STEP energy services

TSX STEP

Third Quarter

# Management Discussion and Analysis

As at and for the three and nine months ended September 30, 2022

# 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 November 2, 2022 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards ("IFRS"). It should be read in conjunction with the unaudited condensed consolidated interim financial statements and notes thereto as at and for the three and nine months ended September 30, 2022 (the "Quarterly Financial Statements") and the audited consolidated financial statements as at and for the year ended December 31, 2021 (the "Annual Financial Statements") 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 and Ratios" at the end of this MD&A. All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated. Additional information about STEP is available on the SEDAR website at www.sedar.com, including the Company's Annual Information Form for the year ended December 31, 2021 dated March 16, 2022 (the "AIF").*

STEP is an energy services company that provides coiled tubing, fluid and nitrogen pumping and hydraulic fracturing solutions. Our combination of modern equipment along with our commitment to safety and quality execution has differentiated STEP in plays where wells are deeper, have longer laterals and higher pressures. STEP has a high-performance, safety-focused culture and its experienced technical office and field professionals are committed to providing innovative, reliable and cost-effective solutions to its clients.

Founded in 2011 as a specialized deep capacity coiled tubing company, STEP has grown into a North American service provider delivering completion and stimulation services to exploration and production ("E&P") companies in Canada and the U.S. Our Canadian 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, the Uinta-Piceance and Niobrara-DJ basins in Colorado 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.

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# CONSOLIDATED HIGHLIGHTS

## FINANCIAL REVIEW

| ($000s except percentages and per share amounts) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | September 30, 2022 | September 30, 2021 | June 30, 2022 | September 30, 2022 | 2021 |
| Consolidated revenue | **$ 245,085** | $ 133,235 | $ 273,000 | **$ 737,624** | $ 377,593 |
| Net income (loss) | **$ 30,852** | $ (3,388) | $ 38,064 | **$ 78,089** | $ (21,915) |
| Per share-basic | **$ 0.45** | $ (0.05) | $ 0.56 | **$ 1.14** | $ (0.32) |
| Per share-diluted | **$ 0.43** | $ (0.05) | $ 0.54 | **$ 1.09** | $ (0.32) |
| Weighted average shares – basic | **69,150,361** | 68,112,520 | 68,322,384 | **68,713,091** | 67,962,997 |
| Weighted average shares – diluted | **72,350,256** | 68,112,520 | 71,086,105 | **71,375,507** | 67,962,997 |
| Adjusted EBITDA [1] | **$ 58,050** | $ 17,988 | $ 55,251 | **$ 150,290** | $ 45,623 |
| Adjusted EBITDA % [1] | **24%** | 14% | 20% | **20%** | 12% |
| Free Cash Flow [1] | **$ 40,076** | $ 5,433 | $ 33,167 | **$ 89,416** | $ 13,563 |
| Fracturing services | | | | | |
| Fracturing operating days [2] | **444** | 439 | 508 | **1,566** | 1,173 |
| Proppant pumped (tonnes) | **478,000** | 496,000 | 697,000 | **1,776,000** | 1,477,000 |
| Active horsepower (“HP”), ending [3] | **380,000** | 365,000 | 380,000 | **380,000** | 365,000 |
| Total HP, ending | **490,000** | 490,000 | 490,000 | **490,000** | 490,000 |
| Coiled tubing services | | | | | |
| Coiled tubing operating days [2] | **1,199** | 850 | 913 | **3,187** | 2,352 |
| Active coiled tubing units, ending | **19** | 15 | 16 | **19** | 15 |
| Total coiled tubing units, ending | **33** | 29 | 29 | **33** | 29 |

*[1] Adjusted EBITDA and Free Cash Flow are non-IFRS financial measures, Adjusted EBITDA % is a non-IFRS financial ratio. These metrics are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.*

*[2] An operating day is defined as any coiled tubing or fracturing work that is performed in a 24-hour period, exclusive of support equipment.*

*[3] Active horsepower denotes units active on client work sites. An additional 20-25% of this amount is required to accommodate equipment maintenance cycles.*

| ($000s except shares) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Cash and cash equivalents | **$ 1,756** | $ 3,698 |
| Working Capital (including cash and cash equivalents) [1] | **$ 70,999** | $ 3,912 |
| Total assets | **$ 614,716** | $ 483,848 |
| Total long-term financial liabilities [1] | **$ 177,545** | $ 175,689 |
| Net debt [1] | **$ 147,538** | $ 186,885 |
| Shares outstanding | **71,404,095** | 68,156,981 |

*[1] Working Capital, Total long-term financial liabilities and Net debt are non-IFRS financial measures. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.*

| | Three months ended | | | | |
|---|---|---|---|---|---|
| | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 |
| AECO-C Spot Average Price (CAD/MMBtu) | **$ 4.38** | $ 7.27 | $ 4.78 | $ 4.75 | $ 3.57 |
| WTI – Average Price (USD/bbl) | **$ 91.62** | $ 108.61 | $ 94.77 | $ 77.31 | $ 70.61 |
| WCS – Average Price (USD/bbl) | **$ 70.93** | $ 92.93 | $ 81.80 | $ 60.84 | $ 57.64 |
| Condensate – Average Price (USD/bbl) | **$ 88.09** | $ 104.00 | $ 97.19 | $ 79.53 | $ 70.85 |
| Average Exchange Rate (USD/CAD) | **$ 0.77** | $ 0.78 | $ 0.79 | $ 0.79 | $ 0.79 |
| Canadian Average Drilling Rig Count [4] | **200** | 115 | 193 | 159 | 150 |
| U.S. Average Drilling Rig Count [4] | **745** | 704 | 618 | 545 | 484 |

Source: Baker Hughes, Bloomberg

*[4] Only includes land-based rigs.*

## FINANCIAL HIGHLIGHTS

- STEP's operations in Canada and the U.S. continued to benefit from improving market conditions, with net pricing gains driving continued strong financial results in Q3 2022.
- STEP generated revenue of $245.1 million in Q3 2022, compared to revenue of $273.0 million in Q2 2022 and $133.2 million in Q3 2021.
- The Company earned net income of $30.9 million, compared to net income of $38.1 million in Q2 2022, which benefited from a $32.7 million impairment reversal, and a net loss of $3.4 million in Q3 2021.
- Q3 2022 Adjusted EBITDA was $58.1 million, up from $55.3 million in Q2 2022, and $18.0 million in Q3 2021. Consolidated EBITDA %'s have steadily improved, increasing to 24% in Q3 2022, up from 20% in Q2 2022 and 14% in Q3 2021.
- Free Cash Flow in Q3 2022 of $40.1 million, compared to $33.2 million generated in Q2 2022 and $5.4 million generated in Q3 2021.
- As a result of the increase in Free Cash Flow, Net debt decreased to $147.5 million from $186.9 million in Q4 2021. STEP has now retired approximately $160 million in long term debt since 2018 and has met its 2022 year-end Funded Debt to Adjusted EBITDA target of 1:1 one quarter ahead of schedule.
- STEP announced two unique transactions in Q3 2022:
  - the acquisition of coiled tubing assets from ProPetro Holding Corp, ("ProPetro") a competitor, for $17.2 million. The acquisition was funded through a combination of cash and equity, which was priced at a 30-day volume weighted share average price; and
  - the upgrade of a fracturing fleet to Tier 4 Dynamic Gas Blending ("DGB") engines, secured by a $10 million deposit and a three-year first-right-of-use agreement from a client.

## THIRD QUARTER 2022 OVERVIEW

The third quarter of 2022 produced strong financial results, delivering Adjusted EBITDA of $58.1 million on revenue that was slightly lower than what was generated in Q2 2022. A recovery in pricing provided the most significant tailwind for the Company in the third quarter, offsetting a slight decrease in utilization. Margins have improved materially through 2022, reaching mid cycle returns.

Land drilling rig count additions slowed in Q3 2022 relative to the pace seen in the first half of the year. Canada averaged 200 rigs for Q3 2022, up 4% from Q1, which is a better comparator due to the effect of spring break up on Q2. The peak rig count in Q3 of 2022 was 215, compared to a peak of 224 in Q1. The U.S. rig count averaged 745 rigs, increasing only 6% after seven successive quarters of double-digit growth rates.

### *Fracturing*

Fracturing utilization in Canada shifted towards lower intensity well completions which places less proppant per well and requires less horsepower. Total operating days in Canada held steady quarter over quarter, with the expected increase in operating days not materializing. The lower activity was validated by Rystad Energy data, which showed that there were approximately 303 fracturing jobs started in Q3 2022 in Canada, as compared to 293 in Q2 2022 and 399 in Q1 2022. This contrasts with 2021 where both Q1 and Q3 had similar counts[1]. The lower activity and shift in job mix was also reflected in the reduction in proppant pumped, which declined from 358 thousand tonnes in Q2 2022 to 234 thousand tonnes in Q3 2022. The shift in job mix also lowered Revenue per operating day, although the decline was mitigated by a recovery in pricing towards more sustainable levels.

