STEP energy services

TSX STEP

Condensed Consolidated Interim

Financial Statements

As at and for the three and six months ended June 30, 2022

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of Canadian dollars)	Notes	June 30, 2022	December 31, 2021
ASSETS			
Current Assets			
Cash and cash equivalents		$ 2,178	$ 3,698
Trade and other receivables	12	196,125	86,644
Income tax receivable		104	103
Inventory		33,334	32,732
Prepaid expenses and deposits		4,817	10,078
		$ 236,558	$ 133,255
Property and equipment	2,3	358,073	335,499
Right-of-use assets	4	21,140	14,788
Intangible assets		181	306
		$ 615,952	$ 483,848
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	8,12	$ 141,838	$ 95,183
Current portion of lease obligations	4	9,079	6,210
Current portion of loans and borrowings	5	27,950	27,950
Income tax payable		3,305	-
		182,172	129,343
Deferred tax liabilities		12,393	1,374
Lease obligations	4	12,270	9,163
Other liabilities	8	12,276	4,519
Loans and borrowings	5	168,013	162,007
		387,124	306,406
Shareholders' equity			
Share capital	7	436,477	435,768
Contributed surplus	8	31,124	30,820
Accumulated other comprehensive income		5,519	2,383
Deficit		(244,292)	(291,529)
		228,828	177,442
		$ 615,952	$ 483,848

See accompanying notes to the condensed consolidated interim financial statements

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

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Revenue		$ 273,000	$ 107,546	$ 492,539	$ 244,358
Operating expenses	10	234,789	106,439	424,852	240,808
Gross profit		38,211	1,107	67,687	3,550
Selling, general and administrative expenses	10	19,191	10,095	34,141	18,470
Results from operating activities		19,020	(8,988)	33,546	(14,920)
Finance costs	11	2,904	3,433	6,221	6,520
Foreign exchange gain		(231)	(38)	(51)	(48)
Gain on disposal of property and equipment		(832)	(554)	(1,650)	(185)
Amortization of intangible assets		12	112	126	227
Impairment reversal of property and equipment	3	(32,708)	-	(32,708)	-
Income (loss) before income tax		49,875	(11,941)	61,608	(21,434)
Income tax expense (recovery)					
Current		3,352	18	3,352	65
Deferred		8,459	(1,377)	11,019	(2,973)
Total income tax expense (recovery)		11,811	(1,359)	14,371	(2,908)
Net income (loss)		38,064	(10,582)	47,237	(18,526)
Other comprehensive income (loss)					
Foreign currency translation gain (loss)		4,980	(2,354)	3,136	(4,905)
Total comprehensive Income (loss)		$ 43,044	$ (12,936)	$ 50,373	$ (23,431)
Income (loss) per share:					
Basic	9	$ 0.557	$ (0.156)	$ 0.692	$ (0.272)
Diluted	9	$ 0.535	$ (0.156)	$ 0.672	$ (0.272)

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance at January 1, 2021		$ 431,798	$ 32,371	$ 3,812	$ (263,402)	$ 204,579
Net loss for the period		-	-	-	(18,526)	(18,526)
Foreign currency translation loss		-	-	(4,905)	-	(4,905)
Share-based compensation	8	-	1,897	-	-	1,897
Exercise of equity share-based compensation	7,8	3,861	(3,861)	-	-	-
Balance at June 30, 2021		$ 435,659	$ 30,407	$ (1,093)	$ (281,928)	$ 183,045
Balance at January 1, 2022		$ 435,768	$ 30,820	$ 2,383	$ (291,529)	$ 177,442
Net income for the period		-	-	-	47,237	47,237
Foreign currency translation gain		-	-	3,136	-	3,136
Share-based compensation	8	-	1,013	-	-	1,013
Exercise of equity share-based compensation	7,8	709	(709)	-	-	-
Balance at June 30, 2022		**$ 436,477**	**$ 31,124**	**$ 5,519**	**$ (244,292)**	**$ 228,828**

