STEP energy services

TSX STEP

First Quarter

Management Discussion and Analysis

ENDED MARCH 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for STEP Energy Services Ltd. ("STEP" or the "Company") has been prepared by management as of May 7, 2019 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards ("IFRS"). It should be read in conjunction with the unaudited condensed consolidated interim financial statements and notes thereto as at and for the three months ended March 31, 2019 (the "Financial Statements") and the audited consolidated financial statements as at and for the year ended December 31, 2018 and related MD&A (the "Annual MD&A"). Readers should also refer to the "Forward-looking information & statements" legal advisory and the section regarding "Non-IFRS Measures" at the end of this MD&A. All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated. Additional information about STEP is available on the SEDAR website at www.sedar.com, including the Company's Annual Information Form for the year ended December 31, 2018 dated March 5, 2019 (the "AIF"). Tucker Energy Services Holdings, Inc. was acquired by STEP to form the U.S. fracturing operations effective April 2, 2018 (the "Tucker Acquisition") and is a provider of fracturing services, coiled tubing, and wireline services.

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

Founded in 2011 as a specialized deep capacity coiled tubing company, STEP now provides an integrated solution for deep capacity coiled tubing services and fracturing to exploration and production ("E&P") companies in Canada and the U.S. Our Canadian integrated services are focused in the Western Canadian Sedimentary Basin ("WCSB"), while in the U.S. our coiled tubing services are focused in the Permian and Eagle Ford in Texas and the Haynesville in Louisiana. The Tucker Acquisition in the second quarter of 2018 allowed STEP to add fracturing services to its U.S. service offerings and provided an entry into key, high-growth oil and gas basins in Oklahoma and Texas.

A cornerstone of STEP's success is our high-performance, safety-focused culture. Our four core values; Safety, Trust, Execution and Possibilities inspire our team of professionals to provide differentiated levels of service, with a goal of flawless execution and an unwavering focus on safety.

CONSOLIDATED HIGHLIGHTS

FINANCIAL

($000s except percentages and per share amounts)	Three months ended March 31, 2019	2018
Consolidated revenue	$ 176,469	$ 187,593
Net (loss) income attributable to shareholders	$ (602)	$ 18,416
Per share-basic	$ (0.01)	$ 0.30
Per share-diluted	$ (0.01)	$ 0.29
Adjusted EBITDA [(1)]	$ 26,617	$ 41,780
Adjusted EBITDA % [(1)]	15%	22%

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

($000s except shares and per share amounts)	As at March 31, 2019	As at December 31, 2018
Cash and cash equivalents	$ 7,040	$ 364
Working capital (including cash and cash equivalents)	$ 77,787	$ 67,158
Total assets	$ 880,896	$ 887,908
Total long-term financial liabilities	$ 265,718	$ 260,451
Shares outstanding		
Basic	66,702,386	66,682,319
Weighted average shares – basic	66,683,211	65,033,085
Weighted average shares – diluted	66,683,211	65,352,565

OPERATIONAL

($000's except per day, days, units, and HP)	Three months ended March 31,	
	2019	2018
Total fracturing operating days [(1)]	505	515
Fracturing revenue per operating day[(2)]	$ 242,745	$ 247,779
Fracturing capacity (HP):		
Average active HP	367,500	214,333
Exit active HP	367,500	225,000
Total HP [(3)]	490,000	297,500
Proppant pumped (tonnes)	329,000	209,000
Total coiled tubing operating days [(1)]	1,087	1,330
Coiled tubing revenue per operating day [(2)]	$ 49,571	$ 45,102
Coiled tubing capacity:		
Average active coiled tubing units	18	20
Exit active coiled tubing units	18	21
Total coiled tubing units	26	21
Capital		
Capital program additions	$ 10,347	$ 22,800
Lease right-of-use asset additions	8,465	1,797
Total capital expenditures	$ 18,812	$ 24,597

(1) An operating day is defined as any coiled tubing and fracturing work that is performed in a 24 hour period, exclusive of support equipment.
(2) See Non-IFRS Measures.
(3) Represents total owned HP, of which 367,500 HP is currently deployed. The remainder requires certain maintenance, refurbishment and rebranding.

OVERVIEW

Management is pleased to announce the first quarter 2019 results during which STEP achieved strong results in challenging market conditions. Canadian operations were challenged by a slow start to the quarter, unusually cold weather in February and an overall decrease in activity relative to 2018 of approximately 30%. Despite these challenges, and through the efforts of our field professionals, the Company maintained high levels of operating execution and finished the quarter with strong utilization. STEP secured several key contracts in 2018 which secured base line activity for the quarter and we were pleased with our execution on these programs. Results for our U.S. operations continued to be tempered by competitive pressures and egress issues in the Permian. Coiled tubing operations enjoyed strong utilization and performance for the quarter while demand for fracturing services remained spotty but firmed up as the quarter progressed. Management was successful in leveraging both coiled tubing and fracturing client relationships to create new opportunities while continuing to focus on execution and efficiencies.

As has been previously reported, due to our conservative 2019 outlook, we have been focused on: cost reduction, securing and executing on strategic work programs, relocation of assets to create new opportunities and conservative deployment of capital. In relation to these objectives, we undertook the following:

- In the later part of 2018, the Company reduced its operating fleet to meet near-term demand expectations, rebalanced our headcount to support the anticipated levels of activity and implemented other cost reductions. These efforts were successful as we realized strong utilization of manned equipment while minimizing turn down work in the first quarter of 2019.
- STEP focused on efficient execution of work performed under larger, strategic work programs. The Company was very pleased with the results achieved under these programs, as they were often undertaken in challenging operating conditions. The Company exceeded its internal benchmarks and demonstrated efficiency gains as work progressed.

