



Annual Information Form

For the year ended December 31, 2019

March 11, 2020

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## Presentation of Information

Throughout this AIF, unless otherwise specified or the context otherwise requires, references to "we", "us", "our", "STEP" or "the Company" means STEP Energy Services Ltd. and, where appropriate in the context, to its direct or indirect subsidiaries. Unless otherwise noted, the information contained in this AIF is given at or for the year ended December 31, 2019.

Unless the context otherwise requires, in this AIF, the terms and abbreviations have the meanings set forth in the *Abbreviations, Definitions & Conventions* found in the attached Schedule "A". A reference to "\$" or "dollars" is to Canadian dollars unless otherwise indicated. Certain portions of STEP's MD&A dated March 11, 2020 are incorporated by reference into this AIF as stated below. The MD&A can be found on SEDAR ([www.sedar.com](http://www.sedar.com)) under STEP's profile.

## Forward-Looking Information & Statements

Certain statements contained in this AIF 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 STEP'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 STEP believes the expectations reflected in the forward-looking statements included in this AIF 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 AIF contains forward-looking statements pertaining to: 2020 operation outlook; supply and demand for oilfield services and industry activity levels, including the Company's integrated service offerings; the Company's anticipated business strategies and expected success; effect of weather conditions on the Company's operations; expected completions activity, utilization levels and operating margins in 2020; pricing received for the Company's services; expected profitability for fracturing services in 2020; ability of the Company to maintain its track record of returns and margin performance; the Company's expected performance in 2020; future development activities; planned redeployment of a fourth fracturing crew in the U.S; the Company's ability to retain existing clients and attract new business; monitoring of industry demand, client capital budgets and market conditions; increased clarity on client activity in the fourth quarter of 2020; expected ratification of the USMCA in Canada, the Company's ability to attract and retain qualified personnel, the Company's treatment under governmental regulatory regimes, expected deployment of STEP's Canadian fracturing fleet following maintenance and refurbishment activities, and the Company's dividend policy, should one be adopted.

The forward-looking information and statements contained in this AIF 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 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 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 impact of competition on the Company; the Company's ability to obtain financing on acceptable terms; the amount of available equipment in the marketplace; and client activity levels. 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 AIF: volatility of the oil and natural gas industry; excess equipment levels; merger and acquisition activity among the Company's clients; loss of a significant client could cause the Company's revenue to decline substantially; competition in the oilfield services industry; restrictions on access to capital; restrictive covenants in the Credit Facilities; fluctuations in currency exchange rates; direct and indirect exposure to volatile credit markets; radical activism; reliance on suppliers of raw materials, diesel fuel and component parts; reliance on equipment suppliers and fabricators; federal and provincial legislative and regulatory initiatives 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; cyber-attacks and loss of the Company information and computer systems; 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 realize anticipated benefits of acquisitions and dispositions; inability to manage growth in the U.S.; failure to continuously improve operating equipment and proprietary fluid chemistries; actual results may differ materially from management estimates and assumptions; insufficient internal controls; costs associated with GHG regulations; political and social events in the U.S.; misappropriation or infringement of Company intellectual property rights; improper access to confidential information; director and officer involvement with other oilfield services companies; obsolescence of the Company's technology; and the risk factors set forth under the heading "Risk Factors" in this AIF.

Any financial outlook or future orientated financial information contained in this AIF 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 contained 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 AIF 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.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Refer to the *Risk Factors* section in this AIF.

The forward-looking statements included in this AIF are expressly qualified in their entirety by the above cautionary statement and, except as otherwise indicated, are made as of the date of this AIF. The Company does not undertake any obligation to publicly update or revise any forward-looking statements or departures from them except as required by applicable securities laws.

## Corporate Information

### General

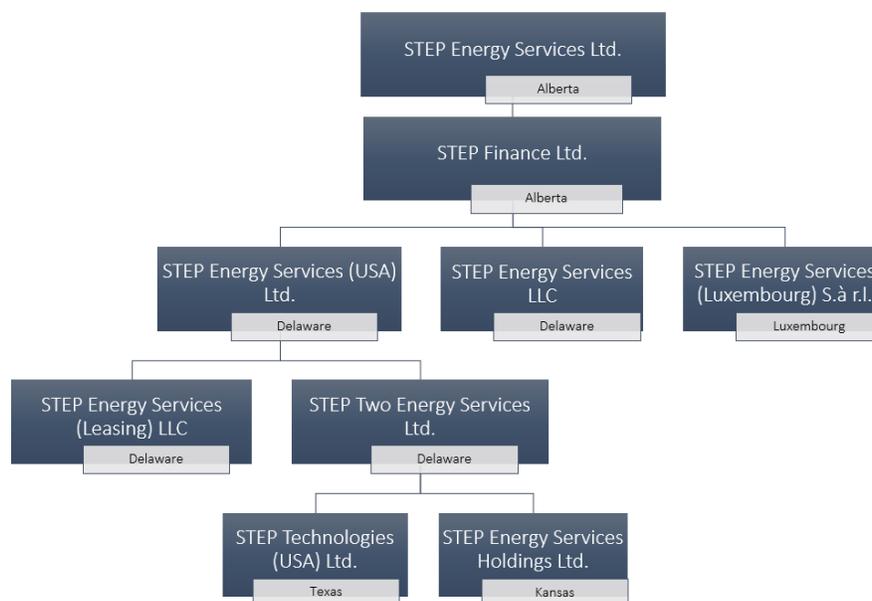
STEP was formed on March 25, 2011 by articles of incorporation under the ABCA and is an oilfield service company that provides specialized and fully integrated coiled tubing, fracturing, and wireline solutions to service oil and natural gas wells in deep, technically challenging plays.

The Company's head office is located at Bow Valley Square II, 1200, 205 – 5th Ave SW, Calgary, Alberta, Canada T2P 2V7. The registered office of the Company is located at 4300 Bankers Hall West, 888 — 3rd Street SW, Calgary, Alberta, Canada T2P 5C5.

In addition to its head office and technical center, both located in Calgary, the Company operates out of strategic locations in the WCSB including Red Deer, Blackfalds, Edson, Grande Prairie, and Medicine Hat in Alberta; and Fort St. John in British Columbia. The Company also operates out of a U.S. office located in San Antonio, Texas, and from strategic locations in Houston, Floresville, Abilene, and Midland in Texas; Tulsa and McAlester in Oklahoma; Williston in North Dakota; and Arcadia in Louisiana.

### Intercorporate Relationships

The following diagram presents the name and jurisdiction of incorporation of STEP's material subsidiaries as at December 31, 2019. Each of the subsidiaries listed below is wholly-owned, directly or indirectly, by STEP.



## General Development of the Business

### Overview

STEP was founded in 2011 as a private company and began operations in the spring of 2012 as a specialized coiled tubing company. It has since grown to become an integrated fracturing, coiled tubing and wireline solutions services provider. This has been accomplished through both the organic development of specialized fit-for-purpose equipment and through strategic acquisitions.

In September 2012, STEP expanded its initial coiled tubing operations through the acquisition of two coiled tubing units and five nitrogen pumps. Over the course of 2013 and 2014, the Company organically built-out its WCSB coiled tubing operations to a total fleet size of 14 purpose-built coiled tubing units. In 2015, STEP extended its coiled tubing operations into the Eagle Ford basin in Texas, U.S.

STEP began its Canadian fracturing operations in 2015. The fracturing service was a natural complement to the Company's original coiled tubing division as both are often at the well location at the same time and working together. STEP executed on key asset acquisitions of fracturing assets including 297,500 HP during 2015 and 2016. The aggregate investment the Company has made to establish its Canadian fracturing operations, including any incremental capital expenditures required to modernize, retrofit and rebrand the assets and new technology additions, is estimated by management to be less than 50% of the equivalent new-build cost.

On May 2, 2017, STEP completed its IPO, issuing 10 million Common Shares at a price of \$10 per Common Share for total gross proceeds of \$100 million. STEP became a "reporting issuer" or the equivalent in each of the provinces of Canada, and its Common Shares trade on the TSX under the symbol "STEP".

On April 2, 2018, the Company acquired Tucker, a company offering fracturing solutions, coiled tubing, and wireline services to oil and gas companies and E&P companies in the U.S. The Tucker Acquisition added fracturing operations to STEP's U.S. service offerings and facilitated the Company's entry into oil and gas basins in Oklahoma and Texas.

## Three Year History & Significant Acquisitions

### Recent Developments

#### 2020

As at March 11, 2020, STEP's Canadian fracturing operations consisted of 282,500 fracturing HP. Of the 282,500 fracturing HP, a fleet of six staffed and operating fracturing spreads represented 225,000 HP (including 132,500 HP with bi-fuel capabilities). Additionally, STEP's Canadian operations also had 16 purpose-built coiled tubing units, ten of which were deployed.

As at March 11, 2020, STEP's U.S. fracturing operations consisted of 207,500 fracturing HP, represented by a fleet of four fracturing spreads of which three were staffed totaling 157,500 HP. The non-staffed pumps are available for deployment as a fourth spread, subject to certain capital requirements for maintenance. Additionally, STEP's U.S. operations had 13 purpose-built coiled tubing units, nine of which were deployed.

In January 2020, the Company entered into an agreement with its syndicate of lenders to make certain amendments to the Credit Facilities in order to provide increased financial flexibility. Refer to the *Description of Capital Structure & Dividend Policy – Credit Facilities* section in this AIF for additional information.

In January 2020, STEP performed its first coiled tubing job in the Bakken formation of North Dakota. This represents a new market for coiled tubing services that the Company previously did not serve.

#### 2019

In July 2019, STEP's Canadian operations achieved a new record coiled tubing depth of 7,445m (24,425 ft.) with 2-3/8" coiled tubing.

On June 25 and August 8, 2019 the Company entered into further agreements with its syndicate of lenders to make certain amendments to the Credit Facilities in order to provide increased financial flexibility. In aggregate, these amendments extended the maturity date of the Credit Facilities and increased the U.S. operating facility to U.S. \$20.0 million to accommodate growth in U.S. operation. These agreements can be found on SEDAR ([www.sedar.com](http://www.sedar.com)) under STEP's profile. Refer to the *Description of Capital Structure & Dividend Policy – Credit Facilities* section in this AIF for more information on the Credit Facilities.

In the first half of 2019, the Company added two STEP-XPRS coiled tubing units in Canada, which brought the total number of available coiled tubing units in its fleet in Canada to 16. The STEP-XPRS is the Company's compact integrated fracturing and coiled tubing spread. It is efficient, versatile and capable of improving the economic efficiencies of stimulation and completion operations. The unit is designed to improve the versatility of coiled tubing operations and minimize rig-in times.

In April 2019, the Company's U.S. coiled tubing operations added an additional coiled tubing unit, which brought the total number of available coiled tubing units in its fleet in the U.S. to 13. Management actively managed staffed equipment in order to maximize utilization and returns given the market demand. On average in 2019, 9 units were staffed, 11 units were maintained and 2 units require certain maintenance and refurbishment.

On March 5, 2019, the Company entered into an agreement with its syndicate of lenders to make certain amendments to the Credit Facilities in order to provide increased financial flexibility, including changes to certain financial covenants and the addition of an equity cure provision. This agreement can be found on SEDAR ([www.sedar.com](http://www.sedar.com)) under STEP's profile. Refer to the *Description of Capital Structure & Dividend Policy – Credit Facilities* section in this AIF for more information on the Credit Facilities.

In January 2019, the Company reconfigured its Canadian fracturing fleet to include six spreads (instead of the prior eight spreads), which still represented a total of 225,000 active HP, in response to the need for increased pumping intensity in the WCSB. Increasing pumping intensity observed in the WCSB has required larger fracturing spreads.

#### 2018

In November 2018, STEP's Canadian operations achieved a new record coiled tubing depth of 7,325m (23,622 ft.) with 2-3/8" coiled tubing.

In November 2018, STEP deployed its tenth coiled tubing unit in the U.S. and its fourteenth Canadian coiled tubing unit into the Viking formation of South West Saskatchewan.

In October 2018, STEP deployed its 14 ft wide coiled tubing unit which began work in the Permian basin in Texas. This 14 ft wide design is capable of carrying 8,000 m (26,000 ft) of 2-5/8" coiled tubing to meet the increasing demand for longer reach lateral wells.

In May 2018, STEP's U.S. fracturing operations deployed the fourth spread representing 50,000 HP. The spread was delivered after the completion of the Tucker Acquisition.

On April 2, 2018, STEP acquired all of the issued and outstanding shares of Tucker for total consideration of U.S.\$263.6 million, after closing adjustments. Tucker offers fracturing solutions, coiled tubing, and wireline services, and its primary client base includes supermajor oil and gas companies and large independent E&P companies. The Tucker Acquisition added two coiled tubing units, four fracturing spreads representing 195,200 HP and 15 wireline units to STEP's U.S. operations. STEP funded the Tucker Acquisition with a combination of cash on hand and the net proceeds from its equity financing of Subscription Receipts, with the balance funded from borrowings under the Credit Facilities. The Tucker Acquisition represented a "significant acquisition" to the Company for the purposes of Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations*. Accordingly, the Company filed a business acquisition report on May 11, 2018, as amended and restated on August 2, 2018, in respect of the Tucker Acquisition, which is available on the Company's profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

In connection with the Tucker Acquisition, STEP completed a bought-deal offering, raising gross proceeds of \$56,311,500 through the issuance of 6,055,000 Subscription Receipts for \$9.30 each, which included the issuance of 675,000 Subscription Receipts pursuant to the partially exercised over-allotment option granted to the syndicate of underwriters. In accordance with their terms, each Subscription Receipt was exchanged for one Common Share upon the closing of the Tucker Acquisition, without payment of additional consideration or further action on the part of the holder thereof.

Also in connection with the Tucker Acquisition, STEP entered into the Credit Facilities with a syndicate of lenders, comprised initially of a \$330.0 million revolving syndicated credit facility, a \$10.0 million operating facility and a U.S.\$7.5 million operating facility. Refer to the *Description of Capital Structure & Dividend Policy – Credit Facilities* section in this AIF for additional information.

In March 2018, the Company took delivery of its seventh and eighth newly-built U.S. coiled tubing units and deployed them in Texas.

In March 2018, the Company deployed its eighth fracturing spread in Canada, which represented 16,000 HP and brought the Canadian total to 225,000 active HP.

## 2017

In December 2017, the Company deployed a seventh 24-hour fracturing spread in Canada, which represented an additional 32,250 HP for an aggregate of 209,000 HP fracturing operating capacity.

In 2017, STEP announced and closed a \$65 million bought deal secondary offering at a price of \$12.25 per Common Share, together with an over-allotment option in favour of the syndicate of underwriters. Upon completion in December 2017, a total of 5,957,000 Common Shares were sold for aggregate gross proceeds of \$72,973,250. The net proceeds of this secondary offering were paid to ARC Energy Fund 6 and ARC Energy Fund 8. STEP did not receive any proceeds from this secondary offering.

In October 2017, the Company deployed a thirteenth coiled tubing spread in Canada.

In September 2017, the Company took delivery of its sixth newly-built U.S. coiled tubing spread and deployed it in Louisiana.

In July 2017, the Company took delivery of its fifth newly-built U.S. coiled tubing spread and deployed it in Louisiana.

In June 2017, the Company deployed a sixth 24-hour fracturing spread in Canada, which represented an additional 31,750 HP for an aggregate of 176,750 HP operating fracturing capacity.

In May 2017, STEP completed its IPO, whereby 10 million Common Shares were issued at a price of \$10 per Common Share for total gross proceeds of \$100 million.

In March 2017, STEP entered into the Prior Credit Facilities, comprised of a \$90 million revolving loan and a \$10 million operating loan, that remained in place and were available for draws until STEP secured and entered into the Credit Facilities in April 2018 (refer to the *Description of Capital Structure & Dividend Policy – Credit Facilities* section in this AIF for more information). No amounts were drawn under the Prior Credit Facilities when they were replaced by the Company's current Credit Facilities in April 2018.

In March 2017, STEP's Canadian operations achieved a new record coiled tubing depth of 7,200m (23,622 ft.) with 2-3/8" coiled tubing.

In February 2017, the Company deployed a fifth 24-hour fracturing spread in Canada, which represented an additional 15,000 HP for an aggregate of 145,000 HP operating fracturing capacity.

In February 2017, the Company amended its articles of incorporation to remove its private company restrictions, increase the maximum number of directors to 11, consolidate the issued and outstanding Common Shares on a 5:1 basis and add a class of preferred shares, issuable in series, with the Board having authority to determine, before the issuance thereof, the characteristics of such preferred shares.

In January 2017, the Company deployed its fourth 24-hour fracturing spread in Canada, representing an additional 30,000 HP for an aggregate of 130,000 HP operating fracturing capacity.

## Description of the Business & Operations

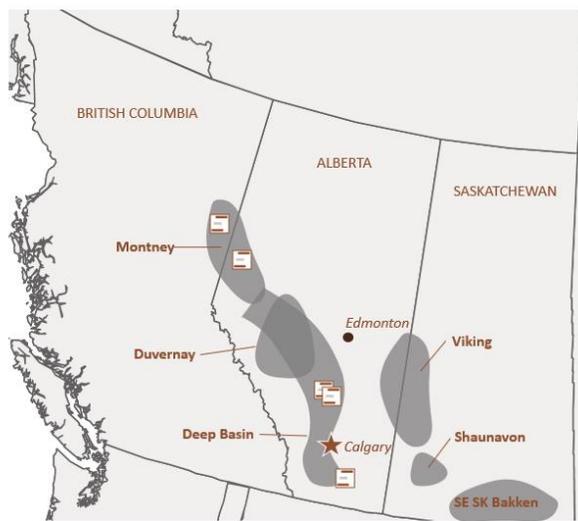
### General Description

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. STEP has a high-performance safety focused culture and its experienced technical office and field professionals are committed to providing innovative, reliable and cost-effective solutions to its E&P clients.

Founded as a specialized deep capacity coiled tubing company, STEP now provides an integrated solution for deep capacity coiled tubing services and fracturing to E&P companies in Canada and the U.S. Our Canadian integrated services are focused in the WCSB, while in the U.S., our coiled tubing services are focused in the Permian and Eagle Ford basins in Texas. The Tucker Acquisition in 2018 allowed STEP to add fracturing services to its U.S. service offerings and provided an entry into oil and gas basins in Oklahoma and Texas.

### Canadian and U.S. Fracturing / Coiled Tubing Markets

#### Canada Pressure Pumping / Coiled Tubing Markets



#### U.S. Pressure Pumping / Coiled Tubing Markets



As at December 31, 2019, STEP's key assets were as follows:

#### *In Canada:*

- a fleet of 282,500 HP in fracturing capacity, with 225,000 HP servicing E&P companies in the Montney, Duvernay, Viking and Deep Basin areas, and the balance is expected to be deployed following maintenance, and refurbishment activities as market conditions improve; and
- 16 purpose-built coiled tubing units, nine of which were deployed at December 31, 2019 in primarily the same plays.