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)	Notes	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Operating activities:					
Net income (loss)		$ 38,064	$ (10,582)	$ 47,237	$ (18,526)
Adjusted for the following:					
Depreciation and amortization	2,4	26,690	18,192	43,762	36,410
Share-based compensation	8	9,553	2,584	15,058	6,373
Unrealized foreign exchange (gain) loss		(265)	(31)	25	(134)
Gain on disposal of property and equipment		(832)	(554)	(1,650)	(185)
Impairment reversal of property and equipment	3	(32,708)	-	(32,708)	-
Finance costs	11	2,904	3,433	6,221	6,520
Cash finance costs paid		(2,277)	(3,011)	(5,414)	(5,539)
Income tax expense (recovery)		11,811	(1,359)	14,371	(2,908)
Income taxes (paid) recovered		(44)	44	(44)	44
Changes in non-cash working capital from operating activities		(18,836)	10,981	(69,641)	9,571
Net cash provided by operating activities		34,060	19,697	17,217	31,626
Investing activities:					
Purchase of property and equipment	2	(18,382)	(10,005)	(30,096)	(17,878)
Proceeds from disposal of equipment and vehicles		4,369	63	4,770	71
Changes in non-cash working capital from investing activities		3,352	(823)	5,924	829
Net cash used in investing activities		(10,661)	(10,765)	(19,402)	(16,978)
Financing activities:					
(Repayment) issuance of loans and borrowings	5	(25,566)	(13,810)	5,034	(9,912)
Repayment of finance lease obligations		(2,371)	(1,539)	(4,406)	(2,987)
Net cash (used in) provided by financing activities		(27,937)	(15,349)	628	(12,899)
Impact of exchange rate changes on cash and cash equivalents		79	(64)	37	(41)
(Decrease) increase in cash and cash equivalents		(4,459)	(6,481)	(1,520)	1,708
Cash and cash equivalents, beginning of period		6,637	9,455	3,698	1,266
Cash and cash equivalents, end of period		$ 2,178	$ 2,974	$ 2,178	$ 2,974

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

Notes to the condensed consolidated interim financial statements

(unaudited)

As at and for the three and six months ended June 30, 2022 and 2021.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

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

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The same accounting policies and methods of computation are followed in these interim financial statements as compared with the last annual financial statements. These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2021.

These condensed consolidated interim financial statements were approved by the Board of Directors ("Board") on August 10, 2022.

Seasonality of operations

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

Critical accounting estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make certain estimates and judgments concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and therefore the estimates used by management in the preparation of the condensed consolidated interim financial statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes.

NOTE 2 – PROPERTY AND EQUIPMENT

		Land and buildings		Field equipment		Office equipment		Total
Cost:								
Balance at January 1, 2021	$	37,835	$	703,711	$	8,769	$	750,315
Additions		1,118		35,927		197		37,242
Disposals		(781)		(15,833)		(484)		(17,098)
Effect of exchange rate changes		(100)		(2,085)		(8)		(2,193)
Balance at December 31, 2021	$	38,072	$	721,720	$	8,474	$	768,266
Additions		-		29,887		209		30,096
Disposals		(2,360)		(8,615)		-		(10,975)
Effect of exchange rate changes		211		5,516		24		5,751
Balance at June 30, 2022	**$**	**35,923**	**$**	**748,508**	**$**	**8,707**	**$**	**793,138**
Accumulated depreciation:								
Balance at January 1, 2021	$	10,596	$	363,866	$	7,689	$	382,151
Depreciation		1,602		64,363		603		66,568
Disposals		(119)		(14,692)		(451)		(15,262)
Effect of exchange rate changes		(5)		(682)		(3)		(690)
Balance at December 31, 2021	$	12,074	$	412,855	$	7,838	$	432,767
Depreciation		720		38,734		212		39,666
Disposals		(400)		(6,984)		-		(7,384)
Reversal of impairment		(1,589)		(31,119)		-		(32,708)
Effect of exchange rate changes		45		2,661		18		2,724
Balance at June 30, 2022	**$**	**10,850**	**$**	**416,147**	**$**	**8,068**	**$**	**435,065**
Carrying amounts:								
As at December 31, 2021	$	25,998	$	308,865	$	636	$	335,499
As at June 30, 2022	**$**	**25,073**	**$**	**332,361**	**$**	**639**	**$**	**358,073**

Included in field equipment at June 30, 2022 were sustaining and optimization capital under construction of $19.3 million (December 31, 2021 - $11.6 million). All capital projects under construction are not depreciated until they are substantially complete and available for use.

