



First Quarter

# Management Discussion and Analysis

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for STEP Energy Services Ltd. ("STEP" or the "Company") has been prepared by management as of May 20, 2020 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 three months ended March 31, 2020 (the "Financial Statements") and the audited consolidated financial statements as at and for the year ended December 31, 2019 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](http://www.sedar.com), including the Company's Annual Information Form for the year ended December 31, 2019 dated March 11, 2020 (the "AIF").

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

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

Our four core values; **Safety, Trust, Execution** and **Possibilities** inspire our team of professionals to provide differentiated levels of service, with a goal of flawless execution and an unwavering focus on safety.

## CONSOLIDATED HIGHLIGHTS

### FINANCIAL

(\$000s except percentages and per share amounts)	Three months ended March 31	
	2020	2019
Consolidated revenue	\$ 194,369	\$ 176,469
Net (loss) income	\$ (52,203)	\$ (602)
Per share-basic	\$ (0.78)	\$ (0.01)
Per share-diluted	\$ (0.78)	\$ (0.01)
Weighted average shares – basic	66,943,938	66,683,211
Weighted average shares – diluted	66,943,938	66,683,211
Adjusted EBITDA <sup>(1)</sup>	\$ 22,802	\$ 26,617
Adjusted EBITDA % <sup>(1)</sup>	12%	15%

<sup>(1)</sup> 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. "Adjusted EBITDA %" is calculated as Adjusted EBITDA divided by revenue.

(\$000s except shares and per share amounts)	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 36,875	\$ 7,267
Working capital (including cash and cash equivalents) <sup>(2)</sup>	\$ 106,082	\$ 72,156
Total assets	\$ 697,592	\$ 686,039
Total long-term financial liabilities <sup>(2)</sup>	\$ 275,264	\$ 247,481
Net debt <sup>(2)</sup>	\$ 230,796	\$ 232,552
Shares outstanding	66,968,029	66,942,830

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

## OVERVIEW

During first quarter 2020, STEP maintained high levels of operating execution and efficiency. In Canada, STEP remained highly utilized until mid-to late March and we were able to complete first quarter work programs for strategic clients prior to the slowdown due to COVID-19. STEP's suite of technologies continues to be a differentiator as the Company retained and added key coiled tubing clients in first quarter 2020. STEP's US fracturing operations were highly utilized with operating days doubling from first quarter 2019. STEP's US coiled tubing operations reduced its coiled tubing units by two from fourth quarter 2019 and maintained operating days at 554 compared to 559 in the same quarter of 2019. Competitive day rates continued for this service line.

In mid-March, STEP reduced headcount and wages for all employees in anticipation of a drop-in activity from COVID-19 and relating to actions of certain members of Organization of Petroleum Exporting Countries ("OPEC"), Russia and certain other oil-producing countries (collectively, "OPEC+") supply pressures (see the *Impact of COVID-19* section below).

STEP's net debt reduced marginally from December 31, 2019 during a period of working capital build up. It is anticipated that net debt should be reduced as the working capital builds up in first quarter and then unwinds with the anticipated drop in activity subsequent to March 31, 2020.

## FINANCIAL HIGHLIGHTS – FIRST QUARTER 2020 COMPARED TO FIRST QUARTER 2019

- Consolidated revenue for the three months ended March 31, 2020 of \$194.4 million increased by 10% from \$176.5 million over the same period in 2019 primarily due to a \$20.2 million (50%) increase in US fracturing revenue. STEP repositioned its US fracturing equipment during 2019 to the more active Permian and Eagle Ford areas of Texas. The increase in US fracturing revenue was partially offset by a decrease in US coiled tubing revenue that related to the entrance of competitors with deep capacity equipment and the resultant competitive pricing. First quarter 2020, Canadian revenue was largely flat compared to revenue in the first quarter of 2019.
- For the three months ended March 31, 2020, Adjusted EBITDA decreased by \$3.8 million to \$22.8 million (12%) compared to the same period in 2019. The decrease is attributed to a \$2.5 million provision for bad debt and \$1.9 million in severance recorded for headcount reductions at the end of March 31, 2020. STEP reduced headcount in response to an expected reduction in activity.
- Without the severance and bad debt expense, STEP would have achieved Adjusted EBITDA of \$27.7 million or 14% versus EBITDA of \$27.4 million or 16% in the same period of 2019 on an equivalent basis.
- During the first quarter of 2020, the Company recorded a non-cash impairment charge with respect to property and equipment in its Canadian fracturing Cash Generating Unit ("CGU") of \$58.8 million.
- Share-based compensation was a recovery in first quarter 2020 as the expense related to unvested long-term incentive plans was reversed.
- Net loss for the three months ended March 31, 2020 was \$52.2 million, compared to net loss of \$0.6 million for the same period in 2019. Net loss in first quarter 2020 was primarily the result of the impairment to buildings and field equipment in its Canadian fracturing CGU.

## FINANCIAL HIGHLIGHTS – FIRST QUARTER 2020 COMPARED TO FOURTH QUARTER 2019

- Consolidated revenue increased from \$126.5 million in fourth quarter 2019 to \$194.4 million in first quarter 2020. First quarter revenue increase was the result of the renewal of capital programs in the new year after the budget exhaustion that occurred in fourth quarter 2019.
- Consolidated Adjusted EBITDA improved from \$9.2 million in fourth quarter 2019 to \$22.8 million in first quarter 2020 or 7% EBITDA margin compared to 14% EBITDA margin excluding severance of \$1.9 million and an additional allowance for bad debt of \$2.5 million.
- Consolidated Net loss for the three months ended March 31, 2020, including an impairment charge of \$58.8 million and an associated deferred tax recovery of \$13.7 million, was \$52.2 million compared to a net loss for the three months ended December 31, 2019 of \$24.4 million.