#### *In the U.S.:*

- a fleet of 207,500 HP, 157,500 HP of which is deployed as three spreads operating in the Permian and Eagle Ford basins in Texas, the balance expected to be deployed as market conditions improve and utilization increases; and
- 13 purpose-built coiled tubing units. Eight units were deployed in the Permian and Eagle Ford basins in Texas, 3 units were maintained for re-deployment and 2 units require refurbishment.

## Fracturing Services

Fracturing services involve pumping a customized fracturing fluid through a wellbore and into a target reservoir formation. With the advent of the modern shale play, fracturing intensity (length of laterals, number of fracturing stages and volume of proppant per stage) has increased, requiring a considerable amount of technical skill from service companies in designing fracturing fluids and managing the fracturing process. As a result, STEP's chemical lab solutions team is an integral part of the fracturing and re-fracturing operation, working closely with clients and field professionals to provide fit-for-purpose solutions in stimulation chemistry, acidizing and production enhancement, in addition to introducing newly developed proppant handling and blender technology and equipment.

STEP began its conventional fracturing operations in 2015, following the acquisition of certain liquid petroleum fracturing assets comprising of 115,000 fracturing HP from Gasfrac, which had entered into creditor protection under the CCAA. The assets acquired from Gasfrac included liquid propane fracturing equipment and certain intellectual property rights, as well as certain inventory (such as proppant), office furniture and fixtures, and land and buildings in Edson, Alberta and Floresville, Texas. Prior to the acquisition from Gasfrac, STEP did not offer conventional hydraulic fracturing services and only began offering such services following completion of the modifications and repurposing required of the Gasfrac assets (which were designed for liquid propane fracturing), and the purchase of other support equipment such as proppant handling and blender equipment, and the internal development of technology and related processes, all of which was required in order to deploy such assets for conventional fracturing.

In May 2016, STEP acquired conventional hydraulic fracturing assets comprising of 165,000 fracturing HP from Sanjel, which had entered into creditor protection under the CCAA. The conventional hydraulic fracturing assets acquired from Sanjel included fracturing and coiled tubing equipment, as well as certain field equipment, office furniture and fixtures, rights in respect of certain intellectual property and certain inventory (such as chemicals and spare parts). Following the acquisition of the assets from Sanjel, STEP increased its fracturing workforce and independently bid for and secured fracturing services clients. The assets acquired from Sanjel were dormant at the time of acquisition and required maintenance and repair expenditures prior to deployment.

Late in the second quarter and early in the third quarter of 2016, STEP acquired an additional 17,500 HP of fracturing services equipment, increasing its Canadian fracturing fleet to 297,500 HP.

In Canada, STEP offers fracturing services predominantly in the deeper, more technically challenging plays in Alberta and northeast British Columbia. As of December 31, 2019, the Company's hydraulic fracturing fleet consisted of 282,500 HP in Canada, of which 225,000 HP was active with the balance expected to be deployed, following maintenance and refurbishment activities, as market opportunities dictate. STEP's pumping equipment includes a fleet combination of 2,250, 2,500 and 3,000 HP quintaplex pumps and associated equipment. The Company also offers one of the largest bi-fuel fleets in Canada, representing 132,500 HP, or approximately 47% of STEP's Canadian fleet. Bi-fuel equipment can run on either diesel or natural gas, notably reducing diesel consumption by up to 65%, lowering operating costs and reducing the impact to the environment. In addition, STEP provides a fully customizable web-based real-time viewing platform, "Fieldview", to monitor fracturing stimulations. Powered by MRL Integrated Solutions Ltd., Fieldview is accessible to all clients and STEP professionals to observe live treatments and evaluate previous stimulations.

Effective April 2, 2018, the Company acquired all of the issued and outstanding shares of Tucker, which added fracturing services to STEP's U.S. service offerings and provided an entry into oil and gas basins in Oklahoma and Texas. The Tucker Acquisition included four fracturing

spreads representing 192,500 HP (of which three spreads are currently operating), two coiled tubing units (not currently active), and 15 wireline units. Currently the U.S. fracturing operations provide services primarily in South and West Texas.

The success of the Company's fracturing services line is in part attributable to the reliable, safe and efficient delivery of fracturing services. STEP's dedicated logistics professionals ensure people, equipment, chemicals and proppant are in the right place at the right time. STEP has access to both northern white and domestic proppant; multiple transload sites to maximize efficiencies; proppant staging to provide on-time delivery; chemical bulk delivery services; and a supply of nitrogen and on-site storage, providing integrated completion services, such as lab testing and engineering modeling, and project management to STEP's clients.

## Coiled Tubing Services

A coiled tube is a continuous long steel pipe that is transported on a reel and straightened when utilized. Coiled tubing services are primarily used in the completion of new wells or enhancement of existing wells. The first coiled tubing unit was developed in 1962 for well cleanouts. The recent advancement of deep resource plays (Montney, Duvernay, Deep Basin, Permian, Eagle Ford, and Haynesville) and horizontal pad drilling has increased the demand for deeper, sophisticated coiled tubing units.

Over the last eight years, coiled tubing has advanced from traditional well servicing (cleanouts, interventions) to becoming an integral part of the initial completions process. It is now commonly utilized for milling plugs, annular fracturing, and recompletions.

STEP believes that coiled tubing may be appropriately applied in connection with all completion methods, and therefore may be used on all well sites. For example, coiled tubing is compatible with the plug and perf well completion technique, or the sliding sleeve well completion frac-isolation system.

The Company's 29 coiled tubing units are designed for 38.1 mm to 73.0 mm (1-1/2" to 2-7/8") outside diameter with lengths that can service the deepest wells in North America, with a current depth record of 7,445 metres. To provide these services, STEP utilizes specialized coiled tubing units and associated equipment, including ultra-capacity reel trailers, twin 15,000 pounds per square inch fluid pumps, purpose-built Command Centers, nitrogen pumping units and transports. STEP's fluid pumping equipment, which provides pumping support for coiled tubing operations, pump-down services and diagnostic fracture testing, is fully integrated with redundant twin quintaplex pumping units and can be used in conjunction with the Company's coiled tubing units or for stand-alone projects. STEP's nitrogen pumping units support coiled tubing and hydraulic fracturing operations, including nitrogen cleanouts and purging, well kick-arounds, nitrified acid assist, foam cementing assists, underbalanced drilling assists, pressure testing vessels, pipeline pigging and facility purging. Key equipment components have been selected to meet the demands of 24-hour continuous operations and high downhole pressures. The Company utilizes coiled tubing intervention modeling software to simulate well conditions and predict coiled tubing performance while in the field. Data acquisition software is used to monitor and record well conditions and coiled tubing spread parameters during the job, which are displayed real-time in the Company's control cab and can be monitored remotely.

The Company's commitment to technology and deep capacity coiled tubing equipment are a differentiator to its clients, resulting in enhanced utilization in an otherwise challenging market. Clients have provided positive support for the STEP-IQ suite of products and services, including STEP-conneCT. STEP-conneCT is a downhole data acquisition tool that provides real time data to the surface during milling operations. This data allows operators to evaluate critical job parameters and make instant decisions to reduce motor stalls and non-productive time.

In addition to the integration of the Company's fracturing and coiled tubing service lines, STEP also provides in-house engineering, lab, procurement, health, safety and environment, maintenance and operations management expertise to manage and optimize project outcomes. The utilization of a "Site Manager" model facilitates enhanced communication with onsite client personnel, enhanced communication with corporate personnel, ongoing training and mentoring, improved safety, and tighter management of operations.

## Segmented Revenue Allocation

The following table shows the revenues generated in Canada and the U.S. over the past two years ended December 31, by service:

Location & Service	2018		2019	
	(\$ 000s) Amount	% of Total Revenue	(\$ 000s) Amount	% of Total Revenue
<b>Canada</b>				
Fracturing	350,628	45	251,544	38
Coiled Tubing	128,260	16	103,120	15
<b>Canada Total</b>	<b>478,888</b>	<b>61</b>	<b>354,664</b>	<b>53</b>

<b>U.S.</b>				
Fracturing	202,873	26	217,543	33
Coiled Tubing	100,002	13	96,090	14
<b>U.S. Total</b>	<b>302,875</b>	<b>39</b>	<b>313,633</b>	<b>47</b>
<b>Corporate Total</b>	<b>781,763</b>	<b>100</b>	<b>668,297</b>	<b>100</b>

## Other Business Information

### Target Market and Clients

STEP provides oilfield services to a broad range of publicly-owned and private E&P companies in Canada and the U.S., from large, multinational to small, junior companies. The Company has enjoyed a stable relationship with its clients, but acknowledges that it operates in a highly competitive industry with other suppliers offering similar services. STEP attempts to mitigate this risk by utilizing service contracts where possible, and striving to produce safe, consistent, cost-effective, high-quality services. As at December 31, 2019, the Company's five largest clients collectively represented approximately 48% of its revenue and its largest client accounted for approximately 22% of its revenue.

Refer to the *Risk Factors – Risks Related to the Company – The Company's client base is concentrated, and loss of a significant client could cause its revenue to decline substantially* section in this AIF for additional information.

### Competitive Conditions

The markets in which the Company operates are highly competitive. To be successful, a service provider must provide services that meet the specific needs of the oil and natural gas E&P companies at competitive prices. The principal competitive factors in the oilfield services market are service and product quality, equipment capacity and availability, performance, technical knowledge and experience, safety performance and price. The Company currently operates in Canada and the U.S. In each of these jurisdictions, the Company competes against a large number of other entities that offer similar services. STEP's competition includes multi-national oilfield service companies as well as regional competitors. The Company's major competitors in North America include Schlumberger Ltd., Halliburton Company, and BJ Services; the major competitors in Canada include Essential Energy Services Ltd., Calfrac Well Services Ltd., Trican Well Service Ltd.; and the major competitors in the U.S. include NexTier Oilfield Solutions, Liberty Oilfield Services, ProPetro Holding Corporation, Nine Energy Service, Basic Energy Services, Key Energy Services, Conquest Completion Services, Coil Tubing Partners, KLX Energy Services, Gladiator Energy, and Forbes Energy Services.

Refer to the *Risk Factors – Risks Related to the Company – The Company's industry is intensely competitive* section in this AIF for additional information.

### Contracts

The Company operates under a number of key supplier and client arrangements. These agreements set out the commercial terms under which the Company's services will be provided. The majority of the arrangements do not contain a guaranteed minimum commitment of work.

### Professionals

STEP had approximately 1,391 professionals, consisting of 894 in Canada and 497 in the U.S. as at December 31, 2019.

### Seasonality

In Canada, the level of activity in the oilfield services sector is influenced by seasonal weather patterns. On a quarterly basis, activity can vary greatly. In typical years, the first calendar quarter is the most active in the well stimulation services industry, the second quarter is the least active, and the third and fourth quarters typically reflect increasing activity over the preceding quarter. During the second quarter, commonly referred to as the "spring break-up", the frost leaves the ground making certain roads incapable of supporting the weight of heavy equipment, resulting in restrictions in the level of oilfield servicing activity across western Canada.

Activity in the southern U.S. is generally not as influenced by seasonal conditions.

Refer to the *Risk Factors – Risks Related to the Company – The Company is susceptible to seasonal volatility in its operating and financial results due to adverse weather conditions* section in this AIF for additional information.

## Specialized Skill and Knowledge

The Company's team is selected specifically for its technical and professional expertise, as well as cultural fit. This complementary mix is present in both corporate and field personnel, and has facilitated the advancement of operational efficiencies and technological improvements. The Company has made significant investments to recruit experienced professionals, provide ongoing training programs and integrated a rigorous auditing process to ensure it complies with industry standards. Using progressive health, safety and environment management, training programs and individually selected third-party services allows STEP to meet its stringent client requirements.

Refer to the *Risk Factors – Risks Related to the Company – The Company relies on a few key professionals whose absence or loss could disrupt its operations and have a material adverse effect on its business*, and the *Risk Factors – Risks Related to the Company – Difficulty in retaining, replacing or adding personnel could adversely affect the Company's business* sections in this AIF for additional information.

## Private Equity Investor

The ARC Funds have provided three separate financing commitment rounds, including two financing commitment rounds during the 2014-2016 downturn in the O&G industry. Mr. Freel, a Managing Director of ARC Financial Corp. (which advises the ARC Funds) serves as the Chair of the Board of STEP and brings over two decades of oilfield services industry experience in engineering and investment roles to the Company, including nine years with Schlumberger Ltd.

Refer to the *Principal Shareholders* section in this AIF for additional information.

## Intellectual Property

The Company's success in fracturing has been facilitated by its ability to provide customized fracturing fluids, which typically consist of a mix of proprietary chemicals that, together with STEP's design of the fracturing process, result in its clients' wells being more productive. STEP's chemical lab solutions team works closely with clients and field professionals to provide fit-for-purpose solutions in stimulation chemistry, acidizing and production enhancement. The Company undertakes to protect the intellectual property that it develops through confidentiality agreements and, where appropriate, applications for patent protection.

Refer to the *Risk Factors – Risks Related to the Company – There can be no assurance that the steps the Company takes to protect its intellectual property rights will prevent misappropriation or infringement* section in this AIF for additional information.

## Regulation

The Company's operations are subject to various federal, provincial, state and local laws affecting the oilfield services industry across Canada and the U.S. These laws include those relating to employee health and safety, environmental permitting and licensing, the release of substances into the environment, emissions, water pollution, waste management, remediation of soil and groundwater contamination, land use, reclamation and restoration of properties, hazardous materials, and the O&G industry in the jurisdictions where the Company operates. The Company and its customers are required to adhere to these regulations and non-compliance can result in significant costs and liabilities. While the Company believes that its operations are in substantial compliance with these laws and regulations, and that continued compliance with current requirements would not have a material adverse effect on the Company, its business, financial position, results of operations or cash flows. There is no assurance that this degree of compliance will continue into the future. Furthermore, there can be no assurance that future events, such as changes in existing laws or enforcement policies, the promulgation of new laws or regulations, or the development or discovery of new facts or conditions adverse to its operations will not cause the Company to incur significant costs.

The Company's customers are subject to extensive controls and regulations imposed by various levels of government. These governments may regulate or intervene with respect to price, taxes, royalties, and exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic and political conditions and could potentially have an adverse effect on the Company's clients and thus an effect on its operations.

Environmental laws and regulations that could have a material impact on the oil and natural gas industry include the following:

### **Hazardous Substances and Wastes**

The Environmental Protection and Enhancement Act ("**EPEA**") (Alberta), the Oil and Gas Conservation Act ("**OGCA**") (Alberta) and the Transportation of Dangerous Goods Act (Federal), among their other functions, regulate the manners, methods and limits to be applied in the generation, transportation, treatment, storage, disposal, and clean-up of hazardous wastes, recyclables, and non-hazardous wastes in Canada. Individual provinces administer some or all of the transportation of dangerous goods regime, in addition to or in concert with existing provincial environmental protection and oil and gas industry obligations.

Drilling fluids, produced waters, and many other wastes associated with the exploration, development, and production of crude oil, natural gas, or geothermal energy generally constitute "oilfield waste," for the purposes of the EPEA and OGCA which are regulated by a number of AER directives, such as Directives 030, 047, 050, 051, 058 and 075. In addition, ordinary industrial wastes, such as paint wastes, waste solvents, laboratory wastes and waste oils, many of which are generated by the oil and gas industry, may be regulated as hazardous waste, if they have hazardous characteristics or are listed as hazardous waste.

The Company believes that it is currently in substantial compliance with the hazardous waste requirements of the EPEA and OGCA and related regulations, and that it holds all necessary and up-to-date permits, registrations and other authorizations to the extent that its operations require them under such laws and regulations. Although the Company does not believe the current costs of managing its wastes as presently classified to be significant, any legislative or regulatory reclassification of oil and natural gas exploration and production wastes could increase the Company's costs to manage and dispose of such wastes. Moreover, failure to comply with such waste handling requirements can result in the imposition of administrative, civil and criminal penalties.

The EPEA also imposes potential liability, on all persons who are considered a "person responsible" for the release of a substance into the environment. Persons responsible include the current, as well as former, owner or operator of the site where the release occurred and persons that have or had charge, management or control of the substance, including the manufacture, treatment, sale, handling, use, storage, disposal, transportation, display or method of application of the substance. Under EPEA, a "person responsible" may be liable for the costs of cleaning up certain substances released into the environment, or may be directed to take mitigative actions, including the clean-up of the substance. In addition, neighbouring landowners and other third parties may file claims for personal injury and property damage allegedly caused by such substances released into the environment.

The Company currently services numerous properties that have produced oil and natural gas for many years. Although the Company believes it has utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes, oilfield wastes or hydrocarbons may have been released on, under, or from the properties serviced by the Company, or on, under or from other locations, including off-site locations, where such substances have been taken for disposal. These properties and the substances disposed or released on, under or from them may be subject to EPEA or other common law requirements. Under such laws, the Company could be required to investigate the nature and extent of contamination, remove and/or clean up previously disposed substances and wastes, remediate contaminated soil or groundwater, or perform other operations to prevent future contamination.

The *Resource Conservation and Recovery Act* ("**RCRA**"), and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of "hazardous wastes" and non-hazardous wastes in the U.S. Under the authorization and oversight of the EPA, individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. The EPA also retains enforcement authority in any state-administered RCRA programs. Drilling fluids, produced waters, and many other wastes associated with the exploration, development, and production of crude oil, natural gas, or geothermal energy constitute "solid wastes," which are regulated under the less stringent non-hazardous waste provisions. However, there is no guarantee that the U.S. Congress, the EPA or individual states will not adopt more stringent requirements for the handling of non-hazardous wastes or categorize some non-hazardous wastes as hazardous for future regulation under RCRA. In addition, ordinary industrial wastes, such as paint wastes, waste solvents, laboratory wastes and waste oils, many of which are generated by the oil and gas industry, may be regulated as hazardous waste, if they have hazardous characteristics or are listed as hazardous waste.

The Company believes that it is currently in substantial compliance with the requirements of RCRA and related state and local laws and regulations, and that it holds all necessary and up-to-date permits, registrations and other authorizations to the extent that its operations require them under such laws and regulations. Although the Company does not believe the current costs of managing its wastes as presently classified to be significant, any legislative or regulatory reclassification of oil and natural gas exploration and production wastes could increase the Company's costs to manage and dispose of such wastes. Moreover, failure to comply with such waste handling requirements can result in the imposition of administrative, civil and criminal penalties.