NOTE 3 – IMPAIRMENT REVERSAL

As required by IAS 36, the Company assesses at each reporting period whether there are any internal and external indicators that would indicate whether any assets or cash generating units (CGUs) are impaired or whether any previously recognized impairment losses should be reversed because of a change in the estimates used to determine the impairment loss. The maximum amount of an impairment reversal allowed is the amount necessary to restore the assets of the CGU to their pre-impairment carrying amounts less subsequent depreciation or amortization that would have been recognized if the impairment of assets had not occurred.

On June 30, 2022, as a result of improved results and due to an improved future outlook for the Canadian Fracturing CGU, the Company conducted an impairment test which resulted in the full recovery of the 2020 impairment, net of depreciation.

The recoverable amount of the CGU was determined using the value in use method, based on multi-year discounted cashflows to be generated from continuing operations. Cash flow assumptions were based on a combination of expected future results, including management's best estimates of asset utilization, pricing for available equipment, costs to maintain that equipment and a post-tax discount rate of 14.7% (pre-tax 19.1%). Discount rates were calculated using the Company's weighted-average cost of capital adjusted for uncertainties in forecasting. A terminal growth rate of 2.0% was applied for all cash flows beyond 2027.

The Company reversed the maximum amount of the 2020 impairment allowed under IAS 36, net of depreciation that otherwise would have been expensed, for a total reversal of $32.7M in the Canadian Fracturing CGU at June 30, 2022. A change in the pre and post discount rate of 1% would not impact that amount of impairment reversed at June 30, 2022.

Assumptions that are valid at the time of preparing the impairment test may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to impairment on an ongoing basis.

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

	Buildings	Vehicles	Field equipment	Office equipment	Total
Balance at January 1, 2021	$ 11,327	$ 12,375	$ -	$ 278	$ 23,980
Additions	2,056	8,171	-	160	10,387
Disposals	(159)	(2,359)	-	(170)	(2,688)
Effect of exchange rate changes	(42)	(42)	-	-	(84)
Balance at December 31, 2021	$ 13,182	$ 18,145	$ -	$ 268	$ 31,595
Additions	3,235	2,847	4,816	-	10,898
Disposals	(340)	(1,804)	-	-	(2,144)
Effect of exchange rate changes	137	211	-	-	348
Balance at June 30, 2022	**$ 16,214**	**$ 19,399**	**$ 4,816**	**$ 268**	**$ 40,697**
Accumulated depreciation:					
Balance at January 1, 2021	$ 4,388	$ 7,998	$ -	$ 141	$ 12,527
Depreciation	2,994	3,296	-	64	6,354
Disposals	(159)	(1,762)	-	(125)	(2,046)
Effect of exchange rate changes	(1)	(26)	-	(1)	(28)
Balance at December 31, 2021	$ 7,222	$ 9,506	$ -	$ 79	$ 16,807
Depreciation	1,465	2,280	201	24	3,970
Disposals	-	(1,390)	-	-	(1,390)
Effect of exchange rate changes	60	110	-	-	170
Balance at June 30, 2022	**$ 8,747**	**$ 10,506**	**$ 201**	**$ 103**	**$ 19,557**
Carrying amounts:					
As at December 31, 2021	$ 5,960	$ 8,639	$ -	$ 189	$ 14,788
As at June 30, 2022	**$ 7,467**	**$ 8,893**	**$ 4,615**	**$ 165**	**$ 21,140**

With respect to the right-of-use assets above, the Company has lease contracts for light duty vehicles, office buildings, field equipment, service centers and copiers. The maturity date of these contracts ranges from July 2022 to December 2026 with interest rates ranging from 2.68% to 7.50% per annum. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are as follows:

As at		June 30, 2022		December 31, 2021
Future minimum lease payments	$	23,073	$	16,704
Discount		(1,724)		(1,331)
Present value of minimum lease payments	$	21,349	$	15,373
Presented as:				
Current portion of lease obligations	$	9,079	$	6,210
Lease obligations	$	12,270	$	9,163

NOTE 5 – LOANS AND BORROWINGS

As at June 30, 2022, the Company's Credit Facilities with a syndicate of lenders were comprised of a Canadian $200.0 million term loan facility, a Canadian $30.0 million revolving facility, a Canadian $10.0 million operating facility and a U.S. $15.0 million operating facility. The Credit Facilities included a general security agreement, providing a security interest over all present and after acquired personal property of the Company and all its subsidiaries including mortgages on certain properties. Any current and future leases that would have been accounted for as an operating lease on December 31, 2018 will continue to be recognized as operating leases for purposes of calculating financial covenants. The maturity date of the Credit Facilities was July 30, 2023. On July 12, 2022, the Company entered into a Third Amending Agreement to amend and extend its credit agreement, refer to the subsequent event note below.

Scheduled quarterly repayments of the term loan facility of $7.0 million per quarter commenced on March 31, 2022. The balance is due on the maturity date. The sum of any amounts outstanding under the revolving facility, the Canadian operating facility and the U.S. operating facility may not exceed the Borrowing Base. The Borrowing Base is defined as the aggregate of: (1) 85% of U.S. and Canadian based investment grade eligible accounts receivable under 120 days from the invoice date, (2) 75% of U.S. and Canadian based non-investment grade eligible accounts receivable under 90 days from the invoice date and (3) 50% of U.S. and Canadian based eligible inventory subject to a maximum of $10 million Canadian less priority payables. At June 30, 2022, the Company's calculated borrowing base was $141.5 million compared to $59.0 million as at December 31, 2021. This borrowing base is subject to the limits of the Credit Facilities. Mandatory repayments are required anytime the amount outstanding under the revolving facility and Canadian and U.S. operating facilities exceeds the borrowing base. As amended August 3, 2021, the Credit Facilities include certain financial and non-financial covenants, including:

1. An Interest Coverage Ratio. This refers to the ratio of Adjusted Bank EBITDA to interest expense for the preceding twelve months. Interest expense includes interest charges, capitalized interest, interest on lease obligations, fees payable in respect of letters of credit and letters of guarantee, and discounts incurred and fees payable in respect of bankers' acceptance and LIBOR advances. Interest on lease obligations for current and future leases, which would have been accounted for as an operating lease on December 31, 2018 is not included in interest expense for purposes of calculating financial covenants. The Company is required to have an interest coverage ratio of greater than 3.00:1.00. At June 30, 2022 the Company had an interest coverage ratio of 9.72:1.00.

2. A Funded Debt to Adjusted Bank EBITDA ratio. This refers to total outstanding interest-bearing debt including lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to Adjusted Bank EBITDA. Adjusted Bank EBITDA means the Net Income (Loss) on a consolidated basis plus or minus: interest expense, the provision for income taxes, depreciation, amortization, deferred income tax expense or recovery, gains or losses on the sale of assets, allowance for doubtful account provisions, non-cash impairment charges, unrealized foreign exchange gains or losses and marking to market hedging instruments, discretionary management bonuses, severance and share based compensation, and any non-typical and non-recurring transactions. Lease expense for current and future finance leases, which would have been accounted for as an operating lease at December 31, 2018, is deducted from net income (loss) when calculating Adjusted Bank EBITDA. The ratio is calculated quarterly on the last day of each fiscal quarter on a four-quarter rolling basis. The company is required to have Funded Debt to Adjusted

Bank EBITDA ratio of not more than 3.00:1.00. At June 30, 2022, the Company had a Funded Debt to Adjusted Bank EBITDA ratio of 1.54:1.00.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at June 30, 2022.

