STEP energy services

TSX STEP

First Quarter

Management Discussion and Analysis

As at and for the three months ended March 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for STEP Energy Services Ltd. ("STEP" or the "Company") has been prepared by management as of May 12, 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 unaudited condensed consolidated interim financial statements and notes thereto as at and for the three months ended March 31, 2021 (the "Financial Statements") and the audited consolidated financial statements as at and for the year ended December 31, 2020 (the "Annual Financial Statements") and related MD&A (the "Annual MD&A"). Readers should also refer to the "Forward-looking information & statements" legal advisory and the section regarding "Non-IFRS Measures" at the end of this MD&A. All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated. Additional information about STEP is available on the SEDAR website at www.sedar.com, including the Company's Annual Information Form for the year ended December 31, 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, the Uinta-Piceance and Niobrara-DJ basins in Colorado 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 REVIEW

($000s except percentages and per share amounts)	Three months ended March 31			
		2021		2020
Consolidated revenue	$	136,812	$	194,369
Net (loss) income	$	(7,944)	$	(52,203)
Per share-basic	$	(0.12)	$	(0.78)
Per share-diluted	$	(0.12)	$	(0.78)
Weighted average shares – basic		67,720,318		66,943,938
Weighted average shares – diluted		67,720,318		66,943,938
Adjusted EBITDA (1)	$	15,960	$	22,802
Adjusted EBITDA % (1)		12%		12%

(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)		March 31, 2021		December 31, 2020
Cash and cash equivalents	$	9,455	$	1,266
Working capital (including cash and cash equivalents) (2)	$	44,411	$	44,646
Total assets	$	492,828	$	479,859
Total long-term financial liabilities (2)	$	215,630	$	216,627
Net debt (2)	$	204,341	$	208,735
Shares outstanding		68,012,550		67,713,824

(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.

FIRST QUARTER 2021 OVERVIEW

The first quarter of 2021 saw a broad economic recovery with the beginning of phased relaxation of measures previously implemented to manage the COVID-19 virus, increased government stimulus spending, and the acceleration of vaccinations across the globe. As a result, first quarter 2021 saw strong commodity prices with West Texas Intermediate ("WTI") crude oil spot pricing averaging $58.09 USD/barrel with a high of $66.08 USD/barrel. On April 22, 2021, the AECO spot price was $2.91 CAD/mmbtu. The 2021 average spot price closing price to April 22, 2021 was $3.090 CAD/mmbtu compared to a 365-day average of $2.542 CAD/mmbtu. The increases in gas pricing led to increased drilling in the WCSB. Average rig counts have recovered 26% over fourth quarter 2020 in the U.S. and 40% in Canada as completion activity recovered from 2020's unprecedented disruption.

Amidst the recovery, the first quarter 2021 saw transitory disruption in the global supply of crude oil and field activity. U.S. operations were significantly impacted by a February winter storm causing widespread disruption in oil production and completions activity primarily in the Southern U.S. Approximately a third of U.S. refining capacity was shutdown because of severe power outages occurring over several days. Additionally, in late March, a blockage in the Suez Canal resulted in temporary interruptions in critical supply routes, causing delayed shipments in the delivery of oil adding to crude oil price volatility.

FIRST QUARTER 2021 COMPARED TO FIRST QUARTER 2020

During first quarter 2020, STEP was able to complete work programs for its strategic clients just prior to the unprecedented slowdown of activity caused by responses to the COVID-19 pandemic. First quarter 2021 activity improved, relative to fourth quarter 2020, as the vaccine roll out gained momentum, and economic activity lifted providing increased optimism for future activity. However, activity levels in the quarter failed to reach pre-pandemic levels due to continued demand destruction for oil and gas products. Analysts are predicting improved activity through 2021 and into 2022 as the global economy continues to recover.

Throughout the first quarter of 2021, STEP achieved strong utilization in Canada and continued to offer quality solutions for STEP clients. During first quarter 2021, U.S. operations were impacted by the winter storm occurring in February which resulted in widespread power outages and forced temporary shutdowns of refineries in the Southern U.S. for several days. The Company's activity was impacted for several weeks including a period of total shutdown during the worst of the storm however activity levels recovered late in the quarter as the effects of the storm lifted.

- Financial Position and Liquidity:
    - Cash and cash equivalents of $9.5 million (December 31, 2020 - $1.3 million)
    - Working capital remained positive at $44.4 million (December 31, 2020 - $44.6 million)
    - March 31, 2021, net debt decreased to $204.3 from $208.7 million at December 31, 2020 continuing the downward trend in net debt.
    - STEP complied with all covenants in its Credit Facilities (see Liquidity and Capital Resources – Capital Management – Debt below).
- Consolidated revenue for the three months ended March 31, 2021 of $136.8 million decreased 30% relative to the same quarter in the prior year as activity has not yet reached pre-pandemic levels.
- Consolidated net loss for the three months ended March 31, 2021 was $7.9 million, compared to a net loss of $52.2 million for the same quarter in 2020. The $52.2 million net loss in first quarter 2020 was primarily the result of the $58.8 million non-cash impairment charge to property and equipment in the Canadian fracturing Cash Generating Unit ("CGU"). No impairments or impairment reversals were recognized during the three months ended March 31, 2021.
- For the three months ended March 31, 2021, Adjusted EBITDA was $16.0 million compared to $22.8 million in the same quarter in prior year. Adjusted EBITDA margins remained consistent first quarter 2021 over first quarter 2020 at 12%. In the same quarter in the prior year, the Company booked a $2.5 million provision for bad debt and $1.9 million in severance recorded for staff reductions at the end of March 31, 2020 which were not experienced in 2021.
- During the three months ended March 31, 2021, the Company received $3.8 million in grants under the Canada Emergency Wage Subsidy ("CEWS") program. $3.5 million was recognized as a reduction in operating expenses and a $0.3 million reduction in selling, general, and administrative expenses. The Company did not qualify for CEWS in the first quarter of 2020.