## IMPACT OF COVID-19 AND OPEC+ SUPPLY PRESSURES

During the three months ended March 31, 2020, the World Health Organization declared COVID-19 a global pandemic. Governments worldwide have enacted emergency measures to contain the spread of the virus. These measures included the implementation of travel bans, closing non-essential businesses, sheltering-in-place, self-imposed quarantine periods and social distancing. The result has been a material disruption to businesses globally resulting in an economic slowdown and decreased demand for crude oil.

During the same time period, certain members of the OPEC+ ended their cooperation on curtailing oil production and embarked on a program to increase the supply of crude oil. This resulted in additional crude oil entering the market when demand was falling, producing material downward pressure on oil prices. In April 2020, OPEC, Russia and other countries came to an agreement to reduce global crude oil supplies that in turn may result in bringing global supply and global demand closer to a balanced market. The combined effect of COVID-19 and OPEC+ supply instability have resulted in significant economic uncertainties and significant degradation of crude oil prices.

The volatile economic environment has made estimates and judgments required in the preparation of STEP's financial statements increasingly complex and subject to a higher degree of measurement uncertainty. The ongoing effects of market uncertainty have and are expected to continue to materially reduce client spending and demand for STEP's services resulting in decreased revenue and cash flows. Additional uncertainties include increased risk of non-payment of accounts receivable, impairment charges to property and equipment, and potential additional restructuring charges to align our operations with demand for equipment and services.

During March and early April, we undertook a number of measures to align our cost structure and maximize cash preservation during the current market conditions. These changes included:

- Reducing manned equipment;
- Reducing compensation for all employees and the Company's Board of Directors (the "Board");
- Reducing selling, general and administrative expenses ("SG&A") and operations headcount;
- Reducing capital expenditures by 67%; and
- Eliminating all non-essential travel, entertaining and other discretionary expenditures.

STEP places the health and safety of our employees, and the clients and communities we serve among our highest priorities. Accordingly, as a result of COVID-19, we activated our Emergency Response Plan, which included:

- Enhancing communication with our employees and clients,
- Implementing enhanced personal hygiene, increasing social distancing and self-quarantine practices;
- Banning non-essential travel;
- Further measures to ensure all employees are fit-for-duty; and
- Implementing remote working plans.

Recently governments and health authorities have started to implement plans for a gradual reopening of businesses and non-essential services, while still maintaining social distancing and strict hygiene measures. STEP has prepared plans to gradually bring employees back to corporate offices and service centers. However, STEP will only enact the plans once health authorities and governments authorize the return to work.

## INDUSTRY CONDITIONS & OUTLOOK

The energy industry faces an uncertain outlook as the abrupt demand destruction resulting from the COVID-19 pandemic, combined with OPEC+ supply pressures, has resulted in significant global crude oil supply growth and downward pressure on crude oil prices. The volatile market conditions have created uncertainty for our clients and they have responded by announcing material reductions in capital expenditures and cancelled work programs.

Natural gas prices have strengthened of late which could support additional work later in the year; however, this is not expected to offset the decline in demand for services from oil directed work.

Most recently health and government officials around the world have started to relax the stringent restrictions that were put in place earlier this year to manage the spread of COVID-19. It is currently unknown what effect this will have on crude oil demand or demand for our services and whether a second wave of the COVID-19 virus could have on future crude oil demand.

STEP will continue to monitor industry conditions and adjust our business accordingly.

### CAPITAL UPDATE

STEP's Board approved a 2020 capital program of \$47 million based on expected work activity. The approved capital program was evenly split between Canada and the U.S. and was comprised of \$43 million for maintenance capital to sustain current operating equipment and \$5 million to support several equipment optimization programs. With the current level of market uncertainty, management earlier announced that it had reduced its capital program by 50%. In light of the current market uncertainty, management has further reduced the budget to \$15.5 million, a reduction of 67% from the initial program. Management will continue to evaluate and balance the capital program with market conditions and demand for STEP's services.

### FUTURE OPERATIONS

As at March 31, 2020, the Company was in compliance with all financial covenants on its bank credit facility. However, management's forecasts indicate a potential breach of its funded debt to adjusted bank EBITDA covenant and its adjusted bank EBITDA to interest coverage covenant within the next two quarters. Management forecasts may change materially as the impact of COVID-19 and OPEC+ supply pressures are better understood. A covenant violation would represent an event of default which would enable the lender to demand immediate repayment of all amounts due. As a result of these factors, there is a material uncertainty that may cast significant doubt with respect to the ability of the Company to continue as a going concern.

The Company intends to seek relief from the syndicate of lenders to the Company's credit facilities. The Company has commenced discussions with its banking syndicate leads. No agreement has been reached as of the date of the condensed consolidated interim financial statements and therefore, there can be no assurance that such agreement will be reached.

Management has assessed the expected impacts of a prolonged downturn on liquidity and will continue to refine its expectations as the effects of the recent global events are better understood. Management has taken actions to mitigate these impacts, which have included reductions in Board of Directors' remuneration, employee headcount reductions, wage reductions for all employees, reduced maintenance capital in alignment with reductions in active equipment, reduced leased facilities costs where possible and the disposal of some non-core assets. The Company's March 31, 2020 working capital has improved to \$106.1 million from \$72.2 million at December 31, 2019. Assuming the Company is successful in obtaining covenant relief for any potential forecasted covenant violations, Management's forecasts also show the Company meeting all of its financial commitments including interest payments over the next twelve months.

The condensed consolidated interim financial statements have been prepared on a going concern basis, which presumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The condensed consolidated interim financial statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses, which would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

STEP continues to monitor announcements of available government financial support and economic stimulus programs and will apply for all applicable Canadian and U.S. programs.

## CANADIAN OPERATIONS REVIEW

STEP maintains a fleet of 16 coiled tubing units in the WCSB, of which 10 were operating in first quarter 2020. The Company's coiled tubing units were designed to service the deepest wells in the region. STEP's fracturing business primarily focuses on the deeper, more technically challenging plays in Alberta and northeast British Columbia, with growing exposure to oilier plays in eastern Alberta and southern Saskatchewan. During first quarter 2020, Canadian operations operated an average of six fracturing spreads representing 225,000 horsepower ("HP") (including approximately 132,500 HP with dual fuel capabilities). STEP has an additional 42,500 HP available for deployment plus an additional 15,000 HP which will require capital for maintenance and refurbishment. The Company deploys or idles coiled tubing or fracturing units as dictated by the market's ability to support targeted utilization and economic returns.

