the same period in 2020. Payroll costs increased as the Company increased total rewards to retain and attract talented professionals in an increasingly competitive labour market. Other factors impacting payroll were an elimination of CEWS benefits in the fourth quarter of 2021 compared to \$0.3 million in the same period in 2020 and severance costs of \$0.5 million in fourth quarter of 2021 compared to no amounts incurred in the fourth quarter of 2020. Share based compensation was significantly higher in the fourth quarter of 2020 as the share price increased 42% from September 30, 2020 to December 31, 2020 resulting in increased expenses as a result of marking the cash settled instruments to market.

CONSOLIDATED FINANCIAL REVIEW

(\$000's except per share amounts)	Three months ended			Year ended	
	December 31, 2021	December 31, 2020	September 30, 2021	December 31, 2021	2020
Revenue	\$ 158,716	\$ 71,568	\$ 133,235	\$ 536,309	\$ 368,945
Operating expenses	152,271	85,147	125,471	518,552	402,355
Gross profit	6,445	(13,579)	7,764	17,757	(33,410)
Selling, general and administrative	8,424	5,182	7,540	34,433	27,704
Results from operating activities	(1,979)	(18,761)	224	(16,676)	(61,114)
Finance costs, net	4,196	3,348	3,908	14,624	14,663
Foreign exchange loss (gain)	245	139	(362)	(165)	443
Gain on disposal of property and equipment	(638)	(739)	(146)	(969)	(3,777)
Amortization of intangible assets	116	164	116	459	555
Impairment	-	-	-	-	72,345
Net loss before income tax	(5,898)	(21,673)	(3,292)	(30,625)	(145,343)
Income tax expense (recovery)	314	(4,628)	96	(2,498)	(25,985)
Net loss	(6,212)	(17,045)	(3,388)	(28,127)	(119,358)
Other comprehensive (loss) income	(215)	(9,341)	3,691	(1,429)	(2,040)
Total comprehensive (loss) income	\$ (6,427)	\$ (26,386)	\$ 303	\$ (29,556)	\$ (121,398)
Loss per share – basic	\$ (0.08)	\$ (0.25)	\$ (0.05)	\$ (0.41)	\$ (1.77)
Loss per share – diluted	\$ (0.08)	\$ (0.25)	\$ (0.05)	\$ (0.41)	\$ (1.77)
Adjusted EBITDA ⁽¹⁾	\$ 17,340	\$ 2,447	\$ 17,988	\$ 62,963	\$ 30,881
Adjusted EBITDA % ⁽¹⁾	11%	3%	14%	12%	8%

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is a non-IFRS financial ratio. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.

OTHER ITEMS

Depreciation and amortization

For the three months ended December 31, 2021, depreciation and amortization expense decreased to \$19.4 million from \$19.8 million in the same period of 2020. For the year ended December 31, 2021, depreciation and amortization expense decreased to \$73.4 million from \$88.9 million in the same period of 2020. An impairment of \$72.3 million was recognized related to Canadian and U.S. fracturing property and equipment in 2020, resulting in lower year over year depreciable asset base. This was partially offset by capital additions of \$37.2 million in 2021, compared to the prior year of \$17.8 million, as improved economics and demand for services led to increased manned equipment requiring maintenance capital and upgrades. Right-of-use additions also increased to \$10.4 million from \$4.4 million in 2020.

Finance costs

Finance costs were \$4.2 million and \$14.6 million for the three and twelve months ended December 31, 2021 compared to \$3.3 million and \$14.6 million for the three and twelve months ended December 31, 2020, respectively. The effective borrowing rate for loans and borrowings were 5.15% and 4.94% for the three and twelve months ended December 31, 2021, respectively, compared to 4.53% and 4.84% for the same periods in 2020. Finance costs increased in the fourth quarter of 2021 compared to the same period in 2020 due to an increase in effective interest rates. For the twelve months ended December 31, 2021, finance costs remained comparable to 2020 as a reduction in the amount of debt outstanding was offset by higher interest rates and accretion of deferred financing costs related to the covenant relief period discussed in the “Capital Management – Debt” section below.