FIRST QUARTER 2021 COMPARED TO FOURTH QUARTER 2020

- Actions taken to manage the COVID-19 global pandemic resulted in unprecedented crude oil demand destruction in North America and the world. Demand destruction was further compounded by actions taken by OPEC+ (Organization of Petroleum Exporting Countries ("OPEC"), Russia and certain other oil-producing countries (collectively "OPEC+") that increased the supply of crude oil. The result was a significant drop in the price of crude oil and natural gas, negatively impacting STEP's clients' cash flows and activity, and STEP results throughout most of 2020.
- Consolidated revenue in the first quarter of 2021 increased to $136.8 million from $71.6 million in fourth quarter 2020. The first quarter saw increased activity levels compared to the previous quarter due to stronger commodity prices and client spending. Consolidated net loss in first quarter 2021 was $7.9 million compared to a net loss of $17.0 million in fourth quarter 2020. The reduced net loss in first quarter 2021 was the result of better operating results and reduced depreciation.
- Consolidated Adjusted EBITDA improved from $2.4 million or 3% of revenue in fourth quarter 2020 to $16.0 million or 12% of revenue in first quarter 2021 as STEP's clients returned to work.
- During first quarter 2021, the Company received $3.8 million in grants under the CEWS program, $3.5 million was recognized as a reduction in operating expenses and $0.3 million in selling, general, and administrative expenses. This compares to fourth quarter 2020, when the Company received $4.1 million in grants under the CEWS program, $3.8 million was recognized as a reduction in operating expenses and $0.3 million in selling, general and administrative expenses.

INDUSTRY CONDITIONS & OUTLOOK

INDUSTRY CONDITIONS

2020 was a difficult year for the North American oil and gas service industry. In 2021 industry outlook and client sentiment are showing positive signs of improvement with a recovering economic outlook. Although the world is still dealing with COVID-19 infection rates and emerging virus variants, vaccination programs and billions of dollars in economic stimulus programs are expected to support a rebound of global economic activity and crude oil demand recovery through the year. Improving economic fundamentals, including recovering global crude oil demand, should further stabilize commodity prices and encourage clients to increase capital spending.

We expect clients to continue to exercise capital discipline and to spend within cashflows. Improved cashflows are not expected to be invested entirely in new activity but may also be used to paydown debt and return capital to shareholders. In addition, operators continue to look for ESG friendly options. However, higher service rates will be needed to continue to invest in advanced technologies.

North American pressure pumping pricing is showing early signs of recovery. Many industry players have indicated pricing will need to recover before more equipment will be activated. During 2020, large amounts of underutilized equipment was retired, and in some situations, equipment was cannibalized which should reduce the amount of equipment available to the market as activity levels recover.

Record crude oil storage levels that amassed due to COVID-19 global demand destruction last year are being depleted. The International Energy Agency (IEA) indicated that the Organization for Economic Co-Operation and Development (OECD) industry stocks fell for seven consecutive months before holding steady for March 2021. The reduction of crude oil storage levels should provide further commodity price support as activity continues to rebound.

Despite growing optimism potential headwinds remain. Activity levels both in Canada and the U.S. have increased but have not reached pre-pandemic levels. Since the onset of the pandemic, OPEC+ has worked to manage production levels relative to global demand. Currently it is estimated OPEC+ production levels are approximately 9.3 mb/d below current capabilities. As the global economy grows OPEC+ is largely expected to bring this production to the market. The ability of OPEC+ to match restoration of production levels to energy demand is expected to be a key driver of determining commodity price in this first stage of the recovery.

Most recently the surge or third wave of COVID-19 infections impacting a number of countries, including Canada, is creating uncertainty with respect to timing of the economic recovery.

SECOND QUARTER 2021 OUTLOOK

Activity in Canada in the first quarter of 2021 improved relative to fourth quarter 2020 however equipment reactivations by industry participants kept pace with or slightly exceeded the market recovery. Continued discipline in managing manned equipment levels relative to near term demand will be required to support price recovery and equipment utilization. STEP's Canadian operations are expected to be active in second quarter but activity is expected to fall relative to first quarter. Second quarter Canadian completions activity is typically impacted by weather which could impact expected activity. STEP's strong execution and dual-fuel fleet capabilities that improve program efficiencies and support ESG programs remain valuable to our clients.

STEP's U.S. operations were hampered by unprecedented cold weather that was experienced in the Company's areas of operations in February. This disruption negatively impacted our operating results for the first quarter. However, since March, activity has returned to anticipated levels and is expected to continue to improve as demand for commodities increase with the reopening of the economy.

FULL YEAR 2021 OUTLOOK

Canadian activity in the second half of 2021 is less clear but is generally expected to continue to recover from 2020 levels. Pricing is expected to remain competitive as service providers work to balance manned equipment relative to demand. STEP's Canadian operations intend to maintain its existing operating capacity and will continue to monitor and adjust capacity based on industry demand and near-term demand outlook.

As indicated in STEP's Annual 2020 MD&A Outlook, with the recovery in commodity prices, the U.S. 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 several large industry participants who have indicated they will forgo additional equipment remobilization to support a rebalancing of the market and price recovery to sustainable levels for service providers. Activity levels are expected to increase, at least to the level where U.S. operators are replacing declining production.

CAPITAL EXPENDITURES

As previously announced, STEP's capital program remains at $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 and capital program based on market demand for STEP's services.

SUBSEQUENT EVENT

Subsequent to March 31, 2021, the following amendments were made to STEP's Credit Facilities on May 12, 2021:

- Minimum quarterly Adjusted Bank EBITDA was amended to be $5,033,000 for the quarter ended June 30, 2021, and $7,869,000 for the quarter ended September 30, 2021.
- Interest Coverage Ratio was amended to 3:00:1 for the quarter ended March 31, 2022.
- Funded Debt to Adjusted Bank EBITDA ratio was amended to 4:00:1 for the quarter ended March 31, 2022.

