STEP energy services

TSX STEP

Condensed Consolidated Interim

Financial Statements

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

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of Canadian dollars)	Notes		March 31, 2021		December 31, 2020
ASSETS					
Current Assets					
Cash and cash equivalents		$	9,455	$	1,266
Trade and other receivables	12		85,815		63,471
Income tax receivable			1,989		1,960
Inventory			21,464		26,990
Prepaid expenses and deposits			4,996		5,782
			123,719		99,469
Property and equipment	3		356,441		368,164
Right-of-use assets	4		12,016		11,453
Intangible assets			652		773
		$	492,828	$	479,859
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade and other payables(1)	8,12	$	66,124	$	48,816
Income tax payable			136		88
Current portion of lease obligations	4		6,060		5,919
Current portion of loans and borrowings	5		6,988		-
			79,308		54,823
Deferred tax liabilities			2,218		3,830
Lease obligations	4		7,069		6,798
Other liabilities(1)	8		3,935		2,199
Loans and borrowings	5		204,626		207,630
			297,156		275,280
Shareholders' equity					
Share capital	7		434,862		431,798
Contributed surplus			30,894		32,371
Accumulated other comprehensive income			1,262		3,812
Deficit			(271,346)		(263,402)
			195,672		204,579
		$	492,828	$	479,859

(1) See note 1 for the reclassification of certain 2020 balances.

See accompanying notes to the condensed consolidated interim financial statements

See Note 5 – Subsequent event
See Note 6 – Commitments
See Note 13 – Contingencies and provisions

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND OTHER COMPREHENSIVE LOSS

For the three months ended March 31, Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	2021	2020
Revenue		$ 136,812	$ 194,369
Operating expenses	10	134,369	188,052
Gross profit		2,443	6,317
Selling, general and administrative expenses	10	8,375	9,588
Results from operating activities		(5,932)	(3,271)
Finance costs	11	3,087	4,460
Foreign exchange (gain) loss		(9)	2,617
Loss (gain) on disposal of property and equipment		369	(830)
Amortization of intangible assets		114	128
Impairment of property and equipment	3	-	58,750
Loss before income tax		(9,493)	(68,396)
Income tax expense (recovery)			
Current		47	1,077
Deferred		(1,596)	(17,270)
		(1,549)	(16,193)
Net loss		(7,944)	(52,203)
Other comprehensive (loss) income			
Foreign currency translation gain (loss)		(2,550)	20,961
Total comprehensive loss		$ (10,494)	$ (31,242)
Loss per share:			
Basic	9	$ (0.12)	$ (0.78)
Diluted	9	$ (0.12)	$ (0.78)

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Deficit	Total
Balance at January 1, 2020		$ 428,817	$ 32,198	$ 5,852	$ (144,044)	$ 322,823
Net loss for the period		-	-	-	(52,203)	(52,203)
Foreign currency translation loss		-	-	20,961	-	20,961
Share-based compensation	8	-	679	-	-	679
Exercise of equity share-based compensation	7,8	243	(243)	-	-	-
Balance at March 31, 2020		$ 429,060	$ 32,634	$ 26,813	$ (196,247)	$ 292,260
Balance at January 1, 2021		$ 431,798	$ 32,371	$ 3,812	$ (263,402)	$ 204,579
Net loss for the period		-	-	-	(7,944)	(7,944)
Foreign currency translation loss		-	-	(2,550)	-	(2,550)
Share-based compensation	8	-	1,587	-	-	1,587
Exercise of equity share-based compensation	7,8	3,064	(3,064)	-	-	-
Balance at March 31, 2021		**$ 434,862**	**$ 30,894**	**$ 1,262**	**$ (271,346)**	**$ 195,672**

