

STEP

energy services

TSX STEP

Condensed Consolidated Interim Financial Statements

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

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at		September 30,	December 31,
Unaudited (in thousands of Canadian dollars)	Notes	2022	2021
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 1,756	\$ 3,698
Trade and other receivables	12	144,802	86,644
Income tax receivable		112	103
Inventory		39,356	32,732
Prepaid expenses and deposits		10,291	10,078
Other assets	5	6,831	-
		203,148	133,255
Property and equipment	2,3	389,171	335,499
Right-of-use assets	4	22,226	14,788
Intangible assets		171	306
		\$ 614,716	\$ 483,848
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	8,12	\$ 116,086	\$ 95,183
Current portion of lease obligations	4	7,786	6,210
Current portion of loans and borrowings	5	-	27,950
Income tax payable		8,277	-
		132,149	129,343
Deferred tax liabilities		13,533	1,374
Lease obligations	4	12,617	9,163
Other liabilities	8	11,780	4,519
Loans and borrowings	5	153,148	162,007
		323,227	306,406
Shareholders' equity			
Share capital	7	453,379	435,768
Contributed surplus	8	32,075	30,820
Accumulated other comprehensive income		19,475	2,383
Deficit		(213,440)	(291,529)
		291,489	177,442
		\$ 614,716	\$ 483,848

See accompanying notes to the condensed consolidated interim financial statements

See Note 6 – Commitments

See Note 13 – Contingencies and provisions

STEP ENERGY SERVICES LTD.

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

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2022	2021	2022	2021
Revenue		\$ 245,085	\$ 133,235	\$ 737,624	\$ 377,593
Operating expenses	10	198,770	125,471	623,622	366,281
Gross profit		46,315	7,764	114,002	11,312
Selling, general and administrative expenses	10	9,007	7,540	43,148	26,009
Results from operating activities		37,308	224	70,854	(14,697)
Finance costs	11	1,330	3,908	7,551	10,428
Foreign exchange gain		(173)	(362)	(224)	(410)
Gain on disposal of property and equipment		(921)	(146)	(2,571)	(331)
Amortization of intangible assets		9	116	135	343
Impairment reversal of property and equipment	3	-	-	(32,708)	-
Income (loss) before income tax		37,063	(3,292)	98,671	(24,727)
Income tax expense (recovery)					
Current		5,071	(202)	8,423	(137)
Deferred		1,140	298	12,159	(2,675)
Total income tax expense (recovery)		6,211	96	20,582	(2,812)
Net income (loss)		30,852	(3,388)	78,089	(21,915)
Other comprehensive income (loss)					
Foreign currency translation gain (loss)		13,956	3,691	17,092	(1,214)
Total comprehensive Income (loss)		\$ 44,808	\$ 303	\$ 95,181	\$ (23,129)
Income (loss) per share:					
Basic	9	\$ 0.45	\$ (0.05)	\$ 1.14	\$ (0.32)
Diluted	9	\$ 0.43	\$ (0.05)	\$ 1.09	\$ (0.32)

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance at January 1, 2021		\$ 431,798	\$ 32,371	\$ 3,812	\$ (263,402)	\$ 204,579
Net loss for the period		-	-	-	(21,915)	(21,915)
Foreign currency translation loss		-	-	(1,214)	-	(1,214)
Share-based compensation		-	2,209	-	-	2,209
Exercise of equity share-based compensation		4,081	(4,081)	-	-	-
Balance at September 30, 2021		\$ 435,879	\$ 30,499	\$ 2,598	\$ (285,317)	\$ 183,659
Balance at January 1, 2022		\$ 435,768	\$ 30,820	\$ 2,383	\$ (291,529)	\$ 177,442
Net income for the period		-	-	-	78,089	78,089
Foreign currency translation gain		-	-	17,092	-	17,092
Share-based compensation	8	-	1,990	-	-	1,990
Exercise of equity share-based compensation	7	735	(735)	-	-	-
Issuance of shares	7	16,876	-	-	-	16,876
Balance at September 30, 2022		\$ 453,379	\$ 32,075	\$ 19,475	\$ (213,440)	\$ 291,489

