



Fourth Quarter

Management Discussion and Analysis

As at and for the three and twelve months ended December 31, 2020

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 17, 2021 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, 2020 (the "Financial Statements"). Readers should also refer to the "Forward-looking information & statements" legal advisory and the section regarding "Non-IFRS Measures" at the end of this MD&A. All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated. Additional information about STEP is available on the SEDAR website at www.sedar.com, including the Company's Annual Information Form for the year ended December 31, 2020 dated March 17, 2021 (the "AIF").

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

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

CONSOLIDATED HIGHLIGHTS

FINANCIAL

(\$000s except percentages and per share amounts)	Three months ended			Years ended		
	December 31,	December 31,	September 30,	December 31,		
	2020	2019	2020	2020	2019	2018
Consolidated revenue	\$ 71,568	\$ 126,507	\$ 62,363	\$ 368,945	\$ 668,297	\$ 781,763
Net loss	\$ (17,045)	\$ (24,411)	\$ (9,762)	\$ (119,358)	\$ (143,883)	\$ (39,304)
Per share-basic	\$ (0.25)	\$ (0.37)	\$ (0.14)	\$ (1.77)	\$ (2.16)	\$ (0.60)
Per share-diluted	\$ (0.25)	\$ (0.37)	\$ (0.15)	\$ (1.77)	\$ (2.16)	\$ (0.60)
Weighted average shares – basic	67,588,137	66,850,775	67,514,015	67,321,951	66,763,210	65,033,085
Weighted average shares – diluted	67,588,137	66,850,775	66,523,901	67,321,951	66,763,210	65,033,085
Adjusted EBITDA ⁽¹⁾	\$ 2,447	\$ 9,165	\$ 9,098	\$ 30,881	\$ 78,809	\$ 117,637
Adjusted EBITDA % ⁽¹⁾	3%	7%	15%	8%	12%	15%

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

(\$000s except shares and per share amounts)	As at December 31,		
	2020	2019	2018
Cash and cash equivalents	\$ 1,266	\$ 7,267	\$ 364
Working capital (including cash and cash equivalents) ⁽²⁾	\$ 42,867	\$ 72,156	\$ 67,158
Total assets	\$ 479,859	\$ 686,039	\$ 887,908
Total long-term financial liabilities ⁽²⁾	\$ 214,848	\$ 247,481	\$ 260,451
Net debt ⁽²⁾	\$ 208,735	\$ 232,552	\$ 254,210
Shares outstanding	67,713,824	66,942,830	66,682,319

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

FINANCIAL HIGHLIGHTS – 2020 ANNUAL

- Consolidated revenue for the year ended December 31, 2020 of \$368.9 million decreased by 45% from \$668.3 million in the prior year.
- Net loss for the year ended December 31, 2020 was \$119.4 million compared to a net loss of \$143.9 million in 2019.
- For the year ended December 31, 2020, Adjusted EBITDA was \$30.9 million or 8% of revenue compared to \$78.8 million or 12% of revenue in the year prior.
- STEP recorded bad debt expense of \$3.5 million for the year ended December 31, 2020 compared to \$0.8 million for the year ended December 31, 2019.
- Severance of \$3.9 million was recorded during the year ended December 31, 2020.
- During the year ended December 31, 2020, the Company received \$11.7 million in the Canadian Emergency Wage Subsidy (“CEWS”) program and \$0.03 million in grants under the Canadian Emergency Rent Subsidy (“CERS”) program. The grants were recorded as a reduction to wage and rent expenses, respectively.
- STEP continues to make significant progress on debt reduction. For the year the Company made net repayments on loans and borrowings of \$30.4 million. The Company’s December 31, 2020 Net Debt position was \$208.7 million.
- On August 13, 2020, STEP entered into a Second Amended and Restated Credit Agreement with its syndicate of lenders which includes a Canadian \$215.0 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, as amended November 3, 2020 and March 17, 2021 (“the Credit Facilities”).
- STEP was compliant with all covenants in the Credit Facilities as at December 31, 2020.
- During late first and early second quarter of 2020, STEP took immediate steps to resize the Company’s structure in anticipation of the expected decline in activity caused by worldwide measures implemented to manage the COVID-19 pandemic. This included reductions in the Company’s manned equipment, capital expenditures, wages and headcount reductions.
- During the second quarter of 2020, the Company recorded a non-cash impairment charge with respect to property and equipment in its U.S. fracturing cash generating unit (“CGU”) of \$13.1 million. During the first quarter of 2020, the Company recorded a non-cash impairment charge with respect to property and equipment in its Canadian fracturing CGU of \$58.8 million. No additional impairments were recorded at September 30, 2020 and December 31, 2020. During the third quarter of 2019, the Company recorded a non-cash impairment charge with respect to goodwill and intangibles of \$113.5 million in its U.S. fracturing CGU.
- During third and fourth quarter, as STEP’s clients cautiously restarted some work programs, STEP scaled up its manned equipment to match the recovery of activity.

FINANCIAL HIGHLIGHTS – FOURTH QUARTER 2020 COMPARED TO FOURTH QUARTER 2019

- Quarterly consolidated revenue for the three months ended December 31, 2020 was \$71.6 million compared to \$126.5 million in the same quarter of 2019. A decrease of 43% year over year.
- Net loss for the three months ended December 31, 2020 was \$17.0 million compared to net loss of \$24.4 million the fourth quarter of 2019.
- Quarterly Adjusted EBITDA was \$2.4 million (or 3% of revenue) in the fourth quarter of 2020 compared to \$9.2 million (or 7% of revenue) in the same quarter of 2019.
- To prepare for an anticipated busy first quarter 2021 in Canada and the U.S, STEP spent approximately \$2.5 on remobilization costs during the quarter.
- During the three months ended December 31, 2020, the Company received \$4.1 million from the CEWS program and \$0.03 million in grants under the CERS program. The grants were recorded as a reduction to wage and rent expenses, respectively. The Company also paid an additional \$0.1 million in severance payments.
- No impairments were recorded in fourth quarter 2020. An impairment of \$13.7 million was recorded in fourth quarter 2019, related to assets held for sale.

FINANCIAL HIGHLIGHTS – FOURTH QUARTER 2020 SEQUENTIAL

- Quarterly consolidated revenue for the three months ended December 31, 2020 of \$71.6 million increased from \$62.4 million in the third quarter of 2020. An increase of 15% from third to fourth quarter of 2020.

- Net loss for the three months ended December 31, 2020 was \$17.0 million compared to net loss of \$9.8 million during the third quarter of 2020. The net loss for the fourth quarter 2020 compared to third quarter 2020 increased due to significant pricing pressure in the U.S., remobilizing costs to prepare for first quarter 2021 in both countries and the reduction in large pad work in the quarter in Canada as major client programs wound down late in the third quarter or early fourth quarter. The U.S. increased revenue and decreased its loss in fourth quarter; however, operating results reflect the ongoing significant pricing pressures in both fracturing and coiled tubing. With the expectation of increasing activity in Q1 2021, STEP undertook to remobilize fracturing and coiled tubing equipment in both Canada and the U.S. incurring \$2.5 million in remobilization costs.
- Quarterly Adjusted EBITDA was \$2.4 million (or 3% of revenue) in the fourth quarter of 2020 compared to \$9.1 million (or 15% of revenue) during the third quarter of 2020.

INDUSTRY CONDITIONS & OUTLOOK

Early signs of a global economic recovery are now evident with the roll out of COVID - 19 vaccination programs, and various government stimulus programs. These measures are expected to support recovering energy demand which has been reflected in the recovering price for oil and natural gas. Industry watchers continue to monitor the Organization of the Petroleum Exporting Countries (“OPEC”) along with certain non-OPEC nations (“OPEC+”) production discipline as well as the discipline of U.S. shale producers to assess the supply response to the recovering global energy demand. With the improved outlook for demand for services, STEP has reactivated equipment to meet client awarded work programs for 2021.