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 200 basis points to 500 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the three and six months ended June 30, 2022 was 4.27% and 4.78% respectively (three and six months ended June 30, 2021 – 4.95% and 4.70% respectively). The total amount of Credit Facilities outstanding on June 30, 2022 is as follows:

As at		**June 30, 2022**		December 31, 2021
Term loan facility	**$**	**175,300**	$	189,300
Canadian and U.S. operating lines		**21,085**		1,283
Deferred financing costs		**(422)**		(626)
Total loans and borrowings	**$**	**195,963**	$	189,957
Less: current portion of term loan facility		**(27,950)**		(27,950)
Long term portion of loans and borrowings	**$**	**168,013**	$	162,007

The following table displays the movements in loans and borrowings during the six months ended June 30, 2022:

		(000's)
Balance at January 1, 2022	$	189,957
Issuance of loans and borrowings		5,034
Accretion of deferred financing costs		207
Interest expense		463
Effect of exchange rate changes		302
Balance at June 30, 2022	$	195,963

SUBSEQUENT EVENT

On July 12, 2022, STEP entered into a Third Amending Agreement with a syndicate of Canadian financial institutions to amend and extend its credit agreement. The principal terms of the Third Amended and Restated Credit Agreement (the "Credit Agreement") include:

- a CAD $215 million revolving facility, a CAD $15 million operating facility, a USD $15 million operating facility; and
- a three-year term with a maturity date of July 12, 2025.

Under the Third Amended and Restated Credit Agreement, the financial covenants are as follows:

- *Funded Debt to EBITDA Ratio* of not more than 3.00:1.00; and
- *Interest Coverage Ratio* of at least 3.00:1.00.

NOTE 6 – COMMITMENTS

The following table summarizes the Company's estimated commitments that are not included in the condensed consolidated interim statement of financial position related to leases as at June 30, 2022 for the following five years and thereafter:

	2022	2023	2024	2025	2026	Thereafter	Total
Operating expenses for lease obligations(1)	$ 587	$ 1,141	$ 227	$ 162	$ 31	$ -	$ 2,148
Short term and low value lease obligations(1)	46	47	-	-	-	-	93
Total commitments	$ 633	$ 1,188	$ 227	$ 162	$ 31	$ -	$ 2,241

(1) Includes U.S. obligations at the June 30, 2022 exchange rate of 1 USD = 1.287 CAD.

Operating expenses for lease obligations relate to leases of certain service centers and office space with lease terms of between 1 year and 5 years. The total expense recognized during the three and six months ended June 30, 2022 for short term and low value lease obligations was $0.4 million and $0.8 million (June 30, 2021 - $0.4 million and $0.9 million, respectively).

As at June 30, 2022, the Company has $21.5 million (December 31, 2021 - $3.9 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2022.

NOTE 7 – SHARE CAPITAL

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

	Shares #	Amount
Balance at January 1, 2021	67,713,824	$ 431,798
Issued – exercise of share-based instruments	443,157	3,970
Balance at December 31, 2021	68,156,981	435,768
Issued – exercise of share-based instruments(1)	611,872	709
Balance at June 30, 2022	**68,768,853**	**$ 436,477**

(1) Option exercises for the period ended June 30, 2022 were on a cashless basis.

NOTE 8 – SHARE-BASED COMPENSATION

Equity settled share-based instruments

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2021	3,576,101	119,522	347,981	1,804,445	2,923,972	8,772,021
Granted	967,374	761,827	-	-	-	1,729,201
Cancelled	-	-	(45,774)	-	-	(45,774)
Exercised	(46,666)	(106,380)	(302,198)	-	-	(455,244)
Forfeited/Expired	(649,004)	(71,564)	(9)	(1,556,545)	(2,404,332)	(4,681,454)
Outstanding at December 31, 2021	**3,847,805**	**703,405**	**-**	**247,900**	**519,640**	**5,318,750**
Exercisable at December 31, 2021	1,673,130	-	-	247,900	506,040	2,427,070

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2022	3,847,805	703,405	-	247,900	519,640	5,318,750
Granted	241,119	1,244,047	143,279	-	-	1,628,445
Exercised(1)	(518,960)	(236,003)	-	-	-	(754,963)
Forfeited/Expired	(103,926)	(23,293)	-	(229,400)	(494,640)	(851,259)
Outstanding at June 30, 2022	**3,466,038**	**1,688,156**	**143,279**	**18,500**	**25,000**	**5,340,973**
Exercisable at June 30, 2022	2,167,715	-	-	18,500	25,000	2,211,215

(1) Option exercises for the period ended June 30, 2022 were on a cashless basis.