- Utilized existing infrastructure to relocate operating assets to different basins. By targeting areas with higher activity and leveraging client relationships, management was able to deploy fracturing assets to south and west Texas which better positions the Company to benefit from any activity uplift;
- Management remained cautious in the redeployment of assets and the associated capital spend. The Company chose to turn down short term work programs in the first quarter that would have required the manning and deployment of parked equipment with no clear visibility for sustained demand.

FINANCIAL HIGHLIGHTS

- Generated first quarter consolidated revenue of $176.5 million, a 6% decline from $187.6 million in the first quarter of 2018. The decrease is primarily attributable to slowing activity in the Canadian market partially offset by the revenue contribution of the U.S fracturing operations. The U.S. fracturing operations, acquired in the second quarter of 2018, contributed $40.2 million of fracturing revenue in the first quarter of 2019.
- Adjusted EBITDA was $26.6 million (or 15%) in the first quarter of 2019 compared to $41.8 million (or 22%) in the same period of 2018. The decrease in Adjusted EBITDA was due to decreased demand over the prior year and margin compression brought on by heightened competition for available work. Also impacting first quarter results were approximately $1.2 million of restructuring costs that were incurred in first quarter.
- Net loss for the first quarter was $0.6 million compared to net income of $18.4 million in the same quarter of 2018. The 2019 net loss was impacted by decreased revenue and Adjusted EBITDA as well as increased finance and depreciation expenses related to the U.S. Fracturing acquisition.
- Effective January 1, 2019, the Company implemented the following accounting changes:
    - IFRS 16 replaces existing lease guidance including IAS 17, Leases. IFRS 16 requires the recognition of most leases previously recognized as operating leases onto the balance sheet. These are recognized as right-of-use assets and additional lease liabilities. The Company has applied the standard using the modified retrospective approach in which the cumulative impact of initial application is recognized as an adjustment to the opening balance of retained earnings with no restatement of prior period information. The result of the policy had positive impact on Adjusted EBITDA of $0.6 million in the first quarter of 2019. See the “New Accounting Pronouncements” section of this MD&A for more details.
    - The Company reorganized the composition of its operating segment disclosure to reflect how management makes strategic decisions and assesses the performance of the Company’s operations. Corporate activities are now separated from Canadian and U.S. Operations. The Company has restated prior period information to align with the new composition of operating segments.

INDUSTRY CONDITIONS & OUTLOOK

CANADIAN OPERATIONS

Commodity prices stabilized and strengthened during the quarter after the extreme price volatility experienced at the end of 2018. Despite improved economics, clients have maintained a cautious outlook on capital spending. Pricing pressure felt during much of the later part of 2018 abated in the quarter with the improved activity levels and a balancing of demand and supply, however management sees limited ability to improve pricing in the year with the current demand outlook. Our clients continue to live within operating cash flows and the discipline of capital returns.

Outlook on Canadian completions activity for the second quarter is constructive but will be heavily influenced by weather. STEP's decision to align ourselves with clients with broader work programs provides line of sight to improved utilization during the second quarter relative to last year. However, actual results will again be influenced by weather. Management expects additional visibility regarding the second half of 2019 will emerge as our clients complete their mid-year capital reviews. STEP's Canadian operations intend to maintain its existing operating capacity and will monitor and adjust capacity based on industry demand and long-term economic returns.

U.S. OPERATIONS

STEP's outlook for its U.S. operations remains largely unchanged from our previous disclosure in the Annual MD&A. The current market for fracturing services is competitive as Texas pipeline-related egress issues and capital discipline from our clients have tempered demand. Industry observers expect Texas pipeline-related egress issues to be alleviated in the second half of 2019 giving way to the potential for increased activity and demand for completions. Demand for coiled tubing services is expected to be impacted by the arrival of new equipment in some of the Company's key markets during the remainder of the year. Some of this pressure was felt in the later part of the first quarter and is expected to continue until market demand improves, which is expected to occur later in the year.

With the redeployment of some of the fracturing assets undertaken in the first quarter, the Company has line of sight to improved utilization extending into the later part of the year. The Company is also engaged in discussions with clients regarding the potential redeployment of a fourth fracturing crew which could occur before mid-year.

CAPITAL UPDATE

In keeping with management's cautious outlook for 2019, the previously announced $48 million of primarily maintenance capital remains unchanged. Management has also reserved an additional $14.2 million from the 2018 capital program for the reactivation of a fourth fracturing spread for U.S. operations. Management remains committed to balancing the Company's capital expenditures and available equipment based on market demands and economic returns on capital employed.

CANADIAN OPERATIONS REVIEW

STEP provides integrated well services which includes fracturing solutions and coiled tubing services for completion operations. The Company's Canadian coiled tubing units are designed to service the deepest wells in the region. The Company currently maintains a fleet of 14 coiled tubing units in the WCSB. STEP's Canadian fracturing business is primarily focused on the deeper, more technically challenging plays in Alberta and northeast British Columbia, with growing exposure to oilier plays in eastern Alberta and south Saskatchewan. Canadian operations currently include six fracturing spreads representing 225,000 HP (including approximately 117,500 HP with dual fuel capabilities) in Canada. STEP has an additional 72,500 HP available for deployment, some of which will require capital for maintenance, and refurbishment. The Company will deploy HP as dictated by the market's ability to support strong utilization, pricing and acceptable returns on capital employed.