U.S. fracturing utilization of 173 days dipped in the third quarter from the second quarter of 2022. Utilization was pulled lower due to the additional maintenance days in the third quarter that were necessary following very strong Q2 2022 activity levels and was further exacerbated by higher client non-productive time. STEP was able to leverage its north American supply chain relationships to supply proportionally more proppant in the third quarter, alleviating some of the pressure of tight proppant supply. The U.S. fracturing service line pumped 244 thousand tonnes of sand in the third quarter, with STEP supplying 34% in Q3 versus 25% in Q2 2022. Pricing continued to improve through the quarter, although overall revenue for the service line was impacted by the reduction in utilization.

[1] Rystad Energy: Oilfield Services Report, October 4, 2022

*Coiled Tubing*

The fundamentals of the coiled tubing market continue to strengthen, leading to sequentially improved pricing and utilization in both geographic regions. Canadian third quarter utilization improved to 536 operating days, up from 371 days in the second quarter of 2022 while utilization in the U.S. increased to 663 days in the third quarter, up from 542 days in the second quarter of 2022. STEP has successfully integrated the ProPetro units and workforce into its Permian operations and already set a Company depth record of 8,108 metres (26,600 feet). The higher utilization in both regions drove a materially stronger contribution to consolidated Adjusted EBITDA.

*Consolidated Results*

The strong financial results generated basic and diluted net income per share of $0.45 and $0.43, respectively, in the third quarter of 2022 compared to a net income per share, basic and diluted, of $0.56 and $0.54, respectively in the prior quarter and a net loss per share, basic and diluted, of $(0.05) in the prior same period of the prior year. Q2 2022 benefitted from a $32.7 million impairment reversal.

The Company continued to focus on strengthening the balance sheet through the third quarter of 2022. Working Capital increased to $71.0 million from $54.4 million recorded at June 30, 2022. The increase is due in part to the renegotiated Credit Facilities, which converted the term loan with scheduled principal payments to a revolving facility with no scheduled payments that would be included in current liabilities. Net debt was reduced to $147.5 million at September 30, 2022 from $194.2 million at June 30, 2022. Debt reduction has been a key priority for STEP, the Company has paid down approximately $160 million of debt since 2018. The reduction in debt and improvement in Adjusted EBITDA meant that the Company had a 12-month trailing Funded Debt to Adjusted Bank EBITDA of 0.96:1, under the limit of 3.00:1 in the Company's Credit Facilities (as defined in *Capital Management – Debt* below) and complies with all other financial and nonfinancial covenants therein as at September 30, 2022.

Late in Q3 the Company announced two unique transactions, one with a competitor and one with a client. The first was the acquisition of the coiled tubing assets of a U.S. based competitor for a price of $17.2 million. The purchase was funded largely through the issuance of 2.6 million shares, as well as a cash payment of $3.6 million. The second transaction was the announcement of a Tier 4 DGB fleet upgrade at a cost of $26.7 million. The agreement was supported by a $10 million deposit from a client in exchange for a three-year contract that gives the client first right of use on the upgraded fleet and pricing linked to commodity prices. To the Company's knowledge this was the first contract of its kind for a Tier 4 fleet upgrade in Canada. This transaction demonstrates creative ways in which service companies and clients can work together to drive value for their internal and external stakeholders.

## MARKET OUTLOOK

The fundamentals of oil and gas commodity pricing remain strong, despite the growing likelihood that the global economy will slip into a recession in late 2022 and extend into 2023. The production cut announced by the Organization of the Petroleum Exporting Countries and other associated countries ("OPEC+") in early October, followed by the Biden administration's statement that the U.S. federal government will refill the U.S. Strategic Petroleum Reserve if oil prices fall below $70 per barrel, has provided support to global oil prices, reversing the steady decline witnessed since the second quarter of 2022, although the near-term macro economic environment will likely continue to serve as a headwind for oil prices. The stabilizing factor for oil and gas prices remains the depleted nature of global inventories, which continue to trend below historical averages. This reality, coupled with the concern over energy security in many parts of the world, are expected to continue the call on North American production, sustaining the demand for STEP's fracturing and coiled tubing services in Canada and the U.S.

### *Fracturing*

Fourth quarter 2022 fracturing utilization in Canada is expected to have some gaps as the fracturing market struggles to find a balance amidst signals that competitors are adding fleet capacity ahead of demand. The additional capacity has created a short-term oversupply dynamic in the fourth quarter, exacerbating what is already a typically slower quarter due to client budget exhaustion, holidays and unpredictable weather. As a result, the Canadian fracturing service line is expected to see lower sequential activity in the fourth quarter. Utilization is expected to be high in the U.S. through the fourth quarter of 2022 as that market is expected to remain undersupplied through the near term. U.S. clients are expected to remain focused on staying active through the quarter, with only modest down time expected around the major Q4 holidays of Thanksgiving, Christmas, and New Year.

### *Coiled Tubing*

The market for coiled tubing services in Canada is in balance, which is expected to drive high utilization through the remainder of the fourth quarter 2022. Demand for coiled tubing services in the U.S. is expected to stay strong through the fourth quarter as well, building on the momentum coming out of the third quarter. STEP anticipates adding U.S. capacity into the fourth quarter, including an additional ultra deep capacity unit acquired in the ProPetro transaction. Pricing increases in Q3 2022 slowed in both Canada and the U.S. relative to earlier quarters, but the high utilization in the U.S. is allowing the Company to continue testing the U.S. market for higher pricing.

### *2023 Outlook*

STEP has a constructive outlook for 2023, with activity expected to increase in Canada and the U.S. relative to 2022. The increase in Canadian activity levels is expected to be more muted than in the U.S., reflecting a market that will return to balance in 2023 from an oversupply position in Q4 2022. Catalysts for activity increases in Canada are the re-opening of the Blueberry River First Nation territorial lands to industrial development, as well as increasing liquified natural gas (LNG) related development. Horsepower demand in the U.S. market is expected to stay strong, with additional fracturing capacity not expected to come to market in a meaningful way until mid to late 2023 due to ongoing supply chain constraints. Demand for coiled tubing services is expected to remain strong in both geographic regions, particularly as the benefits of scale start to build in the U.S.

Pricing increases are expected to pace inflation in Canada, with incremental gains dependent on equipment scarcity. A balanced market is critical to the long-term sustainability of the Canadian pressure pumping sector, significantly outweighing any short-term advantage that can be gained by adding incremental capacity too soon. Pricing power in the U.S. is expected to remain with the oilfield services sector, with gains anticipated through the first half of the year. Pricing improvements continue to be needed in order to produce full cycle returns for the pressure pumping sector, creating value for shareholders and clients alike.

The strong results posted in the first nine months of 2022 accelerated the Company's goals to reduce its balance sheet leverage, reaching its year end target Funded Debt to Adjusted EBITDA of 1.0x at the close of Q3 2022. STEP's focus for the balance of 2022 and into 2023 is on continued deleveraging and making disciplined investments that support STEP's goal of building a resilient company and creating shareholder value.

## CAPITAL EXPENDITURE UPDATE

STEP announced a significant upgrade of an existing diesel-powered fleet in late Q3 2022, replacing legacy Tier 2 diesel engines with leading edge Tier 4 DGB engines that use cleaner burning natural gas to displace up to 85% of the diesel used in a legacy diesel engine. STEP will be refurbishing 16 pumpers with this technology, bringing its total dual fuel capability to 47% of its North American fleet. These dual fuel units are a key part of STEP's Environmental, Social and Governance ("ESG") strategy to improve the sustainability of its operations and support our clients in meeting their ESG targets. The total cost of the refurbishment program is $26.8 million and is supported by a $10 million prepayment and a three-year service agreement with a key client.

The ongoing supply chain constraints that are impacting new build and refurbishment timelines are also affecting the availability of major components and will require STEP to commit to certain expenditures in Q4 2022, rather than waiting until the new fiscal year begins in 2023. The Company is announcing a preliminary 2023 capital expenditure budget that is focused largely on sustaining capital requirements of $55 million. STEP anticipates that the full year capital budget, which includes optimization capital, will be released in Q1 2023. STEP will continue to strike the balance between continued deleveraging of the balance sheet and investing opportunistically where adequate returns can be generated.

The 2022 approved capital budget has been increased to $97.6 million, which includes the $3.8 million cash portion related the acquisition of coiled tubing assets from ProPetro. The increase is due to the Company's purchase of several pieces of equipment that were historically rented, as well as an increase to the sustaining capital budget that was approved in Q1 2022 to reflect the higher full year 2022 activity levels. Approximately $48 million of the 2022 budget is allocated to sustaining capital, $27 million is for the client supported Tier 4 DGB upgrade, and the balance is for optimization projects in Canada and the U.S.