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the three months ended March 31, Unaudited (in thousands of Canadian dollars)	Notes	2021	2020
Operating activities:			
Net loss		$ (7,944)	$ (52,203)
Adjusted for the following:			
Depreciation and amortization	3,4	18,217	27,141
Share-based compensation	8	3,789	(940)
Unrealized foreign exchange loss (gain)		(103)	2,328
Loss (gain) on disposal of property and equipment		369	(830)
Impairment of property and equipment	3	-	58,750
Finance costs	11	3,087	4,460
Income tax recovery		(1,549)	(16,193)
Cash finance costs paid		(2,528)	(5,416)
Income taxes paid		-	(15)
Changes in non-cash working capital from operating activities		(1,409)	252
Net cash provided by operating activities		11,929	17,334
Investing activities:			
Purchase of property and equipment	3	(7,873)	(11,694)
Proceeds from disposal of equipment and vehicles		8	2,537
Changes in non-cash working capital from investing activities		1,652	(2,246)
Net cash used in investing activities		(6,213)	(11,403)
Financing activities:			
Issuance of loans and borrowings	5	3,898	24,627
Repayment of obligations under finance lease		(1,448)	(1,846)
Net cash provided by financing activities		2,450	22,781
Impact of exchange rate changes on cash and cash equivalents		23	896
Increase in cash and cash equivalents		8,189	29,608
Cash and cash equivalents, beginning of period		1,266	7,267
Cash and cash equivalents, end of period		$ 9,455	$ 36,875

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

Notes to the condensed consolidated interim financial statements

(unaudited)

As at and for the three months ended March 31, 2021 and 2020.

Tabular amounts expressed in thousands of Canadian dollars, except where otherwise noted.

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

STEP Energy Services Ltd. (the "Company", "STEP Energy Services" or "STEP") is a publicly traded company domiciled in Canada, incorporated under the laws of the Province of Alberta on March 25, 2011 and is listed under the symbol "STEP" on the Toronto Stock Exchange. The registered office of the Company is 4300, 888 - 3rd Street SW, Calgary, Alberta T2P 5C5 and the principal place of business is 1200, 205-5th Ave SW, Calgary, Alberta T2P 2V7. STEP provides specialized coiled tubing and associated pumping and fracturing equipment to service the oil and gas industry in Canada and the United States ("U.S.").

Statement of Compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2020.

These condensed consolidated interim financial statements were approved by the Board of Directors ("Board") on May 12, 2021.

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current period. $1.8 million of deferred share units were reclassified from trade and other payables to other liabilities.

Seasonality of operations

The Company's Canadian business is seasonal in nature with the periods of greatest activity being in the first, third and fourth quarters, and the least activity tending to be in the second quarter because of spring break-up. Spring break-up typically occurs between March and June. The Company's operating activities can also be affected by extended periods of adverse weather which can result in restrictions to the movement of heavy equipment. Activity in the southern United States is generally not as influenced by seasonal conditions.

Critical accounting estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make certain estimates and judgments 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 condensed consolidated interim financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes.

COVID-19 and Liquidity

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19 had a significant negative impact on the 2020 global markets and in particular demand for crude oil. The demand destruction caused a significant deterioration in economic conditions for STEP's clients, suppliers, employees, and STEP's financial performance compared to 2019. During the first quarter of 2021, the introduction of vaccines has led to optimism; however, uncertainty continues as governments and health authorities implement various measures to manage the spread of the virus.

Management continues to monitor the COVID-19 situation and should the duration, spread and intensity of the pandemic further develop in 2021, further negative impacts on client demand, supply chains, employees and market pricing can be expected.

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 March 31, 2021, management has incorporated the anticipated impact of COVID-19 in estimates and judgments in the preparation of these financial statements 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.

We are 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.

NOTE 2 – GOVERNMENT GRANTS

Due to COVID-19 (see Note 1 – *COVID-19 and Liquidity*) the Government of Canada has implemented the COVID-19 Economic Response Plan. Under the plan, the Company is eligible for the Canada Emergency Wage Subsidy ("CEWS") in which Canadian businesses impacted by COVID-19 may be eligible for wage subsidies for any week retroactive from March 15, 2020 to September 25, 2021. There are discussions on the extension of the program into the fourth quarter. The program is currently divided into four week periods. CEWS was primarily calculated using a sliding scale of subsidy based on overall revenue reductions in each period. For the three months ended March 31, 2021 the Company has recognized $3.8 million in grants under the CEWS as a reduction of employee costs of $3.5 million in operating expenses (March 31, 2020 - nil)) and $0.3 million in selling, general, and adminstrative expenses (March 31, 2020 - nil).