(\$000's except per day, days, units, proppant pumped and HP)		Three months ended March 31,	
		2020	2019
Revenue:			
Fracturing	\$	83,551	\$ 82,352
Coiled tubing		25,199	25,874
		108,750	108,226
Expenses:			
Operating expenses		100,504	95,191
Selling, general and administrative		2,024	2,296
Results from operating activities	\$	6,222	\$ 10,739
Add non-cash items:			
Depreciation		14,869	12,841
Share-based compensation		(200)	276
Adjusted EBITDA <sup>(1)</sup>	\$	20,891	\$ 23,856
Adjusted EBITDA % <sup>(1)</sup>		19%	22%
Sales mix (% of segment revenue)			
Fracturing		77%	76%
Coiled tubing		23%	24%
Fracturing services			
Fracturing revenue per operating day <sup>(1)</sup>	\$	212,058	\$ 203,842
Number of fracturing operating days <sup>(2)</sup>		394	404
Proppant pumped (tonnes)		382,000	234,000
Stages completed		4,524	3,225
Proppant pumped per stage		84	73
Horsepower ("HP")			
Active pumping HP, end of period		225,000	225,000
Idle pumping HP, end of period		57,500	72,500
Total pumping HP, end of period <sup>(3)</sup>		282,500	297,500
Coiled tubing services			
Coiled tubing revenue per operating day <sup>(1)</sup>	\$	43,672	\$ 49,004
Number of coiled tubing operating days <sup>(2)</sup>		577	528
Active coiled tubing units, end of period		10	9
Idle coiled tubing units, end of period		6	5
Total coiled tubing units, end of period		16	14

<sup>(1)</sup> See Non-IFRS Measures.

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

<sup>(3)</sup> Represents total owned HP in Canada, of which 225,000 HP is currently deployed and 15,000 of the remainder requires certain maintenance and refurbishment.

## FINANCIAL HIGHLIGHTS

Revenue for the three months ended March 31, 2020 of \$108.8 million was comparable to revenue for the same period in 2019. In fracturing, the Company increased revenue per day to \$212,058 from \$203,842, an increase of 4% on slightly lower operating days. Jobs were higher intensity in first quarter 2020 with 63% more proppant pumped than first quarter 2019. Coiled tubing operating days increased by 9% when compared to the same period in the prior year. Despite the increase in coiled tubing operating days, coiled tubing revenue per day of \$43,672 was 10.9% less than the first quarter of 2019 due to a continued competitive price environment and the mix of jobs undertaken. Adjusted EBITDA for the three months ended March 31, 2020 decreased by \$3.0 million compared to the same period in 2019, of which \$1.3 million of that decrease related to severance costs incurred at the end of the quarter. The remaining decrease was due to higher fuel cost, impact of cold weather early in the quarter, year-over-year pricing pressures, and some additional repairs and maintenance required after a more active fourth quarter 2019. As a result, the Adjusted EBITDA percentage decreased from 22% to 19%.

## OPERATING HIGHLIGHTS – FRACTURING SERVICES

- The Company staffed on average six fracturing spreads with active HP of 225,000 in the first quarter of 2020.
- In the first quarter of 2020, STEP pumped 382,000 tonnes (842 million pounds) of proppant over 4,524 stages (84 tonnes/stage) compared to the first quarter of 2019 where the Company pumped 234,000 tonnes (516 million pounds) of proppant over 3,225 stages (73 tonnes/stage).
- Fracturing operating days fell from 404 in the prior year first quarter to 394 in the current year first quarter.
- STEP capitalizes fluid ends when their estimated useful life exceeds 12 months. Fluid ends are capitalized in Canada based on a review of usage history. However, had the Company expensed fluid ends, the operating expenses for the three months ended March 31, 2020 would have been approximately \$1.2 million higher.

## OPERATING HIGHLIGHTS – COILED TUBING SERVICES

- The Company staffed on average 10 coiled tubing units during the first quarter of 2020.
- Coiled tubing operating days were up to 577 for the three months ended March 31, 2020 from 528 in the same period in the previous year.
- Achieved minimal downtime during the January cold snap.
- Mid-March coiled tubing started to see clients deferring work programs.

## UNITED STATES OPERATIONS REVIEW

STEP's U.S. business commenced operations in 2015 with coiled tubing services. At March 31, 2020, STEP maintained a fleet of 13 coiled tubing units, of which seven units were operating in the Permian and Eagle Ford basins in Texas and the Bakken shale in North Dakota. The U.S. fracturing operations consist of 207,500 HP, 157,500 HP of which is deployed as three spreads operating in the Permian and Eagle Ford basins in Texas. Management continues to adjust capacity and regional deployment to optimize utilization, efficiency and returns.

(\$000's except per day, days, units, proppant pumped and HP)		Three months ended March 31,	
		2020	2019
Revenue:			
Fracturing	\$	60,442	\$ 40,234
Coiled tubing		25,177	28,009
		85,619	68,243
Expenses:			
Operating expenses		86,915	71,520
Selling, general and administrative		2,488	2,149
Results from operating activities	\$	(3,784)	\$ (5,426)
Add non-cash items:			
Depreciation		11,928	11,911
Share-based compensation		(338)	524
Adjusted EBITDA <sup>(1)</sup>	\$	7,806	\$ 7,009
Adjusted EBITDA % <sup>(1)</sup>		9%	10%
Sales mix (% of segment revenue)			
Fracturing		71%	59%
Coiled tubing		29%	41%
Fracturing services			
Fracturing revenue per operating day <sup>(1)</sup>	\$	296,284	\$ 398,356
Number of fracturing operating days <sup>(2)</sup>		204	101
Proppant pumped (tonnes)		293,000	95,000
Stages completed		1,379	524
Proppant pumped per stage		212	181
Horsepower			
Active pumping HP, end of period		157,500	142,500
Idle pumping HP, end of period		50,000	50,000
Total pumping HP, end of period <sup>(3)</sup>		207,500	192,500
Coiled tubing services			
Coiled tubing revenue per operating day <sup>(1)</sup>	\$	45,446	\$ 50,106
Number of coiled tubing operating days <sup>(2)</sup>		554	559
Active coiled tubing units, end of period		7	9
Idle coiled tubing units, end of period		6	3
Total coiled tubing units, end of period		13	12

<sup>(1)</sup> See Non-IFRS Measures.