The *Comprehensive Environmental Response, Compensation and Liability Act* ("**CERCLA**"), also known as the "Superfund" law, and analogous state laws, impose strict, and in certain circumstances joint and several liability, on persons who are considered to be responsible for the release of a "hazardous substance" into the environment. Responsible parties include the current, as well as former, owner or operator of the site where the release occurred and persons that disposed or arranged for the disposal of the hazardous substance at the site, regardless of whether the disposal of hazardous substances was lawful at the time of the disposal. Under CERCLA, and analogous state laws, such persons may be liable for the costs of cleaning up the hazardous substances released into the environment, damages to natural resources and certain health studies. In addition, neighboring landowners and other third parties may file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. Crude oil and fractions of crude oil are excluded from regulation under CERCLA (often referred to as the "petroleum exclusion"). Nevertheless, many chemicals commonly used at oil and gas production facilities fall outside of the CERCLA petroleum exclusion.

The Company currently services numerous properties that have produced oil and natural gas for many years. Although the Company believes it has utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes, or hydrocarbons may have been released on, under, or from the properties serviced by the Company, or on, under or from other locations, including off-site locations, where such substances have been taken for disposal. These properties and the substances disposed or released on, under or from them may be subject to CERCLA, RCRA, analogous state laws or common law requirements. Under such laws, the Company could be required to investigate the nature and extent of contamination, remove previously disposed substances and wastes, remediate contaminated soil or groundwater, or perform remedial plugging or pit closure operations to prevent future contamination.

### **Water Discharges**

Water discharges where pollutants may be present can be considered as a release of a substance into the environment in Alberta and are governed and regulated by the EPEA. Refer to the *Risk Factors – Risks Related to the Company – The Company is subject to a number of health, safety and environmental laws and regulations that may require it to make substantial expenditures or cause it to incur substantial liabilities* in this AIF for additional information. Water discharged as part of a water license or diversion in Alberta is governed pursuant to the *Water Act*, which regulates activities that may alter the flow, location or level of water, cause siltation or erosion, or otherwise impact aquatic life. Water discharges affecting federal lands or waters in Canada, or water released in association with activities under federal jurisdiction are governed by the *Canadian Environmental Protection Act, 1999* ("**CEPA**"). The CEPA creates and imposes requirements for pollution-prevention and emergency response to releases of toxic substances and establishes provisions for the regulation of environmental activities on federally regulated lands such as national parks, airports, railroads, or inter-provincial pipelines.

In the U.S., the *Federal Water Pollution Control Act*, also known as the *Clean Water Act* ("**CWA**"), and analogous state laws impose restrictions and strict controls on the discharge of pollutants, including produced waters and other oil and natural gas wastes, into waters of the U.S. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by EPA or the relevant state agency. The CWA also prohibits the discharge of dredge and fill material in regulated waters, including wetlands, unless authorized by a permit issued by the U.S. Army Corps of Engineers. In May 2015, the EPA and the U.S. Army Corps of Engineers jointly announced a final rule defining the "Waters of the United States" ("**WOTUS**") which are protected under the CWA. The new rule, which would have made additional waters expressly Waters of the United States and therefore subject to the jurisdiction of the CWA, rather than subject to a case-specific evaluation, was stayed by the U.S. Court of Appeals for the Sixth Circuit before it took effect. In February, 2018, EPA officially delayed implementation of the 2015 rule until early 2020, and in July 2018, the EPA proposed repeal of the 2015 WOTUS rule. Later that year, EPA's decision was challenged in court, which resulted in a decision by the U.S. District Court for the District of South Carolina to enjoin EPA's February 2018 delay rule. Several states then acted to halt reinstatement of the 2015 WOTUS rule, the effect of all of which was that the 2015 WOTUS definition was in effect in 22 states. In September 2019, the EPA finalized the repeal of the 2015 WOTUS rule. The repeal became effective in December 2019, leaving the pre-2015 standards in place. Meanwhile, in December 2018, the EPA and the U.S. Army Corps of Engineers issued a proposed rule to revise the definition of "Waters of the United States." The rule was finalized in January, 2020 and will become effective 60 days after publication in the Federal Register. The rule narrows the definition, excluding, for example, streams that flow only after precipitation and wetlands without a direct surface connection to other jurisdictional waters. Litigation by parties opposing the rule quickly followed. Due to the administrative procedures required to establish the rule and pending litigation, the new definition of "Waters of the United States" may not be implemented, if at all, for several years.

Federal, state and provincial regulatory agencies in the U.S. and Canada can impose administrative, civil and criminal penalties for non-compliance with discharge permits or other requirements of environmental laws and regulations affecting water discharges. Issues pertaining to wastewater generated by oil and natural gas exploration and production activities are drawing increased scrutiny from state legislators and may lead to additional regulations. Federal and provincial regulatory bodies in Canada can similarly impose administrative, civil, and criminal penalties for non-compliance with applicable permits. Any legislative or regulatory reclassification or amendments affecting water discharges and water discharge practices could increase the Company's costs to manage and dispose of water.

## Disposal Wells

In the U.S., the federal *Safe Drinking Water Act* ("SDWA") and the Underground Injection Control ("UIC") program promulgated under the SDWA and state programs regulate the drilling and operation of salt water disposal wells. The EPA directly administers the UIC program in some states and in others administration is delegated to the state. Permits must be obtained before drilling salt water disposal wells, and casing integrity monitoring must be conducted periodically to ensure that the disposed waters are not leaking into groundwater. Because some states have become concerned that the disposal of produced water could, under certain circumstances, trigger or contribute to earthquakes, they have adopted or are considering additional regulations regarding such disposal methods. For example, in 2014, the Railroad Commission of Texas ("RRC") published a final rule governing permitting or re-permitting of disposal wells that would require, among other things, the submission of information on seismic events occurring within a specified radius of the disposal well location, as well as logs, geologic cross sections and structure maps relating to the disposal area in question. If the permittee or an applicant of a disposal well permit fails to demonstrate that the injected fluids are confined to the disposal zone or if scientific data indicates such a disposal well is likely to be or determined to be contributing to seismic activity, then the RRC may deny, modify, suspend or terminate the permit application or existing operating permit for that well.

In addition, several cases have recently put a spotlight on the issue of whether injection wells may be regulated under the CWA if a direct hydrological connection to a jurisdictional surface water can be established. The split among federal circuit courts of appeals that decided these cases engendered two petitions for writ of certiorari to U.S. Supreme Court in August 2018, one of which was granted in February 2019. Oral arguments were presented to the U.S. Supreme Court in November 2019 and the U.S. Supreme Court is expected to rule sometime this year (2020). Those petitions are currently pending. The EPA has also brought attention to the reach of the CWA's jurisdiction in such instances by issuing a request for comment in February 2018 regarding the applicability of the CWA permitting program to discharges into groundwater with a direct hydrological connection to jurisdictional surface water, which hydrological connections should be considered "direct", and whether such discharges would be better addressed through other federal or state programs. In a statement issued by the EPA in April 2019, the EPA concluded that the CWA should not be interpreted to require permits for discharges of pollutants that reach surface waters via groundwater. However, should the U.S. Supreme Court rule that CWA permitting be required for saltwater injections wells, the costs of permitting and compliance for the Company's operations could increase.

In Alberta, water injection and disposal wells are regulated directly by the AER under the OGCA and EPEA through a number of directives, including directive 051, which sets out acceptable waste streams and fluid types, and provides requirements for wellbore design, integrity logging, monitoring, operating, and reporting requirements for injection and disposal wells. Refer to the *Risk Factors – Risks Related to the Company – The Company is subject to a number of health, safety and environmental laws and regulations that may require it to make substantial expenditures or cause it to incur substantial liabilities* in this AIF for additional information.

Contamination of groundwater by oil and natural gas drilling, production, and related operations may result in fines, penalties, and remediation costs, among other sanctions and liabilities under the OGCA, EPEA, SDWA, potentially the CWA, and other state and provincial laws. In addition, third party claims may be filed by landowners and other parties claiming damages for alternative water supplies, property damages, and bodily injury.

## Hydraulic Fracturing

Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production. Due to seismic activity reported in the Fox Creek, Brazeau Dam and Red Deer areas of Alberta, the AER has announced new seismic monitoring and reporting requirements for fracturing operators operating primarily in the Duvernay zone and other stratigraphic zones in the Fox Creek area, as well as in certain zones near the Brazeau Dam area and Red Deer area. These requirements include, among others, an assessment of the potential for seismicity prior to operations, the implementation of a response plan to address potential events, and the suspension of operations if a seismic event above a particular threshold occurs. The AER continues to monitor seismic activity around the province and may extend these requirements to other areas of the province if that is deemed to be necessary. In British Columbia, the British Columbia Oil and Gas Commission completed two reports on seismic events related to fracturing and deep wastewater disposal wells, and has imposed mitigation measures, including seismic risk assessments for disposal wells, pressure and reporting conditions during operations, and regulations to shut down industry operations if seismic activity reaches a certain threshold.

Increased regulation and attention given to the fracturing process could lead to greater opposition, including litigation, to oil and natural gas production activities using fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil, natural gas, and natural gas liquids including from the development of shale plays, or could make it more difficult to perform fracturing. The adoption of additional federal, provincial or local laws or the implementation of regulations regarding fracturing could potentially cause a decrease in the completion of new oil and natural gas wells, increased compliance costs and time, which could materially adversely affect demand for the Company's fracturing services and, as a result, the Company's business, financial condition, results of operations and cash flows.

In the U.S., sponsors of bills previously proposed before the Senate and House of Representatives have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. The proposed legislation, which was reintroduced to Congress on December 17, 2019, would require the reporting and public disclosure of chemicals used in the fracturing process, which is already required by some state agencies governing our operations, including the RRC. Such disclosure requirements could make it easier for third parties opposing the use of hydraulic fracturing to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. In addition, these bills, if adopted, could repeal the exemptions for hydraulic fracturing from the SDWA.

On March 20, 2015, the U.S. Bureau of Land Management ("BLM") released its new regulations governing hydraulic fracturing operations on federal and Indian lands, including requirements for chemical disclosure, well bore integrity and handling of flowback water. The U.S. District Court of Wyoming temporarily stayed implementation of this rule in June 2016, but the U.S. Court of Appeals for the Tenth Circuit later lifted the lower court's stay on the basis that the BLM had proposed to rescind the rule in June 2017. In December of 2017, the BLM repealed the 2015 regulations, and environmental organizations and the State of California are suing the BLM and the Secretary of the U.S. Department of the Interior over the repeal. The regulations, if reinstated, may result in additional levels of regulation or complexity with respect to existing regulations that could lead to operational delays, increased operating costs and additional regulatory burdens that could make it more difficult to perform hydraulic fracturing and increase STEP's costs of compliance and doing business.

## Endangered Species

The *Species At Risk Act* (Federal), the *Migratory Birds Convention Act* (Federal), and *Wildlife Act* (Alberta), among other analogous environmental protection legislation in Canada, designate a number of species and critical habitats for species that are listed as endangered or threatened, and these statutes may regulate or otherwise limit activities that adversely affect such species or critical habitats. The designation of previously unidentified endangered or threatened species in areas where the Company operates could cause it to incur additional costs or become subject to operating delays, restrictions, bans or restrictive conditions on its licences, permits and registrations under applicable legislation.

The U.S. federal *Endangered Species Act* ("ESA") and analogous state laws regulate a variety of activities that adversely affect species listed as threatened or endangered under the ESA or their habitats. The designation of previously unidentified endangered or threatened species in areas where the Company operates could cause it to incur additional costs or become subject to operating delays, restrictions or bans.

Refer to the *Risk Factors – Risks Related to the Company – Federal, provincial and state legislative and regulatory initiatives relating to fracturing could result in increased costs and additional operating restrictions or delays*, *Risk Factors – Risks Related to the Company – The Company is subject to a number of health, safety and environmental laws and regulations that may require it to make substantial expenditures or cause it to incur substantial liabilities*, and *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulations, existing and proposed, may adversely affect the Company's business, operations and financial results* sections in this AIF for additional information.

## Environmental Protection & Social Policies

### Environmental Protection

The oilfield services industry is subject to environmental regulations pursuant to a variety of Canadian and U.S. federal, provincial, state and local legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain industry operations. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in significant penalties, material fines, and civil liability for pollution damage.

Refer to the *Other Business Information – Regulation*, *Risk Factors – Risks Related to the Company – Federal, provincial and state legislative and regulatory initiatives relating to fracturing could result in increased costs and additional operating restrictions or delays*, *Risk Factors – Risks Related to the Company – The Company is subject to a number of health, safety and environmental laws and regulations that may require it to make substantial expenditures or cause it to incur substantial liabilities*, and *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulations, existing and proposed, may adversely affect the Company's business, operations and financial results* sections in this AIF for additional information.

STEP is committed to meeting its responsibilities to protect the environment where it operates and has taken the required steps to ensure substantial compliance with environmental legislation wherever it operates. The Company did not incur any material expenditure in the past year as a result of environmental protection requirements, nor does it anticipate any environmental protection requirements to have any material effects on capital expenditures or earnings in 2019. STEP operates one of the largest bi-fuel fracturing fleets in Canada, with

capabilities of 132,500 HP. Bi-fuel reduces diesel consumption by up to 65% and importantly reduces the impact of carbon emissions to the environment.

### *Social Policies*

We are committed to conducting our business and affairs in accordance with our core values, vision, purpose and highest ethical standards. As part of these efforts, STEP maintains a written Code of Business Conduct and Ethics ("**Code**"), applicable to directors, officers, professionals, consultants and contractors. The Code provides guidance on areas such as conflict of interest, outside employment and directorships, confidential information, protection and proper use of corporate assets, fair dealings with our shareholders, customers, suppliers and competitors, corporate communications, compliance with applicable laws, and reporting illegal or unethical behavior. The Code is posted on our website ([www.stepenergyservices.com](http://www.stepenergyservices.com)).

All professionals (including executive officers) and directors must certify their compliance with the Code. The Code is reviewed annually by the Compensation and Corporate Governance Committee and the Board. The Board, through the Audit Committee, receives regular reports regarding compliance with the Code.

STEP is committed to the protection of the health and safety of all persons associated with STEP's operations, the environment, and the relationship of STEP with the communities nearest its operations. An important part of this commitment involves working in collaboration with Indigenous communities in Canada to build and maintain mutually beneficial relationships based on transparency, trust, mutual respect and accountability. Our growing Indigenous Engagement and Relations program is reflective of our corporate values and commitment to the communities in which we work. Our Indigenous Engagement and Relations Policy has been created to provide the framework and guide our initiatives as they relate to the Indigenous communities in Canada.

### *Whistleblower Policy*

STEP has adopted a whistleblower policy which provides professionals, clients, contractors, and others with the ability to report to STEP's third-party reporting service, on a confidential and anonymous basis, any violation within the Company including, but not limited to, criminal conduct, falsification of financial records or unethical conduct. The Board believes that providing a forum for professionals, clients, contractors, officers and directors to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct. The whistleblower policy is made available on our website ([www.stepenergyservices.com](http://www.stepenergyservices.com)).

STEP has also established a toll-free, anonymous telephone, electronic mail, and web-based compliance hotline, which can be used by professionals and others to report suspected accounting or auditing irregularities and unethical behaviour impacting STEP. The hotline telephone number is 866.921.6714 and the website address is [www.integritycounts.ca/org/stepenergyservices](http://www.integritycounts.ca/org/stepenergyservices).

The Audit Committee receives regular compliance reports with respect to STEP's whistleblower policy and compliance hotline.

## Description of Capital Structure & Dividend Policy

### Share Capital

The authorized share capital of the Company as of the date hereof consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As of the date of this AIF, there are 66,942,830 Common Shares and nil preferred shares issued and outstanding. As at the date hereof, a total of 3,532,509 Common Shares are reserved for issuance on exercise of outstanding Prior Options, 7,480,928 Common Shares are reserved for issuance on exercise of outstanding Performance Warrants, 1,979,441 Common Shares are reserved for issuance on exercise of outstanding New Options and 2,500,961 Common Shares are reserved for issuance upon redemption of outstanding equity-settled PSUs and RSUs.

The following is a description of the rights, privileges, restrictions and conditions attaching to STEP's share capital.

### *Common Shares*

Holders of Common Shares are entitled to receive notice of, to attend and to vote at all meetings of shareholders of the Company, except meetings of holders of another class of shares and are entitled to one vote per Common Share held at such meetings. If, as and when declared by the Board, holders of Common shares are entitled to receive dividends as may be declared thereon by the Board from time to time. In the event of any voluntary or involuntary liquidation, dissolution or winding-up of STEP or any other distribution of STEP's assets among its shareholders for the purpose of winding-up its affairs (a "**Distribution**"), holders of Common Shares are entitled, subject to the

preferences accorded to holders of preferred shares and any other shares of the Company ranking senior to the Common Shares from time to time with respect to payment on a Distribution, to share equally, share for share, in the remaining property of the Company.

### **Preferred Shares**

As of the date of this AIF, the Company has not issued any preferred shares. Preferred shares may at any time and from time to time be issued in one or more series, each series to consist of such number of shares as may, before the issuance thereof, be determined by the Board. Subject to the provisions of the ABCA, the Board shall fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to each series of preferred shares including, without limitation, participation rights in respect of a Distribution (if any), voting rights (if any) and dividend rights (if any). The preferred shares of each series will rank on parity with every other series of preferred shares of the Company and shall have priority over the Common Shares and any other shares of the Company ranking junior to the preferred shares with respect to redemption, the payment of dividends and any Distribution.

### **Options and Other Rights to Purchase Securities**

Prior to the IPO, the Company's share-based compensation plans for professionals and directors consisted of Prior Options and Performance Warrants. The Company implemented new share-based compensation plans following the IPO, including the New Option Plan, the PRSU Plan and the DSU Plan. Grants under the New Option Plan are exercisable for Common Shares, vest over a period of three years and have a maximum term of five years, or as otherwise set out by the Board in the applicable grant agreement. The Board may, from time to time, determine those eligible persons of the Company who will receive grants under the PRSU Plan. Grants under the PRSU Plan provide the holder a right to receive a Common Share for each whole vested share unit. Grants under the DSU Plan vest immediately and will be settled in cash in the amount equal to the closing price of the Company's Common Shares on the day before the Company elects to pay. The Company may elect to pay the DSUs at any point after the resignation is received from the Board member and before the last business day of the following year. Since the DSUs vest immediately, the fair value of the liability and the corresponding expense is charged to profit or loss at the grant date. Subsequently, at each reporting date between grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in profit or loss for the period.