($000's except per day, days, units, proppant pumped and HP)	Three months ended March 31,			
		2019		2018[4]
Revenue:				
Fracturing	$	82,352	$	127,606
Coiled tubing		25,874		37,524
		108,226		165,130
Expenses:				
Cost of sales		95,191		133,918
Selling, general and administrative		2,296		3,914
Results from operating activities	$	10,739	$	27,298
Add non-cash items:				
Depreciation		12,841		8,674
Share-based compensation		276		533
Adjusted EBITDA [1]	$	23,856	$	36,505
Adjusted EBITDA % [1]		22%		22%
Sales mix (% of segment revenue)				
Fracturing		76%		77%
Coiled tubing		24%		23%
Fracturing services				
Fracturing revenue per operating day[1]	$	203,842	$	247,779
Number of fracturing operating days [2]		404		515
Proppant pumped (tonnes)		234,000		209,000
Stages completed		3,225		4,989
Horsepower				
Active pumping HP, end of period		225,000		225,000
Idle pumping HP, end of period		72,500		72,500
Total pumping HP, end of period [3]		297,500		297,500
Coiled tubing services				
Coiled tubing revenue per operating day[1]	$	49,004	$	42,400
Number of coiled tubing operating days [2]		528		885
Active coiled tubing units, end of period		9		13
Idle coiled tubing units, end of period		5		-
Total coiled tubing units, end of period		14		13

[1] See Non-IFRS Measures.
[2] An operating day is defined as any coiled tubing and fracturing work that is performed in a 24 hour period, exclusive of support equipment.
[3] Represents total owned HP, of which 225,000 HP is currently deployed and the remainder of which requires certain maintenance and refurbishment.
[4] 2018 amounts were reallocated as the Company reorganized the composition of its operating segments. See "Corporate review" section.

FINANCIAL HIGHLIGHTS – CANADA

Revenue in the first quarter of 2019 was $108.2 million, a decrease of 35% from the same quarter of 2018. The decrease is related to the market activity slow-down driven by ongoing political uncertainty, pipeline take-away capacity in the WCSB and commodity price volatility. Consistent with activity in the WCSB and drill counts, first quarter 2019 fracturing operating days decreased by 22% and coiled tubing operating days decreased by 40% relative to the first quarter of 2018. Fracturing revenue per operating day decreased by 18% as clients supplied a greater portion of proppant and chemicals compared to the same period in 2018. First quarter 2019 pricing compared to fourth quarter 2018 pricing remained flat. Coiled tubing revenue per operating day increased due to the type of work and client mix.

Adjusted EBITDA in respect of STEP's Canadian operations for the three months ended March 31, 2019 was $23.9 million (or 22%), in comparison with $36.5 million (or 22%) in the comparable 2018 period. The decrease in Adjusted EBITDA is due to the decrease in total revenue and operating days in 2019. At the end of 2018, the Company responded to continued industry uncertainty by reducing headcount, deferring or cancelling capital and re-evaluating overhead and selling, general and administrative spending. Severance costs in Canada related to this were $0.4 million in the quarter. These measures allowed the Company to maintain consistent margin percentages first quarter 2019 versus first quarter 2018.

Management continued to demonstrate its commitment to improving returns on capital employed as it chose not to reactivate equipment for available spot work in first quarter 2019.

OPERATING HIGHLIGHTS – CANADIAN FRACTURING SERVICES

- The Company's strategy to align with clients who were expected to remain active in the WCSB in 2019 resulted in six fracturing spreads being staffed and deployed with active horsepower of 225,000 HP. Larger agreements with clients in the WCSB resulted in improved efficiencies and equipment performed as expected.
- STEP's Canadian operations focused primarily on the Montney and Duvernay formations and this focus on deeper wells resulted in increased fracturing intensity. First quarter 2019 saw 73 tonnes of proppant pumped per stage compared to 42 in the same period of the prior year.
- Utilization remained high despite unusually prolonged cold weather and increasing fracturing intensity. This is due to excellent execution by our field professionals and newer equipment that is built and maintained to perform high intensity work.
- In Canada, STEP capitalizes fluid ends when it is determined that it has an estimated useful life that exceeds 12 months. Fluid ends are capitalized in Canada, however had the Company expensed them the cost of sales in the three months ended March 31, 2019 would have been increased by approximately $1.6 million.

OPERATING HIGHLIGHTS – CANADIAN COILED TUBING SERVICES

- The Company staffed nine units throughout the first quarter of 2019 to meet current activity levels. Additional units will be re-staffed and deployed as market conditions and economic returns allow.
- In the first quarter of 2019 pad work for clients under strategic contracts led to operating efficiencies that supported stronger financial performance.

UNITED STATES OPERATIONS REVIEW

STEP's U.S. business began by offering coiled tubing services to E&P companies in 2015. STEP currently maintains a fleet of 12 coiled tubing units in the Permian and Eagle Ford basins in Texas and the Haynesville shale basin in Louisiana. STEP closed the Tucker Acquisition on April 2, 2018, which established the U.S. fracturing operations. The U.S. fracturing operations include 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.

($000's except per day, days, units, proppant pumped and HP)	Three months ended March 31,	
	2019	2018[4]
Revenue:		
Fracturing	$ 40,234	$ -
Coiled tubing	28,009	22,463
	68,243	22,463
Expenses:		
Cost of sales	71,520	15,461
Selling, general and administrative	2,149	837
Results from operating activities	$ (5,426)	$ 6,165
Add non-cash items:		
Depreciation	11,911	1,521
Share-based compensation	524	400
Adjusted EBITDA [1]	$ 7,009	$ 8,086
Adjusted EBITDA % [1]	10%	36%
Sales mix (% of segment revenue)		
Fracturing	59%	0%
Coiled tubing	41%	100%
Fracturing services		
Fracturing revenue per operating day [1]	$ 398,356	$ -
Number of fracturing operating days [2]	101	-
Proppant pumped (tonnes)	95,000	-
Stages completed	524	-
Horsepower		
Active pumping HP, end of period	142,500	-
Idle pumping HP, end of period	50,000	-
Total pumping HP, end of period [3]	192,500	-
Coiled tubing services		
Coiled tubing revenue per operating day[1]	$ 50,106	$ 50,478
Number of coiled tubing operating days [2]	559	445
Active coiled tubing units, end of period	9	8
Idle coiled tubing units, end of period	3	-
Total coiled tubing units, end of period	12	8

[1] See Non-IFRS Measures.
[2] An operating day is defined as any coiled tubing and fracturing work that is performed in a 24 hour period, exclusive of support equipment.
[3] Represents total owned HP, some of which will require capital for maintenance and refurbishment.
[4] 2018 amounts were reallocated as the Company reorganized the composition of its operating segments. See "Corporate review" section.