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

<sup>(3)</sup> Represents total owned HP in the U.S.



## FINANCIAL HIGHLIGHTS

Revenue of \$85.6 million in the three months ended March 31, 2020 increased by \$17.4 million from the same quarter in 2019. Fracturing services worked 204 days or 102% more operating days in the first quarter of 2020 compared to the same period in 2019 due to the redeployment of spreads in 2019 to more active basins. The increase in fracturing operating days was partially offset by a 26% decrease in fracturing operating revenue per day. This was due largely to servicing two clients that provided their own proppant. Pricing pressures continued to impact coiled tubing operations. The Company has responded with the deployment of two fewer coiled tubing units on average relative to the prior year quarter. In the U.S., seasonality is generally not a factor and the prior quarter is often utilized when comparing financial results. Revenue increased 59% from fourth quarter 2019 and Adjusted EBITDA increased from \$2.2 million to \$7.8 million as activity increased with renewed capital programs in the first quarter.

## OPERATING HIGHLIGHTS – FRACTURING SERVICES

- Three fracturing spreads were staffed and deployed during the first quarter utilizing 157,500 HP.
- In the first quarter of 2020, STEP pumped 293,000 tonnes (646 million pounds) of proppant over 1,379 stages (212 tonnes/stage) compared to the first quarter of 2019 where the Company pumped 95,000 tonnes (209 million pounds) of proppant over 524 stages (181 tonnes/stage).
- STEP capitalizes fluid ends when it is determined that they have an estimated useful life that exceeds 12 months. Based on a review of usage history in the U.S., fluid ends are expensed. U.S. Fracturing expensed fluid ends for the three months ended March 31, 2020 of \$3.0 million (U.S. \$2.2 million).
- There were some reductions in activity late in the first quarter of 2020 due to the suspension of client capital programs as a result of the COVID-19 pandemic and OPEC+ supply pressures.

## OPERATING HIGHLIGHTS – COILED TUBING SERVICES

- Seven coiled tubing units were staffed during the first quarter of 2020.
- Coiled tubing days were relatively consistent from the same period in the prior year. However, coiled tubing revenue decreased by \$2.8 million or 10% compared to first quarter 2019. This was impact was primarily due to new entrants to the market creating continued pricing pressures on day rates.

## CORPORATE REVIEW

The Company's corporate activities are separated from Canadian and U.S. operations. Corporate operating expenses include expenses related to asset reliability, maintenance and optimization teams. Corporate SG&A costs include costs associated with the executive team, Board, and other activities that benefit Canadian and U.S. operating segments collectively.

(\$000's)	Three months ended	
	March 31, 2020	2019
Expenses:		
Operating expenses	\$ 633	\$ 628
Selling, general and administrative	5,076	4,398
Results from operating activities	\$ (5,709)	\$ (5,026)
Add non-cash items:		
Depreciation	216	315
Share-based compensation	(402)	463
Adjusted EBITDA <sup>(1)</sup>	\$ (5,895)	\$ (4,248)
Adjusted EBITDA % <sup>(1,2)</sup>	(3%)	(2%)

<sup>(1)</sup> See Non-IFRS Measures.

<sup>(2)</sup> Adjusted EBITDA percentage calculated using the Consolidated revenue for the period.

### FINANCIAL HIGHLIGHTS – CORPORATE

Expenses from corporate activities, excluding depreciation and share-based compensation ("SBC") related to corporate assets and employees, were \$5.7 million for the first quarter of 2020. These expenses include \$0.6 million in severance costs and \$2.5 million for bad debt expense. The bad debt expense was increased to account for the additional counterparty risk resulting from the COVID-19 virus and the oversupply of crude oil causing volatility for our clients.

In anticipation of our clients either delaying or cancelling their work programs in response to COVID-19 and OPEC+ supply pressures, STEP took immediate steps to reduce corporate headcount. Without the severance and bad debt expense, corporate expenses for first quarter 2020 would have been \$2.9 million, excluding depreciation and SBC.

## CONSOLIDATED FINANCIAL REVIEW

(\$000's except per share amounts)	Three months ended March 31,	
	2020	2019
Revenue	\$ 194,369	\$ 176,469
Operating expenses	188,052	167,339
Gross profit	6,317	9,130
Selling, general and administrative	9,588	8,843
Results from operating activities	(3,271)	287
Finance costs	4,460	3,253
Foreign exchange loss (gain)	2,617	(1,265)
Gain on disposal of property and equipment	(830)	(672)
Amortization of intangible assets	128	1,774
Foreign exchange forward contract loss	-	383
Impairment of property and equipment	58,750	-
Net loss before income tax	(68,396)	(3,186)
Income tax expense (recovery)	(16,193)	(2,584)
Net loss	(52,203)	(602)
Other comprehensive income (loss)	20,961	(8,793)
Total comprehensive loss	\$ (31,242)	\$ (9,395)
Loss per share – basic	\$ (0.78)	\$ (0.01)
Loss per share – diluted	\$ (0.78)	\$ (0.01)
Adjusted EBITDA <sup>(1)</sup>	\$ 22,802	\$ 26,617
Adjusted EBITDA % <sup>(1)</sup>	12%	15%

<sup>(1)</sup> See Non-IFRS Measures.