Foreign exchange gains and losses

STEP recorded a foreign exchange loss of \$0.2 million and a gain of \$0.2 million for the three and twelve months ended December 31, 2021, respectively, compared to losses of \$0.1 million and \$0.4 million in the corresponding periods of 2020. Foreign exchange gains and losses arise from the translation of assets or liabilities that are held in U.S. dollars by Canadian

operations. The gain year to date over prior year to date was due to the strengthening Canadian dollar relative to the U.S. dollar and the net liability position of the U.S. dollar transactions in Canada.

Gains or losses on disposal of property and equipment

The Company recorded gains on disposal of property and equipment of \$0.6 million and \$1.0 million for the three months and year ended December 31, 2021, respectively, compared to gains of \$0.7 million and \$3.8 million in the same periods of 2020. Gains in the current year relate primarily to the disposal of light duty vehicles and non-core assets. Non-core assets were acquired through acquisitions of fracturing assets in prior years.

Impairment of long-lived assets

In accordance with IFRS, an impairment test is performed on a Cash Generating Unit (“CGU”) if the Company identifies an indicator of impairment or reversal of previous impairments. On December 31, 2021, the Company did not identify any indicators of impairment or reversals of previous impairments on any of its CGUs and therefore impairment tests were not performed. STEP has identified four CGUs for purposes of impairment testing: Canadian Coiled Tubing, Canadian Fracturing, U.S. Coiled Tubing and U.S. Fracturing.

December 31, 2020

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

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

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

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

June 30, 2020

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

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

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

March 31, 2020

As at March 31, 2020, government and health authority responses to the Pandemic led to demand destruction for crude oil. OPEC+ crude oil production increases caused an oversupply of crude oil, at a time when demand was falling. The demand destruction and oversupply concerns caused a significant deterioration in economic conditions and increased economic

uncertainty for the oil and gas industry. The combined impact of the two events materially reduced client spending and demand for STEP's services. As a result, the Company performed an impairment test on its long-lived assets (non-financial assets) of all the Company's CGUs.

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

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

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

Share-based compensation

For the three and twelve months ended December 31, 2021, STEP recorded share-based compensation expense of \$0.1 million and \$6.7 million, respectively, compared to \$1.6 million and \$3.6 million in the same periods of 2020. The decrease for the fourth quarter of 2021, is primarily due to decreases in the fair value of cash settled instruments from September 30, 2021. The year over year increase is primarily due to the increase in fair value of cash settled instruments due to the 115% improvement in share price through the current year. The prior year was also impacted by terminations that occurred in late first quarter of 2020 resulting in a recovery of share-based expense for any non-vested instruments.

Income taxes

STEP recorded a total income tax expense of \$0.3 million and a recovery of \$2.5 million for the three and twelve months ended December 31, 2021, respectively. This compares to a recovery of \$4.6 million and \$26.0 million for the comparable periods of 2020. The net tax recovery was reduced as a result of the improvement in operating results.

TOTAL CAPITAL EXPENDITURES

(\$000's)	Three months ended			Year ended	
	December 31, 2021	December 31, 2020	September 30, 2021	December 31, 2021	2020
Capital program additions	\$ 11,704	\$ 3,818	\$ 7,660	\$ 37,242	\$ 17,826
Right-of-use asset additions (new contracts in the period)	5,586	105	1,849	10,387	4,378
Total capital expenditures	\$ 17,290	\$ 3,923	\$ 9,509	\$ 47,629	\$ 22,204
Capital was incurred for:					
Canada	\$ 6,886	\$ 2,913	\$ 4,216	\$ 22,462	\$ 9,457
United States	\$ 10,404	\$ 1,010	\$ 5,293	\$ 25,167	\$ 12,747

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

The Company's 2021 capital program finished the year at \$33.7 million, of which \$30.0 million was directed to maintenance capital and \$3.7 million to optimization capital. The Company incurred \$37.2 million, including \$3.5 million related to the 2020 capital year program, towards capital expenditures in the year ended December 31, 2021 and expects to carry forward \$5.4 million into 2022 fiscal year. STEP's Board of Directors has approved a 2022 capital program of \$47.6 million based on expected work activity. The approved capital program is comprised of \$40.2 million maintenance capital and \$7.4 million of optimization capital. The program is roughly split 60/40 between Canada and the U.S.

