

STEP

energy services

TSX STEP

Condensed Consolidated Interim Financial Statements

As at and for the three months ended March 31, 2022

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at			March 31,	December 31,
Unaudited (in thousands of Canadian dollars)	Notes		2022	2021
ASSETS				
Current Assets				
Cash and cash equivalents		\$	6,637	\$ 3,698
Trade and other receivables	11		152,196	86,644
Income tax receivable			101	103
Inventory			34,276	32,732
Prepaid expenses and deposits			5,268	10,078
			198,478	133,255
Property and equipment	2		330,332	335,499
Right-of-use assets	3		17,649	14,788
Intangible assets			192	306
		\$	546,651	\$ 483,848
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables	7,11	\$	110,990	\$ 95,183
Current portion of lease obligations	3		6,738	6,210
Current portion of loans and borrowings	4		27,950	27,950
			145,678	129,343
Deferred tax liabilities			3,934	1,374
Lease obligations	3		11,324	9,163
Other liabilities	7		8,162	4,519
Loans and borrowings	4		192,442	162,007
			361,540	306,406
Shareholders' equity				
Share capital	6		435,806	435,768
Contributed surplus	7		31,122	30,820
Accumulated other comprehensive income			539	2,383
Deficit			(282,356)	(291,529)
			185,111	177,442
		\$	546,651	\$ 483,848

See accompanying notes to the condensed consolidated interim financial statements

See Note 4 – Subsequent event

See Note 5 – Commitments

See Note 12 – 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 March 31,	
		2022	2021
Revenue		\$ 219,539	\$ 136,812
Operating expenses	9	190,063	134,369
Gross profit		29,476	2,443
Selling, general and administrative expenses	9	14,950	8,375
Results from operating activities		14,526	(5,932)
Finance costs, net	10	3,317	3,087
Foreign exchange loss (gain)		180	(9)
(Gain) loss on disposal of property and equipment		(818)	369
Amortization of intangible assets		114	114
Income (loss) before income tax		11,733	(9,493)
Income tax (recovery) expense			
Current		-	47
Deferred		2,560	(1,596)
		2,560	(1,549)
Net income (loss)		9,173	(7,944)
Other comprehensive loss			
Foreign currency translation loss		(1,844)	(2,550)
Total comprehensive income (loss)		\$ 7,329	\$ (10,494)
Income (loss) per share:			
Basic	8	\$ 0.135	\$ (0.117)
Diluted	8	\$ 0.132	\$ (0.117)

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		-	-	-	(7,944)	(7,944)
Foreign currency translation loss		-	-	(2,550)	-	(2,550)
Share-based compensation	7	-	1,587	-	-	1,587
Exercise of equity share-based compensation	6,7	3,064	(3,064)	-	-	-
Balance at March 31, 2021		\$ 434,862	\$ 30,894	\$ 1,262	\$ (271,346)	\$ 195,672
Balance at January 1, 2022		\$ 435,768	\$ 30,820	\$ 2,383	\$ (291,529)	\$ 177,442
Net income for the period		-	-	-	9,173	9,173
Foreign currency translation loss		-	-	(1,844)	-	(1,844)
Share-based compensation	7	-	340	-	-	340
Exercise of equity share-based compensation	6,7	38	(38)	-	-	-
Balance at March 31, 2022		\$ 435,806	\$ 31,122	\$ 539	\$ (282,356)	\$ 185,111