Total cash expenditures in 2022 are expected to be approximately $81 million from the previously approved 2022 budget and $7.7 million from the preliminary 2023 budget. The remaining cash outlay for these programs is expected to be incurred in 2023.

# CANADIAN FINANCIAL AND OPERATIONS REVIEW

STEP has a fleet of 16 coiled tubing units in the WCSB, all of which are designed to service the deepest wells in the WCSB. STEP's fracturing business primarily focuses on the deeper, more technically challenging plays in Alberta and northeast British Columbia. STEP has 282,500 fracturing HP of which approximately 132,500 HP has dual-fuel capability. STEP deploys or idles coiled tubing units or fracturing horsepower as dictated by the market's ability to support targeted utilization and economic returns.

| ($000's except per day, days, units, proppant pumped and HP) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Revenue: | | | | | |
| Fracturing | **$ 110,991** | $ 65,336 | $ 140,513 | **$ 370,518** | $ 208,486 |
| Coiled tubing | **30,100** | 18,210 | 24,596 | **82,494** | 57,587 |
| | **141,091** | 83,546 | 165,109 | **453,012** | 266,073 |
| Expenses: | | | | | |
| Operating expenses | **109,451** | 74,216 | 133,684 | **364,500** | 236,287 |
| Selling, general and administrative | **2,762** | 1,748 | 3,950 | **10,036** | 5,293 |
| Results from operating activities | **$ 28,878** | $ 7,582 | $ 27,475 | **$ 78,476** | $ 24,493 |
| Add non-cash items: | | | | | |
| Depreciation | **11,496** | 9,598 | 11,124 | **31,746** | 28,629 |
| Share-based compensation – Cash settled | **25** | 49 | 838 | **1,407** | 678 |
| Share-based compensation – Equity settled | **496** | 79 | 273 | **844** | 668 |
| Adjusted EBITDA (1) | **$ 40,895** | $ 17,307 | $ 39,710 | **$ 112,473** | $ 54,469 |
| Adjusted EBITDA % (1) | **29%** | 21% | 24% | **25%** | 20% |
| Sales mix (% of segment revenue) | | | | | |
| Fracturing | **79%** | 78% | 85% | **82%** | 78% |
| Coiled tubing | **21%** | 22% | 15% | **18%** | 22% |
| Fracturing services | | | | | |
| Fracturing Revenue per operating day (1) | **$ 409,565** | $ 267,770 | $ 503,631 | **$ 392,083** | $ 298,691 |
| Number of fracturing operating days (2) | **271** | 244 | 279 | **945** | 698 |
| Proppant pumped (tonnes) | **234,000** | 218,000 | 358,000 | **915,000** | 819,000 |
| Stages completed | **4,006** | 3,474 | 3,114 | **11,881** | 8,629 |
| Proppant pumped per stage | **58** | 63 | 115 | **77** | 95 |
| Horsepower ("HP") | | | | | |
| Active pumping HP, end of period | **215,000** | 200,000 | 215,000 | **215,000** | 200,000 |
| Total pumping HP, end of period (3) | **282,500** | 282,500 | 282,500 | **282,500** | 282,500 |
| Coiled tubing services | | | | | |
| Coiled tubing Revenue per operating day (1) | **$ 56,157** | $ 51,152 | $ 66,296 | **$ 56,195** | $ 51,371 |
| Number of coiled tubing operating days (2) | **536** | 356 | 371 | **1,468** | 1,121 |
| Active coiled tubing units, end of period | **8** | 7 | 8 | **8** | 7 |
| Total coiled tubing units, end of period | **16** | 16 | 16 | **16** | 16 |

*(1) Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % and Revenue per operating day are non-IFRS financial ratios. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.*
*(2) An operating day is defined as any coiled tubing or fracturing work that is performed in a 24-hour period, exclusive of support equipment.*
*(3) Active horsepower denotes units active on client work sites. An additional 20-25% of this amount is required to accommodate equipment maintenance cycles.*

## THIRD QUARTER 2022 COMPARED TO THIRD QUARTER 2021

Revenue for the three months ended September 30, 2022 was $141.1 million compared to $83.5 million for the third quarter of 2021. Revenue improved due to a rise in utilization for both service lines as a result of an industry wide increase in activity, which also enabled the Company to increase pricing to mid cycle profitability levels. Fracturing operating days increased to 271 in the third quarter of 2022 from 244 during the third quarter of 2021. Fracturing revenue per day increased by 53%, due to improved pricing and a change in job mix compared to the same period of 2021. Coiled tubing operating days increased to 536 in the third quarter of 2022 from 356 during the third quarter of 2021, while revenue per day had a slight increase of 10%.

Operating expenses scaled upwards with increased activity levels. Inflationary pressures continued to be a factor in the current quarter with supply chain disruptions, commodity price appreciation, and increased industry activity resulting in costs escalating across nearly all expense categories. Personnel related costs increased following adjustments to base and incentive pay to remain competitive in the current market. The overhead and selling, general and administrative expenses ("SG&A") structure has been scaled up to support increased field operations compared to the third quarter of 2021, however, the Company anticipates that it will maintain a lean cost structure while adequately supporting the growth of the business.

Adjusted EBITDA for the third quarter of 2022 was $41.0 million (29% of revenue) versus $17.3 million (21% of revenue) in the third quarter of 2021. Adjusted EBITDA increased with the improved operating environment enabling higher pricing and utilization partially offset by rising costs due to continued inflationary pressure. Q3 2021 benefited from $1.3 million received from the CEWS program.

### *Fracturing*

Canadian fracturing revenue of $111.0 million for the three months ended September 30, 2022 increased by 70% from $65.3 million for the three months ended September 30, 2021. STEP operated five fracturing spreads with 215,000 HP during the third quarter of 2022, compared to four spreads and 200,000 HP operated during the third quarter of 2021, plus the 20-25% required to accommodate maintenance cycles. Fracturing operating days increased slightly to 271 in the third quarter of 2022 from 244 during the third quarter of 2021. Revenue per day increased by 53% compared to the same period in 2021 due to increased proppant and chemical revenues in addition to higher pricing due to the improved market environment.

### *Coiled Tubing*

Canadian coiled tubing revenue of $30.1 million for the three months ended September 30, 2022 increased 65% from $18.2 million for the three months ended September 30, 2021. The service line operated eight coiled tubing units for 536 operating days during the third quarter of 2022 compared to seven units and 356 operating days in the comparable period of 2021. The increase in utilization followed improvement in drilling and completions activity and the improved market environment helped drive pricing improvements to cover inflationary impacts.

## THIRD QUARTER 2022 COMPARED TO SECOND QUARTER 2022

Revenue for the three months ended September 30, 2022 of $141.1 million decreased 15% from $165.1 million from the quarter ended June 30, 2022 driven by a decrease in Canadian fracturing utilization and a decrease in total proppant pumped. This was offset slightly by the increase in coil tubing revenue due to a 44% increase in operating days in the third quarter as compared to the second quarter of 2022.

Canadian operations had Adjusted EBITDA of $41.0 million (29% of revenue) in the third quarter of 2022 compared to $39.7 million (24% of revenue) in the second quarter of 2022. Expenses scaled down with the change in job mix and decreased fracturing activity. STEP continues to pursue revenue and cost savings strategies to expand margin where possible.

### *Fracturing*

STEP operated five fracturing spreads with 215,000 HP during the third quarter of 2022, the same complement of active equipment as the second quarter of 2022. Total operating days fell 3% on a quarter over quarter basis, and revenue decreased to $111.0 million, down 21% sequentially. STEP pumped 234 thousand tonnes of proppant in Q3 2022, down from 358 thousand tonnes in Q2 2022.

Revenue per day was lower due to the change in job mix, which resulted in decreased proppant and chemical pumped. The decrease was offset by pricing increases implemented in the third quarter of 2022. Pricing levels continue to remain below historical highs, further indicating that pricing needs to increase to reach full cycle returns.

*Coiled Tubing*

STEP operated eight coiled tubing units, generating $30.1 million in revenue over 536 operating days in the third quarter of 2022, compared to $24.6 million over 371 operating days in the second quarter of 2022. Utilization improved sequentially from Q2 2022, which was offset by the decrease in the ancillary services of fluid and nitrogen pumping, resulting in a lower revenue per day on a sequential basis.

## NINE MONTHS ENDED SEPTEMBER 30, 2022 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2021

Revenue for the nine months ended September 30, 2022 was $453.0 million compared to $266.1 million for the nine months ended September 30, 2021. Revenue improved due to a rise in utilization and pricing for both service lines as a result of an industry wide increase in activity. Fracturing operating days increased to 945 for the first nine months of 2022 from 698 during the same period of 2021, enabling the addition of a small low pressure fracturing spread early in 2022, bringing the Canadian fracturing spread count to five. The Company's rates for fracturing services increased by 31% as a result of a more constructive pricing environment and inflationary pressures. Coiled tubing operating days increased to 1,468 for the first nine months of 2022 from 1,121 during the comparable period of 2021, increasing the active unit count to eight from seven in 2021. Strong industry fundamentals enabled STEP to maintain activity levels on both service lines throughout the first nine months of 2022 with minimal decline in utilization during break up.