STEP will continue to evaluate and manage its manned equipment fleet and capital program based on market demand for STEP's services.

LIQUIDITY AND CAPITAL RESOURCES

(\$000's)	Three months ended			Year ended	
	December 31, 2021	December 31, 2020	September 30, 2021	December 31, 2021	2020
Net cash provided by (used in)					
Operating activities	\$ 36,366	\$ 2,628	\$ (9,146)	\$ 58,846	\$ 46,803
Investing activities	(9,766)	(3,221)	(3,964)	(30,708)	(16,552)
Financing activities	(25,232)	(6,121)	12,460	(25,671)	(36,497)
Impact of foreign exchange on cash	(7)	(253)	13	(35)	245
Increase (decrease) in cash and cash equivalents	\$ 1,361	\$ (6,967)	\$ (637)	\$ 2,432	\$ (6,001)
Opening cash balance	2,337	8,233	2,974	1,266	7,267
Ending cash balance	\$ 3,698	\$ 1,266	\$ 2,337	\$ 3,698	\$ 1,266

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities totaled \$36.4 million and \$58.8 million for the three months and year ended December 31, 2021, respectively, compared to \$2.6 million and \$46.8 million in the comparable periods of 2020. Net cash provided by operating activities increased substantially for the three and twelve months ended December 31, 2021 compared to the same periods in 2020, primarily due to increased activity and improved operating results in 2021 and changes in non-cash working capital.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities totaled \$9.8 million for the three months ended December 31, 2021 compared to \$3.2 million used for the three months ended December 31, 2020. Net cash used in investing activities totaled \$30.7 million for the twelve months ended December 31, 2021 compared to \$16.6 million for the same period in 2020. The increase in net cash used is primarily due to the larger capital program executed in 2021.

NET CASH USED IN FINANCING ACTIVITIES

Net cash used in financing activities totaled \$25.2 million and \$25.7 million for the three and twelve months ended December 31, 2021, respectively. Net cash used in financing activities totalled \$6.1 million and \$36.5 million for three and twelve months ended December 31, 2020. Financing activities primarily relate to repayment of loans and borrowings and repayment of obligations under finance leases. For the three months ended December 31, 2021 there were repayments of loans and borrowings of \$23.5 million and repayments of obligations under finance leases of \$1.7 million. For the twelve months ended December 31, 2021 there were repayments of loans and borrowings of \$19.3 million and repayments of obligations under finance leases of \$6.4 million.

WORKING CAPITAL AND CASH REQUIREMENTS

As at December 31, 2021, STEP had positive working capital of \$3.9 million, compared to \$44.6 million as at December 31, 2020. Trade and other receivables increased from \$63.5 million at December 31, 2020 to \$86.6 million at December 31, 2021, primarily due to increased activity and resulting higher revenue in the fourth quarter of 2021 when compared to 2020. Trade and other payables increased to \$95.2 million at year end 2021 from \$48.8 million as at December 31, 2020, due to an increase in activity, capital program spending, and management of loans and borrowings in relation to collection of trade receivables. At December 31, 2021, the Company's working capital and available Credit Facilities exceed the level required to manage timing differences between cash collections and cash payments. Availability of the Credit Facilities is dependent on compliance with certain covenants. As at December 31, 2021, the Company is in compliance with all terms of its Credit Facilities and based on currently available information, the Company expects to maintain compliance with the covenants during the next twelve months. The Company expects that funds from anticipated operations in 2022 and available Credit Facilities will continue to provide sufficient liquidity during the next twelve months, and beyond, to support ongoing operations.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS

(\$000s)	2022	2023	2024	2025	2026	Thereafter	Total
Trade and other payables	\$ 95,183	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,183
Operating commitments ^(5,6)	1,322	1,233	360	296	70	-	3,281
Short-term and low value lease obligations ⁽⁶⁾	154	-	-	-	-	-	154
Lease obligations ^(6,7)	6,946	5,334	3,383	777	264	-	16,704
Loans and borrowings ⁽⁸⁾	37,150	167,309	-	-	-	-	204,459
Capital expenditure commitments ⁽⁹⁾	3,894	-	-	-	-	-	3,894
Total commitments	\$ 144,649	\$ 173,876	\$ 3,743	\$ 1,073	\$ 334	\$ -	\$ 323,675

⁽⁵⁾ 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.

⁽⁶⁾ Balance includes U.S. obligations at a forecast exchange rate of 1 USD = 1.26 CAD.

⁽⁷⁾ Balance includes interest portion of lease obligations.

⁽⁸⁾ Includes estimated interest and principal repayments, based on current amounts outstanding and current interest rates at December 31, 2021. Both are variable in nature.

⁽⁹⁾ 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.

CAPITAL MANAGEMENT

As at December 31, (\$000s)	2021	2020	2019
Shareholders' equity	\$ 177,442	\$ 204,579	\$ 322,823
Lease obligations	15,373	12,717	19,021
Loans and borrowings	189,957	207,630	237,418
Total capital	\$ 382,772	\$ 424,926	\$ 579,262

The Company's objectives when managing its capital structure are to maintain a balance between debt and equity 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 loans and borrowings and obligations under leases.

Equity

As at March 16, 2022, there were 68,200,848 common shares in the capital of STEP ("Common Shares") issued and outstanding.

Debt

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

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

1. An Interest Coverage Ratio. This refers to the ratio of Adjusted Bank EBITDA to interest expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance and LIBOR advances. Interest on lease obligations for current and future leases, which would

have been accounted for as an operating lease on December 31, 2018 is not included in interest expense for purposes of calculating financial covenants. The Company is required to meet the following interest coverage ratios:

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

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

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

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

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

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

The Liquidity Availability was \$57.5 million on December 31, 2021 compared to \$49.0 million on December 31, 2020.

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

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

The total amount of Credit Facilities outstanding on December 31, 2021 is as follows:

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

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

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

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

LITIGATION

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

SELECTED QUARTERLY INFORMATION

STEP's quarterly financial performance is affected by the seasonality ⁽¹⁰⁾ 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 ⁽¹¹⁾.

(\$000's, except per share amounts)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue								
Canadian Operations	91,458	83,546	73,165	109,362	40,973	44,849	13,888	108,750
United States Operations	67,258	49,689	34,381	27,450	30,595	17,514	26,756	85,619
	158,716	133,235	107,546	136,812	71,568	62,363	40,644	194,369
Net loss attributable to shareholders	(6,212)	(3,388)	(10,582)	(7,944)	(17,045)	(9,762)	(40,348)	(52,203)
Adjusted EBITDA ⁽¹⁾								
Canadian Operations	13,591	17,307	15,633	21,531	5,542	17,188	972	20,891
United States Operations	8,012	4,220	1,022	(3,017)	(1,398)	(4,799)	(2,428)	7,998
Corporate	(4,263)	(3,539)	(4,979)	(2,554)	(1,697)	(3,291)	(2,011)	(6,087)
	17,340	17,988	11,676	15,960	2,447	9,098	(3,467)	22,802
Capital expenditures ⁽¹²⁾								
Canadian Operations	6,886	4,216	5,253	6,107	2,913	1,285	147	5,112
United States Operations	10,404	5,293	5,469	4,001	1,010	64	1,765	9,908
	17,290	9,509	10,722	10,108	3,923	1,349	1,912	15,020
Per Common Share								
Net loss – basic	(0.08)	(0.05)	(0.16)	(0.12)	(0.25)	(0.14)	(0.60)	(0.78)
Net loss – diluted	(0.08)	(0.05)	(0.16)	(0.12)	(0.25)	(0.15)	(0.60)	(0.78)
Adjusted EBITDA ⁽¹⁾ – basic	0.25	0.26	0.17	0.24	0.03	0.13	(0.05)	0.34
Adjusted EBITDA ⁽¹⁾ – diluted	0.25	0.26	0.17	0.24	0.03	0.13	(0.05)	0.34
Canada								
Exit active fracturing spreads ⁽³⁾	4	4	4	4	3	3	1	6
Exit active HP (000's)	200	200	200	200	150	150	50	225
Total HP (000's)	283	283	283	283	283	283	283	283
Exit active coiled tubing units	7	7	7	7	5	5	5	10
Total coiled tubing units	16	16	16	16	16	16	16	16
United States								
Exit active fracturing spreads ⁽³⁾	3	3	2	2	2	1	1	3
Exit active HP (000's)	165	165	110	110	110	50	65	158
Total HP (000's)	208	208	208	208	208	208	208	208
Exit active coiled tubing units	8	8	8	7	6	5	4	7
Total coiled tubing units	13	13	13	13	13	13	13	13