FINANCIAL HIGHLIGHTS – U.S.

Revenue of $68.2 million in the three months ended March 31, 2019 increased by $45.8 million from the same quarter in 2018. Fracturing services contributed $40.2 million and coil-tubing services contributed $5.6 million of the increase. First quarter coiled tubing operating days increased by 26% versus the same period in 2018 as the Company benefited from increased equipment deployed. With a competitive spot market pricing environment, coiled tubing revenue per operating day decreased modestly in U.S. dollars year-over-year but benefited from U.S. dollar strengthening relative to the Canadian dollar.

Revenue in the three months ended March 31, 2019 decreased $3.0 million (-4%) from $71.3 million for the three months ended December 31, 2018 primarily due to decreased utilization and pricing pressures in a competitive environment. Fracturing revenue decreased from $49.2 million in the three months ended December 31, 2018 to $40.2 million in the three months ended March 31, 2019. Fracturing operating days decreased 22 days from fourth quarter 2018 and fracturing revenue per operating day of $398,356 is consistent with $400,568 revenue per operating day from fourth quarter 2018. As per our previous comments, the Company successfully repositioned some of its fracturing assets into the Eagle ford and Permian basins and saw improved utilization near the end of the first quarter 2019. Coiled tubing revenue increased from $22.0 million in the fourth quarter of 2018 to $28.0 million in the first quarter of 2019 primarily due to a 30% increase in operating days. Coiled tubing revenue per operating day was 2% lower in first quarter 2019 compared to fourth quarter 2018. In the U.S., seasonality is generally not a factor and, as a result, the prior quarter is often utilized when comparing financial results.

Adjusted EBITDA for first quarter 2019 was $7.0 million (or 10%) compared to $8.1 million (or 36%) for the same quarter in prior year. Prior year results did not include U.S. fracturing. Adjusted EBITDA for first quarter 2019 was $7.0 million (or 10%) compared to $8.8 million (or 12%) for fourth quarter 2018. Adjusted EBITDA percentage was impacted by low utilization due to competitive pressure, costs from repositioning of assets and increasing costs for field professionals.

OPERATING HIGHLIGHTS – U.S. FRACTURING SERVICES

- As previously reported, in response to a slow down in activity in the later part of 2018, management reduced deployed fracturing spreads from four to three (142,500 HP) and coiled tubing units from 10 to eight to start the first quarter. One additional coiled tubing spread was reactivated during first quarter 2019 as a result of better than expected market demand.
- STEP responded to weaker work programs and aggressive competitor pricing strategies by leveraging existing infrastructure and customer relationships to reposition some of our fracturing spreads into other basins during the first quarter of 2019. This leaves the asset base positioned to see stronger utilization going forward.
- U.S. fracturing pumped 95,000 tonnes (209 million pounds) of proppant over 524 stages (181 tonnes/stage) in the first quarter of 2019 versus 96,000 tonnes of proppant over 675 stages (141 tonnes/stage) in the fourth quarter of 2018. We have begun to see our U.S. clients explore de-bundling sand from pressure pumping services.
- STEP's policy is to expense fluid ends to repairs and maintenance if their estimated useful life is less than 12 months. STEP expensed fluid ends valued at $1.3 million during the first quarter of 2019.

OPERATING HIGHLIGHTS – U.S. COILED TUBING SERVICES

- Drilled and uncompleted wells in the Permian remain consistent with December 2018. Industry watchers expect these wells will require completions when pipeline related egress is resolved which is expected in the second half of 2019.
- STEP maintained 9 active coiled tubing units in the quarter, primarily in Texas. Additional capacity is coming to the market and is resulting in pricing and utilization declines. These conditions are expected to persist until industry demand increases which is expected later in the year.
- STEP's quality execution along with our expanded modern coiled tubing asset base contributed to a 30% increase in operating days in first quarter 2019 versus the fourth quarter of 2018.

CORPORATE REVIEW

Effective January 1, 2019, the Company reorganized the composition of its operating segments to reflect how management makes strategic decisions and assesses the performance of the Company's operations. Corporate activities are separated from Canadian and U.S. Operations. Corporate costs include the executive team, Board of Directors, and other activities that benefit Canadian and U.S. operating segments collectively. The Company has restated prior period information to align with the new composition of operating segments.

($000's)	Three months ended March 31,	
	2019	2018[3]
Expenses:		
Cost of sales	$ 628	$ 579
Selling, general and administrative	4,398	3,189
Results from operating activities	(5,026)	(3,768)
Add non-cash items:		
Depreciation	315	114
Share-based compensation	463	843
Adjusted EBITDA [1]	$ (4,248)	$ (2,811)
Adjusted EBITDA % [1,2]	(2%)	(2%)

[1] See Non-IFRS Measures.
[2] Adjusted EBITDA percentage calculated using the Consolidated revenue for the period.
[3] 2018 amounts were reallocated as the Company reorganized the composition of its operating segments.

FINANCIAL HIGHLIGHTS – CORPORATE

Corporate results from operating activities were $5.0 million in expenses for the first quarter of 2019 compared to $3.8 million in 2018. Selling, general and administrative expenses increased 38% when compared to the same period of 2018. The increase is primarily due to $0.8 million restructuring and severance costs incurred in 2019 in conjunction with the previously disclosed realignment of overhead and general and administrative activities to support a reduced complement of equipment.