The Company's operating expenses scaled upwards with increased activity levels. Personnel related costs increased following adjustments to base and incentive pay to remain competitive in the current market and reinstatement of various benefits and allowances that were eliminated during 2020 to reduce costs. Inflationary pressures were a factor during the first nine months of 2022 with supply chain disruptions, commodity price appreciation, and increased industry activity resulting in costs escalating across all expense categories. The overhead and SG&A structure has been scaled up to support increased field operations compared to the third quarter of 2021, however, the Company anticipates that it will maintain a lean cost structure while adequately supporting the growth of the business.

## UNITED STATES FINANCIAL AND OPERATIONS REVIEW

STEP's U.S. business commenced operations in 2015 with coiled tubing services. STEP has a fleet of 15 coiled tubing units in the Permian and Eagle Ford basins in Texas, the Bakken shale in North Dakota, and the Uinta-Piceance and Niobrara-DJ basins in Colorado. STEP entered the U.S. fracturing business in April 2018. The U.S. fracturing business has 207,500 fracturing HP, of which 80,000 HP is Tier 4 diesel and 50,250 HP has direct injection dual-fuel capabilities. Fracturing primarily operates in the Permian and Eagle Ford basins in Texas. The Company deploys or idles coiled tubing units or fracturing horsepower as dictated by the market's ability to support targeted utilization and economic returns.

| ($000's except per day, days, units, proppant pumped and HP) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Revenue: | | | | | |
| Fracturing | **$ 67,794** | $ 29,501 | $ 81,574 | **$ 199,035** | $ 64,962 |
| Coiled tubing | **36,200** | 20,188 | 26,317 | **85,577** | 46,558 |
| | **103,994** | 49,689 | 107,891 | **284,612** | 111,520 |
| Expenses: | | | | | |
| Operating expenses | **88,816** | 50,945 | 100,310 | **257,253** | 129,193 |
| Selling, general and administrative | **2,218** | 2,340 | 3,413 | **8,535** | 5,292 |
| Results from operating activities | **$ 12,960** | $ (3,596) | $ 4,168 | **$ 18,824** | $ (22,965) |
| Add non-cash items: | | | | | |
| Depreciation | **7,722** | 7,735 | 15,406 | **30,822** | 24,560 |
| Share-based compensation – Cash settled | **132** | 81 | 750 | **1,312** | 629 |
| Share-based compensation – Equity settled | **-** | - | - | **-** | - |
| Adjusted EBITDA [1] | **$ 20,814** | $ 4,220 | $ 20,324 | **$ 50,958** | $ 2,224 |
| Adjusted EBITDA % [1] | **20%** | 8% | 19% | **18%** | 2% |
| Sales mix (% of segment revenue) | | | | | |
| Fracturing | **65%** | 59% | 76% | **70%** | 58% |
| Coiled tubing | **35%** | 41% | 24% | **30%** | 42% |
| Fracturing services | | | | | |
| Fracturing Revenue per operating day [1] | **$ 392,963** | $ 151,287 | $ 356,218 | **$ 320,270** | $ 136,762 |
| Number of fracturing operating days [2] | **173** | 195 | 229 | **621** | 475 |
| Proppant pumped (tonnes) | **244,000** | 278,000 | 339,000 | **861,000** | 658,000 |
| Stages completed | **1,121** | 1,396 | 1,435 | **3,678** | 3,121 |
| Proppant pumped per stage | **217** | 199 | 236 | **234** | 211 |
| Horsepower ("HP") | | | | | |
| Active pumping HP, end of period | **165,000** | 165,000 | 165,000 | **165,000** | 165,000 |
| Total pumping HP, end of period [3] | **207,500** | 207,500 | 207,500 | **207,500** | 207,500 |
| Coiled tubing services | | | | | |
| Coiled tubing Revenue per operating day [1] | **$ 54,599** | $ 40,866 | $ 48,649 | **$ 49,783** | $ 37,821 |
| Number of coiled tubing operating days [2] | **663** | 494 | 542 | **1,719** | 1,231 |
| Active coiled tubing units, end of period | **11** | 8 | 8 | **11** | 8 |
| Total coiled tubing units, end of period | **17** | 13 | 13 | **17** | 13 |

*[1] Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % and Revenue per operating day are non-IFRS financial ratios. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.*

*[2] An operating day is defined as any coiled tubing or fracturing work that is performed in a 24-hour period, exclusive of support equipment.*

*[3] Active horsepower denotes units active on client work sites. An additional 15-20% of this amount is required to accommodate equipment maintenance cycles.*

## THIRD QUARTER 2022 COMPARED TO THIRD QUARTER 2021

Revenue for the three months ended September 30, 2022 was $104.0 million compared to $49.7 million for the third quarter of 2021. U.S. operations realized improved pricing due to the strong industry fundamentals and an increase in utilization for both service lines as a result of the industry wide increase in activity. Fracturing operations revenue per day increased by 160% due to improved activity and pricing as a result of better market conditions compared to the prior year. Coiled tubing operating days increased to 663 in the third quarter of 2022 from 494 during the third quarter of 2021 while revenue per day increased by 34%. The additional coil units acquired on September 1, 2022 contributed slightly to the increased revenues compared to the same period in 2021.

U.S. operations continued the trend of improved performance, leading to higher Adjusted EBITDA. Adjusted EBITDA was $20.8 million for the three months ended September 30, 2022, compared to Adjusted EBITDA of $4.2 million for the three months ended September 30, 2021. The 20% Adjusted EBITDA in Q3 2022 was better than the comparable period in 2021 as service providers in the U.S. maintained discipline in adding capacity, resulting in meaningful margin improvements as rates increased. Despite this discipline, rising inflation is leading to higher costs across all expense categories, preventing the full realization of pricing improvements.

### *Fracturing*

STEP operated three fracturing spreads with 165,000 HP during the third quarter of 2022, plus the 20-25% required to accommodate maintenance cycles. This is the same configuration of spreads and horsepower as the third quarter of 2021. U.S. fracturing revenue of $67.8 million increased 130% from the same period in 2021. Operating days decreased to 173 in the third quarter of 2022 from 195 days during the third quarter of 2021, as additional maintenance days were required to offset the high utilization in Q2 2022. Revenue per operating day increased 160% as additional STEP supplied products and the improved market fundamentals supported stronger pricing.

### *Coiled Tubing*

U.S. coiled tubing continued to build momentum during the third quarter of 2022 with revenue of $36.2 million, increasing from $20.2 million in the third quarter of 2021. STEP exited the quarter with eleven active coiled tubing units, including two coiled tubing units acquired on September 1, 2022. The units operated 663 days during the third quarter of 2022 compared to eight units and 494 days in the third quarter of 2021. The increased utilization was combined with increased revenue per day of $55 thousand, compared to $41 thousand in the same quarter of 2021, with improved rates and stronger activity materializing in all operating regions. STEP's strategic market presence and reputation for execution continues to help secure utilization and drive higher pricing in all regions.

## THIRD QUARTER 2022 COMPARED TO SECOND QUARTER 2022

Revenue for the third quarter of 2022 decreased $3.9 million to $104.0 million from $107.9 million in the second quarter of 2022 driven from downtime on fracturing fleets requiring maintenance and was further exacerbated by higher client non-productive time. The U.S. market continued to tighten from Q2 2022 to Q3 2022, leading to stronger pricing as pricing leverage shifted to fracturing service providers.

Adjusted EBITDA was $20.8 million (20% of revenue) for the third quarter of 2022 compared to $20.3 million (19% of revenue) for the second quarter of 2022 and continues the positive trend in the U.S. business. Steady price increases and increased STEP supplied product have allowed for the continuous improvement of Adjusted EBITDA on a sequential basis, despite ongoing inflationary pressures and lower utilization in the fracturing service line during the quarter.

### *Fracturing*

Revenue for U.S. fracturing during Q3 2022 of $67.8 million declined when compared to $81.6 million in Q2 2022. Activity decreased to 173 operating days in the third quarter of 2022 compared to 229 in the second quarter of 2022, due to fleets requiring downtime for planned maintenance and client non-productive time. Despite the lower utilization, revenue per day increased to $393 thousand from $356 thousand, largely due to pricing improvements and increases in STEP supplied product. A portion of the pricing improvement in Q3 2022 was in response to inflation which limited margin growth.