The maximum number of Common Shares issuable under the New Option Plan and all other share-based compensation arrangements (excluding the Prior Options and Performance Warrants) must not exceed 5% of the aggregate of the number of outstanding Common Shares. Effective May 2, 2017, no further awards under the Prior Option Plan are permitted and no further Performance Warrants may be granted.

For further information on options and other rights to purchase securities, refer to the *Market for Securities* section in this AIF, as well as the Company's annual and interim financial statements, the notes thereto and MD&A, filed on SEDAR.

### **Credit Facilities**

At December 31, 2019, the Company has a borrowing agreement with a syndicate of financial institutions. The Company's agreement is comprised of operating facilities and a revolving facility (together the "Credit Facilities"). The Credit Facilities mature on June 25, 2022 and include a Canadian \$313.3 million revolving credit facility, a Canadian \$10.0 million operating facility and a U.S. \$20.0 million operating facility. The maturity date of the Credit Facilities may be extended for an additional period of up to three years with syndicate approval. The request for extension may only be made once in each fiscal year. 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 of its subsidiaries including mortgages on certain properties. An equity cure is available for the purposes of determining compliance with the Funded debt to Adjusted bank EBITDA ratio. The equity cure is available for use up to two times, in non-consecutive quarters. Each use of the equity cure is limited to \$25.0 million from the issuance of equity securities and must be utilized to repay borrowings under the Credit Facilities. 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.

The Credit Facilities includes certain financial and non-financial covenants, including:

- 1) Funded debt to Adjusted bank EBITDA 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 earnings before interest, share-based compensation, non-recurring gains and losses on the sale of property and equipment, unrealized foreign exchange gains and losses, taxes, depreciation, amortization, impairment, unrealized foreign exchange forward contract (gain) loss and transaction costs ("Adjusted bank EBITDA") of the Company for the twelve preceding months. Also, realized foreign

exchange (gain) loss is excluded from Adjusted bank EBITDA. The Company is required to meet the following funded debt to adjusted bank EBITDA ratios:

Quarters Ended	Required Funded debt to Adjusted bank EBITDA ratio
December 31, 2019	4.50:1 or less
March 31, 2020	4.00:1 or less
June 30, 2020	3.50:1 or less
September 30, 2020 and thereafter	3.00:1 or less

At December 31, 2019, the Funded debt to Adjusted bank EBITDA ratio was 3.24:1.00.

- 2) 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 at December 31, 2018 is not included in interest expense for purposes of calculating financial covenants. This ratio is not to fall below 3.00:1. At December 31, 2019, the Interest Coverage Ratio was 4.98:1.00.

The Company was in compliance with all covenants as at December 31, 2019.

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 50 basis points to 300 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the year ending December 31, 2019 was approximately 4.9%. At December 31, 2019, the full amount of the facility was available to be drawn on the Credit Facilities. The total amount of credit facilities outstanding at December 31, 2019 is as follows:

As at December 31,	2019	2018
Credit facilities	\$ 239,819	\$ 254,575
Deferred financing	(2,401)	(2,134)
Loans and borrowings	\$ 237,418	\$ 252,441

The following table displays the movements in loans and borrowings during the year ended December 31, 2019:

Balance at January 1, 2019	\$ 252,441
Loans and borrowings repayments, net	(12,279)
Deferred financing incurred	(1,518)
Accretion of deferred financing charges	1,250
Unrealized foreign exchange gain	(2,082)
Foreign currency translation gain	(394)
<b>Balance at December 31, 2019</b>	<b>\$ 237,418</b>

#### Subsequent Event

On January 22, 2020, the Credit Facilities were amended. The amendment includes the following change to the Company's Funded debt to Adjusted bank EBITDA ratio:

Quarters Ended	Required Funded debt to Adjusted bank EBITDA ratio
March 31, 2020 to December 31, 2020	4.50:1 or less
March 31, 2021 and June 30, 2021	4.00:1 or less
September 30, 2021 and thereafter	3.00:1 or less

## Dividend Policy

The Company has never declared or paid any dividends nor does it anticipate paying any dividends. STEP currently intends to retain future earnings, if any, to finance future operations, re-pay debt, and if appropriate, expand STEP's business. Any decision to declare and pay dividends in the future will be made at the discretion of the Board of Directors and will depend on, among other things, the Company's results of operations, current and anticipated cash requirements and surplus, financial condition, contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the Board may deem relevant.

## Principal Shareholders

To the knowledge of directors and officers of the Company, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, any class of voting securities carrying in aggregate 10% or more of the votes attached to such issued and outstanding voting securities, except as set out below:

Shareholder	Common Shares Held	Percentage Ownership (%)
ARC Energy Fund 6	13,588,546	20.3%
ARC Energy Fund 8	26,654,454	39.8%

## Investment Rights Agreement

On February 7, 2017, the Company and the ARC Funds entered into an agreement governing the rights and obligations of the ARC Funds and the Company (the "**Investment Rights Agreement**"). The following description of certain provisions of the Investment Rights Agreement is a summary only, is not comprehensive and is qualified in its entirety by reference to the full text of the Investment Rights Agreement, which is available on the Company's profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

## Nomination and Related Rights

Pursuant to the Investment Rights Agreement, for so long as the ARC Group (which includes the ARC Funds and any other investment funds advised by ARC Financial Corp.) owns or exercises control or direction over 10% or more of the outstanding Common Shares, the ARC Group will have the right to nominate one representative to stand for appointment and election as a director of STEP; for so long as the ARC Group owns or exercises control or direction over 25% or more of the outstanding Common Shares, the ARC Group will have the right to nominate two representatives to stand for appointment and election as directors of STEP; and for so long as the ARC Group owns or exercises control or direction over 45% or more of the outstanding Common Shares, the ARC Group will have the right to nominate three representatives to stand for appointment and election as directors of STEP; and such nominees will be included in any slate of directors proposed by STEP. At such times as the ARC Group owns or exercises control or direction over 45% or more of the outstanding Common Shares and is entitled to have three nominees on the Board, one of such nominee directors shall, unless the ARC Group otherwise agrees, be Chair of the Board. The Investment Rights Agreement provides that such rights are premised on a Board of up to seven directors, and if the size of the Board is increased to more than seven directors, then the ARC Group shall be entitled to nominate such number of additional representatives to the Board as are necessary such that the ARC Group's minimum rights to nominees to the Board (as a percentage of the total number of directors on the Board) are proportionately maintained. The ARC Group currently has two representatives on the Board, being Mr. Freel (Chair) and Mr. Gackle.

If requested by the ARC Group from time to time, subject to applicable securities laws, one of the nominees of the ARC Group shall be required to be appointed to each committee of directors formed by the Board.

## Subscription Rights

Pursuant to the Investment Rights Agreement, for so long as the ARC Group owns or exercises control or direction over 10% or more of the outstanding Common Shares, the ARC Group will have the right to purchase securities of STEP in connection with any issue of Common Shares or securities convertible or exchangeable into or exercisable for Common Shares or other voting or participating securities of STEP (other than Common Shares or other such securities of STEP pursuant to a stock option or similar plan of STEP, any director, officer, employee or consultant purchase plan of STEP, or the issuance of performance warrants of STEP issued to any director, officer, employee or consultant of STEP and certain other exceptions as specified in the Investment Rights Agreement) in order to maintain its pro rata percentage ownership interest in STEP.

## Registration Rights

The Investment Rights Agreement provides the ARC Group with the right, for so long as the ARC Group owns or exercises control or direction over 15% or more of the outstanding Common Shares, to require the Company to qualify Common Shares held by the ARC Group (a "**Demanding Shareholder**") for distribution by way of a secondary offering prospectus prepared in accordance with applicable securities laws (a "**Demand Distribution**") at any time after the date the Company becomes a "reporting issuer" under applicable securities laws in any jurisdiction in Canada or the date on which securities of the Company are first listed on the Toronto Stock Exchange (or other stock exchange or market). The ARC Group is entitled to a maximum of five Demand Distributions in total, and a maximum of two Demand Distributions in any calendar year; provided, however, that the aggregate market value of the Common Shares specified in each request for a Demand Distribution is not less than \$10,000,000 (or, if less than \$10,000,000, then such securities must represent at least 33% of the total Common Shares then held by the ARC Group). The Company shall be responsible for paying all fees and expenses incurred in connection with such Demand Distribution up to a maximum of \$200,000 per Demand Distribution, and the ARC Group shall pay the balance of such fees and expenses in excess of \$200,000 and all underwriting discounts, commissions and similar fees and transfer taxes applicable to the Common Shares of such Demand Distribution. The ARC Group shall have the right to select the investment banker(s) and manager(s) to administer the offering of the Common Shares which are the subject of the Demand Distribution.

The Investment Rights Agreement provides the ARC Group with the right, for so long as the ARC Group owns or exercises control or direction over 10% or more of the outstanding Common Shares to require the Company to include Common Shares held by the ARC Group in any qualification or registration of the Company's Common Shares under applicable securities laws (a "**Piggyback Distribution**"). The Company must cause to be included in the Piggyback Distribution all Common Shares that a member of the ARC Group (a "**Participating Shareholder**") requests to be included in the Piggyback Distribution; provided, however, that: (a) if a Piggyback Distribution is to occur in conjunction with a distribution of securities by the Company and the managing underwriters or agents advise that the total number of securities requested to be included in the distribution exceeds the number which can be sold in an orderly manner in such offering within a price range acceptable to the Company and the ARC Group, each acting reasonably, the Company will include in such distribution: (i) first, as many of the Common Shares (or other securities) that the Company proposes to sell from treasury as will not cause the distribution to exceed the maximum offering size, and (ii) second, as many of the Participating Shareholder's Common Shares requested to be included in such distribution as will not cause the distribution to exceed the maximum offering size; and (b) if a Piggyback Distribution is to occur in conjunction with a secondary distribution on behalf of another shareholder of the Company and the managing underwriters or agents advise that the total number of securities requested to be included in the distribution exceeds the number which can be sold in an orderly manner in such offering within a price range acceptable to that other Shareholder and the ARC Group, then the number of Common Shares requested to be included by the Participating Shareholder will be included in such distribution pro rata (based upon each security holder's (including the ARC Group's) relative security holdings to each other) with the Common Shares or other securities request to be included in such distribution. The Company shall have the right to select the investment banker(s) and manager(s) to administer the offering from treasury and of the Common Shares which are subject to the Piggyback Distribution. The expenses pursuant to the Piggyback Distribution will be paid by the Company to the extent permitted by applicable law, except that each Participating Shareholder shall be responsible for the underwriting discounts, commissions and similar fees, and transfer taxes applicable to the Common Shares of such Participating Shareholder included in such Piggyback Distribution.

Upon receipt of a request from the ARC Group for a Demand Distribution or a Piggyback Distribution, and subject to the execution and delivery of an underwriting agreement in form and content satisfactory to the Company, acting reasonably, the Company will use its reasonable commercial efforts to effect the distribution of the Common Shares which are the subject of a Demand Distribution or Piggyback Distribution. Pursuant to the Investment Rights Agreement, the Company is obligated to indemnify each member of the ARC Group participating in such distribution (and their managers, directors, officers, employees, shareholders, partners and agents) for any untrue or alleged untrue statement of a material fact contained in any prospectus, or any amendment thereof or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make any statement therein not misleading. Pursuant to the Investment Rights Agreement, each Demanding Shareholder or Participating Shareholder, as the case may be, may be requested by the Company to indemnify the Company for any untrue statement or alleged untrue statement of a material fact contained in any prospectus, or any amendment thereof or supplement thereto, relating solely to the ARC Group furnished to the Company in writing by the ARC Group and stated to be specifically for use in any such document, or any omission or alleged omission to state therein a material fact relating to the ARC Group required to be stated therein or necessary to make any statement therein not misleading.

## Termination

The Investment Rights Agreement will terminate on the earliest of the following dates: (i) upon the written agreement of the parties thereto providing for such termination, (ii) at the time that the ARC Group no longer owns or exercises control or direction over any outstanding Common Shares or other exercisable or convertible securities of STEP, and (iii) at the time that the ARC Group has owned or exercised control or direction over less than 10% of the Common Shares (assuming the exercise or conversion of convertible securities of STEP owned or controlled or directed by the ARC Group, but otherwise calculated on a non-diluted basis) over a period of three consecutive months.

## Market for Securities

### Trading Price and Volume

The Common Shares are listed and posted for trading on the TSX under the trading symbol "STEP". The following table sets forth the market price ranges and the trading volumes of the Common Shares for the financial year ended December 31, 2019, as well as for the current year-to-date:

	Price Range (\$ per Common Share)		Volume
	High	Low	
2019			
January	2.39	1.95	5,450,954
February	2.27	1.76	7,397,853
March	2.17	1.76	4,190,254
April	2.82	2.09	6,022,017
May	2.40	1.78	5,535,600
June	2.01	1.73	2,001,337
July	1.94	1.71	1,532,955
August	1.65	1.41	3,276,383
September	1.67	1.45	1,871,569
October	1.47	1.13	1,242,308
November	1.23	0.90	1,708,262
December	1.57	0.97	6,381,668
2020			
January	1.65	1.32	3,756,916
February	1.28	0.90	1,030,244
March (1-10)	1.08	0.45	460,430

### Prior Sales

During the financial year ended December 31, 2019, the Company granted an aggregate of 1,971,489 New Options with a weighted average exercise price of \$2.11.

## Directors & Executive Officers

### Directors & Executive Officers

The table below lists the names of the directors and officers, their municipalities of residence, positions and offices with the Company and principal occupations for the last five years. All directors have been elected to serve as such until the Company's next annual meeting of shareholders, or until his or her successor is duly elected, unless his or her office is vacated earlier in accordance with the by-laws of the Company or applicable law. Each director will devote the amount of time as is required to fulfill his or her obligations to the Company. The Company's officers are appointed by and serve at the discretion of the Board.

<u>Name, Province/State &amp; Country of Residence</u>	<u>Position Held</u>	<u>Principal Occupation for Last 5 Years</u>	<u>Director Since</u>	<u>Common Share Ownership &amp; Percentage<sup>(1),(2)</sup></u>
<b>Directors</b>				
Evelyn M Angelle <sup>(3)</sup> Cypress, TX, U.S.	Director	Director of Forum Technologies, Inc. since February 2011. From November 2017 to present, and from January 2015 to December 2016, private investor and philanthropist. Prior to, Executive Vice President and CFO of BJ	March 6, 2019	67,400 (0.10%)

<u>Name, Province/State &amp; Country of Residence</u>	<u>Position Held</u>	<u>Principal Occupation for Last 5 Years</u>	<u>Director Since</u>	<u>Common Share Ownership &amp; Percentage<sup>(1),(2)</sup></u>
		Services Company LLC from January 2017 to November 2017; prior to, Senior Vice President, Supply Chain of Halliburton Company from January 2014 through January 2015.		
Regan Davis <sup>(4)</sup> Calgary, AB, Canada	President, Chief Executive Officer & Director	Chief Executive Officer of the Company since March 2011; has also been President since December 2013.	March 25, 2011	147,287 <sup>(5)</sup> (0.22%)
Douglas Freel <sup>(6)</sup> Calgary, AB, Canada	Director (Chair)	Managing Director and Director at ARC Financial Corp. since 2016; prior to then other positions at ARC since 1998.	March 25, 2011	Nil (0.00%)
Donna Garbutt <sup>(7)</sup> Acton, ON, Canada	Director (Lead Director)	Senior Vice President, Oil & Gas/Commodities for Bureau Veritas in North America since March 2019; prior to, Chief Executive Officer at Maxxam Analytics Corp. from November 2015 to March 2019; prior to that, roles of increasing responsibility at Schlumberger, including President of Schlumberger Canada.	May 2, 2017	Nil (0.00%)
Jeremy Gackle <sup>(3),(6),(8)</sup> Calgary, AB, Canada	Director	Senior Vice President at ARC Financial Corp. since 2017; prior to then various other positions at ARC since 2004.	March 25, 2011	Nil (0.00%)
James Harbilas <sup>(9),(10)</sup> Cochrane, AB, Canada	Director	Executive Vice-President and CFO at AltaGas Ltd. since June 2019; prior to, Executive Vice-President and Chief Financial Officer at Enerflex Ltd., and its predecessor since 2007.	May 2, 2017	46,000 (0.07%)
Jason Skehar <sup>(4),(10)</sup> Chestermere, AB, Canada	Director	President and Chief Executive Officer at Bonavista Energy Corporation since December 2012; prior to, Chief Operating Officer thereat since 2008.	June 22, 2012	41,000 (0.06%)
<b>Officers</b>				
Michael Kelly Calgary, AB, Canada	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer since November 12, 2018; prior to, Executive Vice-President from October 1 to November 11, 2018. independent businessman from 2017 to October 2018; Executive Vice President at PTW Energy Services Ltd. from 2015 to 2017; President of Hogarth Ventures Ltd. from 2013 to 2015; various executive positions with Trican Well Service Ltd. from 1997 to 2013.	N/A	124,313 (0.19%)

<b>Name, Province/State &amp; Country of Residence</b>	<b>Position Held</b>	<b>Principal Occupation for Last 5 Years</b>	<b>Director Since</b>	<b>Common Share Ownership &amp; Percentage<sup>(1),(2)</sup></b>
Stephen Glanville Okotoks, AB, Canada	Vice-President, Operations and Chief Operating Officer	Vice-president, operations since November 2013, and chief operating officer since March 2011.		73,798 (0.11%)
Rory Thompson Calgary, AB, Canada	President, Canadian Operations	President, Canadian Operations since August 2018; prior to, Vice President, coiled tubing services Canada from April 2015 to August 2018; director, Coiled Tubing Services Canada from January 2014 to April 2015.	N/A	45,053 (0.07%)
Brock Duhon Lavernia, TX, U.S.	President, U.S. Operations	President, U.S. Operations since July 2019. Prior to, vice-president, coiled tubing and open hole wireline services, U.S. from April 2018 to July 2019; vice-president, coiled tubing services U.S. from May 2015 to April 2015. Prior to, vice-president, coiled tubing operations at Pioneer Energy Services Corp from January 2012 to May 2015.	N/A	30,595 (0.05%)
Michael Burvill Houston, TX, U.S.	Vice-President, Business Development and Innovation	Vice-President, business development and innovation since July 2019. Prior to, president, U.S. Operations from August 2018 to July 2019; senior vice-president, fracturing and cased hole wireline services from April to August 2018; vice-president, fracturing services of the Company from April 2015 to April 2018. Prior to, corporate service line manager, fracturing & nitrogen services at Trican Well Service Ltd. from 2007 to April 2015.	N/A	45,079 (0.07%)
David Johnson Calgary, AB, Canada	Vice President, Human Resources	Vice President, Human Resources since July 2013.	N/A	40,000 (0.06%)
Lori McLeod-Hill Calgary, AB, Canada	Vice President, Finance	Vice President, Finance since July 2015. Prior to, Chief Financial Officer at Gasfrac Energy Services Inc. from September 2013 to July 2015.	N/A	42,906 (0.06%)
Shane Persad Houston, TX, U.S.	Vice-President Fracturing and Cased-Hole Wireline, U.S.	Vice-President Fracturing and Cased-Hole Wireline Services, U.S. since April 2018. Prior to, President of Tucker from January 2017 to April 2018.	N/A	Nil (0.00%)
Todd Rainville Calgary, AB, Canada	Vice President, Sales and Marketing	Vice-President, Sales and Marketing since July 2015. Prior to, Sales Manager at Calfrac Well Services Ltd. from 2002 to July 2015.	N/A	24,000 (0.04%)

Notes

- (1) Represents Common Shares beneficially owned, controlled or directed (directly or indirectly) by the director or officer as at December 31, 2019.  
(2) Does not include Prior Options, Performance Warrants, New Options, PSUs or RSUs held by these individuals.