NOTE 3 – PROPERTY AND EQUIPMENT

		Land and buildings		Vehicles		Field equipment		Office equipment		Total
Cost:										
Balance at January 1, 2020	$	37,032		667		698,368		8,553		744,620
Additions		304		-		17,281		241		17,826
Disposals		-		(41)		(6,822)		-		(6,863)
Reclassification of assets held for sale		752		-		614		-		1,366
Effect of exchange rate changes		(253)		-		(6,356)		(25)		(6,634)
Balance at December 31, 2020	$	37,835	$	626	$	703,085	$	8,769	$	750,315
Additions		870		-		6,936		67		7,873
Disposals		-		-		(3,990)		-		(3,990)
Effect of exchange rate changes		(167)		(1)		(4,079)		(16)		(4,263)
Balance at March 31, 2021	**$**	**38,538**	**$**	**625**	**$**	**701,952**	**$**	**8,820**	**$**	**749,935**
Accumulated depreciation:										
Balance at January 1, 2020	$	5,212	$	657	$	224,940	$	6,766	$	237,575
Depreciation		1,537		12		78,750		696		80,995
Impairment		3,902		-		67,702		246		71,850
Disposals		-		(35)		(3,826)		-		(3,861)
Effect of exchange rate changes		(55)		(8)		(4,326)		(19)		(4,408)
Balance at December 31, 2020		**10,596**	**$**	**626**	**$**	**363,240**	**$**	**7,689**	**$**	**382,151**
Depreciation		419		-		15,985		200		16,604
Disposals		-		-		(3,513)		-		(3,513)
Effect of exchange rate changes		(22)		(7)		(1,716)		(3)		(1,748)
Balance at March 31, 2021	**$**	**10,993**	**$**	**619**	**$**	**373,996**	**$**	**7,886**	**$**	**393,494**
Carrying amounts:										
As at December 31, 2020	$	27,239	$	-	$	339,845	$	1,080	$	368,164
As at March 31, 2021	**$**	**27,545**	**$**	**6**	**$**	**327,956**	**$**	**934**	**$**	**356,441**

Included in field equipment at March 31, 2021 were maintenance capital projects underway of $6.3 million (December 31, 2020 - $2.5 million). Maintenance capital projects underway are not depreciated until they are substantially complete and available for use.

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. At March 31, 2021, the Company performed an assessment of external and indicators of impairment and determined that there have been no changes to estimates made at the time of impairments to require a reversal. Additionally, at March 31, 2021, the Company did not identify any indicators of impairment within any of its CGUs.

NOTE 4 – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

		Buildings		Vehicles		Office equipment		Total
Balance at January 1, 2020	$	9,002	$	22,448	$	270	$	31,720
Additions		3,431		938		9		4,378
Disposals		(744)		(10,912)		-		(11,656)
Effect of exchange rate changes		(362)		(99)		(1)		(462)
Balance at December 31, 2020	$	11,327		12,375		278		23,980
Additions		825		1,410		-		2,235
Disposals		-		(304)		-		(304)
Effect of exchange rate changes		(82)		(110)		(1)		(193)
Balance at March 31, 2021		12,070		13,371		277		25,718
Accumulated depreciation:								
Balance at January 1, 2020	$	2,225	$	10,632	$	70	$	12,927
Depreciation		2,931		4,385		74		7,390
Disposals		(705)		(6,904)		-		(7,609)
Effect of exchange rate changes		(63)		(115)		(3)		(181)
Balance at December 31, 2020	$	4,388	$	7,998	$	141	$	12,527
Depreciation		738		744		17		1,499
Disposals		-		(229)		-		(229)
Effect of exchange rate changes		(23)		(72)		-		(95)
Balance at March 31, 2021	**$**	**5,103**	**$**	**8,441**	**$**	**158**	**$**	**13,702**
Carrying amounts:								
As at December 31, 2020	$	6,939	$	4,377	$	137	$	11,453
As at March 31, 2021	**$**	**6,967**	**$**	**4,930**	**$**	**119**	**$**	**12,016**

With respect to the right-of-use assets above, the Company has lease contracts for light duty vehicles, office buildings, service centers, and copiers. The maturity date of these contracts range from April 2021 to February 2026 with interest rates ranging from 2.68% to 12.14% per annum. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are as follows:

As at		March 31, 2021		December 31, 2020
Future minimum lease payments	**$**	**14,229**	$	13,868
Discount		**(1,100)**		(1,151)
Present value of minimum lease payments	**$**	**13,129**	$	12,717
Presented as:				
Current portion of lease obligations	**$**	**6,060**	$	5,919
Lease obligations	**$**	**7,069**	$	6,798