*Coiled Tubing*

Increased demand for coiled tubing services, along with the additional coil units from the acquisition on September 1, 2022, resulted in eleven coiled tubing units being active at the end of the third quarter 2022. The U.S. coiled tubing service line had 663 operating days, generating $36.2 million in revenue in the third quarter of 2022 compared to $26.3 million over 542 operating days in the second quarter of 2022; realizing modest improvements in both utilization and pricing. While inflationary pressures continue to impact these operations, recent momentum has enabled the Company to earn price increases over the rate of inflation.

## NINE MONTHS ENDED SEPTEMBER 30, 2022 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2021

Revenue for the nine months ended September 30, 2022 was $284.6 million compared to $111.5 million for the same period in 2021. U.S. operations realized an increase in utilization for both service lines as a result of strong commodity prices driving the industry wide increase in activity. Operating days across the Company's U.S. fracturing operations increased to 621 in the first nine months of 2022 from 475 days during the same period of 2021 due to the improved macro environment and as result of operating an additional fracturing spread. The Company's rates for fracturing services increased by 51% as a result of a more constructive pricing environment and inflationary pressures. Combined with an increase in STEP supplied product, revenue per day increased to $320 thousand from $137 thousand, a 134% increase year over year. STEP's proprietary Improved Oil Recovery ("IOR") fracturing fleet completed several jobs in the third quarter of 2022 and is seeing growing interest for the service. Coiled tubing operating days increased to 1,719 in the first nine months of 2022 from 1,231 during the same period of 2021 as a result of operating three additional coiled tubing units. Coiled tubing revenue per day increased by 32% as strong industry fundamentals supported increased rates. U.S. operations continued the trend of improved performance and Adjusted EBITDA. Adjusted EBITDA was $51.0 million for the nine months ended September 30, 2022, compared to an Adjusted EBITDA of $2.2 million for the nine months ended September 30, 2021.

The Company's operating expenses scaled upwards with increased activity levels while inflationary pressures further impacted expenses during the first nine months of 2022 as supply chain disruptions, commodity price appreciation, and increased industry activity resulted in costs escalating across all expense categories. Personnel related costs increased following adjustments to base and incentive pay to remain competitive in the current market and the reinstatement of benefits that were eliminated during 2020 to reduce costs.

# CORPORATE FINANCIAL REVIEW

The Company's corporate activities are separated from Canadian and U.S. operations. Corporate operating expenses include expenses related to asset reliability and optimization teams, as well as general and administrative costs which include costs associated with the executive team, the Board of Directors, public company costs and other activities that benefit Canadian and U.S. operating segments collectively.

| ($000's) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Expenses: | | | | | |
| Operating expenses | **$ 503** | $ 310 | $ 795 | **$ 1,869** | $ 801 |
| General and administrative | **4,027** | 3,452 | 11,828 | **24,577** | 15,424 |
| Results from operating activities | **$ (4,530)** | $ (3,762) | $ (12,623) | **$ (26,446)** | $ (16,225) |
| Add non-cash items: | | | | | |
| Depreciation | **151** | 146 | 148 | **437** | 473 |
| Share-based compensation – Cash settled | **239** | (157) | 7,292 | **11,722** | 3,141 |
| Share-based compensation – Equity settled | **481** | 234 | 400 | **1,146** | 1,542 |
| Adjusted EBITDA [(1)] | **$ (3,659)** | $ (3,539) | $ (4,783) | **$ (13,141)** | $ (11,070) |
| Adjusted EBITDA % [(1)] | **(1%)** | (3%) | (2%) | **(2%)** | (3%) |

*[(1)] Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is a non-IFRS financial ratio. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.*

### THIRD QUARTER 2022 COMPARED TO THIRD QUARTER 2021

For the three months ended September 30, 2022 expenses from corporate activities were $4.5 million compared to $3.8 million for the same period in 2021. Cash settled share-based compensation expense was higher in the third quarter of 2022 as a result of increased mark to market adjustments due to a higher average Q3 2022 share price of $5.13 compared to an average share price of $1.83 for the comparable period in 2021. Additionally, payroll costs rose as the Company increased total rewards to retain and attract talented professionals in a competitive labour market.

### THIRD QUARTER 2022 COMPARED TO SECOND QUARTER 2022

Expenses from corporate activities were $4.5 million for the third quarter of 2022 compared to $12.6 million for the second quarter of 2022, a decrease of $8.1 million. Cash settled share-based compensation decreased to $0.2 million in the third quarter of 2022 compared to $7.3 million in the second quarter of 2022, following a 4%, or $0.21, decrease in share price during the third quarter compared to a share price increase of $1.88 during the second quarter.

### NINE MONTHS ENDED SEPTEMBER 30, 2022 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2021

For the nine months ended September 30, 2022 expenses from corporate activities were $26.4 million compared to $16.2 million for the same period in 2021. Cash settled share-based compensation expense was higher in the first nine months of 2022 as the share price increased $2.86 from December 31, 2021 to September 30, 2022 compared to a share price increase of $0.91 during the same period of the prior year, resulting in higher expenses from the mark to market adjustment in the current period. Additionally, payroll costs rose as the Company increased total rewards to retain and attract talented professionals in an increasingly competitive labour market.

# CONSOLIDATED FINANCIAL REVIEW

| ($000's except per share amounts) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Revenue | **$ 245,085** | $ 133,235 | $ 273,000 | **$ 737,624** | $ 377,593 |
| Operating expenses | **198,770** | 125,471 | 234,789 | **623,622** | 366,281 |
| Gross profit | **46,315** | 7,764 | 38,211 | **114,002** | 11,312 |
| Selling, general and administrative | **9,007** | 7,540 | 19,191 | **43,148** | 26,009 |
| Results from operating activities | **37,308** | 224 | 19,020 | **70,854** | (14,697) |
| Finance costs | **1,330** | 3,908 | 2,904 | **7,551** | 10,428 |
| Foreign exchange (gain) loss | **(173)** | (362) | (231) | **(224)** | (410) |
| Gain on disposal of property and equipment | **(921)** | (146) | (832) | **(2,571)** | (331) |
| Amortization of intangible assets | **9** | 116 | 12 | **135** | 343 |
| Impairment reversal | **-** | - | (32,708) | **(32,708)** | - |
| Net income (loss) before income tax | **37,063** | (3,292) | 49,875 | **98,671** | (24,727) |
| Income tax expense (recovery) | **6,211** | 96 | 11,811 | **20,582** | (2,812) |
| Net income (loss) | **30,852** | (3,388) | 38,064 | **78,089** | (21,915) |
| Other comprehensive income (loss) | **13,956** | 3,691 | 4,980 | **17,092** | (1,214) |
| Total comprehensive income (loss) | **$ 44,808** | $ 303 | $ 43,044 | **$ 95,181** | $ (23,129) |
| Income (loss) per share – basic | **$ 0.45** | $ (0.05) | $ 0.56 | **$ 1.14** | $ (0.32) |
| Income (loss) per share – diluted | **$ 0.43** | $ (0.05) | $ 0.54 | **$ 1.09** | $ (0.32) |
| Adjusted EBITDA [1] | **$ 58,050** | $ 17,988 | $ 55,251 | **$ 150,290** | $ 45,623 |
| Adjusted EBITDA % [1] | **24%** | 14% | 20% | **20%** | 12% |

*[1] Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is a non-IFRS financial ratio. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.*

## OTHER ITEMS

### *Depreciation and amortization*

For the three and nine months ended September 30, 2022, depreciation and amortization expense was $19.4 million and $63.1 million, respectively, up from $17.6 million and $54.0 million in the same periods of 2021. The Company has increased its asset base over the year resulting in increased depreciation expense for the quarter. The Company also incurred accelerated depreciation expense in the second quarter 2022 following the determination that the useful life of certain assets had been diminished due to changes in technology and operating conditions, resulting in increased depreciation year to date.

### *Finance costs*

STEP's finance costs were $1.3 million and $7.6 million for the three and nine months ended September 30, 2022 compared to $3.9 million and $10.4 million for the three and nine months ended September 30, 2021. The effective borrowing rate for the three and nine months ended September 30, 2022 was 5.40% and 4.99%, respectively, compared to 5.03% and 4.87%, respectively, for the three and nine months ended September 30, 2021. Finance costs decreased in the third quarter of 2022 compared to the same period in 2021 due to a reduction in average debt levels and a gain from the modification of Credit Facilities.

### *Foreign exchange gains and losses*

STEP recorded $0.2 million in foreign exchange gains for the three and nine months ended September 30, 2022 compared to $0.4 million for both the three and nine months ended September 30, 2021. Foreign exchange gains and losses arise from the translation of assets, including temporary loans to U.S. operations, or liabilities that are held in U.S. dollars by Canadian operations.

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

The Company recorded gains on the disposal of property and equipment of $0.9 million and $2.6 million for the three and nine months ended September 30, 2022, respectively, compared to gains of $0.1 million and $0.3 million for the same periods in

2021. Gains and losses relate primarily to the disposal of light duty vehicles upon expiry of lease terms and from disposal of non-core assets that were acquired through bulk acquisitions of fracturing assets in prior years.