- (3) Member of Audit Committee. Mr. Freel was appointed as an interim member of the Audit Committee effective as of October 1, 2018 in accordance with the exemption under section 3.5 of NI 52-110 and was replaced as a member of the Audit Committee by Ms. Angelle on March 6, 2019.
- (4) Member of Health and Safety Committee.
- (5) Includes 90,667 Common Shares held through Regan Davis Family Trust.
- (6) Messrs. Freel and Gackle are representatives of the ARC Group and are employed by ARC Financial Corp., which advises entities holding an aggregate of 40,243,000 Common Shares, representing approximately 60.1% of the issued and outstanding Common Shares.
- (7) Chair of Health and Safety Committee.
- (8) Chair of Compensation and Corporate Governance Committee.
- (9) Chair of Audit Committee.
- (10) Member of Compensation and Corporate Governance Committee.

## Committees of the Board of Directors

The Company currently has an Audit Committee, a Compensation & Corporate Governance Committee and a Health and Safety Committee. Refer to the *Audit Committee* section in this AIF for a description of the roles and responsibilities of the Audit Committee.

## Share Ownership by Directors and Officers

As a group and as at the date of this AIF, the Company's officers and directors beneficially own or exercise control or direction over, directly or indirectly, 729,450 Common Shares, representing approximately 1.09 % of the issued and outstanding Common on a non-diluted basis.

## Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, no director or officer of the Company (nor any personal holding company of any of such persons) is, as of the date of this AIF, or was within ten years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company), that: (a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "Order"), that was issued while the director or officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief officer or chief financial officer.

Except as described below, to the knowledge of the Company no director or officer of the Company (nor any personal holding company of any of such persons), or Shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company: (a) is, as of the date of this AIF, or has been within the ten years before the date of this AIF, a director or officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or Shareholder.

- Ms. McLeod-Hill was the Chief Financial Officer of Gasfrac from September 2013 until June 2015. On January 15, 2015, Gasfrac commenced proceedings and obtained court protection under the CCAA pursuant to an initial order granted by the Court of Queen's Bench in the Province of Alberta, as amended, whereby Gasfrac obtained protection from its creditors, other than in respect of Gasfrac's primary secured lender. Substantially all of Gasfrac's assets were sold under a court-ordered process approving the wind up of Gasfrac on March 16, 2015.

To the knowledge of the Company, no director or officer of the Company (nor any personal holding company of any of such persons), or Shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision. For the purposes of this part, "order" means: (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, in each case, that was in effect for a period of more than 30 consecutive days.

## Conflicts of Interest

Certain officers and directors of the Company are or may become officers and/or directors of other companies engaged in the oilfield services business generally. As a result, situations may arise where the interest of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Company, and also by the Company's Code. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA. The ABCA provides that in the event that a director has an interest in a material contract or material transaction, whether made or proposed, the director shall disclose his interest in such contract or transaction to the Company and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

When assessing candidates and Board members, the Compensation and Corporate Governance Committee considers whether serving on the boards of, or acting as officers or in another capacity, for other entities poses any conflict to act in our best interests, and/or interferes with any of our directors' ability to fulfill their Board duties and responsibilities. The Board reviews these relationships annually to determine that they do not interfere with any of our director's ability to act in our best interests. We endeavor to ensure that such other directorships, officerships and/or business associations do not hinder the ability as a STEP director or the Board's overall performance. We discuss time commitments in addition to duties and responsibilities with every candidate to ensure that they have a full understanding of the role and expectations associated with serving on our Board.

## Indemnity Agreements for Directors and Officers

STEP has entered into indemnity agreements with each of the current directors and officers pursuant to which STEP has agreed to indemnify such directors and officers from liability arising in connection with the performance of their duties. Such indemnity agreements conform to the provisions of the ABCA.

## Audit Committee

### Mandate

The Board has adopted a written mandate for the Audit Committee, which sets out the Audit Committee's responsibility for (among other things) reviewing the Company's financial statements and the Company's public disclosure documents containing financial information and reporting on such review to the Board, ensuring the Company's compliance with legal and regulatory requirements, overseeing qualifications, engagement, compensation, performance and independence of the Company's external auditors and reviewing, evaluating and approving the internal control and risk assessment systems that are implemented and maintained by management.

STEP's Audit Committee mandate sets out the committee's purpose, organization, duties and responsibilities. A copy of the mandate is attached hereto as Schedule "A".

## Composition of the Audit Committee and Relevant Education and Experience

The Audit Committee currently consists of Mr. Harbilas (Chair), Ms. Angelle and Mr. Gackle. Mr. Freel was appointed as an interim member of the Audit Committee effective as of October 1, 2018 in accordance with the exemption under section 3.5 of NI 52-110 and was replaced by Ms. Angelle as a member of the Audit Committee effective March 6, 2019.

In connection with Mr. Freel's interim appointment to the Audit Committee, the Board determined, in accordance with section 3.9 of NI 52-110, that Mr. Freel's appointment and the reliance on the exemption in Section 3.5 of NI 52-110 would not materially adversely affect the ability of the Audit Committee to act independently and to satisfy the other requirements of NI 52-110.

Messrs. Harbilas, Angelle and Gackle are considered "financially literate" and "independent". Notwithstanding that Mr. Gackle is a representative of the ARC Funds, the Board has determined he is independent within the meaning of NI 52-110 and NI 58-101 because he is not an executive officer or director of, and does not have any control over the policy of ARC Financial Corp., ARC Energy Fund 6, ARC Energy Fund 8 or any of their affiliates, and based on the Board's actual observations of Mr. Gackle's conduct and contributions as a director of the Company since Mr. Gackle joined the Board in 2011, as well as his director education, certification and personal assessments.

The Company believes that each members of the Audit Committee possesses:

- an understanding of the accounting principles used by the Company to prepare its financial statements;
- the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and provisions;
- experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more individuals engaged in such activities; and
- an understanding of internal controls and procedures for financial reporting.

The following is a summary of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee:

- Mr. Harbilas has been the Executive Vice-President and CFO at AltaGas Ltd. (energy infrastructure) since June 2019 and is responsible for AltaGas' finance, treasury, corporate development and capital market functions. Prior to joining AltaGas, Mr. Harbilas was the Executive Vice-President and CFO at Enerflex Ltd. and its predecessor (oil and gas) from 2007 to May 2019, responsible for overseeing and providing leadership and all financial affairs, reporting and corporate governance of Enerflex. Previously, he was Vice-President, Finance and CFO of Fortis Alberta Inc. (utilities), and held senior positions in various financial capacities at SNC-Lavalin Group (engineering and construction) and AltaLink Management Ltd. (utilities). Mr. Harbilas holds a Bachelor of Commerce and graduate diploma in accounting from Concordia University (1996). He is a chartered accountant and a member of the Institute of Chartered Accountants of Alberta, the Ordre des comptable agrees du Québec and Financial Executive Institute.
- Mr. Gackle has been a senior vice-president focused on the oilfield service sector at ARC Financial Corp. (energy-focused private equity manager) since 2017. Since joining ARC Financial Corp. in 2004, Mr. Gackle's role has transitioned from analytical support roles to responsibilities ranging from deal origination and structuring, to due diligence, execution, strategic development and investment monitoring. Mr. Gackle serves on the boards of various private oilfield service companies. He holds a Bachelor of Commerce in Finance from the University of Calgary (2005), is a Chartered Financial Analyst charter holder and is a certified director from the Institute of Corporate Directors.
- Ms. Angelle has been a director of Forum Energy Technologies, Inc. (oil and gas) since February 2011 and currently serves as the Chairperson of the audit committee. From November 2017 to the present, and from January 2015 to December 2016, Ms. Angelle has served as a private investor and philanthropist. Ms. Angelle's breadth of experience includes serving as executive vice president and chief financial officer of BJ Services Company LLC (oil and gas), from January 2017 to November 2017. Prior to, Ms. Angelle served as senior vice president — supply chain for Halliburton Company, and she served in various finance and accounting roles for Halliburton, including senior vice president and chief accounting officer, and vice president of investor relations. Before joining Halliburton, Ms. Angelle worked for 15 years in the audit department of Ernst & Young LLP, where she specialized in serving large, multinational public companies and provided technical accounting and consultation to clients and other professionals. Ms. Angelle is a graduate of Saint Mary's College (Notre Dame) and is a certified public accountant in Texas and a certified management accountant. Ms. Angelle has been designated as a Board Leadership Fellow by the National Association of Corporate Directors.

## Pre-Approval Policies and Procedures for the Engagement of Non-Audit Services

The Audit Committee must pre-approve all non-audit services to be provided to the Company by its external auditors, KPMG LLP. The Audit Committee may delegate such pre-approval authority, if and to the extent permitted by law.

## External Audit Service Fees

KPMG LLP has served as STEP's external auditors since 2011. The following table lists the fees paid or payable to KPMG LLP, by category, for the last two fiscal years:

	2018 (\$ Amount)	2019 (\$ Amount)
Audit-related fees	609,000	535,500
Tax fees	-	115,000

French translation	13,000	-
Total	622,000	650,500

## Risk Factors

Following is a list of risks that the Company faces in its normal course of business. The risks and uncertainties set out below 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 cause the price of the Common Shares to decline. If any of the following risks actually occur, the Company's business may be harmed, and the Company's financial condition and results of operations may suffer significantly.

### Risks Related to the Company

**The Company's business depends on the oil and natural gas industry and particularly on the level of exploration, development and production for North American oil and natural gas, which is volatile.**

The demand, pricing and terms for the Company's services largely depend upon the level of expenditures made by E&P companies on exploration, development and production activities in North America. Expenditures by E&P companies are typically directly related to the demand for, and price of, O&G. Generally, when commodity prices and demand are predicted to be, or are relatively, high, demand for the Company's services is high. The converse is also typically true. However, E&P clients are also demonstrating increased capital budget discipline, such as using surplus cash flows to return capital to shareholders through dividends or share buy backs rather than increasing capital budgets.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could also reduce the demand for crude oil and other hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes could have a material adverse effect on its business, financial condition, results of operations and cash flows.

The prices for oil and natural gas are subject to a variety of factors including: the demand for energy; the ability of OPEC to set and maintain production levels for oil; O&G production by non-OPEC countries; availability of pipeline and other O&G transportation capacity; production curtailment regulations such as those imposed by the Alberta government in early 2019; the decline rates for current production; political and economic uncertainty and socio-political unrest; cost of exporting, producing and delivering O&G; technological advances affecting energy consumption; and weather conditions. More recently, the outbreak of a novel coronavirus has the potential to affect pricing of, demand for, and investment in, oil and gas products. Any prolonged reduction in oil and natural gas prices would likely decrease the level of activity and expenditures in O&G exploration, development and production activities and, in turn, decrease the demand for the Company's services.

In addition to current and expected future O&G prices, the level of expenditures made by E&P companies are influenced by numerous factors over which the Company has no control, including but not limited to: general economic conditions; market perception of oil and gas related investment risk; the cost of exploring for, producing and delivering O&G; the expected rates of current production; the discovery rates of new O&G reserves; cost and availability of drilling equipment; availability of pipeline and other O&G transportation capacity; natural gas and oil storage levels; political, regulatory and economic conditions; taxation and royalty changes; government regulation (including, but not limited to, regulations curtailing production, and regulatory certainty with respect to potential project completion); environmental regulation; ability of E&P companies to obtain credit, equity capital or debt financing; and currency fluctuations. A material decline in global oil and natural gas prices or North American activity levels as a result of any of the above factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**The Company's industry is affected by excess equipment levels.**

Because of the long-life nature of oilfield service equipment and the lag between when a decision to build additional equipment is made and when the equipment is placed into service, the quantity of oilfield service equipment in the industry does not always correlate with the level of demand for service equipment. Periods of high demand often spur increased capital expenditures on equipment, and those capital expenditures may add capacity that exceeds actual demand. Such capital overbuild could cause the Company's competitors to lower their pricing and could lead to a decrease in rates in the oilfield services industry generally, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**Merger and acquisition activity among the Company's clients may constrain demand for the Company's services.**

Merger and acquisition activity amongst E&P companies may constrain demand for the Company's services as clients focus on reorganizing their businesses prior to committing funds to exploration and development projects. Further, the acquiring company may have preferred supplier relationships with oilfield service providers other than STEP.

**The Company's client base is concentrated and loss of a significant client could cause its revenue to decline substantially.**

During the year ended December 31, 2019, the Company worked for approximately 350 oil and natural gas E&P companies, ranging from large multi-national public companies to small private companies. Notwithstanding the Company's broad client base its five largest clients collectively accounted for approximately 48% of its revenue for the year ended December 31, 2019 and, of such clients, the single largest accounted for approximately 22% of the Company's revenue for the year ended December 31, 2019. There can be no assurance that the Company's relationship with these clients will continue, and a significant reduction or total loss of the business from these clients, if not offset by sales to new or existing clients, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**The Company's industry is intensely competitive.**

Each of the markets in which the Company participates is highly competitive. To be successful, a service provider must provide services that meet the specific needs of oil and natural gas E&P companies at competitive prices. The principal competitive factors in the markets in which the Company operates are product and service quality and availability, technical knowledge and experience, reputation for safety and price. The Company competes with large national and multi-national oilfield service companies that have extensive financial and other resources. These companies offer a wide range of well stimulation services in all geographic regions in which the Company operates. In addition, the Company competes with several regional competitors and new entrants to the markets in which the Company operates will also compete with the Company. As a result of competition or new entrants to the fracturing or coiled tubing services markets, the Company may suffer from a significant reduction in revenue or be unable to pursue additional business opportunities.

**The Company's access to capital may become restricted or repayment could be required.**

The Company's business plan may be subject to the availability of additional financing for future costs of operations or expansion that may not be available or may not be available on favourable terms. If the Company's cash flow from operations is not sufficient to fund its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements on terms acceptable to the Company or at all. The Company's inability to raise capital could impede its ability to execute on its capital program, and could materially adversely affect the business, financial condition and results of operations of the Company.

The Company is required to comply with covenants under its Credit Facilities, including covenants relating to financial ratios which affect the availability and/or price of funding. In the event that the Company does not comply with such covenants, the Company's access to capital could be restricted or repayment could be required. If realized, this risk could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

As at December 31, 2019, STEP had \$239.8 million drawn under the Credit Facilities and availability for additional borrowings of \$109.2 million under the Credit Facilities. The degree to which STEP is leveraged could have important consequences, including: (i) STEP's ability to obtain additional financing for working capital, capital expenditures, or acquisitions may be limited; (ii) all or part of STEP's cash flow from operations may be dedicated to the payment of the principal of and interest on STEP's indebtedness, thereby reducing funds available for operations; and (iii) certain of STEP's borrowings will be at variable rates of interest, which exposes STEP to the risk of increased interest rates. These factors may adversely affect STEP's financial condition, results of operations and cash flow available to service its indebtedness.

Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Company. If the Company is unable to repay amounts owing under its Credit Facilities, the lenders could proceed to foreclose or otherwise realize upon any collateral granted to them to secure the indebtedness. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions.

**The Credit Facilities contain covenants that restrict STEP's ability to engage in certain transactions and may impair its ability to respond to changing business and economic conditions.**

The Credit Facilities contain covenants that restrict STEP's ability, and that of certain of its affiliates, to engage in certain transactions and may impair STEP's ability to respond to changing business and economic conditions. These covenants include limitations on, among other things, the ability to: incur additional indebtedness; make or pay dividends or other distributions; make certain other payments,

investments, loans and guarantees; sell or dispose of assets; incur or assume liens on assets; engage in transactions with affiliates; and enter into certain mergers, consolidations or amalgamations. In addition, the Credit Facilities require STEP to satisfy certain financial covenants. Future indebtedness or other contracts could contain financial or other covenants more restrictive than those contained in the Credit Facilities.

STEP's ability to comply with these provisions may be affected by general economic conditions, political decisions, regulations, industry conditions and other events beyond its control. As a result, there is no assurance that STEP will be able to comply with the covenants described above. STEP's failure to comply with the covenants contained in its Credit Facilities, including failure as a result of events beyond its control, could result in an event of default, which could materially and adversely affect its operating results and financial condition.

If there were an event of default under the Credit Facilities or any other debt instrument of STEP's that may be outstanding from time to time, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately which may cause cross default to other debt. There is no assurance that STEP's assets or cash flow would be sufficient to fully repay borrowings under its outstanding debt instruments if accelerated upon an event of default, or that it would be able to repay, refinance or restructure the payments on those debt instruments.

#### **Fluctuations in currency exchange rates could adversely affect the Company's business.**

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the results of the Company's foreign operations are directly affected by fluctuations in the exchange rates for U.S. dollars. Financial results from the Company's U.S. operations are denominated in U.S. dollars, so a decrease in the value of the U.S. dollar would decrease the Canadian dollar amount of such financial results from U.S. operations. In addition, world oil and natural gas prices are quoted in U.S. dollars. The Canadian/U.S. dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas, which in turn affects the Company's ability to secure profitable service contracts. Other than natural hedges arising from the normal course of business in foreign jurisdictions, the Company did not have any hedging positions as at December 31, 2019.

As a result of the Tucker Acquisition, a significantly larger portion of STEP's revenues will be earned in U.S. dollars. Accordingly, fluctuations in exchange rates between the Canadian and U.S. dollar may have an increased adverse effect on STEP's results and financial condition. Future events that may significantly increase or decrease the risk of future movement in the exchange rates for these currencies cannot be predicted.

#### **The Company's direct and indirect exposure to volatile credit markets could adversely affect the Company's business.**

The ability to make scheduled debt repayments, refinance debt obligations and access financing depends on the Company's financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain finance, business and other factors beyond its control. In addition, the Company's ability to refinance debt obligations and access financing is affected by credit ratings, if any, assigned to the Company and its debt. Continuing volatility in the credit markets could increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect the ability of the Company, or third parties it seeks to do business with, to access those markets.