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is a non-IFRS financial ratio. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.

⁽³⁾ Active horsepower denotes units active on client work sites. An additional 15-20% of this amount is required to accommodate equipment maintenance cycles

⁽¹⁰⁾ 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.

⁽¹¹⁾ Totals may not add due to rounding.

⁽¹²⁾ Capital expenditures include amounts added in respect of finance right-of-use assets.

FOURTH QUARTER – 2021

Q4 2021 saw commodity prices rise to multi-year highs, further increasing activity from clients in all regions. The Company continued to see meaningful increases in the contributions to the consolidated results from its U.S. operations as the tightening market resulted in increased utilization and rates. The Company did not recognize any benefits from the CEWS program.

THIRD QUARTER – 2021

Q3 2021 saw commodity prices continue to rise, leading to increased activity from clients, particularly in the U.S. operations resulting in meaningful increases in the contributions to the consolidated results. The Company recognized \$1.1 million in benefits from the CEWS program.

SECOND QUARTER – 2021

Q2 2021 built on the momentum from the prior period with demand for commodities increasing, driving demand for our services leading to a 165% increase in revenue compared to the same period in the prior year with significant improvements to Adjusted EBITDA. The Company recognized \$ 1.9 million in benefits from the CEWS program.

FIRST QUARTER – 2021

Q1 2021 saw signs of economic recovery as the Pandemic measures eased and vaccinations were distributed globally resulting in increased economic activity and mobility. While this resulted in improved commodity pricing and increased client activity, the improvements were not at pre-pandemic levels. The Company received \$3.8 million in benefits from the CEWS program.

FOURTH QUARTER – 2020

Q4 2020 saw increased optimism from clients as commodity prices began to stabilize resulting in improving revenue for STEP. In anticipation of a busier 2021, the Company spent approximately \$2.5 million on the reactivation of equipment. The Company received \$4.1 million in benefits from the CEWS program.

THIRD QUARTER – 2020

Q3 2020 saw commodity prices stabilize relative to earlier periods of volatility, but uncertainty prevented clients from restarting their drilling and completions programs which kept the Company's revenues suppressed. The Company continued to manage costs effectively but incurred \$0.4 million in severance costs. The Company received \$4.5 million in benefits from the CEWS program. With continued uncertainty due to commodity demand reduction, STEP recorded an additional \$1.0 million in bad debt expenses.

SECOND QUARTER – 2020

Q2 2020 continued to be impacted by low commodity prices due to reduced global demand, brought on by government restrictions, resulting in historically low rig counts. In response, the Company re-sized operations and focused on liquidity and effectively managed the unwinding of working capital as activity decreased. As a result, the Company incurred \$1.4 million in severance costs from headcount reductions, and an impairment of the U.S. Fracturing CGU of \$13.1M. The federal government aided organizations through the CEWS program resulting in the company recognizing \$3.1 million in benefits in the quarter.