*Impairment Reversal*

The Company recorded an impairment reversal of $32.7 million in the first nine months of 2022 (2021 - $nil). Due to the improved results of the Canadian Fracturing cash generating unit ("CGU") and the overall favourable outlook for the industry, an impairment test was performed on the Canadian Fracturing CGU and the Company reversed the maximum amount of the 2020 impairment, net of depreciation that otherwise would have been expensed.

*Share-based compensation*

For the three and nine months ended September 30, 2022, STEP recorded share-based compensation expense of $1.4 million and $16.4 million, respectively, compared to $0.3 million and $6.7 million in the same periods of 2021. The increase year over year is primarily due to increases in the fair value of cash settled instruments during the current period compared to the same period in 2021.

*Income taxes*

STEP recorded total income tax expense of $6.2 million and $20.6 million for the three and nine months ended September 30, 2022. This compares to total income tax expense of $0.1 million and a recovery of $(2.8) million for the comparable periods of 2021. The transition from a net loss to net income resulted in deferred income tax expense during the current period compared to deferred income tax recovery in the comparable period of 2021.

## CAPITAL EXPENDITURES

| ($000's) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Capital program additions | | | | | |
| Sustaining capital | **$ 11,107** | $ 7,536 | $ 10,512 | **$ 30,531** | $ 22,061 |
| Optimization capital | **5,845** | 124 | 7,870 | **16,517** | 3,477 |
| Growth capital [12] | **20,150** | - | - | **20,150** | - |
| Total capital program additions | **37,102** | 7,660 | 18,382 | **67,198** | 25,538 |
| Right-of-use asset additions | **7,501** | 1,849 | 5,611 | **18,399** | 4,801 |
| Total capital expenditures | **$ 44,603** | $ 9,509 | $ 23,993 | **$ 85,597** | $ 30,339 |
| Capital was incurred for: | | | | | |
| Canada | **$ 11,113** | $ 4,216 | $ 14,820 | **$ 36,676** | $ 15,576 |
| United States | **$ 33,490** | $ 5,293 | $ 9,173 | **$ 48,921** | $ 14,763 |

*[12] On September 1, 2022 the Company acquired the coiled tubing assets as part of the transaction with ProPetro Holding Corp. The Company acquired the coiled tubing assets, inventory and prepaids for total consideration of $3.64 million in cash and $16.85 million in shares.*

Capital expenditures are classified as either growth, optimization or sustaining capital. Growth and optimization capital are capital expenditures that add revenue generating assets or increase the revenue generating profile of an asset. Sustaining capital refers to capital expenditures required to maintain ongoing business operations. The determination of what constitutes sustaining capital expenditures versus growth capital or optimization capital involves judgment by management.

STEP funds capital expenditures from a combination of cash, cash provided by operating activities, available Credit Facilities and, in certain circumstances, issuance of equity. STEP also manages its capital expenditures based on the actual and anticipated level of activity. Capital expenditures for the three months ended September 30, 2022 were $44.6 million, an increase from $9.5 million for the three months ended September 30, 2021. The increase in capital expenditures was the result of higher activity compared to the same period in 2021, the Tier 4 DGB fleet upgrade, as well as the acquisition of coiled tubing assets in the U.S. The acquisition was funded by $3.6 million in cash and $16.9 million in shares, for a total cost of $20.5 million. The shares issued as consideration were measured using the Company's share price on the date of acquisition.

# LIQUIDITY AND CAPITAL RESOURCES

| ($000's) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Net cash provided by (used in) | | | | | |
| Operating activities | **$ 73,048** | $ (9,146) | $ 34,060 | **$ 90,265** | $ 22,480 |
| Investing activities | **(25,159)** | (3,964) | (10,661) | **(44,561)** | (20,942) |
| Financing activities | **(49,225)** | 12,460 | (27,937) | **(48,597)** | (439) |
| Impact of foreign exchange on cash | **914** | 13 | 79 | **951** | (28) |
| Increase (decrease) in cash and cash equivalents | **$ (422)** | $ (637) | $ (4,459) | **$ (1,942)** | $ 1,071 |
| Opening cash balance | **2,178** | 2,974 | 6,637 | **3,698** | 1,266 |
| Ending cash balance | **$ 1,756** | $ 2,337 | $ 2,178 | **$ 1,756** | $ 2,337 |

## NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Net cash provided by operating activities totaled $73.1 million and $90.3 million for the three and nine months ended September 30, 2022 compared to net cash used by operations of $9.1 million and provided by operations of $22.5 million, respectively, in the same periods of 2021. Strong financial results in Q3 2022 generated strong operating cash flows.

## NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash used in investing activities totaled $25.2 million and $44.6 million for the three and nine months ended September 30, 2022, compared to net cash used of $4.0 million and $20.9 million, respectively, used in the comparable periods of 2021. The increase was due to increased capital spend as improvements in activity drove sustaining capital spending and an improved outlook allowed for capital investment in optimization projects.

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

For the three and nine months ended September 30, 2022, net cash used by financing activities totaled $49.2 million and $48.6 million respectively, compared to net cash provided by financing of $12.5 million and net cash used of $(0.4) million for the same periods in 2021. This decrease in cash was due to an increase in debt repayments in Q3 2022 as a result of stronger financial results in the quarter.

## WORKING CAPITAL AND CASH REQUIREMENTS

As at September 30, 2022, STEP had Working Capital of $71.0 million, compared to Working Capital of $3.9 million as at December 31, 2021. Trade and other receivables increased from $86.6 million at December 31, 2021 to $144.8 million at September 30, 2022, due to the significant increases in activity in both Canada and the U.S. Other assets increased by $6.8 million at September 30, 2022 compared to $nil at December 31, 2021 due to the foreign exchange impact on the revaluation of the cross currency swap ("CCS") derivatives. Trade and other payables increased to $116.1 million as at September 30, 2022 compared to $95.2 million as at December 31, 2021, due to an increase in activity, capital program spending, and management of loans and borrowings in relation to collection of trade receivables. Working Capital continued to build during Q3 due in part to the renegotiated Credit Facilities, which converted the term loan with scheduled principal payments to a revolving facility with no scheduled payments that would be included in current liabilities. At September 30, 2022, the Company's Working Capital and available Credit Facilities exceed the level required to manage timing differences between cash collections and cash payments. Availability of the Credit Facilities is dependent on compliance with certain covenants. As at September 30, 2022, the Company is in compliance with all terms of its Credit Facilities and based on currently available information, the Company anticipates maintaining compliance with the covenants during the next twelve months.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS

| ($000s) | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Trade and other payables | $ 116,086 | $ - | $ - | $ - | $ - | $ - | **$ 116,086** |
| Operating commitments [5,6] | 325 | 1,214 | 349 | 326 | 255 | 241 | **2,710** |
| Short-term and low value lease obligations [6] | 50 | 53 | - | - | - | - | **103** |
| Lease obligations [6,7] | 2,362 | 8,607 | 6,749 | 2,465 | 1,672 | 552 | **22,407** |
| Loans and borrowings [8] | 1,964 | 7,791 | 7,812 | 159,988 | - | - | **177,555** |
| Capital expenditure commitments [9] | 5,561 | 11,520 | - | - | - | - | **17,081** |
| Total commitments | $ 126,348 | $ 29,185 | $ 14,910 | $ 162,779 | $ 1,927 | $ 793 | **$ 335,942** |

*[5] 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.*
*[6] Balance includes U.S. obligations at a forecast exchange rate of 1 USD =1.380 CAD.*
*[7] Balance includes interest portion of lease obligations.*
*[8] Loans and borrowing balances are based on the credit facility in place at September 30, 2022. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at September 30, 2022. Both are variable in nature.*
*[9] 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

| ($000s) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Shareholders' equity | **$ 291,489** | $ 177,442 |
| Lease obligations | **20,403** | 15,373 |
| Loans and borrowings | **153,148** | 189,957 |
| Total capital | **$ 465,040** | $ 382,772 |

The Company's objectives when managing its capital structure are to maintain a balance between debt and equity 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 November 2, 2022 there were 71,468,359 common shares in the capital of STEP ("Common Shares") issued and outstanding.

### *Debt*

As at September 30, 2022, the Company's Credit Facilities with a syndicate of lenders were comprised of a Canadian $215.0 million revolving loan facility, a Canadian $15.0 million operating facility and a U.S. $15.0 million operating facility (the "Credit Facilities"). 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 The maturity date of the Credit Facilities is July 30, 2025. The balance of the Credit Facilities is due on the maturity date. As amended July 12, 2022, 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 September 30, 2022 the Company had an interest coverage ratio of 16.29:1.00.