In addition, access to further financing for the Company or its clients remains uncertain. This condition could have an adverse effect on the industry in which the Company operates and its business, including future operating results. The Company's clients may curtail their drilling and completion programs, which could decrease demand for the Company's services and could increase downward pricing pressures. Further, certain clients could become unable to pay suppliers, including the Company, in the event they are unable to access the capital markets to fund their business operations. Such risks, if realized, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

#### **Radical activism could harm the Company's business.**

Radical activism or armed conflict (including environmental terrorism) occurring in Canada or the U.S. may adversely affect the Company's ability to carry out its business. Oil and natural gas related facilities could be direct targets of activist blockades or other activities, and the Company's operations could be adversely impacted if infrastructure integral to the Company's clients' operations is destroyed or damaged, or access to it is impeded. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

**If the Company is unable to obtain raw materials, diesel fuel and component parts from its current suppliers it could have a material adverse effect on the Company's business.**

The Company's ability to provide services to its clients is also dependent upon the availability at reasonable prices of raw materials which the Company purchases from various suppliers, most of whom are located in North America. If the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the Company's clients could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**STEP's reliance on equipment suppliers and fabricators exposes it to risks including timing of delivery and quality of equipment.**

STEP's ability to expand its operations and execute on its capital expenditure program is dependent upon timely delivery of new equipment. Equipment suppliers and fabricators may be unable to meet their planned delivery schedules for a variety of reasons which may include, but are not limited to, skilled labour shortages, the inability to source component parts in a timely manner, complexity of new technology and inadequate financial capacity. STEP's capital expenditure program and operational planning depends, in part, upon planned equipment delivery schedules. Failure of equipment suppliers and fabricators to meet their delivery schedules and to provide high-quality working equipment may have a material adverse effect on STEP's business, results of operations, cash flows and financial condition. More recently, the outbreak of a novel coronavirus could affect the ability of certain suppliers to meet their planned delivery schedules.

**Federal, provincial and state legislative and regulatory initiatives relating to fracturing could result in increased costs and additional operating restrictions or delays.**

The Company's business is dependent on its ability to conduct fracturing and horizontal drilling activities. Fracturing is the process of pumping a fluid or a gas under pressure down a well, which causes the surrounding rock to crack or fracture. The fluid, typically consisting of water, proppant, chemicals and other additives, flows into the cracks where the proppant remains to keep the cracks open and allow natural gas or liquids to be recovered. Fracturing fluids are produced back to the surface through the wellbore and are stored for reuse or future disposal in accordance with applicable regulations, which may include injection into underground wells.

Some provinces require the details of fracturing fluids to be submitted to regulators. In Alberta, the AER has implemented restrictions and operating procedures regarding fracturing through Directive 083: Hydraulic Fracturing — Subsurface Integrity. In order to carry out fracturing operations a licensee must observe the prescribed setbacks for water wells and top of bedrock, conduct a risk assessment, and fulfill the reporting requirements set out in Directive 59: Well Drilling and Completion Data Filing Requirements which include reporting water source and fracture fluid data.

In British Columbia, the BCOGC is the provincial regulatory body responsible for overseeing O&G operations. The regulation of fracturing in British Columbia is conducted under numerous provincial acts and technical regulations. The BCOGC administers British Columbia's main legislative framework relating to O&G, the *Oil and Gas Activities Act*, and its associated regulations which regulate public safety and environmental protection related to fracturing, such as the *Drilling and Production Regulation* and the *Environmental Protection and Management Regulation*. Fracture Fluid Reports are required to be submitted and are publicly searchable online. Chemical disclosure including trade name, supplier, purpose, ingredients, and volume of water with injected ingredients must be submitted to an online database.

While fracturing has been in use and improved upon for many years, there has been increased focus on environmental aspects of fracturing practices in recent years. In the U.S., the process has historically been regulated by state and local governments. Various states have proposed or adopted legislation regulating or requiring disclosure regarding hydraulic fracturing in connection with drilling operations. For example, pursuant to legislation adopted by the State of Texas in June 2011, the Texas Railroad Commission enacted a rule in December 2011, requiring disclosure of certain information regarding additives, chemical ingredients, concentrations and water volumes using hydraulic fracturing. The EPA has asserted federal regulatory authority over certain fracturing activities involving diesel under the SDWA. In February 2014, the EPA issued permitting guidance for O&G fracturing activities using diesel fuels, which included a broad definition of diesel covering a variety of oils that are not diesel but that have similar carbon-chain molecules. In June 2016, the EPA issued a final rule establishing a zero discharge limitation for the discharge of wastewater from fracturing to publicly owned treatment works. The EPA recently undertook, and in December 2016 published its final assessment regarding, a broad study of fracturing in the O&G industry as it pertains to drinking water in the U.S. Any U.S. rules on fracturing could influence other jurisdictions' regulations and force oil and natural gas companies, including the Company's clients, to cease using the process or to add pollution control technology to their operations.

Due to recent seismic activity reported in the Fox Creek area of Alberta, the AER has announced new seismic monitoring and reporting requirements for fracturing operators in the Duvernay zone in the Fox Creek area. These requirements include, among others, an assessment of the potential for seismicity prior to operations, the implementation of a response plan to address potential events, and the

suspension of operations if a seismic event above a particular threshold occurs. The AER continues to monitor seismic activity around the province and may extend these requirements to other areas of the province if that is deemed to be necessary. In British Columbia, the BCOGC completed two reports on seismic events related to fracturing, and has imposed mitigation measures, including regulations to shut down industry operations if seismic activity reaches a certain threshold. In contrast, in the U.S. the seismic concerns have focused primarily on injection wells rather than fracturing. State regulatory agencies have promulgated regulations related to seismic activity in connection with salt water disposal wells. For example, in October 2014 the Texas Railroad Commission enacted regulations requiring applicants for new disposal well permits to include specific information regarding historic earthquakes within 100 square miles of the proposed well location and authorizing Texas Railroad Commission staff to modify, suspend or terminate an injection well permit if the well is determined to be contributing to seismic activity.

Increased regulation and attention given to the fracturing process could lead to greater opposition, including litigation, to oil and natural gas production activities using fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil, natural gas, and natural gas liquids including from the development of shale plays, or could make it more difficult to perform fracturing. The adoption of additional federal, provincial or local laws or the implementation of regulations regarding fracturing could potentially cause a decrease in the completion of new oil and natural gas wells, increased compliance costs and time, which could materially adversely affect demand for the Company's fracturing services and, as a result, the Company's business, financial condition, results of operations and cash flows.

**The Company is subject to a number of health, safety and environmental laws and regulations that may require it to make substantial expenditures or cause it to incur substantial liabilities.**

The Company is subject to increasingly stringent and complex federal, provincial, state and local laws and regulations relating to the importation, release, transport, handling, storage, disposal and use of, and exposure to, hazardous and radioactive materials, and the protection of workers and the environment, including laws and regulations governing occupational health and safety standards, air emissions, chemical usage, water discharges, waste management and plant and wildlife protection. The Company incurs, and expects to continue to incur, significant capital, managerial and operating costs to comply with such health, safety and environmental laws and regulations. Violation of these laws and regulations could lead to loss of accreditation, damage to the Company's social license to operate, loss of access to markets and substantial fines and penalties which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company uses and generates hazardous substances and wastes in its operations. Because the Company provides services to companies producing oil and natural gas, it may also become subject to claims relating to the release of such substances into the environment. Some environmental laws and regulations provide for joint and several strict liability related to spills and releases of hazardous substances for damages to the environment and natural resources or threats to public health and safety. Strict liability can render a potentially responsible party liable for damages irrespective of negligence or fault. Accordingly, the Company could become subject to potentially material liabilities relating to the investigation and cleanup of contaminated properties, and to claims alleging personal injury or property damage as the result of exposures to, or releases of, hazardous substances. In addition, stricter enforcement of existing laws and regulations, new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could require the Company to incur costs or become the basis of new or increased liabilities that could reduce its earnings and cash available for operations.

**Cyber-attacks and loss of the Company's information and computer systems could adversely affect the Company's business.**

The Company is dependent on its information systems and computer-based programs, including its well operations information, seismic data, electronic data processing and accounting data. If any of such programs or systems were to fail or create erroneous information in the Company's hardware or software network infrastructure, possible consequences include a loss of communication links and inability to automatically process commercial transactions or engage in similar automated or computerized business activities. Any such consequence could have a material adverse effect on the Company's business.

The Company continues to face cyber security risks and could be subject to cyber-security events directed against its information technology. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. A breach in the security of the Company's information technology could expose the Company's business to a risk of loss, misuse or interruption of critical information and functions. This could affect the Company's operations, damage its assets, result in safety incidents, damage to the environment, reputational harm, competitive disadvantage, regulatory enforcement actions and potential litigation, which could have a material adverse effect on the Company's operations, financial position and results of operations.

**The Company may be exposed to third-party credit risk.**

The Company's accounts receivable are with E&P companies, whose revenues may be impacted by fluctuations in commodity prices. In the event such entities fail to meet their contractual obligations to STEP, such failures could have a material adverse effect on STEP's business, financial condition, results of operations, cash flows and future prospects.

**The Company's operations are subject to hazards inherent in the oilfield services industry, which risks may not be covered to the full extent by the Company's insurance policies.**

The Company's operations are subject to hazards inherent in the oilfield services industry, such as equipment defects, malfunction and failures, and natural disasters which result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. These hazards could expose the Company to substantial liability for personal injury, wrongful death, property damage, pollution, contamination of drinking water and other environmental damages. The Company continuously monitors its activities for quality control and safety, and although the Company maintains insurance generally in accordance with industry standards to address certain of these risks, such insurance may not be adequate to cover potential liabilities and may not be available in the future at rates that the Company considers reasonable and commercially justifiable. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**Difficulty in retaining, replacing or adding personnel could adversely affect the Company's business.**

The Company may not be able to find enough skilled labour to meet its needs, and this could limit growth. The Company may also have difficulty finding enough skilled and unskilled labour in the future if demand for its services increases. Shortages of qualified personnel have occurred in the past during periods of high demand. The demand for qualified oilfield services personnel generally increases with stronger demand for oilfield services and as new HP is brought into service. Increased demand typically leads to higher wages that may or may not be reflected in any increases in service rates.

Other factors can also affect the Company's ability to find enough workers to meet its needs. The nature of the Company's work requires skilled workers who can perform physically demanding work. Volatility in the oilfield services industry and the demanding nature of the work, however, may prompt workers to pursue other kinds of jobs that offer a more desirable work environment and wages competitive to the Company's. The Company's success depends on its ability to continue to employ and retain skilled technical personnel and qualified oilfield personnel. If the Company is unable to do so, it could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**The Company is susceptible to seasonal volatility in its operating and financial results due to adverse weather conditions.**

The level of activity in the Canadian oilfield services industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. In addition, during excessively rainy periods in any of the Company's operating areas, equipment moves may be delayed, thereby adversely affecting revenue. The volatility in the weather adds a further element of unpredictability to activity and utilization rates, which can have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**The Company relies on a few key professionals whose absence or loss could disrupt its operations and have a material adverse effect on its business.**

The Company's success depends in large measure on certain key personnel. Many key responsibilities within the Company's business have been assigned to a small number of professionals. The loss of their services could disrupt the Company's operations. In addition, the Company does not maintain "key person" life insurance policies on any of its professionals. As a result, the Company is not insured against any losses resulting from the death of its key professionals. The competition for qualified personnel in the oilfield services industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

**The Company is, and may become, subject to legal proceedings which could have a material adverse effect on its business, financial condition and results of operations.**

The Company is, and from time to time, the Company may become involved in, named as a party to, or be the subject of various legal proceedings which are usually related to normal operational or labor issues. The results of such legal proceedings or related matters cannot be determined with certainty. The Company's assessment of the likely outcome of such matters is based on 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. In particular, the Company is named as a defendant in a claim by Calfrac Well Services Ltd. Refer to the *Legal Proceedings and Regulatory Actions* section in this AIF. 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 proceedings. If this claim, or any claims which the Company may be subject to in the future, were to be determined 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.

**Potential Undisclosed Liabilities Associated with the Tucker Acquisition.**

In connection with the Tucker Acquisition, there may be liabilities that STEP failed to discover or was unable to quantify in its due diligence which was conducted prior to the execution of the Acquisition Agreement. Notwithstanding that the Company has funds held in escrow to cover such liabilities, the value of the liabilities may exceed the value of the funds held in escrow, which could have a material adverse effect on STEP's business, financial condition or future prospects. STEP may not be indemnified for some or all of these liabilities.

**Failure to maintain the Company's safety standards and record could lead to a decline in the demand for services.**

Standards for the prevention of incidents in the oilfield services industry are governed by service company safety policies and procedures, accepted industry safety practices, client specific safety requirements and health and safety legislation. In order to ensure compliance, the Company has developed and implemented safety and training programs which it believes meet or exceed the applicable standards. A key factor considered by clients in retaining oilfield service providers is safety. Deterioration of the Company's safety performance could result in a decline in the demand for the Company's services and could have a material adverse effect on its business, financial condition, results of operations and cash flows.

**The Company may be unable to effectively manage its growth in the U.S.**

The Company may be subject to growth-related risks in the U.S. including capacity constraints and pressure on its internal systems and controls. The Company's ability to manage this growth effectively will require it to continue to implement and improve its operations and financial systems and to expand, train and manage its professional base. The Company's inability to deal with this growth could have a material adverse impact on its business, financial condition, results of operations and cash flows.

**Business acquisitions involve numerous risks and the failure to realize anticipated benefits of acquisitions and dispositions could negatively affect the Company's results of operations.**

The Company considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Any acquisition that the Company completes could have unforeseen and potentially material adverse effects on the Company's financial position and operating results. Some of the risks involved with acquisitions include: unanticipated costs and liabilities; difficulty integrating the operations and assets of the acquired business; inability to properly access and maintain an effective internal control environment over an acquired company; potential loss of key professionals and clients of the acquired company; and increased expenses and working capital requirements.

The Company may incur substantial indebtedness to finance acquisitions and may also issue equity securities in connection with any such acquisitions. Debt service requirements could represent a significant burden on the Company's results of operations and financial condition and the issuance of additional equity could be dilutive to the Company's shareholders.

Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of an acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational

matters. The inability of the Company to realize the anticipated benefits of acquisitions and dispositions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

In *particular*, STEP completed the Tucker Acquisition to strengthen STEP's position in the U.S. oilfield services industry and to create the opportunity to realize certain benefits. Achieving the anticipated benefits of the Tucker Acquisition depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as STEP's ability to realize the anticipated growth opportunities and synergies from integrating Tucker's business into STEP's existing operations following the Tucker Acquisition. The integration of Tucker's business is largely complete but requires the dedication of ongoing management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process which could have an adverse impact on STEP's business, financial condition, results of operations and cash flow. The integration process may result in the disruption of ongoing business, customer and employee relationships that may adversely affect STEP's ability to achieve some or all of the anticipated benefits of the Tucker Acquisition. There can be no assurance that STEP will be successful in integrating Tucker's operations, or that the expected benefits will be realized.

**Failure to continuously improve operating equipment and proprietary fluid chemistries could negatively affect the Company's results of operations.**

The ability of the Company to meet its clients' performance and cost expectations will depend upon continuous improvements in operating equipment and proprietary fluid chemistries. There can be no assurance that the Company will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Company to do so could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**Actual results may differ materially from management estimates and assumptions.**

In preparing consolidated financial statements in conformity with IFRS, estimates and assumptions are used by management in determining the reported amounts of assets and liabilities, revenues and expenses recognized during the periods presented and disclosures of contingent assets and liabilities known to exist as of the date of the financial statements. These estimates and assumptions must be made because certain information that is used in the preparation of such financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available, or is not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and the Company must exercise significant judgment. Estimates may be used in management's assessment of items such business combinations, as allowance for doubtful accounts, impairment of assets, net realizable value of inventory, depreciation, functional currency, income taxes, share-based payments and litigation. Actual results for all estimates could differ materially from the estimates and assumptions used by the Company, which could have a material adverse effect on STEP's business, financial condition, results of operations, cash flows and future prospects.

**The Company's internal controls may not be sufficient to ensure the Company maintains control over its financial processes and reporting.**

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company has undertaken and will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those that may be imposed on it under applicable securities laws, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. Additionally, implementing and monitoring effective internal controls can be costly. If the Company or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's financial statements and harm the trading price of the Common Shares.

**The direct and indirect costs of various GHG regulations, existing and proposed, may adversely affect the Company's business, operations and financial results.**

The oil and natural gas industry's exploration and production facilities and other operations and activities emit GHGs and both E&P companies and oilfield services providers, like the Company, may be required to comply with GHG emissions legislation in Canada and the U.S. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the United Nations Framework Convention on Climate Change ("UNFCCC") and as a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC), the Government of Canada announced on January 29, 2010 that it will seek a 17% reduction in GHG emissions from 2005 levels by 2020. These GHG emission reduction targets are not binding. In May 2015, Canada submitted its INDC to the UNFCCC, ahead of COP 21, held in Paris. As a result, the Government of Canada will replace the 17% reduction target established in the Copenhagen Agreement with INDC of 30% reduction below 2005 levels by 2030. INDCs were communicated prior to the COP 21 and constitute the actions and

targets that individual countries will undertake to help keep global temperatures from rising more than 2° Celsius and to pursue efforts to limit below 1.5° Celsius. The UNFCCC adopted the Paris Agreement on December 12, 2015.

In addition, on December 9, 2016, the Government of Canada formally announced the Pan-Canadian Framework on Clean Growth and Climate Change. As a result, on June 21, 2018 the federal government enacted the *Greenhouse Gas Pollution Pricing Act* ("GGPPA"), a Canada wide carbon pricing scheme set to begin in 2019 for provinces and territories that do not have a carbon pricing system that aligns with the federal benchmark. Currently, those provinces and territories are listed in Part 1 and Part 2 of Schedule 1 of the GGPPA, and include Ontario, New Brunswick, Manitoba, Alberta (Part 1 only), Prince Edward Island (Part 2 only), Saskatchewan, Yukon and Nunavut. The federal government has also proposed regulations setting out requirements for the production of emissions information under the GGPPA. The federal carbon pollution pricing scheme is composed of two elements, both of which may impact STEP's business:

- A carbon levy applied to fossil fuels set at \$20 per tonne of carbon emitted, increasing to \$50 per tonne in 2022; and
- An output-based pricing system for industrial facilities that emit 50,000 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) per year or more, with an opt-in capability for smaller facilities with emissions below the threshold.