Various industry forecasts are predicting improvements in activity for 2021 compared to 2020. From October 2, 2020, to March 5, 2021 rig count has recovered 52% in U.S. and 88% in Canada. Crude oil spot pricing has averaged \$56 U.S./barrel for the first 60 days of 2021 with a high of \$63 and there is continued strength in natural gas prices (March 5, 2021 AECO spot was \$2.85 CAD/million British thermal units “mmbtu”). STEP has reactivated equipment in both Canada and the U.S. to support the 2021 tender awards and a higher expected level of activity.

Factors that are expected to increase demand for crude oil and support stable prices for crude oil include continued adherence to voluntary OPEC+ production cuts and ongoing capital discipline from U.S. shale producers in light of higher commodity prices. Natural gas prices have strengthened over the last year with the decline in associated gas production driven by the marked decrease in oil directed drilling and the continued demand growth for the commodity. Continued strength of oil and natural gas prices are expected to improve demand for STEP services. However, producers are expected to continue to operate within cashflows with an emphasis on paying down debt and/or returning capital to investors which could limit additional demand for STEP’s services.

A return to more stable demand and supply for crude oil will partially depend upon actions taken by health and government authorities and individual responses to these measures, as we deal with COVID-19 (see below). Factors that could add to industry uncertainty include any erosion of OPEC+ cohesion and compliance with production cuts, a new U.S. administration that has already cancelled the Keystone XL pipeline and issued an executive order that halted new oil and gas leases on federal land and water, and the potential for the reversal of Iran sanctions and resulting production increases.

With the marked decline in activity during 2020, the North American pressure pumping industry sought to rebalance supply and demand by de-activating as much as 45% of the equipment that was operating in the first quarter of 2020. Some industry watchers have indicated that as much as 40% of this capacity may have been permanently retired which may accelerate the rebalancing of completion equipment capacity in Canada and the U.S. With less overall equipment capacity available to service any demand recovery, service providers may be in a position to capture price recovery earlier as activity levels begin to increase.

Q1 2021

STEP’s Canadian operations have enjoyed a strong level of activity thus far in the first quarter of 2021. Client programs, underpinned by a strengthening commodity outlook, are expected to expand relative to 2020. Our clients continue to value STEP’s strong execution and dual - fuel fleet capabilities that improve program efficiencies while supporting ESG programs. As in other years, weather has impacted first quarter activity. A severe cold snap mid quarter slowed operations for seven to ten days.

U.S. operations have recently been hampered by unprecedented cold weather that was experienced in the Company's areas of operations. Activity is slowly recovering; however, the impact of this disruption will negatively impact our expected operating results for the first quarter. With the recovery in commodity prices, the industry has been actively engaged in price recovery discussions with customers and STEP is participating in these discussions. STEP is encouraged by the declarations made by a number of large industry participants who have indicated they will forgo additional equipment remobilization in an effort to support a rebalancing of the market and price recovery to sustainable levels for service providers.

CAPITAL

The Company's amended 2020 capital program was \$17.5 million, all of which was directed to maintenance capital. Spending on the 2020 capital program was on budget as the Company incurred \$16.1 million of capital costs in the year and carried forward \$1.4 million to 2021.

STEP's Board of Directors has approved a 2021 capital program of \$33.7 million based on expected work activity. The approved capital program is comprised of \$28.8 million maintenance capital and \$4.9 million of optimization capital. The program is roughly split evenly 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.

SUBSEQUENT EVENT

On August 13, 2020, STEP entered into the Credit Facilities, which includes a Canadian \$215.0 million term facility, a Canadian \$30 million revolving facility, a Canadian \$10 million operating facility and a \$15 million U.S. operating facility. Subsequent to December 31, 2020, STEP requested and was granted the following changes to the covenants on March 17, 2021:

- Minimum EBITDA for first quarter 2021 was changed to \$10.0 million, second quarter 2021 was changed to nil and third quarter 2021 remained at \$6.9 million.
- For the fourth quarter of 2021 the covenants have been amended as follows:
 - Funded Debt to EBITDA covenant will be no greater than 4.5:1, and
 - Funded Debt to Tangible Net Worth covenant and the Minimum EBITDA covenant will be waived.
- The negative covenant for capital expenditures will be increased to \$33.7 million.

COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The COVID-19 pandemic has significantly reduced economic activity in North America and the world causing a sudden and significant drop in demand for crude oil and natural gas, negatively impacting STEP's clients' cash flow and activity and STEP's results.

Crude oil and natural gas prices have improved from the historic lows observed earlier in 2020. Price support from future demand has improved but remains uncertain as countries experience varying degrees of virus outbreak and newly emerging virus variants continue to hamper efforts to re-open local economies and international borders. The effect of low crude oil and natural gas prices have had, and should they continue, will likely continue to have a negative effect on STEP's clients' operational results and cashflow. This could impact level of capital investment by clients and potentially the demand for STEP services.

Currently, the duration and full impact of the COVID-19 pandemic is unknown. Vaccination programs are at various stages of deployment around the world but are generally in the early stages. The length of time it will take to complete the mass rollouts of vaccines is not known but is generally expected to take until the later part of 2021 with some programs extending into 2022. The effectiveness of the vaccines against new virus variants has not been finally determined and may affect the overall effectiveness of the vaccination campaigns.

CANADIAN OPERATIONS REVIEW

STEP has a fleet of 16 coiled tubing units in the WCSB. The Company's coiled tubing units were 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 horsepower ("HP"), of which 15,000 HP will require capital for refurbishment. Approximately 132,500 HP of the available HP has dual - fuel capabilities. The Company deploys or idles coiled tubing units or fracturing horsepower 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, 2020	December 31, 2019	September 30, 2020	December 31, 2020	December 31, 2019
Revenue:					
Fracturing	\$ 28,191	\$ 50,215	\$ 29,425	\$ 144,564	\$ 251,544
Coiled tubing	12,782	22,285	15,424	63,896	103,120
	40,973	72,500	44,849	208,460	354,664
Expenses:					
Operating expenses	44,705	75,546	36,443	204,583	333,127
Selling, general and administrative	851	1,718	1,306	5,116	8,955
Results from operating activities	\$ (4,583)	\$ (4,764)	\$ 7,100	\$ (1,239)	\$ 12,582
Add non-cash items:					
Depreciation	9,777	13,659	9,770	45,012	50,716
Share-based compensation	348	506	318	818	1,915
Adjusted EBITDA ⁽¹⁾	\$ 5,542	\$ 9,401	\$ 17,188	\$ 44,591	\$ 65,213
Adjusted EBITDA % ⁽¹⁾	14%	13%	38%	21%	18%
Sales mix (% of segment revenue)					
Fracturing	69%	69%	66%	69%	71%
Coiled tubing	31%	31%	34%	31%	29%
Fracturing services					
Fracturing revenue per operating day ⁽¹⁾	\$ 204,283	\$ 145,551	\$ 186,234	\$ 205,347	\$ 185,368
Number of fracturing operating days ⁽²⁾	138	345	158	704	1,357
Proppant pumped (tonnes)	134,000	183,000	251,000	776,000	858,000
Stages completed	1,640	4,064	1,703	8,000	13,424
Horsepower ("HP")					
Active pumping HP, end of period	150,000	225,000	150,000	150,000	225,000
Idle pumping HP, end of period	132,500	57,500	132,500	132,500	57,500
Total pumping HP, end of period ⁽³⁾	282,500	282,500	282,500	282,500	282,500
Coiled tubing services					
Coiled tubing revenue per operating day ⁽¹⁾	\$ 46,480	\$ 39,583	\$ 48,351	\$ 46,538	\$ 48,187
Number of coiled tubing operating days ⁽²⁾	275	563	319	1,373	2,140
Active coiled tubing units, end of period	5	9	5	5	9
Idle coiled tubing units, end of period	11	7	11	11	7
Total coiled tubing units, end of period	16	16	16	16	16

⁽¹⁾ See Non-IFRS Measures.