Cash settled share-based instruments

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2021	2,403,810	1,903,838	1,502,916	5,810,564
Granted	151,707	34,402	-	186,109
Exercised	-	(809,513)	(20,155)	(829,668)
Forfeited/Expired	-	(142,751)	(581,521)	(724,272)
Outstanding at December 31, 2021	**2,555,517**	**985,976**	**901,240**	**4,442,733**
Exercisable at December 31, 2021	2,555,517	-	-	2,555,517

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2022	2,555,517	985,976	901,240	4,442,733
Granted	64,660	49,893	42,749	157,302
Exercised	-	(715,647)	(481,689)	(1,197,336)
Forfeited/Expired	-	(25,835)	-	(25,835)
Outstanding at June 30, 2022	**2,620,177**	**294,387**	**462,300**	**3,376,864**
Exercisable at June 30, 2022	2,620,177	-	-	2,620,177

The aggregate liability for all cash settled share-based instruments of $14.5 million is included in the statement of financial position; $2.2 million in trade and other payables and $12.3 million in other long-term liabilities. At each reporting date, between grant date and settlement date of cash settled share-based instruments, the fair value of the liability is re-measured with any changes in fair value recognized in share-based compensation expense for the period (refer to Note 10 – Presentation of Expenses).

Share-based compensation expense

The composition of share-based compensation expense incurred was:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
New stock options	**182**	201	**364**	430
Performance warrants	**-**	51	**4**	107
Performance share units	**26**	-	**26**	1,226
Restricted share units	**466**	59	**619**	134
Cash-settled deferred share units	**5,106**	1,497	**8,148**	2,796
Cash-settled performance share units	**2,056**	213	**3,100**	374
Cash-settled restricted share units	**1,717**	563	**2,797**	1,306
Total share-based compensation expense	**$ 9,553**	$ 2,584	**$ 15,058**	$ 6,373

NOTE 9 – PER SHARE COMPUTATIONS

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Weighted average number of shares outstanding - basic	**68,322,384**	68,051,699	**68,263,897**	67,886,996
Dilutive impact of stock options and performance warrants	**2,763,721**	-	**2,007,716**	-
Weighted average number of shares outstanding - diluted	**71,086,105**	68,051,699	**70,271,613**	67,886,996

For the period ended June 30, 2022, 0.02 million prior stock options, 0.03 million performance warrants, and 0.4 million new stock options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (June 30, 2021: 1.7 million prior stock options, 2.8 million performance warrants, 4.4 million new stock options, and 0.7 million restricted share units).

NOTE 10 – PRESENTATION OF EXPENSES

	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Operating expenses				
Employee costs	$ 51,047	$ 30,226	$ 102,101	$ 63,939
Employee costs – CEWS[1]	-	(1,677)	-	(5,156)
Operating expense	62,698	30,572	116,347	64,296
Materials and inventory costs	93,279	28,977	161,122	80,830
	207,024	88,098	379,570	203,909
Depreciation	26,463	17,849	43,204	35,700
Share-based compensation	1,302	492	2,078	1,199
Total operating expenses	234,789	106,439	424,852	240,808
Selling, general and administrative expenses				
Employee costs	8,265	4,323	15,985	8,215
Employee costs – CEWS[1]	-	(202)	-	(557)
General expenses	2,228	3,651	4,244	5,155
	10,493	7,772	20,229	12,813
Allowance for doubtful accounts expense (recovery)	232	-	500	-
Depreciation	215	231	432	483
Share-based compensation	8,251	2,092	12,980	5,174
Total selling, general and administrative expenses	$ 19,191	$ 10,095	$ 34,141	$ 18,470

(1) Canadian Emergency Wage Subsidy.