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	
		2022	March 31, 2021
Operating activities:			
Net income (loss)		\$ 9,173	\$ (7,944)
Adjusted for the following:			
Depreciation and amortization	2,3	17,071	18,217
Share-based compensation	7	5,506	3,789
Unrealized foreign exchange loss (gain)		290	(103)
(Gain) loss on disposal of property and equipment		(818)	369
Finance costs	10	3,317	3,087
Income tax expense (recovery)		2,560	(1,549)
Cash finance costs paid		(3,137)	(2,528)
Changes in non-cash working capital from operating activities		(50,805)	(1,409)
Net cash (used in) provided by operating activities		(16,843)	11,929
Investing activities:			
Purchase of property and equipment	2	(11,714)	(7,873)
Proceeds from disposal of equipment and vehicles		401	8
Changes in non-cash working capital from investing activities		2,572	1,652
Net cash used in investing activities		(8,741)	(6,213)
Financing activities:			
Issuance of loans and borrowings	4	30,600	3,898
Repayment of lease obligations		(2,035)	(1,448)
Net cash provided by financing activities		28,565	2,450
Impact of exchange rate changes on cash and cash equivalents		(42)	23
Increase in cash and cash equivalents		2,939	8,189
Cash and cash equivalents, beginning of period		3,698	1,266
Cash and cash equivalents, end of period		\$ 6,637	\$ 9,455

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 months ended March 31, 2022 and 2021.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

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

Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors (“Board”) on May 11, 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 tending 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 United States can be affected by spring breakup but is generally not as influenced by seasonal conditions.

Critical accounting estimates and judgments

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

NOTE 2 – PROPERTY AND EQUIPMENT

	Land and buildings	Field equipment	Office equipment	Total
Cost:				
Balance at January 1, 2021	\$ 37,835	\$ 703,711	\$ 8,769	\$ 750,315
Additions	1,118	35,927	197	37,242
Disposals	(781)	(15,833)	(484)	(17,098)
Effect of exchange rate changes	(100)	(2,085)	(8)	(2,193)
Balance at December 31, 2021	\$ 38,072	\$ 721,720	\$ 8,474	\$ 768,266
Additions	-	11,577	137	11,714
Disposals	-	(3,628)	-	(3,628)
Effect of exchange rate changes	(128)	(3,334)	(15)	(3,477)
Balance at March 31, 2022	\$ 37,944	\$ 726,335	\$ 8,596	\$ 772,875
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	362	14,588	108	15,058
Disposals	-	(3,578)	-	(3,578)
Effect of exchange rate changes	(27)	(1,665)	(12)	(1,704)
Balance at March 31, 2022	\$ 12,409	\$ 422,200	\$ 7,934	\$ 442,543
Carrying amounts:				
As at December 31, 2021	\$ 25,998	\$ 308,865	\$ 636	\$ 335,499
As at March 31, 2022	\$ 25,535	\$ 304,135	\$ 662	\$ 330,332

Included in field equipment at March 31, 2022 were sustaining and optimization capital underway of \$13.9 million (December 31, 2021 - \$11.6 million). All capital projects underway are not depreciated until they are substantially complete and available for use.

NOTE 3 – 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	3,235	2,052	-	5,287
Disposals	-	(1,661)	-	(1,661)
Effect of exchange rate changes	(87)	(130)	-	(217)
Balance at March 31, 2022	\$ 16,330	\$ 18,406	\$ 268	\$ 35,004
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	750	1,137	12	1,899
Disposals	-	(1,253)	-	(1,253)
Effect of exchange rate changes	(37)	(61)	-	(98)
Balance at March 31, 2022	\$ 7,935	\$ 9,329	\$ 91	\$ 17,355
Carrying amounts:				
As at December 31, 2021	\$ 5,960	\$ 8,639	\$ 189	\$ 14,788
As at March 31, 2022	\$ 8,395	\$ 9,077	\$ 177	\$ 17,649

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 ranges from March 2022 to December 2026 with interest rates ranging from 2.68% to 7.50% per annum. Lease payments made by the Company are blended interest and principal payments. The Company's lease obligations are as follows:

As at	March 31, 2022	December 31, 2021
Future minimum lease payments	\$ 19,795	\$ 16,704
Discount	(1,733)	(1,331)
Present value of minimum lease payments	\$ 18,062	\$ 15,373
Presented as:		
Current portion of lease obligations	\$ 6,738	\$ 6,210
Lease obligations	\$ 11,324	\$ 9,163