CONSOLIDATED FINANCIAL REVIEW

($000's except per share amounts)	Three months ended March 31,	
	2019	2018
Revenue	$ 176,469	$ 187,593
Cost of sales	167,339	149,958
Gross profit	9,130	37,635
Selling, general and administrative	8,843	7,940
Results from operating activities	287	29,695
Finance costs	3,253	145
Foreign exchange (gain) loss	(1,265)	135
Gain on disposal of property and equipment	(672)	(117)
Transaction costs	-	1,153
Amortization of intangible assets	1,774	10
Loss on foreign exchange forward contracts	383	1,771
Net (loss) income before income tax	(3,186)	26,598
Income tax expense (recovery)	(2,584)	8,182
Net (loss) Income	(602)	18,416
Other comprehensive income (loss)	(8,793)	1,387
Total comprehensive income (loss)	$ (9,395)	$ 19,803
Earnings (loss) per share – basic	$ (0.01)	$ 0.30
Earnings (loss) per share – diluted	$ (0.01)	$ 0.29
Adjusted EBITDA [1]	$ 26,617	$ 41,780
Adjusted EBITDA % [1]	15%	22%

[1] See Non-IFRS Measures.

TOTAL CAPITAL EXPENDITURES [2]

($000s)	Three months ended March 31,	
	2019	2018
Canada	$ 11,605	$ 16,342
United States	7,207	8,255
Total capital expenditures	$ 18,812	$ 24,597

[2]Capital expenditures include non-cash expenditures from the addition of right-of-use assets under leases.

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

OTHER ITEMS

Depreciation and amortization

For the three months ended March 31, 2019, depreciation and amortization expense increased to $26.8 million from $10.3 million in the same period of 2018. The increase was the result of the tangible and intangible assets acquired with the U.S. fracturing operations, additional equipment deployment over the year and additional lease right-of-use assets.

Finance costs

STEP's finance costs of $3.3 million for the three months ended March 31, 2019, increased from $0.1 million in the same period of 2018. The increase is primarily due to a higher outstanding balance on the Company's credit facilities in 2019 related to borrowings to fund the purchase of the U.S fracturing operations. The effective borrowing rate for loans and borrowings for the three months ended March 31, 2019 is approximately 4.28%. Additionally, interest on lease obligations increased because of the adoption of IFRS 16 Leases. Finally, deferred finance charges increased from the amortization of debt issuance costs incurred during the year.

Foreign exchange gains and losses

STEP recorded a foreign exchange gain of $1.3 million for the three months ended March 31, 2019, versus a loss of $0.1 million in the comparable period of 2018. Foreign exchange gains and losses arise from the translation of assets or liabilities that are held in U.S. dollars by Canadian operations. The increase year over year is primarily due to the increase in debt denominated in U.S. dollars.

Gains or losses on disposal of property and equipment

The Company recorded gains on disposal of property and equipment of $0.7 million for the three months ended March 31, 2019, compared to gains of $0.1 million in the comparable period of 2018. The increase is related to the disposal of more light duty vehicles in 2019. Total proceeds were $2.5 million in the three months ended March 31, 2019 of which the cash proceeds on disposals were $0.7 million.

Impairment

STEP reviews for indicators of impairment at each reporting period. Based on management's review, no indicators of impairment existed at March 31, 2019.

Transaction costs

There were no transaction costs for the 3 months ended March 31, 2019. Transaction costs for the three months ended March 31, 2018, relate to pre-acquisition, due diligence and legal costs related to the Tucker Acquisition.

Foreign exchange forward contract gains and losses

For the three months ended March 31, 2019, STEP recorded a foreign exchange forward contract loss of $0.4 million compared to a loss of $1.8 million in the comparable period of 2018. Occasionally, the Company enters into U.S. dollar denominated forward contracts for the purposes of mitigating foreign exchange risk. Cash outflows related to the instruments were $0.3 million in the first quarter of 2019.

Share-based compensation

For the three months ended March 31, 2019, STEP recorded share-based compensation expense of $1.3 million, compared to $1.8 million in the same period of 2018. The decrease is due to fewer share-based instruments outstanding as a result of the Company aligning its overhead and general and administrative costs with its coiled tubing unit and fracturing spread reductions in the quarter.

Income taxes

STEP recorded an income tax recovery of $2.6 million for the three months ended March 31, 2019, compared to an expense of $8.1 million for the comparable period of 2018. The average combined tax rate was approximately 27% for the three months ended March 31, 2019. However, the effective tax rate was impacted by foreign income tax rate differentials, changes in tax rates on opening temporary differences because of a difference in state apportionment and the deductibility of interest.

LIQUIDITY AND CAPITAL RESOURCES

($000s)		Three months ended March 31,		
		2019		2018
Net cash provided by (used in)				
Operating activities	$	16,766	$	26,596
Investing activities		(9,944)		(20,065)
Financing activities		(291)		(3,136)
Impact of foreign exchange on cash		145		42
Increase (decrease) in cash and cash equivalents	$	6,676	$	3,437
Opening cash balance		364		36,859
Ending cash balance	$	7,040	$	40,296

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities totaled $16.8 million for the three months ended March 31, 2019, compared to $26.6 million in the comparable period of 2018. The decrease in net cash provided by operating activities for the three months ended March 31, 2019 compared to the same period in 2018 was primarily due to lower net income and higher finance costs offset by higher depreciation.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities totaled $9.9 million for the three months ended March 31, 2019, compared to $20.1 million in the comparable period of 2018. In the first quarter of 2019, capital spending of $10.3 million was offset by changes in working capital of $0.3 million. The decrease relative to the same period in 2018 can be attributed to a modest maintenance focused capital program in 2019 versus a growth and maintenance capital program in the same period 2018.