NOTE 11 – FINANCE COSTS

	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Interest on loans and borrowings	$ 2,519	$ 2,734	$ 5,395	$ 5,337
Interest on lease obligations	277	188	598	376
Interest income	(12)	(2)	(12)	(48)
Accretion of deferred financing charges	104	497	207	958
Other	16	16	33	(103)
Total finance costs	$ 2,904	$ 3,433	$ 6,221	$ 6,520

NOTE 12 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

Credit risk

Credit risk is the risk that a counterparty to a financial asset will not discharge its obligations, resulting in a financial loss to the Company. The majority of the Company's accounts receivable are with clients in the oil and natural gas industry and are subject to normal industry credit risks that include fluctuations in oil and natural gas prices and the ability to secure adequate debt or equity financing. The Company's clients are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients. The Company's objective is to minimize credit losses.

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

As at		June 30, 2022		December 31, 2021
Current (0 to 30 days from invoice date)	$	153,671	$	66,523
31 - 60 days		37,966		17,966
61 - 90 days		455		504
91+ days		171		194
Receivables from trade clients		192,263		85,187
Allowance for doubtful accounts		(816)		(312)
Other amounts		4,678		1,769
Total trade and other receivables	$	196,125	$	86,644

Liquidity risk

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

The expected timing of cash outflows relating to financial liabilities on the condensed consolidated interim statement of financial position as at June 30, 2022 are:

	2022	2023	2024	2025	2026	Thereafter	Total
Lease obligations(1)	$ 5,261	$ 9,424	$ 5,847	$ 1,541	$ 1,000	$ -	**$ 23,073**
Trade and other payables	141,838	-	-	-	-	-	**141,838**
Loans and borrowings(2)	18,623	191,252	-	-	-	-	**209,875**
	$ 165,722	$ 200,676	$ 5,847	$ 1,541	$ 1,000	$ -	**$ 374,786**

(1) Includes interest portion of lease obligations.

(2) Loans and borrowing balances are based on the credit facility in place at June 30, 2022. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at June 30, 2022. Both are variable in nature.

The Company anticipates that its cash on hand, trade accounts receivable and cash provided by operating activities and the available credit facilities, will be adequate to satisfy its liquidity requirements over the next twelve months.

Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding consolidated debt, a 1.0% change in the bankers' prime rate would result in a $0.5 million increase or decrease in interest expense for the three and six months ended June 30, 2022 (June 30, 2021 - $0.5 million and $1.1 million respectively). Based on the average outstanding U.S. dollar denominated debt, a 1.0% change in the bankers' prime rate and a change in foreign exchange rates by $0.10, would result in a $0.1 million increase or decrease in interest expense for the three and six months ended June 30, 2022 (June 30, 2021 - $nil)

Foreign exchange rate 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.

NOTE 13 - CONTINGENCIES AND PROVISIONS

Litigation

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

NOTE 14 – OPERATING SEGMENTS

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

Segmented operating results and activity

Three months ended June 30, 2022		Canadian Operations	U.S. Operations	Corporate	Total
Revenue					
Fracturing	$	140,513	81,574	-	222,087
Coiled tubing		24,596	26,317	-	50,913
Total revenue		165,109	107,891	-	273,000
Expenses					
Operating expenses		133,684	100,310	795	234,789
Selling, general and administrative		3,950	3,413	11,828	19,191
Results from operating activities		27,475	4,168	(12,623)	19,020
Finance costs		-	-	2,904	2,904
Foreign exchange (gain) loss		(363)	(70)	202	(231)
(Gain) loss on disposal of property and equipment		(487)	(345)	-	(832)
Amortization of intangible assets		10	2	-	12
Impairment reversal of property and equipment		(32,708)	-	-	(32,708)
Income (loss) before income tax	$	61,023	4,581	(15,729)	49,875
Capital expenditures (1)	$	14,820	9,173	-	23,993
Total assets as at June 30, 2022	$	359,105	256,218	629	615,952
Total liabilities as at June 30, 2022	$	304,669	82,455	-	387,124