FIRST QUARTER – 2020

In late Q1 2020, the Company anticipated the reduction in activity brought on by the Pandemic and actions of certain members of OPEC+ by reducing head count leading to \$1.9 million in severance costs and increasing the provision for bad debt by \$2.5 million. The Company also recorded an impairment \$58.8 million on the Canadian Fracturing CGU as a result of worsening market conditions.

FINANCIAL INSTRUMENTS

Financial instruments included in the Company's consolidated balance sheets are cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

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 therefore fair market value approximates carrying value.

CREDIT RISK

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

The Company measures potential loss exposures on trade and other receivables at an amount equal to lifetime expected credit losses ("ECL"). At every point after the initial recognition, there is at least some risk of default. To assess this risk, the Company considers quantitative and qualitative information based on the Company's historical experience and forward-looking information. Factors considered include client payment history, client credit ratings, client cash flows, industry trends, and commodity pricing forecasts. The Company assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. During the year, the Company reversed \$0.6 million of the allowance for doubtful accounts and wrote-off \$5.8 million of trade accounts receivable against the allowance for doubtful accounts leaving a balance of \$0.3 million as at December 31, 2021.

INTEREST RATE RISK

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

FOREIGN CURRENCY RISK

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at December 31, 2021.

NON-IFRS MEASURES AND RATIOS

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, (gain) loss 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 a non-IFRS ratio and is calculated as Adjusted EBITDA divided by revenue. Adjusted EBITDA and Adjusted EBITDA % are presented because they are widely used by the investment community as they provide 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. The Company uses Adjusted EBITDA and Adjusted EBITDA % internally to evaluate operating and segment performance, because management believes they provide 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 (loss) income.

(\$000s except percentages and per share amounts)	Three months ended			Years ended		
	December 31,	December 31,	September 30,	December 31,		
	2021	2020	2021	2021	2020	2019
Net loss	\$ (6,212)	\$ (17,045)	\$ (3,388)	\$ (28,127)	\$ (119,358)	\$ (143,883)
Add (deduct):						
Depreciation and amortization	19,376	19,750	17,595	73,381	88,940	106,549
Loss (gain) on disposal of equipment	(638)	(739)	(146)	(969)	(3,777)	(965)
Finance costs	4,196	3,348	3,908	14,624	14,663	15,621
Income tax expense (recovery)	314	(4,628)	96	(2,498)	(25,985)	(31,225)
Foreign exchange forward contract loss	-	-	-	-	-	383
Share-based compensation	59	1,622	285	6,717	3,610	6,998
Foreign exchange (gain) loss	245	139	(362)	(165)	443	(1,886)
Impairment	-	-	-	-	72,345	127,217
Adjusted EBITDA	\$ 17,340	\$ 2,447	\$ 17,988	\$ 62,963	\$ 30,881	\$ 78,809

"Revenue per operating day" is a financial ratio not presented in accordance with IFRS and is used as a reference to represent market pricing for our services. It 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. See the tables under "Canadian Operations Review" and "United States Operations Review" for the inputs used to calculate STEP's revenue per operating day metrics.

"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 represents the composition of the non-IFRS financial measure of Working capital (including cash and cash equivalents).

(\$000s)	December 31, 2021	December 31, 2020
Current assets	\$ 133,255	\$ 99,469
Current liabilities	(129,343)	(54,823)
Working capital (including cash and cash equivalents)	\$ 3,912	\$ 44,646

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

As at December 31, (\$000s)	2021	2020	2019
Loans and borrowings	\$ 189,957	\$ 207,630	\$ 237,418
Add back: Deferred financing costs	626	2,371	2,401
Less: Cash and cash equivalents	(3,698)	(1,266)	(7,267)
Net debt	\$ 186,885	\$ 208,735	\$ 232,552

ACCOUNTING POLICIES AND ESTIMATES

NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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.