NET CASH USED IN FINANCING ACTIVITIES

Net cash used in financing activities totaled $0.3 million for the three months ended March 31, 2019, compared to $3.1 million in the comparable period of 2018. The decrease is primarily due to changes in loans and borrowings and working capital offset by increases in payments on lease obligations. Payments on lease obligations increased due to the adoption of IFRS 16 Leases that required most leases to be carried on the statement of financial position.

WORKING CAPITAL AND CASH REQUIREMENTS

As at March 31, 2019, STEP had positive working capital of $77.8 million, compared to $67.2 million as at December 31, 2018. Trade and other receivables increased from $124.6 million at December 31, 2018 to $133.8 million at March 31, 2019, due to the timing of work in the first quarter being weighted more heavily near the end. Trade and other payables increased modestly to $87.4 million at quarter end from $84.1 million at December 31, 2018 as a result of higher activity in the later part of the quarter. Available financial resources at March 31, 2019 were $101.6 million, consisting of cash on hand and the remaining capacity on the New Credit Facilities. Available financial resources combined with forecasted cash flow from operations in 2019 are expected to be sufficient to finance the 2019 capital program and allow for additional debt repayment.

CAPITAL MANAGEMENT

As at ($000s)		March 31, 2019		December 31, 2018
Shareholders' equity	$	470,235	$	478,604
Lease obligations		21,882		16,499
Loans and borrowings		252,471		252,441
Total capital	$	744,588	$	747,544

The Company's objectives when managing its capital structure are to maintain a balance between debt and equity so as to withstand industry and seasonal volatility, maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers the items included in shareholders' equity, loans and borrowings and leases as capital. Debt includes the current and long-term portions of bank indebtedness, vendor financings and obligations under leases.

Equity:
As at May 7 2019, there were 66,710,608 Common Shares issued and outstanding.

Debt:
On March 5, 2019 the Company amended its syndicated borrowing agreement. The Company's agreement is comprised of operating facilities (one Canadian and one U.S.) and a revolving facility (together the "Amended Credit Facilities"). The Amended Credit Facilities mature on April 2, 2021 and include a Canadian $330.0 million revolving credit facility, a Canadian $10.0 million operating facility and a U.S. $7.5 million operating facility. The maturity date of the Amended Credit Facilities may be extended for a period of up to 3 years with syndicate approval. The Amended 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 million from the issuance of equity securities and must be utilized to repay borrowings under the Credit Facilities. Under the Amended 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 Amended 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. These are differences from the Company's non-IFRS measure "Adjusted 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
March 31, 2019	3.50:1 or less
June 30, 2019	4.00:1 or less
September 30, 2019 and 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 March 31, 2019, the Funded debt to Adjusted bank EBITDA ratio was 2.64:1.00.

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 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 or less.

At March 31, 2019, the Interest Coverage Ratio was 6.92:1.00.

Interest is payable monthly, at the 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 first quarter of 2019 was approximately 4.28%. At March 31, 2019, the full amount of the facility was available to be drawn on the Amended Credit Facilities of which there was $255.4 million outstanding and the Company was in compliance with all covenants.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS

($000s)	2019	2020	2021	2022	Thereafter	Total
Trade and other payables	$ 87,433	$ -	$ -	$ -	$ -	$ 87,433
Income tax payable	1,835	-	-	-	-	1,835
Operating commitments [1,2]	847	1,429	1,416	1,256	1,655	6,603
Short-term and low value lease obligations[2]	1,530	-	-	-	-	1,530
Lease obligations [2,3]	7,863	8,087	4,649	1,507	1,548	23,654
Loans and borrowings [4]	8,236	10,961	258,165	-	-	277,362
Capital expenditure commitments [5]	6,158	-	-	-	-	6,158
Total commitments	$ 113,902	$ 20,477	$ 264,230	$ 2,763	$ 3,203	$ 404,575

[1] The Company leases certain office and operating facilities that contain an operating expense commitment. The lease terms range from one to seven years with an option to renew upon expiry.
[2] Balance includes U.S. obligations at a forecast exchange rate of 1 USD = 1.337 CAD.
[3] Balance includes interest portion of lease obligations.
[4] Includes interest calculated based on principle and rate outstanding at March 31, 2019, both amounts are variable in nature.
[5] A capital expenditure commitment is defined as a purchase agreement between the Company and the supplier as it relates to the Company's capital program.

LITIGATION

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

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.

SELECTED QUARTERLY INFORMATION

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

Quarterly Results Summary [2] ($000's, except per share amounts)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Revenue								
Canadian Operations	**108,226**	97,756	147,964	68,038	165,130	133,868	159,211	92,437
United States Operations	**68,243**	71,272	92,577	116,563	22,463	20,385	16,326	13,009
	176,469	169,028	240,541	184,601	187,593	154,253	175,537	105,446
Net (loss) income attributable to shareholders	**(602)**	(58,549)	9,260	(8,431)	18,416	17,548	28,575	2,600
Adjusted EBITDA [3,4]								
Canadian Operations	**23,856**	8,995	35,998	(2,517)	36,505	30,199	47,556	15,016
United States Operations	**7,009**	8,816	9,568	26,462	8,086	7,926	4,784	3,626
Corporate [4]	**(4,248)**	(5,509)	(3,115)	(2,841)	(2,811)	(2,163)	(2,297)	(2,204)
	26,617	12,302	42,451	21,104	41,780	35,962	50,043	16,438
Capital expenditures [5]								
Canadian Operations	**11,605**	12,835	22,589	29,368	16,342	23,685	17,486	24,305
United States Operations	**7,207**	13,950	11,711	9,977	8,255	8,335	7,852	8,349
	18,812	26,785	34,300	39,345	24,597	32,020	25,338	32,654
Per Common Share								
Net (loss) income – basic	**(0.01)**	(0.88)	0.14	(0.13)	0.30	0.29	0.48	0.05
Net (loss) income – diluted	**(0.01)**	(0.89)	0.14	(0.13)	0.29	0.28	0.46	0.04
Adjusted EBITDA [3] – basic	**0.40**	0.18	0.64	0.32	0.70	0.60	0.83	0.29
Adjusted EBITDA [3] – diluted	**0.40**	0.18	0.63	0.31	0.68	0.57	0.81	0.28