NOTE 5 – LOANS AND BORROWINGS

At March 31, 2021 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. 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 31, 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 facility:

- Minimum Quarterly Adjusted Bank EBITDA for second quarter 2021 was changed to $5,033 and third quarter 2021 was changed to $7,869
- 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

NOTE 6 – COMMITMENTS

The following table summarizes the Company's estimated commitments that are not included in the condensed consolidated interim statement of financial position related to leases as at March 31, 2021 for the following five years and thereafter:

	2021	2022	2023	2024	2025	Thereafter	Total
Operating expenses for lease obligations(1)	$ 979	$ 1,256	$ 1,250	$ 188	$ 174	$ 43	$ 3,890
Short term and low value lease obligations(1)	90	5	-	-	-	-	95
Total commitments	$ 1,069	$ 1,261	$ 1,250	$ 188	$ 174	$ 43	$ 3,985

1) Includes U.S. obligations at an estimated forecast exchange rate of 1 USD = 1.25 CAD.

Operating expenses related to lease obligations relate to leases of certain service centers and office space with lease terms of between 1 years and 6 years. The total expense recognized during the three months ended March 31, 2021 for short term and low value lease obligations was $0.5 million.

As at March 31, 2021, the Company has $2.3 million (December 31, 2020 - $2.9 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2021.

NOTE 7 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. The shares have no par value. All issued shares are fully paid.

	Shares #	Amount
Balance at January 1, 2020	66,942,830	$ 428,817
Issued – exercise of share-based instruments	770,994	2,981
Balance at December 31, 2020	67,713,824	431,798
Issued – exercise of share-based instruments	298,726	3,064
Balance at March 31, 2021	**68,012,550**	**$ 434,862**

NOTE 8 – SHARE-BASED COMPENSATION

Equity settled share-based instruments

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2020	2,121,760	394,971	469,169	3,532,509	7,500,128	14,018,537
Granted	1,696,800	-	-	-	-	1,696,800
Exercised	-	(170,610)	(106,228)	-	-	(276,838)
Forfeited/Expired	(242,459)	(104,839)	(14,960)	(1,728,064)	(4,576,156)	(6,666,478)
Outstanding at December 31, 2020	**3,576,101**	**119,522**	**347,981**	**1,804,445**	**2,923,972**	**8,772,021**
Exercisable at December 31, 2020	717,008	-	75,771	1,804,445	2,400,232	4,997,456

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2021	3,576,101	119,522	347,981	1,804,445	2,923,972	8,772,021
Granted	13,966	-	-	-	-	13,966
Cancelled via performance factor	-	-	(45,774)	-	-	(45,774)
Exercised	-	(17,596)	(281,130)	-	-	(298,726)
Forfeited/Expired	(12,428)	(719)	(5)	(4,400)	(7,040)	(24,592)
Outstanding at March 31, 2021	**3,577,639**	**101,207**	**21,072**	**1,800,045**	**2,916,932**	**8,416,895**
Exercisable at March 31, 2021	704,580	-	-	1,800,045	2,393,192	4,897,817

Cash settled share-based instruments

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2020	546,950	2,305,851	847,379	3,700,180
Granted	1,856,860	954,133	736,500	3,547,493
Cancelled by performance factor	-	-	19,294	19,294
Exercised	-	(571,076)	(20,151)	(591,227)
Forfeited/Expired	-	(785,070)	(80,106)	(865,176)
Outstanding at December 31, 2020	**2,403,810**	**1,903,838**	**1,502,916**	**5,810,564**
Exercisable at December 31, 2020	-	-	-	-

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2021	2,403,810	1,903,838	1,502,916	5,810,564
Granted	-	34,402	-	34,402
Exercised	-	(25,800)	(148,341)	(174,141)
Forfeited/Expired	-	(47,123)	-	(47,123)
Outstanding at March 31, 2021	**2,403,810**	**1,865,317**	**1,354,575**	**5,623,702**
Exercisable at March 31, 2021	-	-	-	-

The aggregate liability for all cash settled share-based instruments of $4.8 million is included in the statement of financial position; $0.9 million in trade and other payables and $3.9 million in other liabilities. At each reporting date, between grant date and settlement date of cash settled share-based instruments, the fair value of the liability is re-measured with any changes in fair value recognized in net loss for the period.