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

⁽³⁾ Represents total owned HP in Canada, of which 150,000 HP is currently deployed and 15,000 of the remainder requires certain refurbishment.

FINANCIAL HIGHLIGHTS – FULL YEAR

For the year ended December 31, 2020, fracturing operating days were 704 compared to 1,357 operating days for the year ended December 31, 2019, a decline of 48%. STEP's coiled tubing units had 1,373 operating days during 2020 compared to 2,140 operating days during 2019, a decline of 36%. During the first quarter of 2020, STEP deployed six fracturing spreads and 10 coiled tubing units. In response to deteriorating economic conditions and reducing client activity, STEP resized its available equipment to one fracturing spread and five coiled tubing units, during second quarter 2020. As activity picked up in third quarter, two additional fracturing spreads were activated. During fourth quarter, STEP continued to run three fracturing spreads and five coiled tubing units. This compares to 2019 where STEP ran six fracturing spreads and 9 coiled tubing units for the full year. Revenue for the year ended December 31, 2020, was \$208.5 million as compared to \$354.7 million in the same period of prior year. Adjusted EBITDA for the year ended December 31, 2020 was \$44.6 million or 21% of revenue versus \$65.2 million or 18% of revenue for the year ended December 31, 2019.

As discussed previously, STEP was able to access the federal government's CEWS program and its Canadian operations received \$10.7 million for the full year 2020. STEP also incurred \$3.2 million in severance for the full year 2020. Revenue decreased by 41% and Adjusted EBITDA decreased by \$20.6 million or 31% for the year ended December 31, 2020 compared to the year ended December 31, 2019. Adjusted EBITDA margin percentages were maintained in 2020 as a result of STEP's aggressive reduction in manned equipment and staffing levels, the benefits received under the CEWS program and STEP's sustained focus on cost controls.

The actions taken earlier in the year to manage the unprecedented negative economic and market conditions continued throughout the balance of 2020. Adjustments to cost saving measures were made when STEP had visibility to improving activity. During 2020, wages were reduced by up to 20% including a temporary one day per week furlough which was suspended at the end of the third quarter 2020. The remaining 10% reduction in wages was restored at the beginning of 2021. Field employees were recalled when the Company had visibility to sustained work. STEP also undertook to retain its most senior field staff to provide the ability to scale up operations. All discretionary expenses such as travel, bonuses and meals and entertainment were significantly reduced or eliminated.

During the month of December 2020, STEP incurred \$1.8 million in additional costs to remobilize a fourth fracturing spread and two additional coil units to be utilized in 2021. The costs included maintenance on the equipment and additional wages as field employees were rehired and trained in anticipation of an active Q1 2021.

FINANCIAL HIGHLIGHTS – FOURTH QUARTER

Revenue for the three months ended December 31, 2020 was \$41.0 million compared to \$72.5 million for the fourth quarter of 2019. Adjusted EBITDA for fourth quarter 2020 was \$5.5 million or 14% of revenue versus \$9.4 million or 13% of revenue in the fourth quarter of 2019. Fracturing operating days decreased from 345 during fourth quarter 2019 to 138 during fourth quarter 2020. Coiled tubing operating days decreased from 563 during fourth quarter 2019 to 275 during fourth quarter 2020. The Company received the benefit of \$3.8 million in CEWS and incurred severance of \$0.1 million. The maintenance of margin percentages with a 44% decrease in revenue was achieved by maintaining higher utilization percentages with less equipment, the benefits received under the CEWS program and a sustained focus on cost savings.

FINANCIAL HIGHLIGHTS – SEQUENTIAL QUARTER

Revenue for the three months ended December 31, 2020 of \$41.0 million decreased 9% from \$44.8 million from the quarter ended September 30, 2020 due to an overall decrease in utilization with the completion of large customer programs that support high levels of utilization and efficiency. With the completion of these programs, STEP worked for a larger group of customers on shorter duration programs which hampered utilization and exposed the company to more aggressive market pricing as the overall level of service demand dropped at the end of the year. The reduction was partially offset by an increase in Company supplied proppant and chemical resulting in higher revenue generated per day. Despite the increase in Company supplied proppant, margins were impacted by lower total proppant pumped, competitive pressures, and increased Company supplied fuel in the quarter. Margins were further impacted by the preparation for Q1 remobilization as higher repairs and maintenance and payroll costs were incurred as parked units were brought back into service and new hires were trained. The Company also incurred additional payroll costs as the one-day furlough was discontinued in the fourth quarter to accommodate market conditions. Adjusted EBITDA for fourth quarter 2020 was \$5.5 million or 14% of revenue versus \$17.2 million or 38%

of revenue during the quarter ended September 30, 2020. There was a decrease of 20 operating days for fracturing and a decrease of 44 operating days for coiled tubing for the three months ended September 30, 2020 and the three months ended December 31, 2020. The Company received the benefit of \$3.8 million in fourth quarter 2020 and \$4.1 million in third quarter 2020 from the CEWS program.

OPERATING HIGHLIGHTS

- The Company staffed three fracturing spreads with active horsepower of 150,000 and five coiled tubing units in the fourth quarter of 2020.
- STEP capitalizes fluid ends when their estimated useful life exceeds 12 months. Fluid ends are capitalized in Canada based on a review of usage history. However, had the Company expensed fluid ends, the operating expenses for the three months and year ended December 31, 2020 would have been increased by approximately \$0.02 million and \$3.8 million, respectively.

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 and the Bakken shale in North Dakota. STEP entered the U.S. fracturing business in April 2018. The U.S. fracturing business has 207,500 HP, which 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, 2020	December 31, 2019	September 30, 2020	December 31, 2020	2019 ¹
Revenue:					
Fracturing	\$ 20,711	\$ 35,316	\$ 9,363	\$ 111,000	\$ 217,543
Coiled tubing	9,884	18,691	8,151	49,485	96,090
	30,595	54,007	17,514	160,485	313,633
Expenses:					
Operating expenses	40,303	63,976	30,739	196,670	326,078
Selling, general and administrative	1,450	1,995	1,555	6,954	10,444
Results from operating activities	\$ (11,158)	\$ (11,964)	\$ (14,780)	\$ (43,139)	\$ (22,889)
Add non-cash items:					
Depreciation	9,627	13,774	9,926	42,593	49,374
Share-based compensation	133	365	55	(78)	2,094
Adjusted EBITDA ⁽¹⁾	\$ (1,398)	\$ 2,175	\$ (4,799)	\$ (624)	\$ 28,579
Adjusted EBITDA % ⁽¹⁾	(5%)	4%	(27%)	(1%)	9%
Sales mix (% of segment revenue)					
Fracturing	68%	65%	53%	69%	69%
Coiled tubing	32%	35%	47%	31%	31%
Fracturing services					
Fracturing revenue per operating day ⁽¹⁾	\$ 168,382	\$ 223,519	\$ 240,077	\$ 261,176	\$ 338,325
Number of fracturing operating days ⁽²⁾	123	158	39	425	643
Proppant pumped (tonnes)	184,394	177,000	32,278	600,064	667,000
Stages completed	831	934	182	2,823	3,539
Horsepower					
Active pumping HP, end of period	110,000	157,500	50,000	110,000	157,500
Idle pumping HP, end of period	97,500	50,000	157,500	97,500	50,000
Total pumping HP, end of period ⁽³⁾	207,500	207,500	207,500	207,500	207,500
Coiled tubing services					
Coiled tubing revenue per operating day ⁽¹⁾	\$ 33,849	\$ 44,083	\$ 37,736	\$ 40,897	\$ 47,288
Number of coiled tubing operating days ⁽²⁾	292	424	216	1,210	2,032
Active coiled tubing units, end of period	6	8	5	6	8
Idle coiled tubing units, end of period	7	5	8	7	5
Total coiled tubing units, end of period	13	13	13	13	13

⁽¹⁾ See Non-IFRS Measures.

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

⁽³⁾ Represents total owned HP in the U.S.