[1] STEP's business is seasonal with the periods of greatest activity in Canada being in the first, third and fourth quarters. The U.S. is generally not affected by seasonality.
[2] Totals may not add due to rounding.
[3] See Non-IFRS Measures.
[4] Prior years amounts were reallocated as the Company reorganized the composition of its operating segments. See "Corporate review" section.
[5] Capital expenditures include amounts added in respect of finance right-of-use assets.

Quarterly Operating Summary (000's, except units)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Canada								
Exit active fracturing spreads	6	6	8	8	8	7	6	5
Exit active HP (000's)	225	225	225	225	225	209	177	145
Total HP (000's)	298	298	298	298	298	298	298	298
Exit active coiled tubing units	9	9	13	13	13	13	12	11
Total coiled tubing units	14	14	13	13	13	13	12	12
United States								
Exit active fracturing spreads	3	3	3	4	-	-	-	-
Exit active HP (000's)	143	143	143	193	-	-	-	-
Total HP (000's)	193	193	193	193	-	-	-	-
Exit active coiled tubing units	9	8	9	8	8	6	6	4
Total coiled tubing units	12	12	11	10	8	6	6	4

FINANCIAL INSTRUMENTS

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

FAIR VALUES

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and income tax payable, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize floating rates and therefore fair market value approximates carrying value.

INTEREST RATE RISK

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding debt for the quarter a 1.0% change in the bankers prime rate would result in a $0.6 million increase or decrease in interest expense for the 3 month period.

CREDIT RISK

The majority of the Company's accounts receivable are with clients in the oil and natural gas industry and are subject to normal industry credit risks that include fluctuations in oil and natural gas prices and the ability to secure adequate debt or equity financing. The Company's clients are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure and management's assessment of the credit risk associated with the balance. The Company continually monitors individual client trade receivables, considering numerous quantitative and qualitative factors including industry conditions, payment history and financial conditions in assessing credit risk. The Company uses an 'expected credit loss' ("ECL") model to value the impairment of accounts receivable. The Company measures potential loss exposure on trade and other receivables at an amount equal to lifetime ECL's.

FOREIGN CURRENCY RISK

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

enters into foreign currency forward contracts to mitigate currency exposure the Company faces. As at March 31, 2019, the Company did not have any open forward contracts.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at March 31, 2019 other than the commitments described under "Contractual obligations, commitments and provisions".

NON-IFRS MEASURES

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

"Adjusted EBITDA" is a financial measure not presented in accordance with IFRS and is equal to net (loss) income before finance costs, depreciation and amortization, loss (gain) on disposal of property and equipment, current and deferred income tax provisions and recoveries, share-based compensation, transaction costs, foreign exchange forward contract (gain) loss, foreign exchange (gain) loss, and impairment losses. Adjusted EBITDA is presented because it is widely used by the investment community as it provides an indication of the results generated by the Company's normal course business activities prior to considering how the activities are financed and the results are taxed. Transaction costs related to the Tucker Acquisition have been adjusted for as they are not reflective of operating activities. The Company uses Adjusted EBITDA internally to evaluate operating and segment performance, because management believes it provides better comparability between periods.

The following table presents a reconciliation of the non-IFRS financial measure of Adjusted EBITDA to the IFRS financial measure of net (loss) income.

($000s)	Three months ended March 31,	
	2019	2018
Net (loss) income	$ (602)	$ 18,416
Add (deduct):		
Depreciation and amortization	26,841	10,320
Loss (gain) on disposal of P&E	(672)	(117)
Finance costs	3,253	145
Income tax expense (recovery)	(2,584)	8,181
Foreign exchange forward contract (gain) loss	383	1,771
Share-based compensation	1,263	1,776
Transaction costs	-	1,153
Foreign exchange (gain) loss	(1,265)	135
Adjusted EBITDA	$ 26,617	$ 41,780

In addition to the above non-IFRS financial measure, this MD&A refers to Revenue per operating day. Revenue per operating day is calculated based on total revenue divided by total operating days. This calculation may fluctuate based on both pricing and sales mix.

ACCOUNTING POLICIES AND ESTIMATES

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 16: Leases

IFRS 16 is effective as of January 1, 2019. IFRS 16 replaces existing lease guidance including IAS 17, Leases and related interpretations. Upon identification of a lease contract, IFRS 16 requires the recognition of a right-of-use asset and lease liability. The Company has applied the standard using the modified retrospective approach in which the cumulative impact of initial application is recognized as an adjustment to the opening balance of retained earnings with no restatement of prior period information, subject to elected practical expedients.

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to perform this assessment, the Company determines whether: i.) The Company has the right to obtain substantially all of the economic benefits from use of the asset through the period use; and ii.) The Company has the right to direct the use of the identified asset.

The term of the lease is determined as the non-cancellable period of a lease and periods in which there is reasonable certainty the Company will exercise an option to extend or cancel a lease. The Company considers all relevant facts and circumstances that would create an economic incentive to extend or terminate a lease.