Share-based compensation expense

The composition of share-based compensation expense incurred was:

Three months ended March 31,	2021	2020
Prior stock options	$ -	$ 4
New stock options	228	290
Performance warrants	57	36
Performance share units	1,226	290
Restricted share units	76	59
Cash-settled deferred share units	1,298	(645)
Cash-settled performance share units	160	(96)
Cash-settled restricted share units	744	(878)
Total share-based compensation expense	$ 3,789	$ (940)

NOTE 9 – PER SHARE COMPUTATIONS

Three months ended March 31,	2021	2020
Weighted average number of shares outstanding - basic	**67,720,318**	66,943,938
Dilutive impact of share-based compensation instruments	**-**	-
Weighted average number of shares outstanding - diluted	**67,720,318**	66,943,938

For the three months ended March 31, 2021, 1.8 million prior stock options, 2.9 million performance warrants, 3.6 million new stock options, 0.1 million restricted share units, and 0.02 million performance share units were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (March 31, 2020: 3.5 million prior stock options, 7.4 million performance warrants, 2.0 million new stock options, 0.3 million restricted share units, and 0.4 million performance share units).

NOTE 10 – PRESENTATION OF EXPENSES

Three months ended March 31,		2021		2020
Operating expenses				
Employee costs[1]	$	30,234	$	53,610
Operating expense		33,725		42,141
Materials and inventory costs		51,852		65,946
		115,811		161,697
Depreciation		17,851		26,707
Share-based compensation		707		(352)
Total operating expenses	$	134,369	$	188,052
Selling, general and administrative expenses				
Employee costs[1]	$	3,537	$	5,353
General expenses		1,504		2,017
		5,041		7,370
Allowance for doubtful accounts expense (recovery)		-		2,500
Depreciation		252		306
Share-based compensation		3,082		(588)
Total selling, general and administrative expenses	$	8,375	$	9,588

1) *Employee expenses are net of CEWS issued. See Note 2 - Government Grants.*

NOTE 11 – FINANCE COSTS

Three months ended March 31,		2021		2020
Interest on loans and borrowings	$	2,603	$	3,808
Interest on lease obligations		188		271
Interest income		(46)		8
Accretion of deferred financing charges		460		323
Other		(118)		50
Total finance costs	$	3,087	$	4,460

NOTE 12 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

Cash and cash equivalents, trade and other receivables, trade and other payables, income tax receivable and payable, and loans and borrowings are initially recognized at fair value and subsequently measured at amortized cost. The carrying value of cash and cash equivalents, trade and other receivables, income tax receivable and payable, and trade and other payables approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and therefore fair market value approximates carrying value. The Company classifies its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

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. Global events, first occurring in 2020 and in the first quarter of 2021 have, and are expected to continue to have a significant impact on client credit risk (see Note 1 – *COVID-19 and Liquidity*). 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 carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients. The Company's objective is to minimize credit losses.

The Company's aged trade and other receivables are as follows:

As at		March 31, 2021		December 31, 2020
Current (0 to 30 days from invoice date)	$	54,625	$	28,879
31 - 60 days		18,646		25,154
61 - 90 days		6,542		5,211
91+ days		9,101		6,609
Receivables from trade clients		88,915		65,853
Allowance for doubtful accounts		(6,695)		(6,707)
Other amounts		3,596		4,325
Total trade and other receivables	$	85,815	$	63,471

Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company's objective in managing liquidity risk is to maintain sufficient available resources to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in the cash and cash equivalents account. See Note 6 for commitments.

The expected timing of cash outflows relating to financial liabilities on the condensed consolidated interim statement of financial position as at March 31, 2021 are:

	2021	2022	2023	2024	2025	Thereafter	Total
Lease obligations[1]	$ 4,287	$ 4,446	$ 3,225	$ 1,671	$ 600	$ -	$ 14,229
Trade and other payables	66,124	-	-	-	-	-	66,124
Income tax payable	136	-	-	-	-	-	136
Loans and borrowings[2]	7,996	216,544	-	-	-	-	224,541
	$ 78,543	$ 220,990	$ 3,225	$ 1,671	$ 600	$ -	$ 305,029

1) *Includes interest portion of lease obligations.*
2) *Includes estimated interest and principle repayments, based on current amounts outstanding and current interest rates at March 31, 2021. Both are variable in nature.*

The Company anticipates that its cash on hand, trade accounts receivable and cash provided by operating activities, will be adequate to satisfy its liquidity requirements over the next twelve months. Total cash, trade and other receivables and income tax receivable exceeds the obligations in the table above as well as operating and capital commitments.