The output-based pricing system will apply to emissions from fuel and other sources of emissions from industrial processes and products. The output-based pricing system came into effect on January 1, 2019. The carbon levy for provinces that do not meet equivalency requirements came into take effect on April 1, 2019.

As of January 1, 2017, the Government of Alberta announced that it would transition from the its former *Specified Gas Emitters Regulation* ("SGER") with the *Carbon Competitiveness Incentive Regulation* ("CCIR"), in which sector specific output-based carbon allocations would be used to ensure competitiveness, and further allows competitively impacted facilities which would otherwise not be subject to the SGER or CCIR to opt-in to the CCIR, in lieu of existing carbon levy obligations noted above. The CCIR required reductions in GHG emissions intensity (e.g. the quantity of GHG emissions per unit of production) from emissions intensity baselines established for a particular product or sector in accordance with the CCIR. Regulated emitters are required to reduce their emissions intensity in accordance with established benchmarks under the CCIR, or assigned benchmarks for specific facilities. Compliance can be achieved through a combination of the following: (1) reducing emissions; (2) purchasing emissions offset credits from non-regulated emitters (generated through activities that result in emissions reductions in accordance with established protocols); (3) purchasing emissions performance credits from other regulated emitters that earned credits through the reduction of their emissions below the 100,000 tonne threshold; or (4) contributing to the Climate Change and Emissions Management Fund at a rate of \$30 per tonne of GHG emissions. As of January 1, 2018, emissions performance credits and emissions offsets are subject to limits on annual usage for compliance obligations and are subject to expiry periods of up to eight (8) years. On January 1, 2020, the *Technology Innovations and Emissions Reduction* ("TIER") regulation replaced the CCIR for large industrial emitters (100,000+ tonnes of GHGs per year). TIER applies to facilities that emit at least 100,000 tonnes of GHGs per year, with facilities that emit less than 100,000 tonnes of GHGs per year permitted to opt-in to TIER if it competes against a facility regulated by TIER or emits 10,000 tonnes of GHGs or more per year and belongs to a sector with high emissions intensity and trade exposure. Compliance options remain largely the same under TIER as they did under the CCIR. However, under TIER, in lieu of being measured against industry-wide targets for emissions intensity, facilities will be measured against its past emissions intensity from 2013 to 2015, with a target set at 10% below that level for 2020 and decreasing a further 1% each year thereafter. To avoid punishing facilities that achieved major emissions reductions already, facilities can elect to compare themselves against a high-performance target comprised of the average emissions intensity of the most emissions-efficient facilities.

Additionally, the Alberta government has set a target of reducing methane emissions from O&G operations by 45% relative to 2014 levels by 2025, to be achieved through the implementation of the Methane Emission Reduction Regulation as well as certain AER directives which will introduce new emission design standards for new facilities, a five-year voluntary methane reduction initiative and regulated mandatory standards starting in 2020. The *Methane Emission Reduction Regulation* came into force on January 1, 2020. In support of these initiatives, the AER released *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting, and Directive 017: Measurement Requirements for Oil and Gas Operations* on December 13, 2018. These directives became effective on January 1, 2020. *Directive 060* sets out requirements for flaring, incinerating, and venting in Alberta at all upstream petroleum industry wells and facilities, with specific operational requirements to address fugitive emissions and venting, which are the primary sources of methane emissions from the oil and gas industry. *Directive 017* also sets out measurement requirements associated with the requirements under *Directive 060*.

In British Columbia, the *Climate Change Accountability Act* sets aggressive legislated targets for reducing greenhouse gases. Under this legislation, GHG emissions are to be reduced by at least 40 per cent below 2007 levels by 2030, 60 percent below 2007 levels by 2040, and 80 per cent below 2007 by 2050. In addition, the *Climate Change Accountability Act* enabled the BC Minister of Environment and Climate Change to establish industry and sector-specific targets for GHG emissions reductions. In addition to the economy-wide carbon tax and sector-specific targets, BC appears inclined to adopt a cap and trade program for GHG emissions and has passed legislation that would impose GHG emissions limits and permit emission offset projects under the *Greenhouse Gas Industrial Reporting and Control Act*, but the Act currently only applies limits to liquefied natural gas operations.

In recent years, the U.S. Congress has considered legislation to reduce emissions of GHGs, including methane, a primary component of natural gas, and carbon dioxide, a by-product of the burning of natural gas. It presently appears unlikely that comprehensive climate legislation will be passed by either house of Congress or signed by the President in the near future, although energy legislation and other regulatory initiatives are expected to be proposed that may be relevant to GHG emissions issues, such as a resolution referred to as the Green New Deal which was introduced in the U.S. House of Representatives in February 2019. In addition, a number of states are addressing GHG emissions, primarily through the development of emission inventories or regional GHG cap and trade programs.

Independent of Congress, the EPA has adopted regulations controlling GHG emissions under its existing authority under the *Clean Air Act* ("CAA"). For example, following its findings that emissions of GHGs present an endangerment to human health and the environment because such emissions contributed to warming of the earth's atmosphere and other climatic changes, the EPA has adopted regulations under existing provisions of the CAA that, among other things establish construction and operating permit reviews for GHG emissions from certain large stationary sources that are already potential major sources for conventional pollutants. In addition, the EPA has adopted rules requiring the monitoring and reporting of GHG emissions from specified production, processing, transmission and storage facilities in the U.S. on an annual basis. Furthermore, on August 16, 2012, the EPA promulgated new CAA regulations addressing criteria pollutants: *Oil and Natural Gas Sector: New Source Performance Standards* ("NSPS") and *National Emission Standards for Hazardous Air Pollutants* ("NESHAP"). These new rules broadened the scope of the EPA's NSPS and NESHAP to include standards governing emissions from most operations associated with oil and natural gas production facilities and natural gas processing, transmission and storage facilities with a compliance deadline of January 1, 2015. The EPA states that greenhouse gases will be controlled indirectly as a result of these new rules, known as "NSPS Subpart OOOO." On May 12, 2016, the EPA issued additional rules, known as "NSPS Subpart OOOOa," for the oil and gas industry to reduce emissions of methane, volatile organic compounds, and other compounds. These rules apply to certain sources of air emissions that were constructed, reconstructed, or modified after September 18, 2015. Among other things, the new rules impose reduced emission ("green") completion requirements on new hydraulically fractured or re-fractured oil wells (in addition to gas wells, for which such green completions were already required under NSPS Subpart OOOO) and leak detection and repair requirements at well sites. NSPS Subpart OOOOa and EPA's subsequent actions to reconsider and propose stays of the rules have been heavily litigated and, in October 2018, the EPA released proposed revisions to some of the 2016 requirements, including reducing the required frequency of fugitive emissions monitoring at well sites and compressor stations. As recently as August 2019, the EPA has proposed modifications to NSPS Subparts OOOO and OOOOa, for example, proposing to remove sources in the transmission and storage segment of the oil and natural gas industry from regulation under NSPS Subpart OOOO/OOOOa and to rescind methane requirements for all production and processing sources in the oil and natural gas industry or, alternatively, rescind all methane requirements under the rules without removing any sources from the oil and natural gas source category. Accordingly, the ultimate scope of these regulations remains uncertain, and any future changes to these regulations could require the Company's customers to incur additional costs and to reduce emissions associated with their operations, potentially resulting in a decrease in their E&P activity.

Furthermore, in December 2015, at COP 21, like Canada the U.S. became a signatory to the Paris Agreement which has set broad goals to, among other things, limit global climate change to not more than 2 degrees Celsius (or less), preparing, maintaining and publishing national greenhouse gas reduction targets and creating a "carbon-neutral" world by 2050. The agreement came into force on November 4, 2016, however President Trump has since announced that the U.S. will withdraw from the Agreement and in November 2019 the U.S. submitted a formal notice of its withdrawal to the United Nations. Notably, the earliest date of withdrawal under the terms of the Agreement is November 4, 2020, one day after the 2020 U.S. Presidential election. Although it is not possible at this time to predict how new laws or regulations in the U.S. and Canada, or any legal requirements imposed following Canada agreeing to the Paris Agreement that may be adopted or issued to address GHG emissions would impact the Company's business, any such future laws, regulations or legal requirements imposing reporting or permitting obligations on, or limiting emissions of GHGs from, the Company's equipment and operations could require it to incur costs to reduce emissions of GHGs associated with its operations as well as delays or restrictions in its ability to permit GHG emissions from new or modified sources. Such changes could also decrease the E&P activity of the Company's clients.

The direct or indirect costs of compliance with these regulations may have a material adverse effect on the business, financial condition, results of operations and prospects of the Company. Any such regulations could also increase the cost of consumption, and thereby reduce demand for the oil, NGLs and natural gas the Company's clients produce. Given the evolving nature of the debate related to climate change and the control of GHGs and resulting requirements, it is not possible to predict with certainty the impact on the Company and its operations and financial condition.

In addition, there has been public discussion that climate change may be associated with extreme weather conditions such as more intense hurricanes, thunderstorms, tornados and snow or ice storms, as well as rising sea levels. Another possible consequence of climate change is increased volatility in seasonal temperatures. Some studies indicate that climate change could cause some areas to experience temperatures substantially colder than their historical averages. Extreme weather conditions can interfere with the Company's operations and the E&P operations of its clients and increase the Company's costs, and damage resulting from extreme weather may not be insured. However, at this time, the Company is unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting its operations.

**Recent political and social events and decisions made in the U.S. could have an adverse effect on the Company.**

The current American administration has withdrawn the U.S. from the Trans-Pacific Partnership and Congress has passed sweeping tax reform, which, among other things, significantly reduces U.S. corporate tax rates. This may affect competitiveness of other jurisdictions, including Canada. In addition, NAFTA has been renegotiated and on November 30, 2018, Canada, the U.S. and Mexico signed the USMCA. The USMCA was signed into U.S. law by President Trump in January 2020, and Canada began the process for its ratification. Although the intention of Canada is to ratify the agreement, there is no assurance as to when and if the USMCA will be ratified and put into force. If the USMCA is not ratified, it could have a material impact on our business as the United States remains Canada's largest trade partner and the largest international market for the export of crude oil, natural gas and natural gas liquids from Canada. In addition, as a result of division in the U.S. Congress following the 2018 U.S. midterm elections and the potential for further changes in the upcoming 2020 election, there is uncertainty as to the various positions the U.S. will take with respect to domestic and international legislative and regulatory matters, including global affairs and events. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S. demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and operations.

**There can be no assurance that the steps the Company takes to protect its intellectual property rights will prevent misappropriation or infringement.**

The success and ability of the Company to compete depends on the proprietary technology of the Company, proprietary technology of third parties that has been, or is required to be, licensed by the Company and the ability of the Company and such third parties to prevent others from copying such proprietary technology. The Company currently relies on intellectual property rights and other contractual or proprietary rights, including (without limitation) copyright, trademark laws, trade secrets, confidentiality procedures, contractual provisions, licences and patents to protect its proprietary technology. The Company also relies on third parties from whom licences have been received to protect their proprietary technology. The Company may have to engage in litigation in order to protect its patents or other intellectual property rights, or to determine the validity or scope of the proprietary rights of others. This kind of litigation can be time-consuming and expensive, regardless of whether the Company is successful. The process of seeking patent protection can itself be long and expensive, and there can be no assurance that any patent applications of the Company or such third parties will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to the Company. Furthermore, others may develop technology that is similar or superior to the technology of the Company or such third parties or design technology in such a way as to bypass the patents owned by the Company and/or such third parties.

Despite the efforts of the Company or such third parties, the intellectual property rights, particularly existing or future patents, of the Company or such third parties may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Company or such third parties may take to protect their intellectual property rights and other rights to such proprietary technology that is central to the Company's operations will prevent misappropriation or infringement or the termination of licenses from third parties.

**Improper access to confidential information could adversely affect the Company's business.**

While discussing potential business relationships or other transactions with third parties, STEP may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put STEP at competitive risk and may have a material adverse effect on its business. The harm to STEP's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, STEP will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause. In addition, the Company's efforts to protect its confidential information, as well as the confidential information of its clients, may be unsuccessful due to the actions of third parties, software bugs or other technical malfunctions, employee error or malfeasance, lost or damaged data as a result of a natural disaster, data breach, intentional harm done to software by hackers or other factors. Any of these events could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**Some of the Company's directors and officers have conflicts of interest as a result of their involvement with other oilfield services companies.**

Certain of the Company's directors and officers are also directors and officers of other oilfield services companies, and conflicts of interest may arise between their duties as officers and directors of STEP and as officers and directors of such other companies. To the extent that such other companies may participate in ventures in which the Company may participate, or in ventures which the Company may seek to

participate, the Company's directors and officers may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In all cases where the Company's directors and officers have an interest in other companies, such other companies may also compete with the Company in order to provide oilfield services to clients. Such conflicts of the Company's directors and officers may result in a material and adverse effect on the Company's profitability, results of operation and financial condition. As a result of these conflicts of interest, the Company may miss the opportunity to participate in certain transactions, which may have a material adverse effect on the Company's financial position.

**The Company's current technology may become obsolete or experience a decrease in demand.**

Certain of the Company's equipment may become obsolete or experience a decrease in demand through the introduction of competing products or new technologies that are lower in cost; exhibit enhanced performance characteristics; or are determined by the market to be preferable for environmental or other reasons. These changes could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Although the Company makes reasonable efforts to keep current with the changing market for O&G services and technological and regulatory changes, there can be no assurance that the Company will be able to identify all changes to competing products or technology.

## **Risks Related to the Common Shares**

**The price of the Common Shares could be volatile.**

A number of factors could influence the volatility in the trading price of the Common Shares, including changes in the economy or in the financial markets, industry related developments and the impact of changes in the Company's daily operations. Each of these factors could lead to increased volatility in the market price of the Common Shares. In addition, variations in the Company's earnings estimates or other financial or operating metrics by securities analysts and the market prices of the securities of the Company's competitors may also lead to fluctuations in the trading price of the Common Shares.

**The ARC Funds maintain control of the Company.**

ARC Energy Fund 6 and ARC Energy Fund 8 beneficially own or control 13,588,546 Common Shares and 26,654,454 Common Shares, respectively, which in the aggregate represent approximately 60.1% of the Company's issued and outstanding Common Shares. As a result, the ARC Funds collectively have the ability to control (or veto) certain matters submitted to the Company's shareholders for approval, including without limitation the election and removal of directors. Practically, the ARC Funds also collectively hold a sufficient proportion of the Common Shares to effectively control (or veto) or otherwise significantly influence matters requiring approval of 66 2/3% of the Company's shareholder present at a meeting thereof, including, without limitation, amendments to the Company's articles and by-laws and the approval of any business combination. This may negatively affect the attractiveness of the Company to third parties considering an acquisition of the Company or cause the market price of the Common Shares to decline. In addition, the ARC Funds are entitled to nominate up to three directors for election pursuant to the Investor Rights Agreement depending on the aggregate percentage of Common Shares they hold from time to time. The interests of the ARC Funds may not in all cases be aligned with interests of the Company's shareholders. In addition, the ARC Funds may have an interest in pursuing acquisitions, divestitures and other transactions that in the judgement of its management could enhance its equity investment, even though such transactions might involve risks to the Company's shareholders and may ultimately affect the market price of the Common Shares. So long as the ARC Funds or their affiliates continue to own, directly or indirectly, a significant amount of the Common Shares and/or otherwise control a majority of the Board, the ARC Funds (or their affiliates) will continue to be able to strongly influence or effectively control the Company's decisions.

Refer to the *Principal Shareholders* section of this AIF.

The ARC Funds are in the business of making investments in companies and have made investments in or may in the future make investments in businesses that directly or indirectly compete with certain portions of the Company's business or are suppliers or clients of the Company.

**There may be no return on investment in the Common Shares.**

There is no assurance that the business of the Company will be operated successfully, or that the business will generate sufficient income to allow investors to recoup all or any portion of their investment. There is no assurance that an investment in the Common Shares will earn a specified rate of return or any return over the life of the investment.

**The Common Shares will be subject to further dilution.**

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. The sale of a substantial number of the Common Shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Common Shares and negatively impact the Company's ability to raise equity capital in the future.

**Residents of the U.S. may have limited ability to enforce civil remedies.**

STEP is organized under the laws of Alberta, Canada and its principal places of business are in Canada. The majority of STEP's directors and officers and the experts named herein are residents of Canada. As a result, it may be difficult for investors in the U.S. to effect service of process within the U.S. upon those directors, officers and experts who are not residents of the U.S. or to enforce against them judgments of U.S. courts based upon civil liability under the U.S. federal securities laws or the securities laws of any state within the U.S. There is doubt as to the enforceability in Canada against STEP or against any of the Company's directors, officers or experts who are not residents of the U.S. in original actions or in actions for enforcement of judgments of U.S. courts of liabilities based solely upon the U.S. federal securities laws or the securities laws of any state within the U.S.

**The Company has no plans to pay dividends.**

The Company currently intends to use its future earnings, if any, and other cash resources for the operation and development of its business and does not currently anticipate paying any dividends on the Common Shares. Any future determinations to pay dividends on the Common Shares will be at the sole discretion of the Board of Directors after considering a variety of factors and conditions existing from time to time, including current and future commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by the ABCA for the declaration and payment of dividends. In addition, the Company's ability to pay dividends may be restricted by restrictions and/or limitations imposed by the Credit Agreement or any other future outstanding indebtedness of the Company. As a result, a holder of Common Shares may not receive any return on an investment in the Common Shares.

Additional information on the risks, assumptions and uncertainties are found in the *Forward-Looking Information & Statements* section of this AIF.

## Legal Proceedings and Regulatory Actions

Other than as set out below, there are no legal proceedings that the Company is or was a party to, or that any of its property is or was a subject of, during the most recently completed financial year that were or are material to the Company, nor are any such legal proceedings known to the Company to be contemplated which could be deemed material to the Company.

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 at this time intends to contest allegations made in the claim. While management does not believe that this action will have a material adverse effect on the business or financial condition of the Company, no assurance can be given as to the final outcome of this or any other legal proceeding. If this claim, or any claims 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.

To the knowledge of management of the Company, there have not been any penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the most recently completed financial year, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision, and the Company has not entered into any settlement agreement before a court relating to securities legislation or with a securities regulatory authority during the most recently completed financial year.

## Interest of Management and Others in Material Transactions

To the knowledge of the directors and officers of the Company, none of the directors or executive officers of the Company, nor any person or Company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares, nor any of their respective associates or affiliates, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the Company's current year or in any proposed transaction which has materially affected or is reasonably expected to materially affect the Company.

## Auditors, Transfer Agent and Registrar

The external auditors of the Company are KPMG LLP, Chartered Professional Accountants, 3100, 205 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 4B9. KPMG LLP has been the Company's auditors since 2011.