CANADIAN FINANCIAL AND 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 March 31,			
		2021		2020
Revenue:				
Fracturing	$	87,829	$	83,551
Coiled tubing		21,533		25,199
		109,362		108,750
Expenses:				
Operating expenses		96,126		100,504
Selling, general and administrative		1,764		2,024
Results from operating activities	$	11,472	$	6,222
Add non-cash items:				
Depreciation		9,239		14,869
Share-based compensation		820		(200)
Adjusted EBITDA (1)	$	21,531	$	20,891
Adjusted EBITDA % (1)		20%		19%
Sales mix (% of segment revenue)				
Fracturing		80%		77%
Coiled tubing		20%		23%
Fracturing services				
Fracturing revenue per operating day(1)	$	313,675	$	212,058
Number of fracturing operating days (2)		280		394
Proppant pumped (tonnes)		327,000		382,000
Stages completed		3,213		4,524
Proppant pumped per stage		102		84
Horsepower ("HP")				
Active pumping HP, end of period		200,000		225,000
Idle pumping HP, end of period		82,500		57,500
Total pumping HP, end of period (3)		282,500		282,500
Coiled tubing services				
Coiled tubing revenue per operating day(1)	$	46,709	$	43,672
Number of coiled tubing operating days (2)		461		577
Active coiled tubing units, end of period		7		10
Idle coiled tubing units, end of period		9		6
Total coiled tubing units, end of period		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 200,000 HP is currently deployed and 15,000 of the remainder requires certain maintenance and refurbishment.

FIRST QUARTER 2021 COMPARED TO FIRST QUARTER 2020

Total Canadian revenue for the first quarter of 2021 was largely unchanged from the first quarter of 2020 at $109.4 million compared to $108.8 million. The increase in revenue was attributable to the $4.3 million increase in fracturing operations offset by the decline of $3.7 million in coiled tubing revenue, as coiled tubing operations had a slower start to the first quarter of 2021.

Adjusted EBITDA for the first quarter of 2021 was $21.5 million (20% of revenue) compared to $20.9 million (19% of revenue) from the first quarter of 2020. First quarter 2020 included $1.3 million in severance costs and no CEWS. First quarter 2021 included $3.6 million in CEWS which was recorded as a reduction in employee wages. After considering the impact of CEWS on 2021 Adjusted EBITDA, the Adjusted EBITDA and Adjusted EBITDA percentage are not as strong as the same quarter in 2020. Part of the margin compression is due to a change in fracturing job types. Large pads with multiple wells are more profitable to STEP than smaller pads where there is increased movement of people and equipment. A large pad moved out of STEP's first quarter 2021 schedule and into second quarter 2021. The job types that filled in the schedule were smaller programs with two or three wells and some annular fracturing work which reduced margin. Also, the wage reductions that were implemented in the early days of the pandemic were reversed and wages were reinstated to pre-reduction levels effective January 1, 2021. Wage rollbacks were reversed due to competitive pressures and wage restoration underway in the industry.

Headcount reductions in SG&A were maintained throughout 2020 and into 2021 resulting in a reduced support cost structure in the first quarter of 2021 compared to the first quarter of 2020. The reduction in costs due to fewer employees was offset somewhat by the reinstatement of wage rollbacks effective January 1, 2021.

Fracturing

Based on committed job programs for the first quarter of 2021, STEP remobilized one additional fracturing spread late in the fourth quarter of 2020 bringing manned equipment to four spreads compared to six fracturing spreads active during the first quarter of 2020. Fracturing operating days during the first quarter 2021 (280 days) fell compared to the same quarter of 2020 (394 days) reflecting the lower level of manned equipment and industry activity. Although activity has improved significantly from the pandemic lows in second quarter of 2020, activity has not yet returned to pre-pandemic levels.

Revenue was higher by $4.2 million comparing first quarter 2021 and the same period in 2020 due to STEP supplying significantly more proppant in first quarter 2021 when compared to first quarter 2020. This is also evident when reviewing the increase in revenue per operating day of $313,675 vs. $212,058 for first quarter 2021 and 2020, respectively. From a direct margin perspective, first quarter 2021 also had higher sand cost of good sold and additional third-party hauling expenses. The increase in STEP supplied proppant more than offset the decline in operating days for the three months ended March 31, 2021 as proppant supplied by the Company increased by 74% over the prior year.

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 ended March 31, 2021 would have been approximately $1.1 million higher.

Coiled Tubing

Canadian coiled tubing staffed on average seven coiled tubing units during the first quarter of 2021 as compared to 10 units in the same period of the prior year. Canadian coiled tubing operating days were down 20% for the three months ended March 31, 2021 from 577 in the same quarter in the previous year resulting in a decrease in revenue from $25.1 million in first quarter 2020 to $21.5 million in the first quarter 2021. After a slow start at the beginning of the year, coiled tubing saw a steady uptrend in activity throughout the balance of the quarter and the month of March saw a 36% improvement in operating days over March in the prior year.

The total reduction in coiled tubing revenue for the three months ended March 31, 2021 caused by fewer operating days was offset by higher revenue per day of $46,709 in the quarter as compared to $43,672 in the same quarter in the prior year.

FIRST QUARTER 2021 COMPARED TO FOURTH QUARTER 2020

Total Canadian revenue for the first quarter of 2021 was $109.4 million compared to fourth quarter 2020 revenue of $41.0 million. As discussed earlier the overall economic environment is showing improvement and activity is returning to the oil and gas industry. Increased crude oil and natural gas prices have provided our clients with additional cash flow to invest. The increased revenue was attributable to a $60 million increase in fracturing revenue and an increase of $9 million in coiled tubing revenue. Fourth quarter 2020 revenue and Adjusted EBITDA were also impacted by budget exhaustion on STEP large work programs which exposed the Company to more aggressive spot market pricing competition as the overall level of service demand declined.