FINANCIAL HIGHLIGHTS – FULL YEAR

U.S. fracturing averaged two operating spreads throughout 2020 compared to an average of three spreads throughout 2019. U.S. fracturing was active for 425 operating days during 2020 compared to 643 operating days in 2019. U.S. coiled tubing operated five coiled tubing units on average during 2020 compared to an average of eight coiled tubing units in the same period of 2019. STEP's U.S. coiled tubing units completed 1,210 operating days during 2020 compared to 2,032 operating days during 2019. Revenue for the year ended December 31, 2020 was \$160.5 million compared to \$313.6 million during the same period of 2019. Adjusted EBITDA loss was \$0.6 million or negative 1% of revenue for the year ended December 31, 2020 versus Adjusted EBITDA of \$28.6 million or 9% of revenue for the year ended December 31, 2019. Although utilization for both fracturing and coiled tubing services were approximately the same for 2020 and 2019, revenue per day declined by 23% for fracturing and 14% for coiled tubing. Both the fracturing and coiled tubing business continue to experience significant price pressure and increased competition as a result of the marked decrease in demand for services and the oversupply of available equipment. In response to the deterioration in market conditions, STEP undertook cost containment activities including headcount reductions, reduced wages, and elimination of discretionary expenditures.

During the fourth quarter of 2020, STEP incurred \$0.7 million in remobilizing costs to activate a second fracturing spread.

FINANCIAL HIGHLIGHTS – FOURTH QUARTER

Revenue of \$30.6 million for the three months ended December 31, 2020 decreased by \$23.4 million from the same quarter in 2019. Fracturing services worked 22% fewer operating days in the fourth quarter of 2020 compared to the fourth quarter of 2019. A second fracturing spread was activated in December 2020 in anticipation of increased activity in 2021. Market pressure continues to depress pricing with fracturing revenue and coiled tubing revenue per day down 25% and 23% respectively for fourth quarter 2020 compared to the same period in 2019. Part of the fracturing revenue per day decline is attributable to clients providing their own sand. There was an Adjusted EBITDA loss of \$1.4 million for the fourth quarter of 2020 compared to Adjusted EBITDA of \$2.2 million for the same quarter in the prior year.

FINANCIAL HIGHLIGHTS – SEQUENTIAL QUARTER

In the U.S., seasonality is generally not a factor impacting the Company. Revenue for the quarter increased from \$17.5 million to \$30.6 million an increase of 43% over the third quarter. Adjusted EBITDA loss for the quarter was \$1.4 million or (5%) of revenue compared to a \$4.8 million loss or (27%) of revenue in third quarter. Operating days increased by 215% and 35% for fracturing and coiled tubing, respectively, when compared to the third quarter of 2020 as the Company was able to remobilize a second fracturing fleet in response to increasing industry activity.

OPERATING HIGHLIGHTS

- In the fourth quarter of 2020, STEP pumped 184,394 tonnes (406 million pounds) of proppant over 831 stages (221 tonnes/stage) compared to the fourth quarter of 2019 where the Company pumped 177,000 tonnes (390 million pounds) of proppant over 934 stages (190 tonnes/stage).
- STEP capitalizes fluid ends when it is determined that they have an estimated useful life that exceeds 12 months. Based on a review of usage history in the U.S., fluid ends are expensed. U.S. fracturing expensed fluid ends for the three months and year ended December 31, 2020 of \$1.0 million (U.S. \$0.7 million) and \$5.0 million (U.S. \$3.7 million), respectively.

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. Corporate Sales, General & Administrative costs include 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, 2020	December 31, 2019	September 30, 2020	December 31, 2020	2019
Expenses:					
Operating expenses	\$ 139	\$ 529	\$ 119	\$ 1,102	\$ 2,395
Selling, general and administrative	2,881	2,951	3,907	15,634	17,024
Results from operating activities	\$ (3,020)	\$ (3,480)	\$ (4,026)	\$ (16,736)	\$ (19,419)
Add non-cash items:					
Depreciation	182	551	187	780	1,447
Share-based compensation	1,141	518	548	2,870	2,989
Adjusted EBITDA ⁽¹⁾	\$ (1,697)	\$ (2,411)	\$ (3,291)	\$ (13,086)	\$ (14,983)
Adjusted EBITDA % ^(1,2)	(2%)	(2%)	(5%)	(4%)	(2%)

⁽¹⁾ See Non-IFRS Measures.

⁽²⁾ Adjusted EBITDA percentage calculated using the consolidated revenue for the period.

FINANCIAL HIGHLIGHTS – FULL YEAR

Expenses from corporate activities, excluding depreciation and share-based compensation related to corporate assets and employees, were \$13.1 million for the year ended December 31, 2020 compared to \$15.0 million for the year ended December 31, 2019 a decrease of 13%. Severance of \$0.7 million was incurred for the year ended December 31, 2020. STEP also recorded \$3.5 million of bad debt expense during 2020 (2019 - \$0.8 million) due to the increased credit risk related to the extent of disruptions and uncertainty brought about COVID-19. STEP obtained \$1.0 million of benefit from the CEWS program for corporate employees. Adjusting for bad debt expense, CEWS and severance would result in \$9.9 million in expenses a 34% decrease year over year. The corporate expenses would be approximately 2.6% of revenue for 2020 and 2.0% of revenue for 2019.

With the onset of market volatility from COVID-19 and the decline of crude oil prices earlier in the year, STEP implemented several measures to minimize expenses. Headcount was reduced and 2020 management bonuses were eliminated. Other measures included reduced or eliminated discretionary expenses such as travel, meals and entertainment and vehicle allowances.

FINANCIAL HIGHLIGHTS – FOURTH QUARTER

Expenses from corporate activities, excluding depreciation and share-based compensation related to corporate assets and employees, for the fourth quarter of 2020 were \$1.7 million compared to \$2.4 million of expenses in the fourth quarter of 2019. Throughout the year, the Company initiated several cost saving programs that have reduced overhead and selling, general and administrative expenses. Discretionary expenses and management bonuses were eliminated. Headcount reductions were maintained throughout 2020. STEP obtained \$0.3 million of benefit from the CEWS program for corporate employees.

FINANCIAL HIGHLIGHTS – SEQUENTIAL QUARTER

Expenses from corporate activities, excluding depreciation and share-based compensation related to corporate assets and employees, for the fourth quarter of 2020 were \$1.7 million compared to \$3.3 million of expenses in the third quarter of 2020. STEP incurred \$0.3 million in severance and \$1.0 million of bad debt expense during third quarter of 2020. The Company benefited from \$0.3 million in CEWS during fourth quarter 2020 and \$0.4 million during third quarter of 2020.

CONSOLIDATED FINANCIAL REVIEW

(\$000's except per share amounts)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Revenue	\$ 71,568	\$ 126,507	\$ 368,945	\$ 668,297
Operating expenses	85,147	140,051	402,355	661,600
Gross profit	(13,579)	(13,544)	(33,410)	6,697
Selling, general and administrative	5,182	6,664	27,704	36,423
Results from operating activities	(18,761)	(20,208)	(61,114)	(29,726)
Finance costs	3,348	4,674	14,663	15,621
Foreign exchange loss (gain)	139	(513)	443	(1,886)
Loss (gain) on disposal of property and equipment	(739)	850	(3,777)	(965)
Amortization of intangible assets	164	129	555	5,012
Foreign exchange forward contract (gain) loss	-	-	-	383
Impairment	-	13,671	72,345	127,217
Net loss before income tax	(21,673)	(39,019)	(145,343)	(175,108)
Income tax expense (recovery)	(4,628)	(14,608)	(25,985)	(31,225)
Net loss	(17,045)	(24,411)	(119,358)	(143,883)
Other comprehensive income (loss)	(9,341)	(4,874)	(2,040)	(16,818)
Total comprehensive loss	\$ (26,386)	\$ (29,285)	\$ (121,398)	\$ (160,701)
Loss per share – basic	\$ (0.25)	\$ (0.37)	\$ (1.77)	\$ (2.16)
Loss per share – diluted	\$ (0.25)	\$ (0.37)	\$ (1.77)	\$ (2.16)
Adjusted EBITDA ⁽¹⁾	\$ 2,447	\$ 9,165	\$ 30,881	\$ 78,809
Adjusted EBITDA % ⁽¹⁾	3%	7%	8%	12%

⁽¹⁾ See Non-IFRS Measures.