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2022	2021	2022	2021
Operating activities:					
Net income (loss)		\$ 30,852	\$ (3,388)	\$ 78,089	\$ (21,915)
Adjusted for the following:					
Depreciation and amortization	2,4	19,378	17,595	63,140	54,005
Share-based compensation	8	1,373	285	16,431	6,658
Unrealized foreign exchange gain		(837)	(533)	(812)	(667)
Gain on disposal of property and equipment		(921)	(146)	(2,571)	(331)
Impairment reversal of property and equipment	3	-	-	(32,708)	-
Finance costs	11	1,330	3,908	7,551	10,428
Cash finance costs paid		(3,616)	(3,757)	(9,030)	(9,296)
Income tax expense (recovery)		6,211	96	20,582	(2,812)
Income taxes (paid) recovered		(117)	635	(161)	679
Changes in non-cash working capital from operating activities		19,395	(23,841)	(50,246)	(14,269)
Net cash provided by (used in) operating activities		73,048	(9,146)	90,265	22,480
Investing activities:					
Purchase of property and equipment	2	(20,226)	(7,660)	(50,322)	(25,538)
Proceeds from disposal of equipment and vehicles		888	842	5,658	913
Changes in non-cash working capital from investing activities		(5,821)	2,854	103	3,683
Net cash used in investing activities		(25,159)	(3,964)	(44,561)	(20,942)
Financing activities:					
(Repayment) issuance of loans and borrowings	5	(46,046)	14,125	(41,012)	4,213
Repayment of finance lease obligations		(3,179)	(1,665)	(7,585)	(4,652)
Net cash (used in) provided by financing activities		(49,225)	12,460	(48,597)	(439)
Impact of exchange rate changes on cash and cash equivalents		914	13	951	(28)
(Decrease) increase in cash and cash equivalents		(422)	(637)	(1,942)	1,071
Cash and cash equivalents, beginning of period		2,178	2,974	3,698	1,266
Cash and cash equivalents, end of period		\$ 1,756	\$ 2,337	\$ 1,756	\$ 2,337

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and nine months ended September 30, 2022 and 2021.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

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

Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors (“Board”) on November 2, 2022.

Seasonality of operations

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

Critical accounting estimates and judgments

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

New Accounting Policies

Derivative financial instruments

The Company entered into cross currency swaps (“CCS”) in order to manage certain exposures to fluctuations in foreign exchange rates. They 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. The derivative contracts are subsequently remeasured to their fair value at the end of each reporting period, with the resulting gain or loss included in the statements of net income (loss) as foreign exchange (gain) loss. The CCS derivatives contracts are recognized in the statement of financial position under other assets when in a foreign exchange gain position and in other liabilities on when in a foreign exchange loss position.

Business Combinations – amendment

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired include, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Company has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

NOTE 2 – PROPERTY AND EQUIPMENT

	Land and buildings	Field equipment	Office equipment	Total
Cost:				
Balance at January 1, 2021	\$ 37,835	\$ 703,711	\$ 8,769	\$ 750,315
Additions	1,118	35,927	197	37,242
Disposals	(781)	(15,833)	(484)	(17,098)
Effect of exchange rate changes	(100)	(2,085)	(8)	(2,193)
Balance at December 31, 2021	\$ 38,072	\$ 721,720	\$ 8,474	\$ 768,266
Additions ⁽¹⁾	84	66,858	256	67,198
Disposals	(2,360)	(11,483)	-	(13,843)
Effect of exchange rate changes	892	28,147	125	29,164
Balance at September 30, 2022	\$ 36,688	\$ 805,242	\$ 8,855	\$ 850,785
Accumulated depreciation:				
Balance at January 1, 2021	\$ 10,596	\$ 363,866	\$ 7,689	\$ 382,151
Depreciation	1,602	64,363	603	66,568
Disposals	(119)	(14,692)	(451)	(15,262)
Effect of exchange rate changes	(5)	(682)	(3)	(690)
Balance at December 31, 2021	\$ 12,074	\$ 412,855	\$ 7,838	\$ 432,767
Depreciation	1,096	55,227	335	56,658
Disposals	(400)	(9,645)	-	(10,045)
Reversal of impairment	(1,589)	(31,119)	-	(32,708)
Effect of exchange rate changes	211	14,634	97	14,942
Balance at September 30, 2022	\$ 11,392	\$ 441,952	\$ 8,270	\$ 461,614
Carrying amounts:				
As at December 31, 2021	\$ 25,998	\$ 308,865	\$ 636	\$ 335,499
As at September 30, 2022	\$ 25,296	\$ 363,290	\$ 585	\$ 389,171

(1) Includes non-cash field equipment additions related to the September 1, 2022 acquisition of ProPetro Holding Corp’s coiled tubing assets, inventory and prepaids for total consideration of \$16.85 million in shares and \$3.64 million in cash. At the time of the transaction, management applied the IFRS 3 concentration test and concluded that the transaction was an asset acquisition.