Adjusted EBITDA for the first quarter of 2021 was $21.5 million (20% of revenue) compared to $5.5 million (14% of revenue) from the fourth quarter of 2020. First quarter 2021 included $3.6 million in CEWS recorded as a reduction in employee wages and fourth quarter of 2020 included $3.8 million in CEWS and $0.1 million in severance.

Adjusted EBITDA in the first quarter of 2021 benefitted from higher activity levels than the fourth quarter 2020, as capital budgets were reset early in 2021 which led to the higher activity.

Fracturing

The Company ran four fracturing spreads in first quarter 2021 compared to three spreads in fourth quarter 2020. Operating days increased 103% from 138 days in the three months ended December 31, 2020 to 280 days in the three months ended March 31, 2021. STEP pumped 134,000 tonnes of proppant and 82 tonnes per stage in fourth quarter 2020 compared to 327,000 tones and 102 tonnes per stage in first quarter 2021.

Coiled Tubing

The Company ran seven coiled tubing units in first quarter 2021 compared to five units in fourth quarter 2020. Coiled tubing revenue per day remained largely the same in first quarter 2021 and fourth quarter 2020.

UNITED STATES FINANCIAL AND OPERATIONS REVIEW

STEP's U.S. business commenced operations in 2015 with coiled tubing services. STEP has a fleet of 13 coiled tubing units in the Permian and Eagle Ford basins in Texas, the Bakken shale in North Dakota, and the Uinta-Piceance and Niobrara-DJ basins in Colorado. STEP entered the U.S. fracturing business in April 2018. 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 March 31, 2021	2020
Revenue:		
Fracturing	$ 16,425	$ 60,442
Coiled tubing	11,025	25,177
	27,450	85,619
Expenses:		
Operating expenses	38,029	86,915
Selling, general and administrative	1,406	2,488
Results from operating activities	$ (11,985)	$ (3,784)
Add non-cash items:		
Depreciation	8,691	11,928
Share-based compensation	277	(338)
Adjusted EBITDA (1)	$ (3,017)	$ 7,806
Adjusted EBITDA % (1)	(11%)	9%
Sales mix (% of segment revenue)		
Fracturing	60%	71%
Coiled tubing	40%	29%
Fracturing services		
Fracturing revenue per operating day(1)	$ 122,575	$ 296,284
Number of fracturing operating days (2)	134	204
Proppant pumped (tonnes)	189,000	293,000
Stages completed	909	1,379
Proppant pumped per stage	208	212
Horsepower		
Active pumping HP, end of period	110,000	157,500
Idle pumping HP, end of period	97,500	50,000
Total pumping HP, end of period (3)	207,500	207,500
Coiled tubing services		
Coiled tubing revenue per operating day(1)	$ 35,000	$ 45,446
Number of coiled tubing operating days (2)	315	554
Active coiled tubing units, end of period	7	7
Idle coiled tubing units, end of period	6	6
Total coiled tubing units, end of period	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.

FIRST QUARTER 2021 COMPARED TO FIRST QUARTER 2020

Total U.S. revenue was $27.5 million in the three months ended March 31, 2021 compared to $85.6 million for the three months ended March 31, 2020 a decrease of 68%. Fracturing revenue was $60.4 million in first quarter 2020 compared to $16.4 million in first quarter 2021, a decline of 72%. Coiled tubing revenue was $25.2 million in first quarter 2020 compared to $11.0 million in first quarter 2021, a decline of 56%.

Adjusted EBITDA loss was $3.0 million or negative 11% for the three months ended March 31, 2021 compared to Adjusted EBITDA of $7.8 million or 9% for the three months ended March 31, 2020 a decrease of $10.8 million.

During first quarter 2021, U.S. operations were impacted by the winter storm that occurred in February which resulted in widespread power outages and forced temporary shutdowns of refineries in the Southern U.S. for several days. Activity was impacted for several weeks including a period of total shutdown during the worst of the storm.

Fracturing

During the first quarter of 2020, STEP U.S. operated three fracturing spreads and had high utilization. At the onset of the pandemic, STEP scaled back its operating fracturing spreads to one and only added a second fracturing spread in late 2020 as activity began to return. STEP restructured the U.S. business to support a smaller complement of equipment for both fracturing and coiled tubing.

The decline in Adjusted EBITDA from first quarter 2020 to first quarter 2021 is primarily related to year over year price erosion and the costs related to inactivity during the February winter storm. The decrease in revenue per day is the result of a change in contract mix as well as higher competitive pressure on pricing. First quarter 2020 work complement included STEP sand supplied contracts with typically higher revenue per day. First quarter 2021 saw a transition to pumping only contracts that removed the revenue associated with the provision of sand. During first quarter 2020 revenue per day was $296,284 compared to first quarter 2021 revenue per day of $122,575. With the increases in commodity prices and additional activity, the industry is in the early stages of price recovery discussions and STEP has been participating in these discussions with its clients.

The month of March 2021 met STEP's expectations and we are cautiously optimistic that the economic recovery will continue.

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 ended March 31, 2021 of $1.1 million (USD $0.8 million) compared to the three months ended March 31, 2020 of $3.0 million (U.S. $2.2 million).

Coiled Tubing

During the first quarter of 2021, STEP operated seven coiled tubing units consistent with the number of units operated in the first quarter 2021 and one more than fourth quarter 2020. STEP operates coiled tubing units in West Texas, South Texas, North Dakota, and Colorado. In addition to the winter storm in February that impacted the Southern U.S., North Dakota also experienced a cold snap that reduced activity and affected first quarter results. The coiled tubing business has experienced significant pricing pressures with a continued over supply of equipment and aggressive pricing practices as competitors attempt to gain market share. Revenue per day during first quarter 2020 was $45,446 per day compared to $35,000 per day in first quarter 2021. Similar to fracturing STEP has been having discussions with its coiled tubing clients to support price recovery.