NOTE 4 – LOANS AND BORROWINGS

As at March 31, 2022, the Company's Credit Facilities with a syndicate of lenders were comprised of a Canadian \$200.0 million term loan facility, a Canadian \$30.0 million revolving facility, a Canadian \$10.0 million operating facility and a U.S. \$15.0 million operating facility. The Credit Facilities include a general security agreement, providing a security interest over all present and after acquired personal property of the Company and all its subsidiaries including mortgages on certain properties. Any current and future leases that would have been accounted for as an operating lease on December 31, 2018 will continue to be recognized as operating leases for purposes of calculating financial covenants. The maturity date of the Credit Facilities is July 30, 2023, and the Covenant Relief Period (as defined in the Credit Facilities) was set to end June 30, 2022, however on April 22, 2022 the Company delivered notice to its lenders of early termination of the covenant relief period.

Scheduled quarterly repayments of the term loan facility of \$7.0 million per quarter commenced on March 31, 2022. The balance is due on the maturity date. The sum of any amounts outstanding under the revolving facility, the Canadian operating facility and the U.S. operating facility may not exceed the Borrowing Base. The Borrowing Base is defined as the aggregate of: (1) 85% of U.S. and Canadian based investment grade eligible accounts receivable under 120 days from the invoice date, (2) 75% of U.S. and Canadian based non-investment grade eligible accounts receivable under 90 days from the invoice date and (3) 50% of U.S. and Canadian based eligible inventory subject to a maximum of \$10 million Canadian less priority payables and certain liquidity requirements (see item three below). At March 31, 2022, the Company's calculated borrowing base was \$116.4 million compared to \$59.0 million as at December 31, 2021. This borrowing base is subject to the limits of the Credit Facilities. Mandatory repayments are required anytime the amount outstanding under the revolving facility and Canadian and U.S. operating facilities exceeds the borrowing base. As amended August 3, 2021, the Credit Facilities include certain financial and non-financial covenants, including:

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

Quarters Ended	Interest Coverage ratio minimum permitted
March 31, 2022	3.00:1
June 30, 2022	3:00:1
September 30, 2022 and thereafter	3.00:1

On March 31, 2022, STEP's Interest Coverage Ratio was 6.32:1.

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:

Quarters Ended	Funded Debt to Adjusted Bank EBITDA ratio maximum permitted
March 31, 2022	4.00:1
June 30, 2022 ⁽¹⁾	3.50:1
September 30, 2022 and thereafter ⁽¹⁾	3.00:1

(1) These covenant ratios are applicable in the covenant relief period. On April 22, 2022, the Company exited the covenant relief period. See the subsequent event disclosure below for more details.

On March 31, 2022, STEP's Funded Debt to Adjusted Bank EBITDA ratio was 2.46:1.

3. A Minimum Liquidity Availability. This means the Company must ensure on a consolidated monthly basis during the Covenant Relief Period (as defined in the Credit Facilities) Liquidity Availability of \$7.5 million or greater. Liquidity Availability means the applicable Borrowing Base minus the sum of: (a) all outstanding accommodations under the revolving facility and the operating facilities; and (b) all interest, fees, expenses, and other amounts due and payable under the Credit Facilities. The Liquidity Availability was \$77.5 million at March 31, 2022 compared to \$57.5 million as at December 31, 2021.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at March 31, 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 months ended March 31, 2022 was 5.29% respectively (three months ended March 31, 2021 – 4.63%). The total amount of Credit Facilities outstanding on March 31, 2022 is as follows:

As at	March 31, 2022	December 31, 2021
Term loan facility	\$ 182,300	\$ 189,300
Canadian and U.S. operating lines	18,615	1,283
Revolving facility	20,000	-
Deferred financing costs	(523)	(626)
Total Loans and borrowings	\$ 220,392	\$ 189,957
Less: current portion of term loan facility	(27,950)	(27,950)
Long term portion of loans and borrowings	\$ 192,442	\$ 162,007

The following table displays the movements in loans and borrowings during the three months ended March 31, 2022:

	(000's)
Balance at January 1, 2022	\$ 189,957
Issuance of loans and borrowings, net	30,600
Accretion of deferred financing costs	103
Effect of exchange rate changes	(268)
Balance at March 31, 2022	\$ 220,392