Included in field equipment at September 30, 2022 were sustaining and optimization capital under construction of \$17.5 million (December 31, 2021 - \$11.6 million). All capital projects under construction are not depreciated until they are substantially complete and available for use.

NOTE 3 – IMPAIRMENT REVERSAL

As required by IAS 36, the Company assesses at each reporting period whether there are any internal and external indicators that would indicate whether any assets or cash generating units (CGUs) are impaired or whether any previously recognized impairment losses should be reversed because of a change in the estimates used to determine the impairment loss. The maximum amount of an impairment reversal allowed is the amount necessary to restore the assets of the CGU to their pre-

impairment carrying amounts less subsequent depreciation or amortization that would have been recognized if the impairment of assets had not occurred.

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

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

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

	Buildings		Vehicles		Office equipment		Total
Balance at January 1, 2021	\$	11,327	\$	12,375	\$	278	\$ 23,980
Additions		2,056		8,171		160	10,387
Disposals		(159)		(2,359)		(170)	(2,688)
Effect of exchange rate changes		(42)		(42)		-	(84)
Balance at December 31, 2021	\$	13,182	\$	18,145	\$	268	\$ 31,595
Additions		13,735		4,664		-	18,399
Disposals		(6,819)		(2,856)		-	(9,675)
Effect of exchange rate changes		851		1,099		4	1,954
Balance at September 30, 2022	\$	20,949	\$	21,052	\$	272	\$ 42,273
Accumulated depreciation:							
Balance at January 1, 2021	\$	4,388	\$	7,998	\$	141	\$ 12,527
Depreciation		2,994		3,296		64	6,354
Disposals		(159)		(1,762)		(125)	(2,046)
Effect of exchange rate changes		(1)		(26)		(1)	(28)
Balance at December 31, 2021	\$	7,222	\$	9,506	\$	79	\$ 16,807
Depreciation		2,548		3,763		36	6,347
Disposals		(2,345)		(1,934)		-	(4,279)
Effect of exchange rate changes		343		825		4	1,172
Balance at September 30, 2022	\$	7,768	\$	12,160	\$	119	\$ 20,047
Carrying amounts:							
As at December 31, 2021	\$	5,960	\$	8,639	\$	189	\$ 14,788
As at September 30, 2022	\$	13,181	\$	8,892	\$	153	\$ 22,226

With respect to the right-of-use assets above, the Company has lease contracts for light duty vehicles, office buildings, service centers and copiers. The maturity date of these contracts range from October 2022 to December 2027 with interest rates ranging from 2.25% to 7.50% per annum. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are as follows:

As at	September 30, 2022	December 31, 2021
Future minimum lease payments	\$ 22,407	\$ 16,704
Discount	(2,004)	(1,331)
Present value of minimum lease payments	\$ 20,403	\$ 15,373
Presented as:		
Current portion of lease obligations	\$ 7,786	\$ 6,210
Lease obligations	\$ 12,617	\$ 9,163

NOTE 5 – LOANS AND BORROWINGS

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 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 facility 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:

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 banking facility 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:

	(000's)
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.

NOTE 6 – COMMITMENTS

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

	2022	2023	2024	2025	2026	Thereafter	Total
Operating expenses for lease obligations ⁽¹⁾	\$ 325	\$ 1,214	\$ 349	\$ 326	\$ 255	\$ 241	\$ 2,710
Short term and low value lease obligations ⁽¹⁾	50	53	-	-	-	-	103
Total commitments	\$ 375	\$ 1,267	\$ 349	\$ 326	\$ 255	\$ 241	\$ 2,813

(1) Includes U.S. obligations at the September 30, 2022 exchange rate of 1 USD = 1.380 CAD.