FIRST QUARTER 2021 COMPARED TO FOURTH QUARTER 2020

Total U.S. revenue for the first quarter of 2021 was $27.5 million compared to fourth quarter 2020 revenue of $30.6 million. First quarter 2021 was significantly impacted by the temporary suspension of client programs due to the severe February cold snap. Rolling blackouts forced the shutdown of several refineries, primarily impacting U.S. Texas operations. North Dakota coiled tubing operations were also affected by severe cold weather. The $3.1 million decrease in revenue was composed of $4.3 million in lower fracturing revenue offset by a $1.1 million increase in coiled tubing revenue.

Adjusted EBITDA loss for the first quarter of 2021 was $3.0 million or negative 11% compared to an Adjusted EBITDA loss of $1.4 million or negative 5% from the fourth quarter of 2020. Overhead and SG&A cost management measures implemented in 2020 continued through the quarter.

Fracturing

STEP's U.S. fracturing operations were completely shutdown for several weeks related to the severe winter storm during the first quarter 2021 which negatively impacted sequential results. STEP reactivated a second fracturing spread in late 2020 in anticipation of an increase in market activity.

Coiled Tubing

STEP U.S. coiled tubing operating days increased slightly from 292 in fourth quarter of 2020 to 315 in first quarter of 2021. Coiled tubing revenue per day increased from $33,849 per day to $35,000 per day in fourth quarter 2020 and first quarter 2021, respectively. STEP is cautiously optimistic that prices and activity will continue to improve through 2021.

CORPORATE FINANCIAL 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 March 31,			
		2021		2020
Expenses:				
Operating expenses	$	**214**	$	633
Selling, general and administrative		**5,205**		5,076
Results from operating activities	$	**(5,419)**	$	(5,709)
Add non-cash items:				
Depreciation		**173**		216
Share-based compensation		**2,692**		(402)
Adjusted EBITDA [1]	$	**(2,554)**	$	(5,895)
Adjusted EBITDA % [1,2]		**(2%)**		(3%)

[1] See Non-IFRS Measures.
[2] Adjusted EBITDA percentage calculated using the Consolidated revenue for the period.

FIRST QUARTER 2021 COMPARED TO FIRST QUARTER 2020

Expenses from corporate activities, excluding depreciation and share-based compensation ("SBC") related to corporate assets and employees, were $2.6 million for the first quarter of 2021 compared to $5.9 million for the first quarter of 2020. The $3.3 million decrease is primarily due to $0.6 million in severance for employee terminations, $2.5 million in bad debt expense and the reduction in staff count undertaken in second quarter 2020 that was maintained through first quarter 2021. This decrease is offset by $0.2 million in CEWS recorded as a reduction to employee wage expense.

FIRST QUARTER 2021 COMPARED TO FOURTH QUARTER 2020

Expenses from corporate activities, excluding depreciation and SBC related to corporate assets and employees, were $2.6 million for the first quarter of 2021 compared to $1.7 million for the fourth quarter of 2020. STEP reduced first quarter 2021 employee wage expense by $0.2 million as a result of CEWS. STEP also recorded CEWS of $0.3 million in fourth quarter 2020. The quarter over quarter increase in expense is due to the Company reversing salary cutbacks on January 1, 2021, accruals for short-term incentive plans that were eliminated in 2020 as part of the reduction in expenses and an increase in external legal costs.

CONSOLIDATED FINANCIAL REVIEW

($000's except per share amounts)	Three months ended March 31,	
	2021	2020
Revenue	$ 136,812	$ 194,369
Operating expenses	134,369	188,052
Gross profit	2,443	6,317
Selling, general and administrative	8,375	9,588
Results from operating activities	(5,932)	(3,271)
Finance costs	3,087	4,460
Foreign exchange loss (gain)	(9)	2,617
Gain on disposal of property and equipment	369	(830)
Amortization of intangible assets	114	128
Impairment of property and equipment	-	58,750
Net loss before income tax	(9,493)	(68,396)
Income tax expense (recovery)	(1,549)	(16,193)
Net loss	(7,944)	(52,203)
Other comprehensive income (loss)	(2,550)	20,961
Total comprehensive loss	$ (10,494)	$ (31,242)
Loss per share – basic	$ (0.12)	$ (0.78)
Loss per share – diluted	$ (0.12)	$ (0.78)
Adjusted EBITDA (1)	$ 15,960	$ 22,802
Adjusted EBITDA % (1)	12%	12%

(1) *See Non-IFRS Measures.*

OTHER ITEMS

Depreciation and amortization

For the three months ended March 31, 2021, depreciation and amortization expense decreased to $18.2 million from $27.1 million in the same period of 2020. In the prior year, the Company recorded non-cash impairment charges of $13.1 million and $58.8 million in its U.S. and Canada Fracturing CGU, respectively. The prior year impairments along with a lower capital program and right-of-use asset additions relative to first quarter 2020 resulted in the decrease.

Finance costs

STEP's finance costs decreased from $4.5 million for the three months ended March 31, 2020 to $3.1 million for the three months ended March 31, 2021. The decrease is due to lower average loans outstanding and a lower effective borrowing rate of 4.63% versus 5.71% in the prior year quarter.

Foreign exchange gains and losses

STEP recorded a realized foreign exchange loss of $0.1 million and a $0.1 million unrealized gain for the three months ended March 31, 2021, compared to a loss of $2.6 million, of which $2.3 million was unrealized, in the same period of 2020. Foreign exchange gains and losses arise from the translation of assets or liabilities that are held in U.S. dollars by Canadian operations. The change over the prior quarter was due to more accounts payable denominated in USD and debt drawn in USD at March 31, 2020 compared to March 31, 2021. The Canadian dollar also weakened significantly at the start of the pandemic.