DISCLOSURE CONTROLS AND PROCEDURES

The Company is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"). The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of STEP are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") for the Company.

The Company's designed DC&P provides reasonable assurance that material information is made known to the certifying officers, and that information disclosed by the Company is done in the period specified in securities legislation. In accordance with the requirements of NI 52-109, an evaluation of the effectiveness of the Company's DC&P was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P were effectively designed and operating as at December 31, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As defined within NI 52-109, the Company's CEO and CFO are responsible for establishing and maintaining internal control over financial reporting (ICFR). The Company's designed ICFR provides reasonable assurance regarding the reliability of financial

reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (“GAAP”). The framework behind the design of the Company’s ICFR was the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) (“COSO”).

Based on the COSO Framework, an evaluation of the effectiveness of the Company’s ICFR was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company’s ICFR is effectively designed and operating as at December 31, 2021.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the control system will prevent all errors or fraud.

There have been no changes in the Company’s existing ICFR that occurred during the period ending December 31, 2021, which have materially affected or are reasonably likely to materially affect the Company’s ICFR.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

This MD&A is based on the Company’s audited consolidated financial statements for the year ended December 31, 2021. The preparation of the annual audited consolidated 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 audited consolidated financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes. Refer to Notes 1 and 2 to the audited consolidated financial statements for the year ended December 31, 2021 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.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in the financial statements.

COVID-19 and Liquidity

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

Business Combination

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

Allowance for doubtful accounts

The Company performs ongoing credit evaluations of its clients and provides credit based on a review of historical collections, current aging status, the client’s financial condition and anticipated market conditions. Client payments are regularly monitored. A provision of doubtful accounts is established based off the Company’s lifetime ECL for trade receivables and probability weighted collectability of significant accounts.

Impairment

Management judgment is required to assess when impairment indicators exist and impairment testing is required. The assessment of impairment indicators is based on management’s judgment of whether there are internal and external factors

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

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

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

Net realizable value of inventory

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

Depreciation and amortization

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

Lease liabilities and right-of-use assets

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

Functional Currency

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

Income Taxes

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

Share-based payments

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

Contingencies and provisions

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

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. If any of the following risks occur, the Company's business may be harmed and the Company's financial condition and results of operations may suffer significantly.

- The Company's business depends on the oil and natural gas industry and particularly on the level of exploration, development and production for North American oil and natural gas, which is volatile;
- Difficulty in retaining, replacing or adding personnel could adversely affect the Company's business;
- If the Company is unable to obtain raw materials, diesel fuel and component parts from its current suppliers it could have a material adverse effect on the Company's business;
- STEP's reliance on equipment suppliers and fabricators exposes it to risks including timing of delivery and quality of equipment;
- Pandemics (including COVID-19) & natural disasters could adversely affect the Company;
- Radical activism could harm the Company's business;
- The Company's industry is affected by excess equipment levels;
- The Company's client base is concentrated and loss of a significant client could cause its revenue to decline substantially;
- The Company's industry is intensely competitive;
- The Company's current technology may become obsolete or experience a decrease in demand;
- Cyber-attacks and loss of the Company's information and computer systems could adversely affect the Company's business;
- Access to capital may become restricted, more expensive, or repayment could be required;
- The Credit Facilities contain covenants that restrict STEP's ability to engage in certain transactions and may impair its ability to respond to changing business and economic conditions;
- Fluctuations in currency exchange rates could adversely affect the Company's business;
- Legislation, regulations, and court rulings could result in increased costs and additional operating restrictions or delays;
- The Company is subject to a number of health, safety and environmental laws and regulations that may require it to make substantial expenditures or cause it to incur substantial liabilities;
- The Company may be exposed to third-party credit risk;
- The Company's operations are subject to hazards inherent in the oilfield services industry, which risks may not be covered to the full extent by the Company's insurance policies;
- The Company is susceptible to seasonal volatility in its operating and financial results due to adverse weather conditions;
- Failure to maintain the Company's safety standards and record could lead to a decline in the demand for services;
- The Company is, and may become, subject to legal proceedings which could have a material adverse effect on its business, financial condition and results of operations;
- Actual results may differ materially from management estimates and assumptions;
- The direct and indirect costs of various GHG regulations, existing and proposed, may adversely affect the Company's business, operations and financial results;
- The Company's internal controls may not be sufficient to ensure the Company maintains control over its financial processes and reporting;
- Business acquisitions involve numerous risks and the failure to realize anticipated benefits of acquisitions and dispositions could negatively affect the Company's results of operations;
- Climate change may impact weather conditions;
- Political and social events and decisions made in the U.S. could have an adverse effect on the Company;
- There can be no assurance that the steps the Company takes to protect its intellectual property rights will prevent misappropriation or infringement;
- Improper access to confidential information could adversely affect the Company's business; and
- Some of the Company's directors and officers have conflicts of interest as a result of their involvement with other oilfield services companies.