OTHER ITEMS

Depreciation and amortization

For the three months ended December 31, 2020, depreciation and amortization expense decreased to \$19.8 million from \$28.1 million in the same period of 2019. For the year ended December 31, 2020, depreciation and amortization expense decreased to \$88.9 million from \$106.5 million in the same period of 2019. During the year ended December 31, 2020, an impairment of \$72.3 million was recognized related to Canadian fracturing and U.S. fracturing property and equipment. As such, there was a reduction in depreciation expense during the current period. In addition, capital spend was limited to maintenance capital of \$17.8 million and decreased significantly relative to the prior year of \$49.1 million in line with the reduction in manned equipment and active management of capital spending. Right-of-use additions also declined to \$4.4 million from \$6.3 million.

Finance costs

Finance costs were \$3.3 million and \$14.7 million for the three and twelve months ended December 31, 2020 as compared to \$4.7 million and \$15.6 million for the three and twelve months ended December 31, 2019. The effective borrowing rate for loans and borrowings were 4.53% and 4.84% for the three and twelve months ended December 31, 2020 compared to 4.88% for both the same periods in 2019. Finance costs for the three and twelve months ended December 31, 2020 decreased by \$1.4 million and \$1.0 million, respectively, with lower average borrowings in the period as the Company continues to make significant progress in debt reduction. The interest related to right-of-use assets also decreased as the Company returned leased light duty vehicles as part of its cost management measures.

Foreign exchange gains and losses

STEP recorded a foreign exchange loss of \$0.1 million and \$0.4 million for the three months and year ended December 31, 2020, respectively, compared to gains of \$0.5 million and \$1.9 million in the corresponding periods of 2019. Foreign exchange

gains and losses arise from the translation of assets or liabilities that are held in U.S. dollars by Canadian operations. The loss year to date over prior year to date was due to movement in the Canadian and U.S. dollar exchange rate 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 a gain on disposal of property and equipment of \$0.7 million and \$3.8 million for the three months and year ended December 31, 2020, respectively, compared to losses of \$0.9 million and a gain of \$1.0 million in the same periods of 2019. 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

As required by IAS 36, the Company assesses at each reporting period whether there are any external and internal indicators of impairment. STEP has identified four CGU for purposes of impairment testing: Canadian Coiled Tubing, Canadian Fracturing, U.S. Coiled Tubing and U.S. Fracturing.

As at December 31, 2020, the Company assessed that despite improvements in the outlook for future periods there remains uncertainty as to the roll out of vaccines and the potential spread of new variants of COVID-19, 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 cash flows 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 result in any additional impairment.

June 30, 2020

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

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

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

March 31, 2020

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

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

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

Assumptions that are valid at the time of preparing the impairment test may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to impairment on an ongoing basis.

In addition to the Company's impairment assessment, the Company identified a market decline in specific assets held for sale and wrote the assets down to their recoverable value during the second quarter of 2020 resulting in an impairment charge of \$0.5 million. During the third quarter of 2019, the Company recorded a non-cash impairment charge with respect to goodwill and intangibles of \$113.5 million in its U.S. Fracturing CGU.

Foreign exchange forward contract gains and losses

For the three and twelve months ended December 31, 2020, STEP did not have any foreign exchange contracts. A foreign exchange contract loss of \$0.4 million was recorded in the first nine months of the prior year. Occasionally, the Company enters U.S. dollar denominated foreign exchange contracts for the purposes of mitigating foreign exchange risk.

Share-based compensation

For the three and twelve months ended December 31, 2020, STEP recorded share-based compensation expense of \$1.6 million and \$3.6 million, respectively, compared to \$1.4 million and \$7.0 million in the same periods of 2019. The decrease in expense is primarily due to decreases in the fair value of cash based restricted share units, deferred share units, and performance share units, offset by the expense related to performance warrants and new options. The terminations that occurred in late first quarter of 2020 also resulted in a recovery of share-based expense for any non-vested instruments.

Income taxes

STEP recorded a total income tax recovery of \$4.6 million and \$26.0 million for the three and twelve months ended December 31, 2020 compared to a recovery of \$14.6 million and \$31.2 million for the comparable periods of 2019. The net tax recovery was reduced in result of the improvement in operating results.

TOTAL CAPITAL EXPENDITURES

(\$000s)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Capital program additions	\$ 3,818	\$ 14,441	\$ 17,826	\$ 49,061
Right-of-use asset additions (new contracts in the period)	105	2,267	4,378	6,339
Right-of-use asset additions (upon adoption of IFRS 16)	-	-	-	6,839
Total capital expenditures	\$ 3,923	\$ 16,708	\$ 22,204	\$ 62,239
Capital was incurred for:				
Canada	\$ 2,913	\$ 5,172	\$ 9,457	\$ 33,555
United States	\$ 1,010	\$ 11,536	\$ 12,747	\$ 28,684

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

LIQUIDITY AND CAPITAL RESOURCES

(\$000s)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Net cash provided by (used in)				
Operating activities	\$ 2,628	\$ 17,036	\$ 46,803	\$ 69,941
Investing activities	(3,221)	(12,931)	(16,552)	(44,180)
Financing activities	(6,121)	(20,133)	(36,497)	(19,271)
Impact of foreign exchange on cash	(253)	(141)	245	413
Increase (decrease) in cash and cash equivalents	\$ (6,967)	\$ (16,169)	\$ (6,001)	\$ 6,903
Opening cash balance	8,233	23,436	7,267	364
Ending cash balance	\$ 1,266	\$ 7,267	\$ 1,266	\$ 7,267

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities totaled \$2.6 million and \$46.8 million for the three months and year ended December 31, 2020, respectively, compared to \$17.0 million and \$69.9 million in the comparable periods of 2019. Net cash provided by operating activities decreased by \$14.4 million for the three months ended December 31, 2020 compared to the same period in 2019 primarily due to reduced activity and lower operating results in 2020 and changes in non-cash working capital. Net cash provided by operating activities decreased by \$23.1 million for the year ended December 31, 2020 compared to 2019. This was primarily due to reduced activity and lower operating results in 2020, offset by income taxes received of \$8.0 million and changes in non-cash working capital of \$22.4 million.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities totaled \$3.2 million compared to \$12.9 million used for the three months ended December 31, 2020 and 2019. Net cash used in investing activities totaled \$16.6 million compared to \$44.2 million for the twelve months ended December 31, 2020 and 2019. The decrease in net cash used is primarily due to lower investments in property and equipment.

NET CASH USED IN FINANCING ACTIVITIES

Net cash used in financing activities totaled \$6.1 million and \$20.1 million for the three months ended December 31, 2020 and 2019, respectively. Net cash used in financing activities totaled \$36.5 million for the year ended December 31, 2020 compared to \$19.3 million for the year ended December 31, 2019. Financing activities primarily relate to repayment of loans and borrowings and repayment of obligations under finance lease. For the three months ended December 31, 2020 there were repayments of \$5.0 million compared to \$18.6 million in the prior year. For the twelve months ended December 31, 2020 there were repayments of loans and borrowings of \$30.4 million compared to \$12.3 million in the prior year.

WORKING CAPITAL⁽¹⁾ AND CASH REQUIREMENTS

As at December 31, 2020, STEP had positive working capital⁽¹⁾ of \$42.9 million, compared to \$72.2 million as at December 31, 2019. Trade and other receivables decreased from \$104.7 million at December 31, 2019 to \$63.5 million at December 31, 2020, primarily due to lower activity and resulting lower revenue in the fourth quarter of 2020 when compared to 2019. Trade and other payables decreased to \$50.6 million at year end 2020 from \$77.1 million as at December 31, 2019 because of lower activity and cost management activities undertaken to align with current activity levels.