Operating expenses for lease obligations relate to leases of certain service centers and office space with lease terms of between 1 year and 5 years. The total expense recognized during the three and nine months ended September 30, 2022 for short term and low value lease obligations was \$0.4 million and \$1.2 million (September 30, 2021 - \$0.4 million and \$1.3 million, respectively).

As at September 30, 2022, the Company had \$17.1 million (December 31, 2021 - \$3.9 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2022 and 2023.

NOTE 7 – SHARE CAPITAL

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

	Shares #	Amount
Balance at January 1, 2021	67,713,824	\$ 431,798
Issued – exercise of share-based instruments	443,157	3,970
Balance at December 31, 2021	68,156,981	435,768
Issued – exercise of share-based instruments ⁽¹⁾	630,654	735
Issued – shares issued ⁽²⁾	2,616,460	16,876
Balance at September 30, 2022	71,404,095	\$ 453,379

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

(2) Shares were issued as a result of the September 1, 2022 acquisition of ProPetro Holding Corp's coiled tubing assets, inventory and prepaids for consideration of \$16.85 million in shares and \$3.64 million in cash.

NOTE 8 – SHARE-BASED COMPENSATION

Equity settled share-based instruments

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

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2022	3,847,805	703,405	-	247,900	519,640	5,318,750
Granted	241,119	1,269,379	143,279	-	-	1,653,777
Exercised ⁽¹⁾	(545,928)	(236,274)	-	-	-	(782,202)
Forfeited/Expired	(162,963)	(74,963)	-	(235,400)	(494,640)	(967,966)
Outstanding at September 30, 2022	3,380,033	1,661,547	143,279	12,500	25,000	5,222,359
Exercisable at September 30, 2022	2,152,660	-	-	12,500	25,000	2,190,160

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

Cash settled share-based instruments

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

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2022	2,555,517	985,976	901,240	4,442,733
Granted	64,660	49,893	42,749	157,302
Exercised	-	(715,647)	(481,689)	(1,197,336)
Forfeited/Expired	-	(35,969)	-	(35,969)
Outstanding at September 30, 2022	2,620,177	284,253	462,300	3,366,730
Exercisable at September 30, 2022	2,620,177	-	-	2,620,177

The aggregate liability for all cash settled share-based instruments of \$14.8 million is included in the statement of financial position; \$3.1 million in trade and other payables and \$11.7 million in other long-term liabilities. At each reporting date, between grant date and settlement date of cash settled share-based instruments, the fair value of the liability is re-measured with any changes in fair value recognized in share-based compensation expense for the period (refer to Note 10 – Presentation of Expenses).

Share-based compensation expense

The composition of share-based compensation expense incurred was:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Equity settled				
New stock options	143	120	507	550
Performance warrants	-	52	4	159
Performance share units	56	-	82	1,225
Restricted share units	777	141	1,397	275
	976	313	1,990	2,209
Cash settled				
Deferred share units	(550)	(358)	7,598	2,439
Performance share units	852	260	3,951	634
Restricted share units	95	70	2,892	1,376
	397	(28)	14,441	4,449
Total share-based compensation expense	\$ 1,373	\$ 285	\$ 16,431	\$ 6,658

NOTE 9 – PER SHARE COMPUTATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Weighted average number of shares outstanding - basic	69,150,361	68,112,520	68,713,091	67,962,997
Dilutive impact of stock options and performance warrants	3,199,895	-	2,662,416	-
Weighted average number of shares outstanding - diluted	72,350,256	68,112,520	71,375,507	67,962,997

For the three months ended September 30, 2022, 0.03 million performance warrants, and 0.20 million new stock options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive. For the nine months ended September 30, 2022, 0.01 million prior stock options, 0.03 million performance warrants, and 0.44 million new stock options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (three months and nine months ended September 30, 2021: 1.6 million prior stock options, 2.7 million performance warrants, 4.0 million new stock options, and 0.7 million restricted share units).