The transfer agent and registrar for the Common Shares is TSX Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

## Material Contracts

Other than the following agreements entered into by STEP in connection with the Company's Credit Facilities, which can be found on SEDAR under the Company's profile ([www.sedar.com](http://www.sedar.com)):

- Second Amending Agreement dated March 5, 2019;
- Third Amending Agreement dated June 25, 2019; and
- Fourth Amending Agreement dated August 08, 2019,

the Company did not enter into any material contracts outside the ordinary course of business during the year ended December 31, 2019, nor has it entered into any material contracts outside the ordinary course of business prior to the year ended December 31, 2019 which are still in effect as at the date of this AIF. The Company has also entered into a Fifth Amending Agreement with respect to the Credit Facilities, dated January 22, 2020, as further described in the *Description of Capital Structure & Dividend Policy – Credit Facilities – Subsequent Event* section of this AIF.

## Interests of Experts

KPMG LLP have confirmed with respect to the Company that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

Other than as set out above, no other experts (whose profession or business gives authority to a report, valuation, statement or opinion made by them) were named in any securities disclosure document filed by the Company pursuant to NI 51-102 in the most recently completed financial year.

## Additional Information

Additional information in relations to the Company may be found under STEP's profile on SEDAR ([www.sedar.com](http://www.sedar.com)). Additional financial information is provided in the Company's financial statements and MD&A for its most recently completed year, which may be found on SEDAR under the Company's profile ([www.sedar.com](http://www.sedar.com)). Additional information including directors' and officers' remuneration and indebtedness, principal holders of STEP's securities and securities authorized for issuance under equity compensation plans (all where applicable), is contained in STEP's management information circular for its most recent annual meeting of shareholders that involved the election of directors and can be found under the Company's profile ([www.sedar.com](http://www.sedar.com)).

## Schedule "A" – Abbreviations, Definitions & Conventions

"ABCA" means the *Business Corporations Act* (Alberta), as amended.

"Acquisition" or "Tucker Acquisition" means the Company's acquisition of Tucker pursuant to the Acquisition Agreement.

"Acquisition Agreement" means the stock purchase agreement among the Company, Purchaser and Vendor dated February 22, 2018.

"AER" means the Alberta Energy Regulator.

"AIF" means this Annual Information Form.

"Annual Financial Statements" means the audited consolidated financial statements of STEP for the year ended December 31, 2018, together with the notes thereto and the auditor's report thereon.

"ARC Energy Fund 6" means, collectively, 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.

"ARC Energy Fund 8" means, collectively, 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.

"ARC Funds" means ARC Energy Fund 6 and ARC Energy Fund 8.

"ARC Group" means ARC Energy Fund 6 and ARC Energy Fund 8, and the investors therein and other related funds advised by ARC Financial Corp., collectively.

"BLM" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"Board" means the board of directors of the Company.

"CAA" has the meaning set out in the *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulation, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"CAA" means *Companies' Creditors Arrangement Act*.

"CCIR" has the meaning set out in the *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulation, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"CERCLA" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"Code" means the Company's Code of Business Conduct and Ethics.

"Common Shares" means the common shares in the capital of STEP.

"Credit Agreement" means the credit agreement dated March 10, 2017, between STEP, as borrower, and Alberta Treasury Branches and certain other financial institutions, as lenders, and Alberta Treasury Branches, as administrative agent, and as amended, restated, supplemented, replaced or otherwise modified from time to time.

"Credit Facilities" means the \$313 million revolving syndicated credit facility, the \$10 million operating facility and the U.S.\$20 million operating facility available under the amended and restated Credit Agreement with a syndicate of financial institutions, as further set out in the *Capital Structure & Dividend Policy – Credit Facilities* section of this AIF.

"CWA" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"Demand Distribution" has the meaning set out in the *Investment Rights Agreement – Registration Rights* section of this AIF.

"**Demanding Shareholder**" has the meaning set out in the *Investment Rights Agreement – Registration Rights* section of this AIF.

"**Distribution**" has the meaning set out in the *Description of Capital Structure & Dividend Policy – Common Shares* section of this AIF.

"**DSU**" means a right to receive a cash payment equal to the trading price of the Common Shares on the date of exercise granted under the DSU Plan.

"**DSU Plan**" means the deferred share unit plan of the Company which was adopted in connection with the IPO.

"**E&P**" means oil and gas exploration and production.

"**EPA**" means the U.S. Environmental Protection Agency.

"**EPEA**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"**ESA**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"**IFRS**" means International Financial Reporting Standards.

"**Gasfrac**" means, collectively, Gasfrac Energy Services Inc., Gasfrac Energy Services Limited Partnership, Gasfrac Services GP Inc., Gasfrac US Holdings Inc., Gasfrac Energy Services (US) Inc. and Gasfrac Luxembourg S.A.R.L.

"**GGPPA**" has the meaning set out in the *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulation, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"**GHG**" means greenhouse gases.

"**HP**" means horsepower.

"**Investment Rights Agreement**" has the meaning set out in the *Investment Rights Agreement* section of this AIF.

"**IPO**" means the Company's initial public offering, completed on May 2, 2017.

"**MD&A**" means the Management's Discussion and Analysis, filed on March 5, 2019 in conjunction with the Annual Financial Statements.

"**NAFTA**" means the North American Free Trade Agreement.

"**NESHAP**" has the meaning set out in the *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulation, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"**New Option**" means an option to purchase a Common Share granted under the New Option Plan.

"**New Option Plan**" means the new stock option plan of the Company which was adopted in connection with the IPO.

"**NSPS**" has the meaning set out in the *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulation, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"**O&G**" means oil and gas.

"**OGCA**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"**Participating Shareholder**" has the meaning set out in the *Investment Rights Agreement – Registration Rights* section of this AIF.

"**Performance Warrants**" means the performance warrants issued to directors, officers, employees and consultants of the Company, no further awards of which are to be granted since the closing of the IPO. Each whole Performance Warrant is exercisable for one-fifth of a post-consolidation Common Share upon the payment of the applicable exercise price.

"**Piggyback Distribution**" has the meaning set out in the *Investment Rights Agreement – Registration Rights* section of this AIF.

"**Prior Credit Facilities**" means the Company's syndicated \$90 million revolving facility and a \$10 million operating facility, maturing on May 31, 2020, with a syndicate of financial institutions;

"**Prior Option**" means an option to purchase a Common Share granted under the Prior Option Plan. Each whole Prior Option is exercisable for one-fifth of a post-consolidation Common Share upon payment of the applicable exercise price.

"**Prior Option Plan**" means the stock option plan of the Company dated March 28, 2011 under which no further awards are to be granted since the closing of the IPO.

"**proppant**" is a solid material, typically sand, treated sand or man-made ceramic materials, designed to keep an induced hydraulic fracture open, during or following a fracturing treatment.

"**PRSU Plan**" means the performance and restricted share unit plan of the Company which was adopted in connection with the IPO.

"**PSU**" means a right to receive a Common Share, based upon the achievement of certain performance criteria and granted under the PRSU Plan.

"**Purchaser**" means STEP Energy Services (Holdings) LLC, an indirect wholly-owned subsidiary of the Company.

"**RCRA**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"**RRC**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"**RSU**" means a right to receive a Common Share under the PRSU Plan.

"**Sanjel**" means Sanjel Corporation and Sanjel Canada Ltd.

"**SDWA**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval.

"**SGER**" has the meaning set out in the *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulation, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"**Subscription Receipts**" means the subscription receipts offered pursuant to the bought-deal offering of the Company that closed on March 15, 2018.

"**TIER**" has the meaning set out in the *Risk Factors – Risks Related to the Company - The direct and indirect costs of various GHG regulations, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"**TSX**" means the Toronto Stock Exchange.

"**Tucker**" means Tucker Energy Services Holdings, Inc.

"**Tucker Acquisition**" means the acquisition by STEP of all of the issued and outstanding capital stock of Tucker from the Vendor, which closed on April 2, 2018.

"**UIC**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

"**UNFCCC**" has the meaning set out in the *Risk Factors – Risks Related to the Company – The direct and indirect costs of various GHG regulation, existing and proposed, may adversely affect the Company's business, operations and financial results* section of this AIF.

"**U.S.**" means United States.

"**USMCA**" means the United States-Mexico-Canada Agreement.

"**Vendor**" means Tucker Energy Services Ltd., the seller of Tucker.

"**WCSB**" means the Western Canadian Sedimentary Basin.

"**WOTUS**" has the meaning set out in the *Other Business Information – Regulation* section of this AIF.

# Schedule "B" – Audit Committee Mandate

## Introduction

The Audit Committee (the "Committee") is a committee of the Board whose primary function is to assist the Board by:

1. working with the Chief Executive Officer to recruit persons to hold key positions in the financial management of STEP including the Chief Financial Officer, the Controller and any other persons hired to be the primary interface between STEP and its financial agents, lenders or shareholders;
2. recommending to the Board for consideration and further recommendation to the shareholders the appointment and compensation of the external auditor;
3. overseeing the work of the external auditor, including gaining an understanding of disagreements between the external auditor and management;
4. overseeing the assignment of non-audit services to the external auditor, including but not restricted to pre-approving all non-audit services (or delegating such pre-approval, if and to the extent permitted by law) to be provided to STEP or its subsidiary entities ("subsidiaries") by the external auditor;
5. reviewing and approving any proposed hiring of any current or former partner or employee of the current or former external auditor of STEP or its subsidiaries;
6. establishing procedures for the receipt, retention and treatment of complaints received by STEP regarding accounting, internal controls or auditing matters, and for anything that may be required beyond STEP's Whistleblower Policy for the confidential, anonymous submission by employees of STEP or its subsidiaries of concerns regarding questionable accounting or auditing matters;
7. reviewing and approving the quarterly financial statements, the related Management's Discussion and Analysis ("MD&A"), and similar financial information provided by STEP to any governmental body, the shareholders of STEP or the public, including by way of press release;
8. reviewing and recommending that the Board approve annual financial statements, the related MD&A, and similar financial information provided by STEP to any governmental body, the shareholders of STEP or the public, including by way of press release; and
9. satisfying itself that adequate procedures are in place for the compilation, calculation and review of STEP's disclosure of financial information, other than as described in VII above, extracted or derived from its financial statements, including periodically assessing the adequacy of such procedures.

The Committee should primarily fulfill these roles by carrying out the activities enumerated in this Mandate

## Composition and Meetings

1. The Committee must be comprised of a minimum of three directors, as appointed by the Board, each of whom shall be independent within the meaning of National Instrument 52-110–Audit Committees ("NI 52-110") of the Canadian Securities Administrators unless the Board determines that an exemption contained in NI 52-110 is available and determines to rely thereon, and free of any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee.
2. All of the members of the Committee must be financially literate within the meaning of NI 52-110 unless the Board has determined to rely on an exemption in NI 52-110. Being "financially literate" means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by STEP's financial statements.
3. The members of the Committee and its Chair shall be elected by the Board on an annual basis, or until they are removed or their successors are duly appointed.
4. The members of the Committee may be removed or replaced by the Board at any time. The Chair of the Committee may be removed by the Board at any time. Any member shall automatically cease to be a member of the Committee on ceasing to be a director. The Board may fill vacancies on the Committee. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all of the powers of the Committee, so long as a quorum remains.
5. The Committee shall meet at least four times annually, or more frequently as circumstances require. The Committee should meet within forty-two (42) days following the end of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related MD&A, and should meet within eighty-five (85) days following the end of the fiscal year end to review and discuss the audited financial results for the preceding quarter and year and the related MD&A.
6. The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Committee shall have full access to all corporate information and any

other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of STEP with senior employees, officers and the external auditor, and others as they consider appropriate. For greater certainty, corporate information includes information relating to STEP's affiliates, subsidiaries and their respective operations.

7. In order to foster open communication, the Committee or its Chair should meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. In addition, the Committee or its Chair should meet with management quarterly in connection with STEP's interim financial statements and the Committee should meet not less than quarterly with the auditors, independent of the presence of management.
8. At all meetings of the Committee every question shall be decided by a majority of the votes cast. In case of an equality of votes, the Chair of the meeting shall not be entitled to a second or casting vote and in such cases the undecided matter should be referred to the Board as a whole.
9. A quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee or such greater number as the Committee shall by resolution determine.
10. Meetings of the Committee shall be held from time to time and at such place as any member of the Committee shall determine upon 48 hours' notice to each of its members. The notice period may be waived by all members of the Committee. Each of the Chair of the Board, any Lead Director, the external auditor, the Chief Executive Officer, the Chief Financial Officer or the Corporate Secretary shall also be entitled to call a meeting.
11. Agendas shall be circulated to Committee members along with background information on a timely basis prior to the Committee meetings. Minutes of each meeting will be recorded and reviewed for errors or omissions and then filed with the Corporate Secretary and made available to any director at any time. The Committee should report on its activities at each quarterly meeting of the Board or more frequently as material issues are addressed by the Committee. It will be the responsibility of the Chair to report to the Board or delegate such reporting.
12. Any issue arising from these meetings that bear on the relationship between the Board and management should be communicated to the Board by a member of the Committee, the Committee being responsible to designate the member responsible for such report.

## Role

In addition to the matters described in the Introduction, and any other duties and authorities delegated to it by the Board from time to time, the role of the Committee is to:

- A. General
  - o Review and recommend to the Board changes to this Mandate, as considered appropriate from time to time.
  - o Review any and all disclosure regarding the Committee as contemplated by NI 52-110.
  - o Oversee by direct involvement or by delegation to the Disclosure Committee of management the disclosure of STEP's quarterly and annual financial statements and related filings.
  - o Summarize in STEP's disclosure materials the Committee's composition and activities, as required.
- B. Internal Controls. Satisfy itself on behalf of the Board with respect to STEP's internal control systems, including in particular but not exclusively:
  - o matters relating to derivative instruments;
  - o management's identification, monitoring and development of strategies to avoid and/or mitigate business risks;
  - o the adequacy of the security measures that are in place in respect of STEP's information systems and the information technology that is utilized by STEP; and
  - o ensuring compliance with legal and regulatory requirements.
- C. Documents/ Reports Review
  - o Review and recommend to the Board for approval STEP's annual financial statements; and
  - o Review and approve STEP's quarterly financial statements, including in each case any certification, report, opinion or review rendered by the external auditor, and related MD&A.
    - The process of reviewing annual and quarterly financial statements should include but not be limited to:
      - reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;
      - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
      - reviewing accounting treatment of unusual or non-recurring transactions;
      - ascertaining compliance with covenants under loan agreements;
      - reviewing financial reporting relating to asset retirement obligations;
      - reviewing disclosure requirements for commitments and contingencies;
      - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;

- reviewing unresolved differences between management and the external auditors;
  - obtaining explanations of significant variances with comparative reporting periods; and
  - determining through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed.
- Review the financial statements, prospectuses, MD&A, AIF's and all public disclosure containing financial information that is based upon the financial statements of STEP that has not previously been released, before release and prior to Board approval, if required.
  - Seek to ensure that adequate procedures are in place for the review of STEP's disclosure of financial information extracted or derived from STEP's financial statements and periodically assess the adequacy of those procedures.

#### D. External Auditor

- Recommend to the Board the nomination of the external auditor for shareholder approval, considering independence and effectiveness, and review the fees and other compensation to be paid to the external auditor. Instruct the external auditor that its ultimate client is the shareholders of STEP as a group.
- Advise the external auditor that it is required to report directly to the Committee, and not to management of STEP and, if it has any concerns regarding the conduct of the Committee or any member thereof, it should contact the Chair of the Board or any other director.
- Monitor the relationship between management and the external auditor including reviewing any management letters or other reports of the external auditor and discussing any material differences of opinion between management and the external auditor.
- Review and discuss, on an annual basis, with the external auditor all significant relationships they have with STEP, its management or employees to determine their independence.
- Review and approve requests for any material management consulting or other engagement to be performed by the external auditor and be advised of any other material study undertaken by the external auditor at the request of management that is beyond the scope of the audit engagement letter and related fees.
- Review the performance of the external auditor and any proposed dismissal or non-renewal of the external auditor when circumstances warrant.
- Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has or has not taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.
- Review with external auditors (and internal auditor if one is appointed by STEP) their assessment of the internal controls of STEP, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses.
- Communicate directly with the external auditor, and arrange for the external auditor to report directly to the Committee.
- Communicate directly with the external auditor, and arrange for the external auditor to be available to the Committee and the full Board as needed.

#### E. Financial Reporting Processes

- Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor as the Committee sees fit.
- Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of STEP's accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices relative to STEP's peers.
- Review all material balance sheet issues, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions.
- Consider proposed major changes to STEP's accounting principles and practices.

#### F. Reporting Process

- If considered appropriate, establish separate systems of reporting to the Committee by each of management and the external auditor.
- Review the scope and plans of the external auditor's audit and reviews. The Committee may authorize the external auditor to perform supplemental reviews or audits as the Committee may deem desirable.
- Review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of STEP and its subsidiaries.
- Periodically consider the need for an internal audit function, if not present.
- Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the

- audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.
  - Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements.
  - Where there are significant unsettled issues between management and the external auditors that do not affect the audited financial statements, the Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.
  - Review with the external auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
  - Review the system in place to seek to ensure that the financial statements, related MD&A and other financial information disseminated to governmental organizations and the public satisfy applicable requirements.
  - When there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change.
- G. Risk Management
- Review program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance.
  - Review, not less than quarterly, a mark to market assessment of STEP's hedge positions and counterparty credit risk and exposure.
- H. General
- If considered appropriate, conduct or authorize investigations into any matters within the Committee's scope of activities. The Committee is empowered to retain independent counsel, accountants and other professionals to assist it in the conduct of any such investigation or otherwise as it determines necessary to carry out its duties. The Committee may set and pay (at the expense of STEP) the compensation for any such advisors.
  - Perform any other activities as the Committee deems necessary or appropriate.

## Complaint Procedures

- A. Submitting a Complaint
- Anyone may submit a whistle blower notice or complaint regarding conduct by STEP or its subsidiaries or their respective employees or agents (including its independent auditors) reasonably believed to involve questionable accounting, internal accounting controls or auditing matters. The Chair or in his/her absence or by his/her delegation, any other member of the Committee should oversee the treatment of such complaints.
- B. Procedures
- The Chair of the Committee is designated to receive and administer or supervise the administration of employee complaints with respect to accounting or financial control matters.
  - In order to preserve anonymity when submitting a complaint regarding questionable accounting or auditing matters, the employee may submit a complaint in accordance with STEP's Whistleblower Policy, and such complaint shall be addressed in accordance with that policy.
- C. Records and Report
- The Chair of the Committee should maintain a log of complaints, tracking their receipt, investigation, findings and resolution, and should prepare a summary report for the Committee.