### OTHER ITEMS

#### *Depreciation and amortization*

For the three months ended March 31, 2020, depreciation and amortization expense increased to \$27.1 million from \$26.8 million in the same period of 2019. The quarter over quarter increase was due to capital program asset additions, and additional right-of-use assets.

#### *Finance costs*

STEP's finance costs increased from \$3.3 million for the three months ended March 31, 2019 to \$4.5 million for the three months ended March 31, 2020. The increase is due to a higher effective borrowing rate for loans and borrowings increasing from 4.28% for the first quarter of 2019 to 5.71% in first quarter of 2020. In addition, there was increased interest on lease obligations for leases entered into during the latter part of 2019 and in early 2020.

#### *Foreign exchange gains and losses*

STEP recorded a foreign exchange loss of \$2.6 million of which \$2.3 million was unrealized for the three months ended March 31, 2020, compared to a gain of \$1.3 million, of which \$1.6 million was unrealized, in the same period of 2019. Foreign exchange gains and losses arise from the translation of assets or liabilities that are held in U.S. dollars by Canadian operations. The change over the prior year was primarily due to movement in the exchange rate and increased drawings on the U.S. dollar operating line. From December 31, 2019 to March 31, 2020 the Canadian to United States dollar exchange rate changed from \$1.299:US\$1.00 to \$1.410:US\$1.00.

#### *Gains or losses on disposal of property and equipment*

The Company recorded a gain on disposal of property and equipment of \$0.8 million for the three months ended March 31, 2020 compared to a gain of \$0.7 million for the three months ended March 31, 2019. The increase was related to higher proceeds received on the disposal of non-core assets in the first quarter of 2020 when compared to the same period in 2019.

Non-core assets were acquired through bulk acquisitions of fracturing assets in prior years. Cash proceeds from the dispositions were \$2.5 million in first quarter of 2020.

### ***Impairment of long-lived assets***

During the first quarter of 2020, the Company noted indicators of impairment in all CGUs. A comparison of the recoverable amounts, based on a discounted cash-flow arising from future operations, with the carrying amounts on the financial statements, resulted in an impairment against buildings and field equipment of \$58.8 million and an associated deferred tax liability recovery of \$13.7 million during the three months ended March 31, 2020 in the Canadian fracturing CGU. No impairments were required in the Canadian Coiled Tubing, U.S. Fracturing, or U.S. coiled tubing CGUs.

A 1% increase in the discount rate in the Canadian Fracturing CGU would have resulted in an additional impairment loss of \$16.1 million. A 1% increase in the discount rate in the U.S. Fracturing CGU would have resulted in an additional impairment loss of \$5.6 million. Increasing the discount rate by 1% would not cause the carrying amount to exceed the recoverable amount for the Canadian Coiled Tubing or U.S. Coiled Tubing CGUs.

### ***Foreign exchange forward contract gains and losses***

For the quarter ended March 31, 2020, STEP did not have any foreign exchange forward contracts. A foreign exchange forward contract loss of \$0.4 million was recorded in the quarter ended March 31, 2019. Occasionally, the Company enters into U.S. dollar denominated forward contracts for the purposes of mitigating foreign exchange risk.

### ***Share-based compensation***

For the three months ended March 31, 2020, STEP recorded SBC recovery of \$0.9 million compared to \$1.3 million in expense in the same period of 2019. The recovery is primarily due to decreases in the fair value of cash based restricted share units, deferred share units, and performance share units, offset by the vesting of performance warrants and options granted under STEP's prior option plan.

### ***Income taxes***

STEP recorded a total income tax recovery of \$2.5 million for the three months ended March 31, 2020, after considering the \$13.7 million recovery related to the impairment of property and equipment in the Canadian fracturing CGU. Statutory rates that took effect in Alberta in the current year resulted in a lower effective tax rate in the first quarter of 2020 compared to the same period in 2019.

On April 8, 2020 the U.S. Department of the Treasury and the Internal Revenue Service published final regulations addressing "anti-hybrid" rules under section 267A of the U.S. tax code. Pursuant to these regulations, the Company will no longer be entitled to certain tax benefits previously recognized during the period ended March 31, 2020 and for the year ended December 31, 2019. An increase to the deferred income tax liability in the amount of approximately \$7.0 million will be recorded in the second quarter of 2020.

## **TOTAL CAPITAL EXPENDITURES**

(\$000s)	Three months ended March 31,	
	2020	2019
Capital program additions	\$ 11,694	\$ 10,347
Right-of-use asset additions (new contracts in the period)	3,326	1,626
Right-of-use asset additions (upon adoption of IFRS 16)	-	6,839
Total capital expenditures	\$ 15,020	\$ 18,812
Capital was incurred for:		
Canada	\$ 5,112	\$ 11,605
United States	\$ 9,908	\$ 7,207

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

## LIQUIDITY AND CAPITAL RESOURCES

(\$000s)	Three months ended March 31,	
	2020	2019
Net cash provided by (used in)		
Operating activities	\$ 17,334	\$ 16,766
Investing activities	(11,403)	(9,944)
Financing activities	22,781	(291)
Impact of foreign exchange on cash	896	145
Increase (decrease) in cash and cash equivalents	\$ 29,608	\$ 6,676
Opening cash balance	7,267	364
Ending cash balance	\$ 36,875	\$ 7,040

**NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net cash provided by operating activities totaled \$17.3 million for the three months ended March 31, 2020, compared to \$16.8 million in the same period of 2019. This was primarily due to lower income taxes paid offset by lower operating results and changes in non-cash working capital.

**NET CASH USED IN INVESTING ACTIVITIES**

Net cash used in investing activities totaled \$11.4 million for the three months ended March 31, 2020, compared to \$9.9 million used in the comparable period of 2019. Cash used increased primarily due to higher maintenance capital spend offset by higher proceeds received in the disposal of equipment and lower changes in non-cash working capital.

**NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES**

For the three months ended March 31, 2020, net cash provided by financing activities totaled \$22.8 million, compared to \$0.3 million used in the same period of 2019. For the three months ended March 31, 2020, net cash provided by loans and borrowings was \$24.6 million compared to \$1.8 million in the prior year. Current year movements in financing activities consist of borrowings on the Credit Facilities and payments in regard of leases.

**WORKING CAPITAL<sup>(1)</sup> AND CASH REQUIREMENTS**

As at March 31, 2020 STEP had positive working capital<sup>(1)</sup> of \$106.1 million, compared to \$77.2 million as at December 31, 2019. Trade and other receivables increased from \$104.7 million as at December 31, 2019 to \$143.3 million as at March 31, 2020 as revenues increased from \$126.5 million for the three months ended December 31, 2019 to \$194.4 million for the three months ended March 31, 2020. Trade and other payables increased to \$107.5 million at March 31, 2020 from \$77.1 million as at December 31, 2019 as a result of higher operating days in the first quarter of 2020 relative to the fourth quarter of 2019. Cash plus Trade and other receivables of \$180.3 million at March 31, 2020 exceeds the \$130.2 million in remaining 2020 contractual obligations, commitments and provisions. (see *FUTURE OPERATIONS* under *INDUSTRY CONDITIONS & OUTLOOK*)



**CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS**

(\$000s)	2020	2021	2022	2023	2024	Thereafter	Total
Trade and other payables	\$ 107,507	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,507
Income tax payable	435	-	-	-	-	-	435
Operating commitments <sup>(2,3)</sup>	1,008	1,335	1,286	1,280	217	246	5,372
Short-term and low value lease obligations <sup>(3)</sup>	78	14	-	-	-	-	92
Lease obligations <sup>(3,4)</sup>	8,463	6,937	3,050	1,964	1,201	428	22,043
Loans and borrowings <sup>(5)</sup>	11,510	15,277	275,038	-	-	-	301,825
Capital expenditure commitments <sup>(6)</sup>	1,203	-	-	-	-	-	1,203
<b>Total commitments</b>	<b>\$ 130,204</b>	<b>\$ 23,563</b>	<b>\$ 279,374</b>	<b>\$ 3,244</b>	<b>\$ 1,418</b>	<b>\$ 674</b>	<b>\$ 438,477</b>

<sup>(2)</sup> 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.

<sup>(3)</sup> Balance includes U.S. obligations at a forecast exchange rate of 1 USD = 1.40 CAD.

<sup>(4)</sup> Balance includes interest portion of lease obligations.

<sup>(5)</sup> Includes estimated interest and principle repayments, based on current amounts outstanding and current interest rates at March 31, 2020. Both are variable in nature.

<sup>(6)</sup> A capital expenditure commitment is defined as a purchase agreement between the Company and the supplier as it relates to the Company's capital program.

**CAPITAL MANAGEMENT**

(\$000s)	March 31, 2020	December 31, 2019
Shareholders' equity	\$ 292,260	\$ 322,823
Lease obligations	20,275	19,021
Loans and borrowings	264,508	237,418
<b>Total capital</b>	<b>\$ 577,043</b>	<b>\$ 579,262</b>

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 and obligations under leases.

**Equity**

As at May 20, 2020 there were 66,982,576 common shares in the capital of STEP ("Common Shares") issued and outstanding.

**Debt**

At March 31, 2020, the Company has a borrowing agreement with a syndicate of financial institutions. The Company's borrowing 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 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 leases 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, non-cash impairment charges, other non-cash

<sup>(1)</sup> See Non-IFRS Measures.

charges, discretionary management bonuses ("Adjusted bank EBITDA") of the Company for the 12 preceding months. Also, realized foreign exchange (gain) loss is excluded from Adjusted bank EBITDA. The Company amended its required funded debt to Adjusted bank EBITDA ratios on January 22, 2020. 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, 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

At March 31, 2020 the Funded debt to Adjusted bank EBITDA ratio was 3.33:1.00.

- Interest coverage ratio refers to the ratio of Adjusted bank EBITDA to interest expense for the preceding 12 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 March 31, 2020, the Interest Coverage Ratio was 4.69:1.00.

The Company was in compliance with all financial covenants as at March 31, 2020. (see *FUTURE OPERATIONS* under *INDUSTRY CONDITIONS & OUTLOOK*)

Typical of facilities of this nature, the borrowing agreement for the Credit Facilities contains a number of positive and negative covenants, which if breached, could result in an event of default. Given the unprecedented operating conditions currently being faced by the Company, continued compliance with these covenants is uncertain.

Interest under the Credit Facilities 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 first quarter of 2020 was approximately 5.71%. At March 31, 2020, the full amount of the facility was available to be drawn on the Credit Facilities. The Company also had total outstanding letters of credit of \$1.8 million. The total amount of credit facilities outstanding at March 31, 2020 were as follows:

As at (\$000s)	March 31, 2020	December 31, 2020
Credit facilities	\$ 267,671	\$ 239,819
Deferred financing	(3,163)	(2,401)
Loans and borrowings	\$ 264,508	\$ 237,418

<sup>(1)</sup> See Non-IFRS Measures.