Gains or losses on disposal of property and equipment

The Company recorded a loss on the disposal of property and equipment of $0.4 million for the three months ended March 31, 2021 compared to a gain of $0.8 million for the three months ended March 31, 2020. In the prior year the gain related to the disposal of non-core assets that were acquired through bulk acquisitions of fracturing assets.

Share-based compensation

For the three months ended March 31, 2021, STEP recorded share-based compensation expense of $3.8 million compared to a $0.9 million recovery in the same period of 2020. The expense recovery in 2020 relates primarily to the reversal of share-based expense related to revaluing the cash-settled instruments at a share price of $0.32 per unit at March 31, 2020 compared to $1.57 per unit at December 31, 2019. The $3.8 million in expense at March 31, 2021 relates primarily to the revaluing of cash-settled instruments at March 31, 2021 at $1.28 per unit compared to $0.74 per unit at December 31, 2020 and the annual grants issued May 2020.

Income taxes

STEP recorded a total income tax recovery of $1.5 million for the three months ended March 31, 2021 compared to a total income tax recovery of $16.2 million for the comparable period of 2020. The decrease in income tax recovery was primarily due to a lower loss before income tax. The larger loss before income tax in the comparable period of 2020 was primarily triggered by a large impairment of property and equipment which led to a deferred tax recovery. For the three months ended March 31, 2021 there was no impairment of property and equipment and no offsetting income tax recovery to apply.

TOTAL CAPITAL EXPENDITURES

($000s)		Three months ended March 31,		
		2021		2020
Capital program additions	$	**7,873**	$	11,694
Right-of-use asset additions (new contracts in the period)		**2,235**		3,326
Total capital expenditures	$	**10,108**	$	15,020
Capital was incurred for:				
Canada	$	**6,107**	$	5,112
United States	$	**4,001**	$	9,908

STEP funds capital expenditures from a combination of cash, cash provided by operating activities and funds available under the Credit Facilities.

LIQUIDITY AND CAPITAL RESOURCES

($000s)		Three months ended March 31,		
		2021		2020
Net cash provided by (used in)				
Operating activities	$	**11,929**	$	17,334
Investing activities		**(6,213)**		(11,403)
Financing activities		**2,450**		22,781
Impact of foreign exchange on cash		**23**		896
Increase (decrease) in cash and cash equivalents	$	**8,189**	$	29,608
Opening cash balance		**1,266**		7,267
Ending cash balance	$	**9,455**	$	36,875

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities totaled $11.9 million for the three months ended March 31, 2021, compared to $17.3 million in the same period of 2020. Operating activities were lower than prior year due to lower operating results as Adjusted EBITDA decreased by $6.8 million year over year and changes in working capital decreased by $1.7 million. These were offset by lower cash finance costs paid of $2.9 million first quarter 2021 as compared to first quarter 2020.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities totaled $6.2 million for the three months ended March 31, 2021, compared to $11.4 million used in the comparable period of 2020. The decrease was due to lower capital spend offset by an increase of capital expenditures in account payable.

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

For the three months ended March 31, 2021, net cash provided by financing activities totaled $2.5 million, compared to $22.8 million provided in the same period of 2020. For the three months ended March 31, 2021, net cash provided by loans and borrowings was $3.9 million compared to $24.6 million in the prior year. Current year movements in financing activities consist of borrowings on the Credit Facilities and payments made under leasing agreements.

WORKING CAPITAL(1) AND CASH REQUIREMENTS

As at March 31, 2021, STEP had positive working capital(1) of $44.4 million, compared to $44.6 million as at December 31, 2020. Trade and other receivables increased from $63.5 million at December 31, 2020 to $85.8 million at March 31, 2021, with higher activity resulting in greater revenue in the first quarter of 2021 when compared to fourth quarter 2020. Trade and other payables increased to $66.1 million at March 31, 2021 from $48.8 million as at December 31, 2020 as activity levels Increased. Current liabilities at March 31, 2021 also included a $7.0 million current portion of loans and payables that are anticipated to be paid March 31, 2022. 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, meet its 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.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS

($000s)	2021	2022	2023	2024	2025	Thereafter	Total
Trade and other payables	$ 66,124	$ -	$ -	$ -	$ -	$ -	**$ 66,124**
Income tax payable	136	-	-	-	-	-	**136**
Operating commitments (2,3)	979	1,256	1,250	188	174	43	**3,890**
Short-term and low value lease obligations(3)	90	5	-	-	-	-	**95**
Lease obligations (3,4)	4,287	4,446	3,225	1,671	600	-	**14,229**
Loans and borrowings (5)	7,996	216,544	-	-	-	-	**224,540**
Capital expenditure commitments (6)	2,319	-	-	-	-	-	**2,319**
Total commitments	$ 81,931	$ 222,251	$ 4,475	$ 1,859	$ 774	$ 43	**$ 311,333**

(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 = 1.25 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 March 31, 2021. 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

($000s)	March 31, 2021	December 31, 2020
Shareholders' equity	**$ 195,672**	$ 204,579
Lease obligations	**13,129**	12,717
Loans and borrowings	**211,614**	207,630
Total capital	**$ 420,415**	$ 424,926

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 bank indebtedness and obligations under leases.

(1) See Non-IFRS Measures.

Equity

As at May 12, 2021 there were 68,033,618 common shares in the capital of STEP ("Common Shares") issued and outstanding.