SUBSEQUENT EVENT

On April 22, 2022, the Company exited the covenant relief period under the Credit Facilities. As a result of doing so and in accordance with the Credit Facilities' agreement (originally dated August 13, 2020 as last amended by a Second Amending Agreement dated August 3, 2021), the covenants applicable to the Company outside of the covenant relief period are as follows; (i) Funded Debt to Adjusted Bank EBITDA ratio will not be more than 3.00:1.00 and (ii) the Interest Coverage Ratio is at least 3.00:1.00. Both covenants are calculated quarterly on the last day of each fiscal quarter on a rolling four quarter basis. In addition, interest is payable monthly, at the lead syndicate bank's prime lending rate plus 50 basis points to 300 basis points depending on certain financial ratios of the Company. Outside of the covenant relief period, the liquidity covenant of \$7.5 million is no longer applicable.

NOTE 5 – 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 March 31, 2022 for the following five years and thereafter:

	2022	2023	2024	2025	2026	Thereafter	Total
Operating expenses for lease obligations ⁽¹⁾	\$ 940	\$ 1,216	\$ 344	\$ 281	\$ 69	\$ -	\$ 2,850
Short term and low value lease obligations ⁽¹⁾	106	-	-	-	-	-	106
Total commitments	\$ 1,046	\$ 1,216	\$ 344	\$ 281	\$ 69	\$ -	\$ 2,956

(1) Includes U.S. obligations at the March 31, 2022 exchange rate of 1 USD = 1.250 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 ended March 31, 2022 for short term and low value lease obligations was \$0.4 million.

As at March 31, 2022, the Company has \$11.2 million (December 31, 2021 - \$3.9 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2022.

NOTE 6 – 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⁾	47,609	38
Balance at March 31, 2022	68,204,590	\$ 435,806

(1) Option exercises for the period ended March 31, 2022 were on a cashless basis.

NOTE 7 – 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	-	4,639	-	-	-	4,639
Cancelled	(12,996)	-	-	(141,400)	(294,640)	(449,036)
Exercised ⁽¹⁾	(80,235)	-	-	-	-	(80,235)
Forfeited/Expired	(90,930)	-	-	(28,000)	-	(118,930)
Outstanding at March 31, 2022	3,663,644	708,044	-	78,500	225,000	4,675,188
Exercisable at March 31, 2022	1,488,969	-	-	78,500	211,400	1,778,869

(1) Option exercises for the period ended March 31, 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	-	-	-	-
Exercised	-	-	-	-
Forfeited/Expired	-	(16,367)	-	(16,367)
Outstanding at March 31, 2022	2,555,517	969,609	901,240	4,426,366
Exercisable at March 31, 2022	2,555,517	-	-	2,555,517

The aggregate liability for all cash settled share-based instruments of \$11.0 million is included in the statement of financial position; \$2.8 million in trade and other payables and \$8.2 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 net (loss) income for the period.

Share-based compensation expense

The composition of share-based compensation expense incurred was:

For the three months ended March 31,	2022	2021
New stock options	\$ 182	\$ 228
Performance warrants	4	57
Performance share units	-	1,226
Restricted share units	154	76
Cash-settled deferred share units	3,042	1,298
Cash-settled performance share units	1,044	160
Cash-settled restricted share units	1,080	744
Total share-based compensation expense	\$ 5,506	\$ 3,789

NOTE 8 – PER SHARE COMPUTATIONS

Three months ended March 31,	2022	2021
Weighted average number of shares outstanding - basic	68,189,275	67,720,318
Dilutive impact of stock options and performance warrants	1,548,186	-
Weighted average number of shares outstanding - diluted	69,737,461	67,720,318

For the three months ended March 31, 2022, 0.1 million prior stock options, 0.2 million performance warrants, and 0.2 million new stock options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (March 31, 2021: 1.8 million prior stock options, 2.9 million performance warrants, 3.6 million new stock options, 0.1 million restricted share units, and 0.02 million performance share units).