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 September 30, 2022, the Company had a Funded Debt to Adjusted Bank EBITDA ratio of 0.96:1.00.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at September 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 nine months ended September 30, 2022 was 5.40% and 4.99% respectively (three and nine months ended September 30, 2021 – 5.03% and 4.87% respectively). The total amount of Credit Facilities outstanding on September 30, 2022 is as follows:

| ($000s)<br>As at | | **September 30, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| Revolving loan facility | **$** | **146,832** | $ | 189,300 |
| Canadian and U.S. operating lines | | **9,293** | | 1,283 |
| Deferred financing costs | | **(2,977)** | | (626) |
| Total loans and borrowings | **$** | **153,148** | $ | 189,957 |
| Less: current portion of term loan facility | | **-** | | (27,950) |
| Long term portion of loans and borrowings | **$** | **153,148** | $ | 162,007 |

STEP renegotiated its Credit Facilities on July 12, 2022 resulting in a modification of covenants and conversion of the term loan with scheduled principal payments to a revolving facility with no scheduled payments. The following table displays the movements in loans and borrowings during the nine months ended September 30, 2022:

| ($000s) | | |
|---|---|---|
| Balance at January 1, 2022 | $ | 189,957 |
| Repayment of loans and borrowings | | (41,012) |
| Accretion of deferred financing costs | | 697 |
| Deferred financing costs paid | | (806) |
| Gain on modification of credit facilities | | (2,239) |
| Effect of exchange rate changes | | 6,551 |
| **Balance at September 30, 2022** | **$** | **153,148** |

The Company has entered into CCS derivatives to manage foreign exchange exposure on U.S. denominated debt, fixing the exchange rate on the principal repayments and on the interest payments. On September 19, 2022 the Company entered into a 30-day CCS of (CAD)$140.0 million for (USD)$106.4 million. The derivative contracts were revalued to fair value of $6.8 million on September 30, 2022. The CCS was recorded at fair value in other assets on the statements of financial position.

## 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 outlook for the Canadian Fracturing CGU, the Company conducted an impairment test which resulted in the full recovery of 2020 impairment, net of depreciation.

The recoverable amount of the CGU was determined using the value in use method, based on multi-year discounted cash flows 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 $32.7 million 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.

## 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 appropriate provisions based on such assessments.

## SELECTED QUARTERLY INFORMATION

STEP's quarterly financial performance is affected by a number of factors including the seasonality [10] 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. See the *Risk Factors and Risk Management* section below.

| Quarterly Results Summary [2] ($000's, except per share amounts) | **Q3 2022** | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| Canadian Operations | **141,091** | 165,109 | 146,812 | 91,458 | 83,546 | 73,165 | 109,362 | 40,973 |
| United States Operations | **103,994** | 107,892 | 72,727 | 67,258 | 49,689 | 34,381 | 27,450 | 30,595 |
| | **245,085** | 273,000 | 219,539 | 158,716 | 133,235 | 107,546 | 136,812 | 71,568 |
| Net income (loss) attributable to shareholders | **30,852** | 38,064 | 9,173 | (6,212) | (3,388) | (10,582) | (7,944) | (17,045) |
| Adjusted EBITDA [1] | | | | | | | | |
| Canadian Operations | **40,895** | 39,710 | 31,868 | 13,591 | 17,307 | 15,633 | 21,531 | 5,542 |
| United States Operations | **20,814** | 20,324 | 9,820 | 8,012 | 4,220 | 1,022 | (3,017) | (1,398) |
| Corporate | **(3,659)** | (4,783) | (4,698) | (4,263) | (3,539) | (4,979) | (2,554) | (1,697) |
| | **58,050** | 55,251 | 36,990 | 17,340 | 17,988 | 11,676 | 15,960 | 2,447 |
| Capital expenditures [11] | | | | | | | | |
| Canadian Operations | **11,113** | 14,820 | 10,743 | 6,886 | 4,216 | 5,253 | 6,107 | 2,913 |
| United States Operations | **33,490** | 9,173 | 6,258 | 10,404 | 5,293 | 5,469 | 4,001 | 1,010 |
| | **44,603** | 23,993 | 17,001 | 17,290 | 9,509 | 10,722 | 10,108 | 3,923 |
| Per Common Share | | | | | | | | |
| Net income (loss) – basic | **0.45** | 0.56 | 0.14 | (0.09) | (0.05) | (0.16) | (0.12) | (0.25) |
| Net income (loss) – diluted | **0.43** | 0.54 | 0.13 | (0.09) | (0.05) | (0.16) | (0.12) | (0.25) |
| Adjusted EBITDA [1] – basic | **0.84** | 0.81 | 0.54 | 0.26 | 0.26 | 0.17 | 0.24 | 0.04 |
| Adjusted EBITDA [1] – diluted | **0.80** | 0.78 | 0.53 | 0.26 | 0.26 | 0.17 | 0.24 | 0.04 |
| Canada | | | | | | | | |
| Exit active fracturing spreads | **5** | 5 | 5 | 4 | 4 | 4 | 4 | 3 |
| Exit active HP (000's) | **215** | 215 | 215 | 200 | 200 | 200 | 200 | 150 |
| Total HP (000's) | **283** | 283 | 283 | 283 | 283 | 283 | 283 | 283 |
| Exit active coiled tubing units | **8** | 8 | 8 | 7 | 7 | 7 | 7 | 5 |
| Total coiled tubing units | **16** | 16 | 16 | 16 | 16 | 16 | 16 | 16 |
| United States | | | | | | | | |
| Exit active fracturing spreads | **3** | 3 | 3 | 3 | 3 | 2 | 2 | 2 |
| Exit active HP (000's) | **165** | 165 | 165 | 165 | 165 | 110 | 110 | 110 |
| Total HP (000's) | **208** | 208 | 208 | 208 | 208 | 208 | 208 | 208 |
| Exit active coiled tubing units | **11** | 8 | 8 | 8 | 8 | 8 | 7 | 6 |
| Total coiled tubing units | **17** | 13 | 13 | 13 | 13 | 13 | 13 | 13 |

*[1] Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is a non-IFRS financial ratio. They are not defined and have no standardized meaning under IFRS. See Non-IFRS Measures and Ratios.*

*[3] Active horsepower denotes units active on client work sites. An additional 15-20% of this amount is required to accommodate equipment maintenance cycles*

*[10] STEP's business is seasonal with the periods of greatest activity in Canada being in the second, third and fourth quarters. The U.S. is generally not affected by seasonality.*

*[11] Capital expenditures include amounts added in respect of finance right-of-use assets.*

## THIRD QUARTER – 2022

Q3 2022 saw commodity prices decline from Q2 in response to increased global economic uncertainty. Activity remained strong across all geographic areas and service lines despite this decline in commodity prices. Declines in activity were predominately driven from required maintenance programs rather than a decline in demand for services. This strong demand resulted in further price increases during the period allowing STEP to continue to sustain margins in the current high inflationary environment. These factors contributed to a third consecutive quarter of improving profitability.

## SECOND QUARTER – 2022

Q2 2022 saw strong demand from clients in all regions as strong commodity prices provided incentive for E&P companies to expand their production. The increased demand provided a more constructive pricing environment, leading to better returns for STEP in Canada and the U.S., and delivering the Company's best quarterly revenue and adjusted EBITDA results. The strengthening outlook resulted in a $32.7 million reversal of the general impairment taken in Q1 2020.

## FIRST QUARTER – 2022

Q1 2022 saw the continuation of rising commodity prices, exacerbated by the Russian invasion of Ukraine. The higher prices increased demand from clients in all regions. These conditions resulted in a continuation of the sequential improvement in both the Canadian and the U.S. operations. The improved activity and rates resulted in positive income for the second time since Q3 2018 and the best first quarter revenue in STEP's history.

## FOURTH QUARTER – 2021

Q4 2021 saw commodity prices rise to multi-year highs, further increasing activity from clients in all regions. The Company continued to see meaningful increases in the contributions to the consolidated results from its U.S. operations as the tightening market resulted in increased utilization and rates. The Company did not recognize any benefits from the CEWS program in Q4.

## THIRD QUARTER – 2021

Q3 2021 saw commodity prices continue to rise, leading to increased activity from clients, particularly in the U.S. operations resulting in meaningful increases in the contributions to the consolidated results. The Company recognized $1.1 million in benefits from the CEWS program.

## SECOND QUARTER – 2021

Q2 2021 built on the momentum from the prior period with demand for commodities increasing, driving demand for our services leading to a 165% increase in revenue compared to the same period in the prior year with significant improvements to Adjusted EBITDA. The Company recognized $1.9 million in benefits from the CEWS program.

## FIRST QUARTER – 2021

Q1 2021 saw signs of economic recovery as COVID-19 pandemic measures eased and vaccinations were distributed globally resulting in increased economic activity and mobility. While this resulted in improved commodity pricing and increased client activity, the improvements were not at pre-pandemic levels. The Company recognized $3.8 million in benefits from the CEWS program.