Debt

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"). The Credit Facilities were in place at March 31, 2021 and mature on June 25, 2022. Any 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 March 31, 2021, the Company's borrowing base was $58.8 million compared to $49.3 million as at December 31, 2020. Mandatory repayments are required anytime the amount outstanding under the revolving facility and Canadian and U.S. operating facilities exceeds the borrowing base. The Credit Facilities include certain financial and non-financial covenants, including:

1. 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
March 31, 2021 and June 30, 2021	1.50:1 or less
September 30, 2021	1.75:1 or less
December 31, 2021 and after	Removed

March 31, 2021, the Funded Debt to Tangible Net Worth ratio was 1.07:1.

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 expense or recovery, gains or losses on the sale of assets, allowance for doubtful account provisions, non-cash impairment charges, unrealized foreign exchange gains or losses and marking to market hedging instruments, discretionary management bonuses, severance and share based compensation. 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 Adjusted Bank EBITDA	
March 31, 2021	$	10,000
June 30, 2021		-
September 30, 2021		6,858
December 31, 2021 and after		Removed

March 31, 2021, Minimum Quarterly Adjusted Bank EBITDA was $16,072.

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
March 31, 2021	Waived
June 30, 2021	Waived
September 30, 2021	Waived
December 31, 2021	3.00:1 or greater

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 expense or recovery, gains or losses on the sale of assets, allowance for doubtful account provisions, non-cash impairment charges, unrealized foreign exchange gains or losses and marking to market hedging instruments, discretionary management bonuses, severance and share based compensation. 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
March 31, 2021	Waived
June 30, 2021	Waived
September 30, 2021	Waived
December 31, 2021	is not more than 4.50:1

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 $54.8 million at March 31, 2021 compared to $49.0 million as at December 30, 2020.

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

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 200 basis points to 500 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the quarter ended March 31, 2021 was 4.63% (March 31, 2020 – 5.71%). The Company has total outstanding letters of credit of $0.03 million. The total amount of Credit Facilities outstanding on March 31, 2021 is as follows:

As at		**March 31, 2021**		December 31, 2020
Short term portion of Term facility	**$**	**6,988**	$	-
Long term portion of Term facility		**203,012**		210,000
Canadian and U.S. operating lines		**3,796**		1
Revolving facility		**-**		-
Deferred financing costs		**(2,182)**		(2,371)
Loans and borrowings	**$**	**211,614**	$	207,630

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

Balance at January 1, 2021	$	207,630
Issuance of loans and borrowings		3,898
Deferred financing incurred		(271)
Accretion of deferred financing costs		460
Unrealized foreign exchange loss		(103)
Balance at March 31, 2021	$	211,614

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

Subsequent Event

Subsequent to March 31, 2021, the following amendments were made to STEP's Credit Facilities on May 12, 2021:

- Minimum quarterly Adjusted Bank EBITDA was amended to be $5,033,000 for the quarter ended June 30, 2021, and $7,869,000 for the quarter ended September 30, 2021.
- Interest Coverage Ratio was amended to 3:00:1 for the quarter ended March 31, 2022.
- Funded Debt to Adjusted Bank EBITDA ratio was amended to 4:00:1 for the quarter ended March 31, 2022.

LITIGATION

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

In January 2017, Calfrac Well Services Ltd. ("Calfrac") filed a statement of claim in the Judicial District of Calgary in the Court of Queen's Bench against the Company and an employee of the Company seeking $10.0 million in damages among other relief. Calfrac alleges that the employee, who is a former employee of Calfrac, misappropriated certain competitively sensitive materials from Calfrac. Calfrac further alleges that STEP benefited or made use of such materials, resulting in damages to Calfrac. STEP is presently investigating the claim and has filed 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)	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Revenue								
Canadian Operations	**109,362**	40,973	44,849	13,888	108,750	72,500	97,834	76,105
United States Operations	**27,450**	30,595	17,514	26,756	85,619	54,007	80,911	110,472
	136,812	71,568	62,363	40,644	194,369	126,507	178,745	186,577
Net (loss) income attributable to shareholders	**(7,944)**	(17,045)	(9,762)	(40,348)	(52,203)	(24,411)	(112,843)	(6,024)
Adjusted EBITDA [3]								
Canadian Operations	**21,531**	5,542	17,188	972	20,891	9,401	23,085	8,872
United States Operations	**(3,017)**	(1,398)	(4,799)	(2,428)	7,998	2,175	3,769	15,627
Corporate	**(2,554)**	(1,697)	(3,291)	(2,011)	(6,087)	(2,411)	(4,164)	(4,160)
	15,960	2,447	9,098	(3,467)	22,802	9,165	22,690	20,339
Capital expenditures [4]								
Canadian Operations	**6,107**	2,913	1,285	147	5,112	5,172	5,697	11,081
United States Operations	**4,001**	1,010	64	1,765	9,908	11,536	7,051	2,892
	10,108	3,923	1,349	1,912	15,020	16,708	12,748	13,973
Per Common Share								
Net (loss) income – basic	**(0.12)**	(0.25)	(0.14)	(0.60)	(0.78)	(0.37)	(1.69)	(0.09)
Net (loss) income – diluted	**(0.12)**	(0.25)	(0.15)	(0.60)	(0.78)	(0.37)	(1.69)	(0.09)
Adjusted EBITDA [3] – basic	**0.24**	0.03	0.13	(0.05)	0.34	0.14	0.34	0.30
Adjusted EBITDA [3] – diluted	**0.24**	0.03	0.13	(0.05)	0.34	0.14	0.34	0.30

[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)	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Canada								
Exit active fracturing spreads	**4**	3	3	1	6	6	6	6
Exit active HP (000's)	**200**	150	150	50	225	225	225	225
Total HP (000's)	**283**	283	283	283	283	283	298	298
Exit active coiled tubing units	**7**	5	5	5	10	9	9	9
Total coiled tubing units	**16**	16	16	16	16	16	16	16
United States								
Exit active fracturing spreads	**2**	2	1	1	3	3	3	3
Exit active HP (000's)	**110**	110	50	65	158	158	143	143
Total HP (000's)	**208**	208	208	208	208	208	193	193
Exit active coiled tubing units	**7**	6	5	4	7	8	8	9
Total coiled tubing units	**13**	13	13	13	13	13	13	13

FINANCIAL INSTRUMENTS

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

FAIR VALUES

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and income tax receivable and 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.