NOTE 10 – PRESENTATION OF EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Operating expenses				
Employee costs	\$ 52,732	\$ 37,830	\$ 154,833	\$ 101,769
Employee costs – CEWS ⁽¹⁾	-	(1,229)	-	(6,385)
Operating expense	55,217	35,055	171,564	99,351
Materials and inventory costs	71,316	36,617	232,438	117,448
	179,265	108,273	558,835	312,183
Depreciation	19,171	17,120	62,375	52,821
Share-based compensation	334	78	2,412	1,277
Total operating expenses	198,770	125,471	623,622	366,281
Selling, general and administrative expenses				
Employee costs	5,734	5,524	21,719	13,739
Employee costs – CEWS ⁽¹⁾	-	166	-	(391)
General expenses	2,434	1,834	6,678	6,989
	8,168	7,524	28,397	20,337
Allowance for doubtful accounts expense (recovery)	(398)	(550)	102	(550)
Depreciation	198	359	630	841
Share-based compensation	1,039	207	14,019	5,381
Total selling, general and administrative expenses	\$ 9,007	\$ 7,540	\$ 43,148	\$ 26,009

(1) Canadian Emergency Wage Subsidy.

NOTE 11 – FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest on loans and borrowings	\$ 2,731	\$ 2,806	\$ 8,126	\$ 8,142
Interest on lease obligations	337	179	935	556
Interest income	-	-	(12)	(48)
Accretion of deferred financing charges	489	907	696	1,865
Gain on modification of credit facilities	(2,239)	-	(2,239)	-
Other	12	16	45	(87)
Total finance costs	\$ 1,330	\$ 3,908	\$ 7,551	\$ 10,428

NOTE 12 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

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 and are captured under other liabilities on the statement of financial position. 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 in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure on this balance and management's assessment of the credit risk associated with its clients. The Company's objective is to minimize credit losses.

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

	As at	September 30, 2022	December 31, 2021
Current (0 to 30 days from invoice date)	\$	110,243	\$ 66,523
31 - 60 days		32,020	17,966
61 - 90 days		1,384	504
91+ days		208	194
Receivables from trade clients		143,855	85,187
Allowance for doubtful accounts		(438)	(312)
Other amounts		1,385	1,769
Total trade and other receivables	\$	144,802	\$ 86,644

Liquidity risk

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

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

	2022	2023	2024	2025	2026	Thereafter	Total
Lease obligations ⁽¹⁾	\$ 2,362	\$ 8,607	\$ 6,749	\$ 2,465	\$ 1,672	\$ 552	\$ 22,407
Trade and other payables	116,086	-	-	-	-	-	116,086
Loans and borrowings ⁽²⁾	1,964	7,791	7,812	159,988	-	-	177,555
	\$ 120,412	\$ 16,398	\$ 14,561	\$ 162,453	\$ 1,672	\$ 552	\$ 316,048

(1) Includes interest portion of lease obligations.

(2) 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.

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

Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding consolidated debt, a 1.0% change in the bankers' prime rate would result in a \$0.4 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 exchange rate risk

As the Company operates in both Canada and the U.S., fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar can have an impact on the operating results and the future cash flows of the Company's financial assets and liabilities. The Canadian segment is exposed to foreign exchange risk on U.S. dollar denominated purchases made in the normal course of business and debt held in U.S. dollars. The Company manages risk to foreign currency exposure by monitoring financial assets and liabilities denominated in U.S. dollars and exchange rates on an ongoing basis. Exposure to foreign exchange rate changes is further mitigated using CCS (refer to Note 5 – Loans and Borrowings).

NOTE 13 - CONTINGENCIES AND PROVISIONS

Litigation

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

NOTE 14 – OPERATING SEGMENTS

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

Segmented operating results and activity

Three months ended September 30, 2022	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 110,991	67,794	-	178,785
Coiled tubing	30,100	36,200	-	66,300
Total revenue	141,091	103,994	-	245,085
Expenses				
Operating expenses	109,451	88,816	503	198,770
Selling, general and administrative	2,762	2,218	4,027	9,007
Results from operating activities	28,878	12,960	(4,530)	37,308
Finance costs	-	-	1,330	1,330
Foreign exchange (gain) loss	(624)	(46)	497	(173)
(Gain) loss on disposal of property and equipment	(538)	(383)	-	(921)
Amortization of intangible assets	9	-	-	9
Income (loss) before income tax	\$ 30,031	13,389	(6,357)	37,063
Capital expenditures ⁽¹⁾	\$ 11,113	33,490	-	44,603
Total assets as at September 30, 2022	\$ 324,446	289,751	519	614,716
Total liabilities as at September 30, 2022	\$ 242,836	80,391	-	323,227