With its positive working capital position, anticipated funds provided by operations and expected available unused capacity on its revolver and operating lines, the Company expects to have adequate resources to fund its operations, financial obligations and expected capital expenditures through the next 12 months. Reductions in clients' cash flow or difficulty in their ability to source debt or equity could negatively impact the Company's assessment of liquidity risk. (see *INDUSTRY CONDITIONS AND OUTLOOK – Subsequent Event*).

⁽¹⁾ See Non-IFRS Measures.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS

(\$000s)	2021	2022	2023	2024	2025	Thereafter	Total
Trade and other payables	\$ 50,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,595
Income tax payable	88	-	-	-	-	-	88
Operating commitments ^(2,3)	1,458	1,409	1,403	341	279	45	4,935
Short-term and low value lease obligations ⁽³⁾	129	-	-	-	-	-	129
Lease obligations ^(3,4)	6,644	3,164	2,153	1,363	544	-	13,868
Loans and borrowings ⁽⁵⁾	9,513	214,588	-	-	-	-	224,101
Capital expenditure commitments ⁽⁶⁾	2,873	-	-	-	-	-	2,873
Total commitments	\$ 71,300	\$ 219,161	\$ 3,556	\$ 1,704	\$ 823	\$ 45	\$ 296,589

⁽²⁾ 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.

⁽³⁾ Balance includes U.S. obligations at a forecast exchange rate of 1 USD = 1.32 CAD.

⁽⁴⁾ Balance includes interest portion of lease obligations.

⁽⁵⁾ Includes estimated interest and principal repayments, based on current amounts outstanding and current interest rates at December 31, 2020. Both are variable in nature.

⁽⁶⁾ 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)	2020	2019	2018
Shareholders' equity	\$ 204,579	\$ 322,823	\$ 478,604
Lease obligations	12,717	19,021	16,499
Loans and borrowings	207,630	237,418	252,441
Total capital	\$ 424,926	\$ 579,262	\$ 747,544

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 17, 2021, there were 67,713,824 common shares in the capital of STEP ("Common Shares") issued and outstanding.

Debt

At December 31, 2020, the Company had a borrowing agreement with a syndicate of financial institutions. The Credit Facilities mature on June 25, 2022 and include a Canadian \$215.0 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. Payments applied to the term facility may not be redrawn. The maturity date of the Credit Facilities may be extended for an additional period of up to three years with syndicate approval. The Credit Facilities include a general security agreement providing a security interest over all present and after acquired personal property of the Company and all its subsidiaries including mortgages on certain properties. Under the Credit Facilities, any current and future leases that would have been accounted for as an operating lease at December 31, 2018 will continue to be recognized as operating leases for purposes of calculating financial covenants.

Scheduled quarterly repayments of 3.25% of the term loan facility 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 million Canadian less priority payables and certain liquidity requirements (see item five below). At December 31, 2020, the Company's borrowing base was \$49.3 million. 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. Funded Debt to Tangible Net Worth ratio refers to the ratio of total outstanding interest-bearing debt including lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to the sum of shareholders' equity plus subordinated Debt, less all assets considered intangible (leasehold improvements, goodwill, intangibles etc.). The Company is required to meet the following Funded Debt to Tangible Net Worth ratios:

Quarters Ended	Required funded debt to tangible net worth ratio
December 31, 2020	1.25:1 or less
March 31, 2021 and June 30, 2021	1.50:1 or less
September 30, 2021	1.75:1 or less

December 31, 2020, the Funded Debt to Tangible Net Worth ratio was 1.05:1.

2. A Minimum quarterly Adjusted Bank EBITDA covenant. 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 assets or liabilities, 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. Lease expense for current and future finance leases, which would have been accounted for as an operating lease at December 31, 2018, is deducted from net income (loss) when calculating Adjusted Bank EBITDA. The Company is required to meet the following Adjusted Bank EBITDA:

Quarters Ended	Minimum quarterly EBITDA
December 31, 2020	\$ (3,940)
March 31, 2021	(3,310)
June 30, 2021	(3,401)
September 30, 2021	6,858

December 31, 2020, minimum quarterly Adjusted Bank EBITDA was \$4,422.

3. Interest Coverage Ratio refers to the ratio of Adjusted Bank EBITDA to Interest Expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance and LIBOR advances. Interest on lease obligations for current and future leases, which would have been accounted for as an operating lease 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	Required interest coverage ratio
December 31, 2020	1.00:1 or greater
March 31, 2021	Waived
June 30, 2021	Waived
September 30, 2021	Waived
December 31, 2021	3.00:1 or greater

December 31, 2020 the Interest Coverage Ratio was 2.70:1.

4. Funded Debt to Adjusted Bank EBITDA ratio 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 assets or liabilities, 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. Lease expense for current and future finance leases, which would have been accounted for as an operating lease at 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	Required funded debt to adjusted Bank EBITDA ratio
December 31, 2020	Waived
March 31, 2021	Waived
June 30, 2021	Waived
September 30, 2021	Waived
December 31, 2021	is not more than 4.50:1
March 31, 2022 and thereafter	is not more than 3.00:1

5. Minimum Liquidity Availability means the Company must ensure on a consolidated monthly basis 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 \$49.0 million at December 31, 2020.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at December 31, 2020.

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, 2020 was 4.84%. The Company has total outstanding letters of credit of \$0.2 million. The total amount of Credit Facilities outstanding on December 31, 2020 is as follows:

As at	December 31, 2020	December 31, 2019
Credit facilities (term debt)	\$ 210,001	\$ 239,819
Deferred financing costs	(2,371)	(2,401)
Loans and borrowings	\$ 207,630	\$ 237,418

The following table displays the movements in loans and borrowings during the year ended December 31, 2020:

Balance at January 1, 2020	\$ 237,418
Repayment of loans and borrowings	(30,409)
Deferred financing incurred	(1,418)
Accretion of deferred financing costs	1,448
Unrealized foreign exchange loss	591
Balance at December 31, 2020	\$ 207,630

STEP is expecting compliance with the financial covenants applicable to our 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.

Subsequent Event

Subsequent to December 31, 2020, the following amendments were made to STEP's Credit Facilities on March 17, 2021:

- Minimum EBITDA for first quarter 2021 was changed to \$10.0 million, second quarter 2021 was changed to nil and third quarter 2021 remained at \$6.9 million.
- For the fourth quarter of 2021 the covenants have been amended as follows:
 - Funded Debt to EBITDA covenant will be no greater than 4.5:1, and
 - Funded Debt to Tangible Net Worth covenant and the Minimum EBITDA covenant will be waived.
- The negative covenant for capital expenditures will be increased to \$33.7 million.

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.

In January 2018, Calfrac Well Services Ltd. ("Calfrac") filed a statement of claim in the Judicial District of Calgary in the Court of Queen's Bench against the Company and an employee of the Company seeking \$10.0 million in damages among other relief. Calfrac alleges that the employee, who is a former employee of Calfrac, misappropriated certain competitively sensitive materials from Calfrac. Calfrac further alleges that STEP benefited or made use of such materials, resulting in damages to Calfrac. STEP is presently investigating the claim and will be filing a statement of defence to contest allegations made in the claim. While management does not believe that this action will have a material adverse effect on the business or financial condition of the Company, no assurance can be given as to the final outcome of this or any other legal proceeding. If this claim, or any claims to which the Company may be subject in the future, were to be concluded in a manner adverse to the Company or if the Company elects to settle one or more of such claims, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