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 three months ended March 31, 2021, global events have, and are expected to continue to have a significant impact on client credit risk. These factors have been incorporated in the Company's assessment of expected credit losses at March 31, 2021. 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 three months ended March 31, 2021.

INTEREST RATE RISK

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding debt, a 1.0% change in the bankers' prime rate would result in a $0.5 million increase or decrease in interest expense for the three-month period ended March 31, 2021.

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 March 31, 2021, the Company did not have any open forward contracts.

OFF-BALANCE SHEET ARRANGEMENTS

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

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. 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 March 31, 2021	2020
Net (loss) income	$ **(7,944)**	$ (52,203)
Add (deduct):		
Depreciation and amortization	**18,217**	27,141
Gain on disposal of equipment	**369**	(830)
Finance costs	**3,087**	4,460
Income tax expense (recovery)	**(1,549)**	(16,193)
Share-based compensation	**3,789**	(940)
Foreign exchange (gain) loss	**(9)**	2,617
Impairment of property and equipment	**-**	58,750
Adjusted EBITDA	$ **15,960**	$ 22,802
Adjusted EBITDA %	**12%**	12%

"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. See the tables under "Canadian Operations Review" and "United States Operations Review" for the inputs used to calculate STEP's revenue per operating day metrics.

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

As at ($000s)	March 31, 2021	December 31, 2020
Loans and borrowings	$ 211,614	$ 207,630
Add back: Deferred financing costs	2,182	2,371
Less: Cash and cash equivalents	(9,455)	(1,266)
Net debt	$ 204,341	$ 208,735

ACCOUNTING POLICIES AND ESTIMATES

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 time period specified in securities legislation.

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").

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 DC&P or ICFR during the period ending March 31, 2021, which have materially affected or are reasonably likely to materially affect the Company's ICFR.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

This MD&A is based on the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021. The preparation of the unaudited condensed consolidated interim financial statements requires that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the unaudited condensed consolidated interim financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes. Refer to Note 1 to the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and Notes 1 and 2 to the audited annual consolidated financial statements for the year ended December 31, 2020 for a description of the Company's accounting policies, impacts of changes in significant accounting policies, and practices involving the use of estimates and judgments that are critical to determining STEP's financial results.

RISK FACTORS AND RISK MANAGEMENT

The oilfield services industry involves many risks, which may influence the ultimate success of the Company. The risks and uncertainties set out are not the only ones the Company is facing. There are additional risks and uncertainties that the Company does not currently know about or that the Company currently considers immaterial which may also impair the Company's business operations and can cause the price of the Common Shares to decline. Readers should review and carefully consider the disclosure provided under the heading "Risk Factors" in the AIF and "Risk Factors and Risk Management" in the annual MD&A, both of which are available on www.sedar.com, and the disclosure provided in this MD&A under the headings "*Industry Conditions & Outlook*". In addition, global, national or local health concerns, including the outbreak of pandemic or contagious diseases such as COVID-19, may adversely affect the Company by: (i) reducing global economic activity resulting in lower demand, and pricing, for crude oil and natural gas products, and thereby the demand and pricing for the Company's services; (ii) impairing its supply chain (for example, by limiting he manufacturing of materials or the supply of services used in the Company's operations); (iii) interrupting its operations (for example, as a result of government mandated shut-down or other preventative measures, or illness among its workforce); and (iv) affecting the health of its workforce, rendering employees unable to work or travel. Other than as supplemented in this MD&A, the Company's risk factors and management thereof has not changed substantially from those disclosed in the AIF and annual MD&A.

FORWARD-LOOKING INFORMATION & STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws (collectively, "forward-looking statements"). These statements relate to the expectations of management about future events, results of operations and 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: 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, including its effects on drilling activity levels and pricing for the Company's services; COVID-19 and related public health measures and their impact on energy demand and the Company's financial position and business plans; 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 third 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 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 services; 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 below and elsewhere in this MD&A: volatility of the oil and natural gas industry; global, national or local health concerns such as the COVID-19 pandemic and their impact on demand and pricing for the Company's services, the Company's supply chain, the continuity of the Company's operations and the health of the Company's workforce; competition in the oilfield services industry; restrictions on access to capital; reliance on suppliers of raw materials, diesel fuel and component parts; reliance on equipment suppliers and fabricators; direct and indirect exposure to volatile credit markets; fluctuations in currency exchange rates; fluctuations in interest rates on floating rate loans and borrowings; merger and acquisition activity among the Company's clients; reduction in the Company's clients' cash flows or ability to source debt or equity; federal, provincial or state legislative and regulatory initiatives that could result in increased costs and additional operating restrictions or delays; health, safety and environment laws and regulations may require the Company to make substantial expenditures or cause it to incur substantial liabilities; changes to government financial support and economic stimulus programs implemented to mitig ate economic impacts of COVID-19; loss of a significant client could cause the Company's revenue to decline substantially; negative cashflows from operating activities; third party credit risk; hazards inherent in the oilfield services industry which may not be covered to the full extent by the Company's insurance policies; difficulty in retaining, replacing or adding personnel; seasonal volatility due to adverse weather conditions; reliance on a few key employees; legal proceedings involving the Company; failure to maintain the Company's safety standards and record; failure to continuously improve operating equipment and proprietary fluid chemistries; actual results differing materially from management estimates and assumptions; market uncertainties; and the risk factors set forth under the heading "Risk Factors" in the AIF and under the heading "Risk Factors and Risk Management" in this MD&A and the Annual 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.