Three months ended September 30, 2021	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 65,336	\$ 29,501	\$ -	\$ 94,837
Coiled tubing	18,210	20,188	-	38,398
Total revenue	83,546	49,689	-	133,235
Expenses				
Operating expenses	74,216	50,945	310	125,471
Selling, general and administrative	1,748	2,340	3,452	7,540
Results from operating activities	7,582	(3,596)	(3,762)	224
Finance costs	-	-	3,908	3,908
Foreign exchange (gain) loss	(352)	(10)	-	(362)
(Gain) loss on disposal of property and equipment	(124)	(22)	-	(146)
Amortization of intangible assets	10	106	-	116
Income (loss) before income tax	\$ 8,048	\$ (3,670)	\$ (7,670)	\$ (3,292)
Capital expenditures ⁽¹⁾	\$ 4,215	\$ 5,293	\$ -	\$ 9,508
Total assets as at September 30, 2021	\$ 239,767	\$ 242,537	\$ 909	\$ 483,213
Total liabilities as at September 30, 2021	\$ 244,638	\$ 54,916	\$ -	\$ 299,554

(1) Capital expenditures include non-cash expenditures from the addition of leased right-of-use assets and from the addition of field equipment assets in the ProPetro Holdings Corp. acquisition.

Nine months ended September 30, 2022	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 370,518	199,035	-	569,553
Coiled tubing	82,494	85,577	-	168,071
Total revenue	453,012	284,612	-	737,624
Expenses				
Operating expenses	364,500	257,253	1,869	623,622
Selling, general and administrative	10,036	8,535	24,577	43,148
Results from operating activities	78,476	18,824	(26,446)	70,854
Finance costs	-	-	7,551	7,551
Foreign exchange (gain) loss	(722)	(126)	624	(224)
(Gain) loss on disposal of property and equipment	(1,394)	(1,177)	-	(2,571)
Amortization of intangible assets	29	106	-	135
Impairment reversal of property and equipment	(32,708)	-	-	(32,708)
Income (loss) before income tax	\$ 113,271	20,021	(34,621)	98,671
Capital expenditures ⁽¹⁾	\$ 36,676	48,921	-	85,597
Total assets as at September 30, 2022	\$ 324,446	289,751	519	614,716
Total liabilities as at September 30, 2022	\$ 242,836	80,391	-	323,227

Nine months ended September 30, 2021	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 208,486	\$ 64,962	\$ -	\$ 273,448
Coiled tubing	57,587	46,558	-	104,145
Total revenue	266,073	111,520	-	377,593
Expenses				
Operating expenses	236,287	129,193	801	366,281
Selling, general and administrative	5,293	5,292	15,424	26,009
Results from operating activities	24,493	(22,965)	(16,225)	(14,697)
Finance costs	-	-	10,428	10,428
Foreign exchange (gain) loss	(378)	(32)	-	(410)
(Gain) loss on disposal of property and equipment	(381)	50	-	(331)
Amortization of intangible assets	30	313	-	343
Income (loss) before income tax	\$ 25,222	\$ (23,296)	\$ (26,653)	\$ (24,727)
Capital expenditures ⁽¹⁾	\$ 15,576	\$ 14,763	\$ -	\$ 30,339
Total assets as at September 30, 2021	\$ 239,767	\$ 242,537	\$ 909	\$ 483,213
Total liabilities as at September 30, 2021	\$ 244,638	\$ 54,916	\$ -	\$ 299,554

(1) Capital expenditures include non-cash expenditures from the addition of leased right-of-use assets and from the addition of field equipment assets in the ProPetro Holdings Corp. acquisition.

CORPORATE INFORMATION

Management

Steve Glanville
President and Chief Executive Officer

Klaas Deemter
Chief Financial Officer

Rory Thompson
Chief Operating Officer

Joshua Kane
Vice-President, Legal and General Counsel

Directors

Douglas Freel ⁽¹⁾

Evelyn Angelle ⁽²⁾

Steve Glanville ⁽³⁾⁽⁴⁾

Jeremy Gackle ⁽²⁾⁽⁵⁾

Donna Garbutt ⁽⁶⁾⁽⁷⁾

James Harbilas ⁽⁸⁾⁽⁹⁾

Jason Skehar ⁽²⁾⁽⁴⁾⁽⁹⁾

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

Corporate office

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Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

“STEP”
Toronto Stock Exchange