SELECTED QUARTERLY INFORMATION

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

Quarterly Results Summary ⁽²⁾								
(\$000's, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2020	2020	2020	2020	2019	2019	2019	2019
Revenue								
Canadian Operations	40,973	44,849	13,888	108,750	72,500	97,834	76,105	108,226
United States Operations	30,595	17,514	26,756	85,619	54,007	80,911	110,472	68,243
	71,568	62,363	40,644	194,369	126,507	178,745	186,577	176,469
Net loss attributable to shareholders								
	(17,045)	(9,762)	(40,348)	(52,203)	(24,411)	(112,843)	(6,024)	(602)
Adjusted EBITDA ⁽³⁾								
Canadian Operations	5,542	17,188	972	20,891	9,401	23,085	8,872	23,856
United States Operations	(1,398)	(4,799)	(2,428)	7,998	2,175	3,769	15,627	7,009
Corporate	(1,697)	(3,291)	(2,011)	(6,087)	(2,411)	(4,164)	(4,160)	(4,248)
	2,447	9,098	(3,467)	22,802	9,165	22,690	20,339	26,617
Capital expenditures ⁽⁴⁾								
Canadian Operations	2,913	1,285	147	5,112	5,172	5,697	11,081	11,605
United States Operations	1,010	64	1,765	9,908	11,536	7,051	2,892	7,207
	3,923	1,349	1,912	15,020	16,708	12,748	13,973	18,812
Per Common Share								
Net (loss) income – basic	(0.25)	(0.14)	(0.60)	(0.78)	(0.37)	(1.69)	(0.09)	(0.01)
Net (loss) income – diluted	(0.25)	(0.15)	(0.60)	(0.78)	(0.37)	(1.69)	(0.09)	(0.01)
Adjusted EBITDA ⁽³⁾ – basic	0.03	0.13	(0.05)	0.34	0.14	0.34	0.30	0.40
Adjusted EBITDA ⁽³⁾ – diluted	0.03	0.13	(0.05)	0.34	0.14	0.34	0.30	0.40

⁽¹⁾ STEP's business is seasonal with the periods of greatest activity in Canada being in the first, third and fourth quarters. The U.S. is generally not affected by seasonality.

⁽²⁾ Totals may not add due to rounding.

⁽³⁾ See Non-IFRS Measures.

⁽⁴⁾ Capital expenditures include amounts added in respect of finance right-of-use assets.

Quarterly Operating Summary								
(000's, except units)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2020	2020	2020	2020	2019	2019	2019	2019
Canada								
Exit active fracturing spreads	3	3	1	6	6	6	6	6
Exit active HP (000's)	150	150	50	225	225	225	225	225
Total HP (000's)	283	283	283	283	283	298	298	298
Exit active coiled tubing units	5	5	5	10	9	9	9	9
Total coiled tubing units	16	16	16	16	16	16	16	14
United States								
Exit active fracturing spreads	2	1	1	3	3	3	3	3
Exit active HP (000's)	110	50	65	158	158	143	143	143
Total HP (000's)	208	208	208	208	208	193	193	193
Exit active coiled tubing units	6	5	4	7	8	8	9	9
Total coiled tubing units	13	13	13	13	13	13	13	12

FOURTH QUARTER – 2020

STEP generated revenue of \$71.6 million, Adjusted EBITDA of \$2.4 million, and net loss of \$17.0 million. The Company continues to exercise strong cost discipline. The Company is beginning to see a recovery of activity levels as rig counts have increased by 49% in the U.S. and 129% in Canada during the fourth quarter.

THIRD QUARTER – 2020

The Company generated third quarter revenue of \$62.4 million, Adjusted EBITDA of \$9.1 million, and net loss of \$9.8 million. Operating days in Canada increased from second quarter as activity started to recover from the almost complete shutdown of economies in second quarter 2020. The environment remained challenging for the U.S. Fracturing CGU during the third quarter while coiled tubing operating days improved.

SECOND QUARTER – 2020

STEP generated revenue of \$40.6 million, Adjusted EBITDA loss of \$3.5 million, and net loss of \$40.3 million. Clients immediately put work programs on hold as the government and health authority's response to COVID-19 led to demand destruction and OPEC+ increased crude oil production resulting in volatile prices for crude oil. STEP immediately took steps to realign its cost structure to the expected decrease in activity. During the second quarter of 2020, the Company recorded a non-cash impairment charge with respect to property and equipment in its U.S. Fracturing CGU of \$13.1 million. Operating days decreased in all service lines compared to first quarter.

FIRST QUARTER – 2020

The Company generated revenue of \$194.4 million, Adjusted EBITDA of \$22.8 million, and net loss of \$52.2 million. The Company had seen a strong first quarter as operating days increased in all CGUS relative to fourth quarter 2019 due to the mix of jobs undertaken and an overall increase in demand. However, with the onset of COVID-19 and commodity price volatility, the Company recorded a non-cash impairment charge with respect to property and equipment in its Canadian Fracturing CGU of \$58.8 million.

2020 COMPARED WITH 2019

2020 revenue decreased by 45% compared to 2019 due to clients reducing their capital programs in response to unprecedented economic conditions. Management immediately took action to reduce manned equipment and expenses to manage a prolonged period of lower activity. Net loss in 2020 was impacted by a non-cash impairment charge of \$72.3 million (2019 - \$113.5 million) and lower operating days in all service lines year to date.

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, loans and borrowings and foreign exchange forward contracts.

FAIR VALUES

The carrying values of cash and cash equivalents, trade and other receivables, current tax receivable, trade and other payables and income tax payable, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and therefore fair market value approximates carrying value. Foreign exchange forward contracts are classified and measured at fair value through profit or loss.

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. During the twelve months ended December 31, 2020, global events have, and are expected to continue to have a significant impact on client credit risk (see Note 1 – *COVID - 19 and Liquidity of the financial statements*). These factors have been incorporated in the Company's assessment of expected credit losses at December 31, 2020. The Company's clients are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients.

The Company 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 customer payment history, customer credit ratings, customer cash flows, industry trends, and commodity pricing forecasts. The Company assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. The Company had no write-offs of allowance for doubtful accounts during the year ended December 31, 2020.

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 \$2.3 million increase or decrease in interest expense for the year ended December 31, 2020 (2019 - \$2.6 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. As at December 31, 2020, the Company did not have any open foreign exchange contracts.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at December 31, 2020.

NON-IFRS MEASURES

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

“Adjusted EBITDA” is a financial measure not presented in accordance with IFRS and is equal to net (loss) income before finance costs, depreciation and amortization, (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 presented because it is widely used by the investment community as it provides an indication of the results generated by the Company’s normal course business activities prior to considering how the activities are financed and the results are taxed. Transaction costs related to the Tucker Acquisition have been adjusted for as they are not reflective of operating activities. The Company uses Adjusted EBITDA internally to evaluate operating and segment performance, because management believes it provides better comparability between periods. “Adjusted EBITDA %” is calculated as Adjusted EBITDA divided by revenue. The following table presents a reconciliation of the non-IFRS financial measure of Adjusted EBITDA to the IFRS financial measure of net (loss) income.

(\$000s except percentages and per share amounts)	Three months ended			Years ended		
	December 31,	December 31,	September 30,	December 31,		
	2020	2019	2020	2020	2019	2018
Net loss	\$ (17,045)	\$ (24,411)	\$ (9,762)	\$ (119,358)	\$ (143,883)	\$ (39,304)
Add (deduct):						
Depreciation and amortization	19,750	28,113	20,013	88,940	106,549	88,646
Loss (gain) on disposal of equipment	(739)	850	(2,022)	(3,777)	(965)	(4,907)
Finance costs	3,348	4,674	3,453	14,663	15,621	11,456
Income tax recovery	(4,628)	(14,608)	(2,614)	(25,985)	(31,225)	1,863
Foreign exchange forward contract loss	-	-	-	-	383	1,175
Share-based compensation	1,622	1,389	921	3,610	6,998	7,401
Transaction costs	-	-	-	-	-	3,019
Foreign exchange (gain) loss	139	(513)	(891)	443	(1,886)	2,288
Impairment	-	13,671	-	72,345	127,217	46,000
Adjusted EBITDA	\$ 2,447	\$ 9,165	\$ 9,098	\$ 30,881	\$ 78,809	\$ 117,637

“Revenue per operating day” is a financial measure 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.