The following table displays the movements in loans and borrowings during the three months ended March 31, 2020:

(\$000s)	
Balance at January 1, 2020	\$ 237,418
Loans and borrowings repayments, net	24,627
Deferred financing incurred	(1,085)
Accretion of deferred financing charges	323
Unrealized foreign exchange gain	2,598
Foreign currency translation gain	627
<b>Balance at March 31, 2020</b>	<b>\$ 264,508</b>

## 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<sup>(1)</sup> 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 <sup>(2)</sup>								
(\$000's, except per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2020	2019	2019	2019	2019	2018	2018	2018
Revenue								
Canadian Operations	108,750	72,500	97,834	76,105	108,226	97,756	147,964	68,038
United States Operations	85,619	54,007	80,911	110,472	68,243	71,272	92,577	116,563
	194,369	126,507	178,745	186,577	176,469	169,028	240,541	184,601
Net (loss) income attributable to shareholders	(52,203)	(24,411)	(112,843)	(6,024)	(602)	(58,549)	9,260	(8,431)
Adjusted EBITDA <sup>(3,4)</sup>								
Canadian Operations	20,891	9,401	23,085	8,872	23,856	8,995	35,998	(2,517)
United States Operations	7,806	2,175	3,769	15,627	7,009	8,816	9,568	26,462
Corporate <sup>(4)</sup>	(5,895)	(2,411)	(4,164)	(4,160)	(4,248)	(5,509)	(3,115)	(2,841)
	22,802	9,165	22,690	20,339	26,617	12,302	42,451	21,104
Capital expenditures <sup>(5)</sup>								
Canadian Operations	5,112	5,172	5,697	11,081	11,605	12,835	22,589	29,368
United States Operations	9,908	11,536	7,051	2,892	7,207	13,950	11,711	9,977
	15,020	16,708	12,748	13,973	18,812	26,785	34,300	39,345
Per Common Share								
Net (loss) income – basic	(0.78)	(0.37)	(1.69)	(0.09)	(0.01)	(0.88)	0.14	(0.13)
Net (loss) income – diluted	(0.78)	(0.37)	(1.69)	(0.09)	(0.01)	(0.88)	0.14	(0.13)
Adjusted EBITDA <sup>(3)</sup> – basic	0.34	0.14	0.34	0.30	0.40	0.18	0.64	0.32
Adjusted EBITDA <sup>(3)</sup> – diluted	0.34	0.14	0.34	0.30	0.40	0.18	0.63	0.31

<sup>(1)</sup> 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.

<sup>(2)</sup> Totals may not add due to rounding.

<sup>(3)</sup> See Non-IFRS Measures.

<sup>(4)</sup> 2018 amounts were reclassified as the Company reorganized the composition of its operating segments.

<sup>(5)</sup> Capital expenditures include amounts added in respect of finance right-of-use assets.

Quarterly Operating Summary								
(000's, except units)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2020	2019	2019	2019	2019	2018	2018	2018
Canada								
Exit active fracturing spreads	6	6	6	6	6	6	8	8
Exit active HP (000's)	225	225	225	225	225	225	225	225
Total HP (000's)	283	283	298	298	298	298	298	298
Exit active coiled tubing units	10	9	9	9	9	9	13	13
Total coiled tubing units	16	16	16	16	14	14	13	13
United States								
Exit active fracturing spreads	3	3	3	3	3	3	3	4
Exit active HP (000's)	158	158	143	143	143	143	143	193
Total HP (000's)	208	208	193	193	193	193	193	193
Exit active coiled tubing units	7	8	8	9	9	8	9	8
Total coiled tubing units	13	13	13	13	12	12	11	10

## FINANCIAL INSTRUMENTS

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

### FAIR VALUES

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

### CREDIT RISK

Credit risk is the risk that a counterparty to a financial asset will not discharge its obligations, resulting in a financial loss to the Company. The majority of the Company's accounts receivable are with clients in the oil and natural gas industry and are subject to normal industry credit risks that include the ability to secure adequate debt or equity financing. During the three months ended March 31, 2020, global events have, and are expected to continue to have a significant impact on client credit risk. These factors have been incorporated in the Company's assessment of expected credit losses at March 31, 2020. The Company's clients are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The Company has taken additional procedures including but not limited to reviewing and updating all client credit limit's, monitoring client payment patterns for deviations from normal course and applying liens where required.

The Company measures potential loss exposures on trade and other receivables at an amount equal to lifetime expected credit losses. At every point after the initial recognition, there is at least some risk of default. To assess this risk, the Company considers quantitative and qualitative information based on the Company's historical experience and forward-looking information. Factors considered include customer payment history, customer credit ratings, customer cash flows, industry trends, and commodity pricing forecasts. The Company assumes that the credit risk on a financial asset increases significantly the longer it is outstanding. The Company had no write-offs of allowance for doubtful accounts during the period ended March 31, 2020.

The carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients. The Company's objective is to minimize credit losses.



## INTEREST RATE RISK

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding debt, a 1.0% change in the bankers' prime rate would result in a \$0.6 million increase or decrease in interest expense for the three-month period ended March 31, 2020.

## FOREIGN CURRENCY RISK

As the Company operates in both Canada and the U.S., fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar can have an impact on the operating results and the future cash flows of the Company's financial assets and liabilities. The Canadian segment is exposed to foreign exchange risk on U.S. dollar denominated purchases made in the normal course of business and debt held in U.S. dollars. The Company manages risk to foreign currency exposure by monitoring financial assets and liabilities denominated in U.S. dollars and exchange rates on an ongoing basis. As at March 31, 2020, 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, 2020 other than the commitments described under "Contractual Obligations, Commitments and Provisions".

## NON-IFRS MEASURES

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

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

(\$000s except percentages and per share amounts)	Three months ended March 31,	
	2020	2019
Net (loss) income	\$ (52,203)	\$ (602)
Add (deduct):		
Depreciation and amortization	27,141	26,841
Gain on disposal of equipment	(830)	(672)
Finance costs	4,460	3,253
Income tax expense (recovery)	(16,193)	(2,584)
Foreign exchange forward contract (gain) loss	-	383
Share-based compensation	(940)	1,263
Foreign exchange (gain) loss	2,617	(1,265)
Impairment of property and equipment	58,750	-
Adjusted EBITDA	\$ 22,802	\$ 26,617
Adjusted EBITDA %	12%	15%

“Revenue per operating day” is a financial measure not presented in accordance with IFRS and is used as a reference to represent market pricing for our services. It is calculated based on total revenue divided by total operating days. An operating day is defined as any coiled tubing and fracturing work that is performed in a 24-hour period, exclusive of support equipment. This calculation may fluctuate based on both pricing and sales mix. See the tables under “Canadian Operations Review” and “United States Operations Review” for the inputs used to calculate STEP’s revenue per operating day metrics.