As at March 31, 2021, the Company has drawn $3.8 million on its operating facility and continues to undertake steps to reduce overall spend. Reductions in clients' cash flow or difficulty in their ability to source debt or equity also could negatively impact the Company's assessment of liquidity risk (see Note 1 – *COVID- 19 and Liquidity*).

Market risk

Market risk is the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market rates. Market risk is comprised of interest rate risk, currency risk and other price risks which consist primarily of fluctuations in commodity prices.

NOTE 13 - CONTINGENCIES AND PROVISIONS

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.

NOTE 14 – OPERATING SEGMENTS

The Company's services are conducted by the Canadian Operations and the U.S. Operations segments. The results of each operating segment are summarized below. Transactions between the segments are recorded at fair value and have been eliminated upon consolidation.

Segmented operating results and activity

Three months ended March 31, 2021	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 87,829	$ 16,425	$ -	$ 104,254
Coiled tubing	21,533	11,025	-	32,558
Total revenue	109,362	27,450	-	136,812
Expenses				
Operating expenses	96,126	38,029	214	134,369
Selling, general and administrative	1,764	1,406	5,205	8,375
Results from operating activities	11,472	(11,985)	(5,419)	(5,932)
Finance costs	-	-	3,087	3,087
Foreign exchange (gain) loss	(17)	8	-	(9)
(Gain) loss on disposal of property and equipment	(193)	562	-	369
Amortization of intangible assets	10	104	-	114
Income (loss) before income tax	$ 11,672	$ (12,659)	$ (8,506)	$ (9,493)
Capital expenditures (1)	$ 6,107	$ 4,001	$ -	$ 10,108
Total assets as at March 31, 2021	$ 265,666	$ 227,162	$ -	$ 492,828
Total liabilities as at March 31, 2021	$ 262,913	$ 34,243	$ -	$ 297,156

Three months ended March 31, 2020	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 83,551	$ 60,442	$ -	$ 143,993
Coiled tubing	25,199	25,177	-	50,376
Total revenue	108,750	85,619	-	194,369
Expenses				
Operating expenses	100,504	86,915	633	188,052
Selling, general and administrative	2,024	2,488	5,076	9,588
Results from operating activities	6,222	(3,784)	(5,709)	(3,271)
Finance costs	-	-	4,460	4,460
Foreign exchange (gain) loss	2,655	(38)	-	2,617
(Gain) loss on disposal of property and equipment	(860)	30	-	(830)
Amortization of intangible assets	10	118	-	128
Impairment	58,750	-	-	58,750
Income (loss) before income tax	$ (54,333)	$ (3,894)	$ (10,169)	$ (68,396)
Capital expenditures (1)	$ 5,112	$ 9,908	$ -	$ 15,020
Total assets as at December 31, 2020	$ 240,456	$ 238,219	$ 1,184	$ 479,859
Total liabilities as at December 31, 2020	$ 242,385	$ 32,895	$ -	$ 275,280

1) *Capital expenditures include non-cash expenditures from the addition of leased right-of-use assets.*

CORPORATE INFORMATION

Management

Regan Davis
President and Chief Executive Officer

Michael Kelly
Executive Vice-President and Chief Financial Officer

Steve Glanville
Vice-President, Operations and Chief Operating Officer

Rory Thompson
President, Canadian Operations

Brock Duhon
President, U.S. Operations

Lori McLeod-Hill
Vice-President, Finance

Joshua Kane
Vice-President, Legal and General Counsel

Directors

Douglas Freel (1)

Evelyn Angelle (2)

Regan Davis (3)(4)

Jeremy Gackle (5)

Donna Garbutt (6)(7)

James Harbilas (8)(9)

Jason Skehar (2)(4)(9)

1. *Chair of the Board*
2. *Member of the Audit Committee*
3. *President and Chief Executive Officer*
4. *Member of the Health, Safety and Environment Committee*
5. *Chair of the Compensation and Corporate Governance Committee*
6. *Lead Director*
7. *Chair of the Health, Safety and Environment Committee*
8. *Chair of the Audit Committee*
9. *Member of the Compensation and Corporate Governance Committee*

Corporate office

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www.stepenergyservices.com

Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

"STEP"
Toronto Stock Exchange