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

As at December 31, (\$000s)	2020	2019	2018
Loans and borrowings	\$ 207,630	\$ 237,418	\$ 252,441
Add back: Deferred financing costs	2,371	2,401	2,133
Less: Cash and cash equivalents	(1,266)	(7,267)	(364)
Net debt	\$ 208,735	\$ 232,552	\$ 254,210

ACCOUNTING POLICIES AND ESTIMATES

IAS 20 – Accounting for Government Grants and Disclosure

The Company has adopted IAS 20 effective for the year ended December 31, 2020. Government grants are not recognized until there is reasonable assurance that the Company will comply with conditions attached to them and the grants will be received. The Company uses the income approach in which government grants are recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Grants receivable as compensation for expenses or losses already incurred for the purpose of giving immediate financial support to the Company, with no future related costs shall be recognized in profit or loss in the period in which it becomes available.

NEW ACCOUNTING PRONOUNCEMENTS

The following standards were issued and effective for annual periods beginning on or after January 1, 2020. These are reflected in the Company's audited consolidated financial statements as at and for the year ended December 31, 2020.

IFRS 3 – Business Combinations

Amendments to IFRS 3 are effective as of January 1, 2020. The amendments narrow and clarify the definition of a business as an integrated set of activities and assets that are capable of being conducted and managed for the purpose of providing goods and services to customers, generating investment income or generating other income from ordinary activities. Additionally, in evaluating a business the amendments include an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. STEP did not have any acquisitions requiring the application of this amendment.

IFRS 16 – Leases

As a result of amendments to IFRS 16, a practical expedient was applied for rent concessions resulting from COVID-19. The amendments, which are effective as of June 1, 2020 indicate a lessee may elect not to assess whether a rent concession is a lease modification and instead recognize the concession in profit or loss. The practical expedient may be applied if the following conditions are met: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and (c) there is not substantive change to other terms and conditions of the lease. The Company has applied the practical expedient for all rent concessions meeting the qualifying criteria for the year ended December 31, 2020.

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, 2020.

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 (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“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, 2020.

While the CEO and CFO have concluded that ICFR is effective, 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, 2020, 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, 2020. 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, 2020 for a description of the Company’s accounting policies and impacts of future accounting pronouncements.

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

COVID-19 has created many uncertainties with respect to counterparty credit risk, liquidity and the valuation of long-lived assets, inventory and right-of-use assets. At December 31, 2020, management has incorporated the anticipated impact of COVID-19 in estimates and judgments in the preparation of audited consolidated financial statements for the year ended December 31, 2020 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 CGU which represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

Allowance for doubtful accounts

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

Assets held for sale

When required, the Company assesses whether assets qualify as assets held for sale. A non-current asset or disposal group is classified as held-for-sale when its carrying amount will be recovered principally through a sale transaction and the sale is reasonably certain. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment

Property and equipment, right-of-use assets, intangible assets, and goodwill are tested for impairment when events or changes in circumstances indicate that the carrying amount exceeds the recoverable amount.

The determination of CGUs is based on management's judgment regarding shared equipment, mobility of equipment, geographical proximity and materiality. The recoverable amount of CGUs is determined as the greater of fair value less costs to sell or the value in use. 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.

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.

Goodwill represents an excess of the purchase price over the fair value of the net assets acquired and is not amortized. The Company assesses goodwill for impairment at least annually.

Net realizable value of inventory

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

Depreciation and amortization

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

Lease liabilities and right-of-use assets

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

Functional Currency

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

Income Taxes

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

Share-based payments

The fair value of equity settled share-based compensation instruments is estimated at the grant date using the Black-Scholes option pricing model, which includes estimating underlying assumptions related to the risk-free interest rate, average expected 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.
- Pandemics (including COVID-19), natural disasters or other unanticipated events could adversely affect the Company.
- The Company's industry is affected by excess equipment levels.
- Merger and acquisition activity among the Company's clients may constrain demand for the Company's services.
- 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 access to capital may become restricted 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.
- Cyber-attacks and loss of the Company's information and computer systems could adversely affect the Company's business.
- Fluctuations in currency exchange rates could adversely affect the Company's business.
- The Company's direct and indirect exposure to volatile credit markets could adversely affect the Company's business.
- Radical activism could harm 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.
- The Company's current technology may become obsolete or experience a decrease in demand.
- STEP's reliance on equipment suppliers and fabricators exposes it to risks including timing of delivery and quality of equipment.
- Federal, provincial and state legislative and regulatory initiatives relating to fracturing 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.
- Difficulty in retaining, replacing or adding personnel could adversely affect the Company's business.
- The Company is susceptible to seasonal volatility in its operating and financial results due to adverse weather conditions.
- The Company relies on a few key professionals whose absence or loss could disrupt its operations and have a material adverse effect on its business.
- 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.
- Failure to maintain the Company's safety standards and record could lead to a decline in the demand for services.
- 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.
- Actual results may differ materially from management estimates and assumptions.
- The Company's internal controls may not be sufficient to ensure the Company maintains control over its financial processes and reporting.
- The direct and indirect costs of various GHG regulations, existing and proposed, may adversely affect the Company's business, operations and financial results.
- Climate change may impact weather conditions.
- Recent 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.
- Some of the Company's directors and officers have conflicts of interest as a result of their involvement with other oilfieldservices companies.
- The price of the Common Shares could be volatile.
- The ARC Funds maintain control of the Company.
- There may be no return on investment in the Common Shares.
- The Common Shares will be subject to further dilution.
- Residents of the U.S. may have limited ability to enforce civil remedies.
- The Company has no plans to pay dividends.
- Environmental, Social, and Governance (“ESG”) goals, programs, and reporting are increasingly being touted by capital providers and investors as a priority for the oil and gas industry, and access to capital and investors for companies not prioritizing ESG may become increasingly limited.

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: COVID-19 and related public health measures and their impact on energy demand and the Company’s financial position and business plans; 2021 industry conditions and outlook, including potential increased activity and the impact thereof on the Company’s equipment reactivation plans, performance, revenue and cash flows; the potential for a global economic recovery; a strengthening commodity price outlook; the effect of weather on the Company’s potential Q1 2021 results; client demand for dual – fuel capabilities; supply and demand for oilfield services and industry activity levels, including industry capacity, equipment levels, and utilization levels; the Company’s ability to meet all financial commitments including interest payments over the next twelve months; market uncertainty, and its effect on commodity prices; relaxation of COVID-19 related restrictions, the potential for a second wave of COVID-19 infections, and the resulting impact on crude oil demand and the Company’s operations; the Company’s anticipated business strategies and expected success, including changes to cost structures and cash preservation measures; the Company’s ability to manage its capital structure; pricing received for the Company’s services; the Company’s capital program in 2021 and management’s continued evaluation thereof; planned utilization of government financial support and economic stimulus programs; expected profitability; expected income tax liabilities; adequacy of resources to funds operations, financial obligations and planned capital expenditures in 2021; planned deployment and staffing levels for the Company’s equipment; the Company’s ability to retain its senior field staff and existing clients; the monitoring of industry demand, client capital budgets and market conditions; client credit risk, including the Company’s ability to set credit limits, monitor client payment patterns, and to apply liens; and the Company’s expected compliance with covenants under its Credit Facilities, its ability to continue as a going concern, and its ability to satisfy its financial commitments and obtain relief from the lenders under its Credit Facilities; and the impact of litigation, including the Calfrac litigation, on the Company.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of the Company including, without limitation: the Company will continue to conduct its operations in a manner consistent with past operations; the Company will continue as a going concern; the Company's ability to manage the effect of the COVID-19 pandemic and OPEC or OPEC+ related market uncertainty on the market for its operations; industry and regulatory uncertainty caused by the new U.S. Presidential administration; the general continuance of current or, where applicable, assumed industry conditions; pricing of the Company's services; the Company's ability to market successfully to current and new clients; the Company's ability to utilize its equipment; the Company's ability to collect on trade and other receivables; the Company's ability to obtain 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 and the ability to obtain covenant relief; 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.