For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading "Risk Factors" in the AIF which is available on the SEDAR website at www.sedar.com and is incorporated by reference herein.

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 the Company’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 the Company 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: 2022 industry conditions and outlook, including the price of crude oil, potential increased activity and the impact thereof on the Company’s equipment reactivation plans, performance, revenue and cash flows; a strengthening commodity price outlook; the Russian invasion of Ukraine and its effect on commodity prices and the global economy; E&P company needs for measured growth, capital discipline, and capital return to shareholders; the effect of high commodity prices on smaller public E&P company activity; stronger pricing discipline in the Company’s market sector; the Company’s bookings for fracturing and coiled tubing crews; the ability of the Company to maintain or increase pricing; the release of the Company’s ESG report; the effect of rising rig counts on service sector activity levels; the effect of prior industry investment levels on the ability to return equipment to service, and the quantity of equipment able to return to service; the Company’s anticipated business strategies and expected success; the ability of the Company to recruit additional personnel; the effect of new personnel on non-productive time; the Pandemic and related public health measures and their impact on energy demand and the Company’s financial position and business plans; adequacy of resources to funds operations, financial obligations and planned capital expenditures in 2022; the Company’s 2022 capital budget and management’s continued evaluation thereof; the monitoring of industry demand, client credit risk, including the Company’s ability to monitor payment patterns; the Company’s expected compliance with covenants under its Credit Facilities; and the Company’s ability to meet all financial commitments including interest payments over the next twelve months.

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 effect of recent military conflict in the Ukraine and related Canadian, U.S. and international sanctions involving Russia on the market for the Company’s services; OPEC or OPEC+ related market uncertainty on the market for the Company’s services; that the Company will continue to conduct its operations in a manner consistent with past operations; the Company will continue as a going concern; 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; predictable effect of seasonal weather on the Company’s operations; 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 and retain 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 availability of unused credit capacity on the Company’s credit lines; the impact of competition on the Company; the Company’s ability to obtain financing on acceptable terms; the Company’s continued compliance with financial covenants; the amount of available equipment in the marketplace; and client activity levels and spending. 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 under the heading “Risk Factors” in the AIF and under the heading “Risk Factors and Risk Management” above in this MD&A.

Any financial outlook or future orientated financial information contained in this MD&A regarding prospective financial performance, financial position or cash flows is based on the assumptions about future events, including economic conditions and proposed courses of action based on management’s assessment of the relevant information that is currently available. Projected operational information, including the Company’s capital program, contains forward looking information and is based on a number of material assumptions and factors, as are set out above. These projections may also be considered to contain future oriented financial information or a financial outlook. The actual results of the Company’s operations will likely vary from the amounts set forth in these projections and such variations may be material. Readers are cautioned that any such

financial outlook and future oriented financial information contains herein should not be used for purposes other than those for which it is disclosed herein.

The forward-looking information and statements contained in this MD&A 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.