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

As at (\$000s)	March 31, 2020	December 31, 2019
Loans and borrowings	\$ 264,508	\$ 237,418
Add back: Deferred financing costs	3,163	2,401
Less: Cash and cash equivalents	(36,875)	(7,267)
Net debt	\$ 230,796	\$ 232,552

## ACCOUNTING POLICIES AND ESTIMATES

### NEW ACCOUNTING PRONOUNCEMENTS

#### *IFRS 3 – Business Combinations*

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

### RELATED PARTIES

ARC Energy Fund 6 Canadian Limited Partnership, ARC Energy Fund 6 United States Limited Partnership, ARC Energy Fund 6 International Limited Partnership and ARC Capital 6 Limited Partnership (collectively, “ARC Energy Fund 6”) and ARC Energy Fund 8 Canadian Limited Partnership, ARC Energy Fund 8 United States Limited Partnership, ARC Energy Fund 8 International Limited Partnership and ARC Capital 8 Limited Partnership (collectively, “ARC Energy Fund 8”), each a private equity fund advised by ARC Financial Corp. have been investors in the Company since 2011 and 2015, respectively.

### DISCLOSURE CONTROLS AND PROCEDURES

The Company is required to comply with National Instrument 52-109 “Certification of Disclosure in Issuers’ Annual and Interim Filings” (“NI 52-109”). The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of STEP are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) for the Company.

The Company’s designed DC&P provides reasonable assurance that material information is made known to the certifying officers, and that information disclosed by the Company is done in the time period specified in securities legislation.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

As defined within NI 52-109, the Company’s CEO and CFO are responsible for establishing and maintaining internal control over financial reporting (ICFR). The Company’s designed ICFR provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting

Principles (“GAAP”). The framework behind the design of the Company’s ICFR was the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

There have been no changes in the Company’s existing DC&P or ICFR during the period ending March 31, 2020, which have materially affected or are reasonably likely to materially affect the Company’s ICFR.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

This MD&A is based on the Company’s unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020. 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, 2020 and Notes 1 and 2 to the audited annual consolidated financial statements for the year ended December 31, 2019 for a description of the Company’s accounting policies, impacts of changes in significant accounting policies, and practices involving the use of estimates and judgments that are critical to determining STEP’s financial results.

### RISK FACTORS AND RISK MANAGEMENT

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

### FORWARD-LOOKING INFORMATION & STATEMENTS

Certain statements contained in this MD&A constitute “forward-looking statements” or “forward-looking information” within the meaning of applicable securities laws (collectively, “forward-looking statements”). These statements relate to the expectations of management about future events, results of operations and 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: anticipated reduction in net debt; 2020 industry conditions and outlook, including potential deferral or cancellation of client work programs and the impact thereof on STEP's revenue and cash flows; supply and demand for oilfield services and industry activity levels; OPEC+ production levels and compliance with anticipated production cuts, related market uncertainty, and its effect on commodity prices; COVID-19, its impact on energy demand and the Company's financial position and business plans; relaxation of COVID-19 related restrictions and its impact on the Company's operations, crude oil demand and the potential for a second wave; the Company's anticipated business strategies and expected success; expected completions activity, and utilization levels in 2020; pricing received for the Company's services; the Company's capital program in 2020 and management's continued evaluation thereof; planned utilization of government financial support and economic stimulus programs; expected profitability; adequacy of resources to find operations, financial obligation and planned capital expenditures 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 deployment and staffing levels for the Company's equipment; the Company's ability to retain existing clients and attract new business; monitoring of industry demand, client capital budgets and market conditions; the effect of the COVID-19 outbreak and OPEC+ related market uncertainty on client work programs, activity in 2020, and client credit risk; the Company's capital spending and fixed costs in 2020; and the Company's expected compliance with covenants under its Credit Facilities, its ability to continue as a going concern, satisfy its financial commitments and obtain relief from the lenders under its Credit Facilities; and the impact of the Calfrac litigation on the Company.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of the Company including, without limitation: the Company will continue to conduct its operations in a manner consistent with past operations; the Company will continue as a going concern; the Company's ability to manage the effect of the COVID-19 pandemic and OPEC+ related market uncertainty on its 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 MD&A: volatility of the oil and natural gas industry; global or national health concerns such as the COVID-19 pandemic and their impact on demand and pricing for the Company's services, the Company's supply chain, the continuity of the Company's operations and the health of the Company's workforce; competition in the oilfield services industry; restrictions on access to capital; reliance on suppliers of raw materials, diesel fuel and component parts; reliance on equipment suppliers and fabricators; direct and indirect exposure to volatile credit markets; fluctuations in currency exchange rates; 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 party credit risk; hazards inherent in the oilfield services industry which may not be covered to the full extent by the Company's insurance policies; difficulty in retaining, replacing or adding personnel; seasonal volatility due to adverse weather conditions; reliance on a few key employees; legal proceedings involving the Company; failure to maintain the Company's safety standards and record; failure to continuously improve operating equipment and proprietary fluid chemistries; actual results differing materially from management estimates and assumptions; and the risk factors set forth under the heading "Risk Factors" in the AIF and under the heading "Risk Factors and Risk Management" in this MD&A and the Annual MD&A.

Any financial outlook or future orientated financial information contained in this MD&A regarding prospective financial performance, financial position or cash flows is based on the assumptions about future events, including economic conditions

and proposed courses of action based on management's assessment of the relevant information that is currently available. Projected operational information, including the Company's capital program, contains forward looking information and is based on a number of material assumptions and factors, as are set out above. These projections may also be considered to contain future oriented financial information or a financial outlook. The actual results of the Company's operations will likely vary from the amounts set forth in these projections and such variations may be material. Readers are cautioned that any such financial outlook and future oriented financial information contains herein should not be used for purposes other than those for which it is disclosed herein.

The forward-looking information and statements contained in this MD&A speak only as of the date of the document, and none of the Company or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws. The reader is cautioned not to place undue reliance on forward-looking information.