At the commencement date of a lease, the Company measures lease liabilities at the present value of remaining lease payments, discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. Prospectively, the carrying amount of lease liabilities is increased by interest, offset by lease payments made. The initial cost of right-of-use assets is measured as the value of the lease liability, adjusted for any lease incentives received and initial direct costs. Right-of-use assets are depreciated over the shorter of the lease term or the useful life of the asset and recognized as cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are presented within Property and Equipment. The Company primarily leases light duty vehicles, office buildings, service centers, and copiers. Recognition exemptions permitted include short term leases or leases for which the underlying asset is of low value. If a contract meets these criteria the Company expenses the payments in the consolidated statements of net (loss) income and other comprehensive (loss) income.

Upon adoption, previously recognized operating commitments disclosed in the annual consolidated financial statements for the year ended December 31, 2018 meeting IFRS 16 recognition criteria were measured at the present value of remaining future lease payments using the Company's incremental January 1, 2019 borrowing rate. The Company applied the following practical expedients on initial adoption of IFRS 16 for previously recognized operating commitments: account for leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases; account for lease payments as an expense for which the underlying asset is of low dollar value; and use hindsight in applying the new standard for lease terms where the contract contains options to extend or terminate the lease. There were no significant changes in the accounting for previously recognized finance lease obligations. The impact of adoption of IFRS 16 was a $7.2 million increase to lease liabilities, a $0.1 million decrease to accrued payables, a $6.9 million increase to property and equipment, and a $0.2 million decrease to retained earnings as at January 1, 2019 using an average incremental borrowing rate of 5.1%.

As a result of the implementation of IFRS 16, $0.6 million of expenses that otherwise would have been booked to operating and selling, general and administrative expenses during the quarter was recorded as a reduction to the lease liability.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

This MD&A is based on the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2019. The preparation of the unaudited condensed consolidated interim financial statements requires that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the

consolidated financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes. Refer to Note 1 to the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2019 and Notes 1 and 2 to the audited annual consolidated financial statements for the year ended December 31, 2018 for a description of the Company's accounting policies, impacts of changes in significant accounting policies, and practices involving the use of estimates and judgments that are critical to determining STEP's financial results.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. Due to the maturation of the business and the acquisition of Tucker, STEP reassessed its operating segments. The realignment of operating segments assigned the separate disclosure of Corporate costs in addition to the Canadian Operations and U.S. Operations geographical segments (see Note 13). The Company also reclassified specified cost of sales and selling, general, and administrative costs.

RELATED PARTIES

ARC Energy Fund 6 Canadian Limited Partnership, ARC Energy Fund 6 United States Limited Partnership, ARC Energy Fund 6 International Limited Partnership and ARC Capital 6 Limited Partnership (collectively, "ARC Energy Fund 6") and ARC Energy Fund 8 Canadian Limited Partnership, ARC Energy Fund 8 United States Limited Partnership, ARC Energy Fund 8 International Limited Partnership and ARC Capital 8 Limited Partnership (collectively, "ARC Energy Fund 8"), each a private equity fund advised by ARC Financial Corp. have been investors in the Company since 2011 and 2015, respectively. Together, ARC Energy Fund 6 and ARC Energy Fund 8 have provided three separate rounds of financing to the Company.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's existing internal control over financial reporting ("ICFR") except as described below that occurred during the period ending March 31, 2019, which have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Management has limited the scope on the design of the Company's disclosure controls and procedures ("DC&P") and ICFR to exclude the controls, policies and procedures of the Tucker entities. The scope limitation is in accordance with Section 3.3 of National Instrument 52-109, which allows an issuer to limit its design of DC&P and ICFR to exclude the controls, policies and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates. The Company intends to complete the design of disclosure controls and procedures and internal control over financial reporting of Tucker by June 30, 2019, with operating effectiveness to be confirmed for year-end 2019.

RISK FACTORS AND RISK MANAGEMENT

The oilfield services industry involves many risks, which may influence the ultimate success of the Company. The risks and uncertainties set out are not the only ones the Company is facing. There are additional risks and uncertainties that the Company does not currently know about or that the Company currently considers immaterial which may also impair the Company's business operations and can cause the price of the Common Shares to decline. Readers should review and carefully consider the disclosure provided under the heading "Risk Factors" in the AIF and "Risk Factors and Risk Management" in the annual MD&A, both of which are available on www.sedar.com. The Company's risk factors and management thereof has not changed substantially from those disclosed in the AIF and annual MD&A.

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

FORWARD-LOOKING INFORMATION & STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws (collectively, "forward-looking statements"). These statements relate to the expectations of management about future events, results of operations and 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 MD&A are reasonable, such statements are not guarantees of future performance or outcomes and may prove to be incorrect and should not be unduly relied upon.

In particular, but without limitation, this MD&A contains forward-looking statements pertaining to: 2019 operation outlook; anticipated market recovery; 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 completion of Permian pipeline projects in the second half of 2019; expected reduction in pricing pressure; expected completions activity and utilization levels in 2019; expected profitability for fracturing services in 2019; ability of the Company to maintain its track record of returns and margin performance; the Company’s expected performance in 2019; 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; and monitoring of client capital budgets and market conditions.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of the Company including, without limitation: the Company will continue to conduct its operations in a manner consistent with past operations; the 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 obtains 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; completion of, and timing for availability of, additional pipeline capacity; 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 MD&A: volatility of the oil and natural gas industry; excess equipment levels; competition in the oilfield services industry; restrictions on access to capital; reliance on suppliers of raw materials, diesel fuel and component parts; reliance on equipment suppliers and fabricators; direct and indirect exposure to volatile credit markets; fluctuations in currency exchange rates; merger and acquisition activity among the Company’s clients; 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; loss of a significant client could cause the Company’s revenue to decline substantially; negative cash flows from operating activities; third part 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; inability to manage growth; failure to continuously improve operating equipment and proprietary fluid chemistries; actual results may differ materially from management estimates and assumptions; and the risk factors set forth under the heading “Risk Factors” in the AIF.