Three months ended June 30, 2021		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	55,321	$	19,036	$	-	$	74,357
Coiled tubing		17,844		15,345		-		33,189
Total revenue		73,165		34,381		-		107,546
Expenses								
Operating expenses		65,943		40,218		278		106,439
Selling, general and administrative		1,778		1,546		6,771		10,095
Results from operating activities		5,444		(7,383)		(7,049)		(8,988)
Finance costs		-		-		3,433		3,433
Foreign exchange (gain) loss		(8)		(30)		-		(38)
(Gain) loss on disposal of property and equipment		(64)		(490)		-		(554)
Amortization of intangible assets		10		102		-		112
Income (loss) before income tax	$	5,506	$	(6,965)	$	(10,482)	$	(11,941)
Capital expenditures (1)	$	5,253	$	5,469	$	-	$	10,722
Total assets as at June 30, 2021	$	230,131	$	213,967	$	1,007	$	445,105
Total liabilities as at June 30, 2021	$	237,149	$	24,911	$	-	$	262,060

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

Six months ended June 30, 2022		Canadian Operations	U.S. Operations	Corporate	Total
Revenue					
Fracturing	$	259,527	131,241	-	390,768
Coiled tubing		52,394	49,377	-	101,771
Total revenue		311,921	180,618	-	492,539
Expenses					
Operating expenses		255,049	168,437	1,366	424,852
Selling, general and administrative		7,274	6,317	20,550	34,141
Results from operating activities		49,598	5,864	(21,916)	33,546
Finance costs		-	-	6,221	6,221
Foreign exchange (gain) loss		(98)	(80)	127	(51)
(Gain) loss on disposal of property and equipment		(856)	(794)	-	(1,650)
Amortization of intangible assets		20	106	-	126
Impairment reversal of property and equipment		(32,708)	-	-	(32,708)
Income (loss) before income tax	$	83,240	6,632	(28,264)	61,608
Capital expenditures (1)	$	25,563	15,431	-	40,994
Total assets as at June 30, 2022	$	359,105	256,218	629	615,952
Total liabilities as at June 30, 2022	$	304,669	82,455	-	387,124

Six months ended June 30, 2021		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	143,150	$	35,461	$	-	$	178,611
Coiled tubing		39,377		26,370		-		65,747
Total revenue		182,527		61,831		-		244,358
Expenses								
Operating expenses		162,071		78,246		491		240,808
Selling, general and administrative		3,543		2,953		11,974		18,470
Results from operating activities		16,913		(19,368)		(12,465)		(14,920)
Finance costs		-		-		6,520		6,520
Foreign exchange (gain) loss		(26)		(22)		-		(48)
(Gain) loss on disposal of property and equipment		(257)		72		-		(185)
Amortization of intangible assets		20		207		-		227
Income (loss) before income tax	$	17,176	$	(19,625)	$	(18,985)	$	(21,434)
Capital expenditures (1)	$	11,360	$	9,470	$	-	$	20,830
Total assets as at June 30, 2021	$	230,131	$	213,967	$	1,007	$	445,105
Total liabilities as at June 30, 2021	$	237,149	$	24,911	$	-	$	262,060

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

CORPORATE INFORMATION

Management

Regan Davis
Chief Executive Officer

Klaas Deemter
Chief Financial Officer

Steve Glanville
President and Chief Operating Officer

Rory Thompson
President, Canadian Operations

Lori McLeod-Hill
Vice-President, Finance

Joshua Kane
Vice-President, Legal and General Counsel

Directors

Douglas Freel (1)

Evelyn Angelle (2)

Regan Davis (3)(4)

Jeremy Gackle (2)(5)

Donna Garbutt (6)(7)

James Harbilas (8)(9)

Jason Skehar (2)(4)(9)

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

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Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

"STEP"
Toronto Stock Exchange