## FOURTH QUARTER – 2020

Q4 2020 saw increased optimism from clients as commodity prices began to stabilize resulting in improving revenue for STEP. In anticipation of a busier 2021, the Company spent approximately $2.5 million on the reactivation of equipment. The Company recognized $4.1 million in benefits from the CEWS program.

# 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 and loans and borrowings.

## FAIR VALUES

The carrying values 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.

The Company entered into derivative contracts to manage risk associated with foreign exchange movements on its estimated future net cash inflows denominated in U.S. dollars. These risk management derivatives are a component of the Company's overall risk management program. The derivatives associated with the CCS are initially recognized at fair value at the date the derivative contracts are entered into on the Company's consolidated statements of financial position as either an asset, when the fair value is positive, or a liability, when the fair value is negative. These derivatives are not designated as hedges. These CCS derivatives are measured at fair value using the Level 2 input of foreign exchange forward pricing.

## 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 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 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 September 30, 2022. At September 30, 2022 the allowance for doubtful accounts was $0.4 million compared to $0.3 million at December 31, 2022.

## 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 $0.4 million and $1.2 million increase or decrease in interest expense for the three and nine months ended September 30, 2022 respectively (September 30, 2021 - $0.5 million and $1.6 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 $0.04 million and $0.16 million increase or decrease in interest expense for the three and nine months ended September 30, 2022 respectively (September 30, 2021 - $0.03 million and $0.03 million).

## 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. Exposure to foreign exchange rate changes is further mitigated using CCS.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at September 30, 2022.

## NON-IFRS MEASURES AND RATIOS

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 measures should be read in conjunction with the Company's Quarterly Financial Statements and Annual 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, equity and cash settled share-based compensation, transaction costs, foreign exchange forward contract (gain) loss, foreign exchange (gain) loss, and impairment losses. "Adjusted EBITDA %" is a non-IFRS ratio and is calculated as Adjusted EBITDA divided by revenue. Adjusted EBITDA and Adjusted EBITDA % are presented because they are widely used by the investment community as they provide 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 and Adjusted EBITDA % internally to evaluate operating and segment performance, because management believes they provide better comparability between periods. The following table presents a reconciliation of the non-IFRS financial measure of Adjusted EBITDA to the IFRS financial measure of net income (loss).

| ($000s except percentages and per share amounts) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Net income (loss) | **$ 30,852** | $ (3,388) | $ 38,064 | **$ 78,089** | $ (21,915) |
| Add (deduct): | | | | | |
| Depreciation and amortization | **19,378** | 17,595 | 26,690 | **63,140** | 54,005 |
| Gain on disposal of equipment | **(921)** | (146) | (832) | **(2,571)** | (331) |
| Finance costs | **1,330** | 3,908 | 2,904 | **7,551** | 10,428 |
| Income tax expense (recovery) | **6,211** | 96 | 11,811 | **20,582** | (2,812) |
| Share-based compensation – Cash settled | **396** | (28) | 8,880 | **14,441** | 4,447 |
| Share-based compensation – Equity settled | **977** | 312 | 673 | **1,990** | 2,209 |
| Foreign exchange (gain) loss | **(173)** | (362) | (231) | **(224)** | (410) |
| Impairment reversal | **-** | - | (32,708) | **(32,708)** | - |
| Adjusted EBITDA | **$ 58,050** | $ 17,988 | $ 55,251 | **$ 150,290** | $ 45,623 |
| Adjusted EBITDA % | **24%** | 14% | 20% | **20%** | 12% |

"Free Cash Flow" is a financial measure not presented in accordance with IFRS and is equal to net cash provided by operating activities adjusted for changes in non-cash Working Capital from operating activities, sustaining capital expenditures, term loan principal repayments and lease payments (net of sublease receipts). The Company may deduct or include additional items in its calculation of Free Cash Flow that are unusual, non-recurring or non-operating in nature. Free Cash Flow is presented as this measure is widely used in the investment community as an indication of the level of cash flow generated by ongoing operations. Management uses Free Cash Flow to evaluate the adequacy of internally generated cash flows to manage debt levels, invest in the growth of the business or return capital to shareholders. The following table presents a reconciliation of the non-IFRS financial measure of Free Cash Flow to the IFRS financial measure of net cash provided by operating activities.

| ($000s except percentages and per share amounts) | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2022** | September 30, 2021 | June 30, 2022 | **September 30, 2022** | September 30, 2021 |
| Net cash provided by (used in) operating activities | **$ 73,048** | $ (9,146) | $ 34,060 | **$ 90,265** | $ 22,480 |
| Add (deduct): | | | | | |
| Changes in non-cash Working Capital from (used in) operating activities | **(19,395)** | 23,841 | 18,836 | **50,246** | 14,269 |
| Sustaining capital | **(11,107)** | (7,605) | (10,514) | **(30,531)** | (18,626) |
| Term loan principal repayments | **-** | - | (6,987) | **(13,975)** | - |
| Lease payments (net of sublease receipts) | **(2,470)** | (1,657) | (2,228) | **(6,589)** | (4,560) |
| Free Cash Flow | **$ 40,076** | $ 5,433 | $ 33,167 | **$ 89,416** | $ 13,563 |

"Revenue per operating day" is a financial ratio 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. 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 and CCS derivatives. 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 represents the composition of the non-IFRS financial measure of Working Capital (including cash and cash equivalents).

| ($000s) | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Current assets | **$ 203,148** | $ 133,255 |
| Current liabilities | **(132,149)** | (129,343) |
| Working Capital (including cash and cash equivalents) | **$ 70,999** | $ 3,912 |

The following table presents the composition of the non-IFRS financial measure of Total long-term financial liabilities.

| ($000s) | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Long-term loans | **$ 153,148** | $ 162,007 |
| Long-term leases | **12,617** | 9,163 |
| Other long-term liabilities | **11,780** | 4,519 |
| Total long-term financial liabilities | **$ 177,545** | $ 175,689 |

The following table presents the composition of the non-IFRS financial measure of Net debt.

| ($000s) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Loans and borrowings | $ 153,148 | $ 189,957 |
| Add back: Deferred financing costs | 2,977 | 626 |
| Less: Cash and cash equivalents | (1,756) | (3,698) |
| Less: CCS Derivatives Asset | (6,831) | - |
| Net debt | $ 147,538 | $ 186,885 |

# ACCOUNTING POLICIES AND ESTIMATES

## 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 issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) ("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 ICFR that occurred during the period ending September 30, 2022, 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 Quarterly Financial Statements. The preparation of the Quarterly 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 Quarterly 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 Quarterly Financial Statements and Notes 1 and 2 to the Annual Financial Statements 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 in the AIF and Annual MD&A 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, and the disclosure provided in this MD&A under the headings "*Market Outlook*". In addition, global and national risks associated with inflation or economic contraction may adversely affect the Company by, among other things, reducing 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. 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 the Company'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 the Company 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: 2022 and 2023 industry conditions and outlook, including OPEC+ product cuts, global energy security concerns, depleted global inventories, and other macroeconomic factors; anticipated Q4 2022 and 2023 results; recession risk; the effect of resumed industrial activity on Blueberry River First Nation territorial lands; supply and demand for the Company's and its competitors' services, including the ability for the industry to respond to demand increases; inflation related cost increases; expected pricing for the Company's services; the impact of weather and break up on the Company's operations; the competitive labour market; the potential for near term commodity price volatility; the Company's ability to realize the benefits of pricing increases in subsequent quarters; the Company's ability to meet all financial commitments including interest payments over the next twelve months; the Company's plans regarding additional equipment; the Company's ability to manage its capital structure; expected debt repayment and Funded Debt to Adjusted EBITDA ratios; market supply and demand balance for the Company's services; expected profitability; expected income tax liabilities; adequacy of resources to funds operations, financial obligations and planned capital expenditures; the Company's ability to retain its existing clients; the monitoring of impairment, amount and age of balances owing, and the Company's financial assets and liabilities denominated in U.S. dollars, and exchange rates; the Company's ability to maintain a lean cost structure; and the Company's expected compliance with covenants under its Credit Facilities and its ability to satisfy its financial commitments thereunder.

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 effect of macroeconomic factors, including global energy security concerns and levels of oil and gas inventories; market concerns regarding economic recession; levels of oil and gas production and the effect of OPEC or OPEC+ related capacity and related uncertainty on the market for the Company's services; that the Company will continue to conduct its operations in a manner consistent with past operations; the Company will continue as a going concern; 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; predictable effect of seasonal weather and break up on the Company's operations; 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 and retain 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 availability of unused credit capacity on the Company's credit lines; the impact of competition on the Company; the Company's ability to obtain financing on acceptable terms; the Company's continued compliance with financial covenants; the amount of available equipment in the marketplace; and client activity levels and spending. 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 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.