NOTE 9 – PRESENTATION OF EXPENSES

Three months ended March 31,	2022	2021
Operating expenses		
Employee costs	\$ 51,054	\$ 33,713
Employee costs – CEWS ⁽¹⁾	-	(3,479)
Operating expense	53,649	33,725
Materials and inventory costs	67,843	51,852
	172,546	115,811
Depreciation	16,741	17,851
Share-based compensation	776	707
Total operating expenses	190,063	134,369
Selling, general and administrative expenses		
Employee costs	7,720	3,892
Employee costs - CEWS ⁽¹⁾	-	(355)
General expenses	2,016	1,504
	9,736	5,041
Allowance for doubtful accounts expense	268	-
Depreciation	217	252
Share-based compensation	4,729	3,082
Total selling, general and administrative expenses	\$ 14,950	\$ 8,375

(1) Canadian Emergency Wage Subsidy.

NOTE 10 – FINANCE COSTS, NET

Three months ended March 31,	2022	2021
Interest on loans and borrowings	\$ 2,876	\$ 2,603
Interest on lease obligations	321	188
Interest income	-	(46)
Accretion of deferred financing charges	103	460
Other	17	(118)
Total finance costs	\$ 3,317	\$ 3,087

NOTE 11 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

Credit risk

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

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

As at	March 31, 2022	December 31, 2021
Current (0 to 30 days from invoice date)	\$ 119,001	\$ 66,523
31 - 60 days	27,826	17,966
61 - 90 days	2,415	504
91+ days	1,486	194
Receivables from trade clients	150,728	85,187
Allowance for doubtful accounts	(578)	(312)
Other amounts	2,046	1,769
Total trade and other receivables	\$ 152,196	\$ 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 5 for commitments.

The expected timing of cash outflows relating to financial liabilities on the condensed consolidated interim statement of financial position as at March 31, 2022 are:

	2022	2023	2024	2025	2026	Thereafter	Total
Lease obligations ⁽¹⁾	\$ 5,874	\$ 6,671	\$ 6,146	\$ 840	\$ 264	\$ -	\$ 19,795
Trade and other payables	110,990	-	-	-	-	-	110,990
Loans and borrowings ⁽²⁾	29,488	208,390					237,878
	\$ 146,352	\$ 215,061	\$ 6,146	\$ 840	\$ 264	\$ -	\$ 368,663

(1) Includes interest portion of lease obligations.

(2) Includes estimated interest and principal repayments, based on current amounts outstanding and current interest rates at March 31, 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 \$0.6 million increase or decrease in interest expense for the three-month period ended March 31, 2022 (March 31, 2021 - \$0.5 million). Based on the average outstanding U.S. dollar denominated debt, a 1.0% change in the bankers' prime rate and a change in foreign exchange rates by \$0.10, would result in a \$0.1 million increase or decrease in interest expense for the three-month period ended March 31, 2022 (March 31, 2021 - \$nil)

Foreign exchange rate risk

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

NOTE 12 - 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 13 – 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 March 31, 2022	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 119,014	\$ 49,667	\$ -	\$ 168,681
Coiled tubing	27,798	23,060	-	50,858
Total revenue	146,812	72,727	-	219,539
Expenses				
Operating expenses	121,365	68,127	571	190,063
Selling, general and administrative	3,324	2,904	8,722	14,950
Results from operating activities	22,123	1,696	(9,293)	14,526
Finance costs	-	-	3,317	3,317
Foreign exchange (gain) loss	265	(10)	(75)	180
(Gain) loss on disposal of property and equipment	(369)	(449)	-	(818)
Amortization of intangible assets	10	104	-	114
Income (loss) before income tax	\$ 22,217	\$ 2,051	\$ (12,535)	\$ 11,733
Capital expenditures ⁽¹⁾	\$ 10,743	\$ 6,258	\$ -	\$ 17,001
Total assets as at March 31, 2022	\$ 283,334	\$ 262,581	\$ 736	\$ 546,651
Total liabilities as at March 31, 2022	\$ 288,904	\$ 72,636	\$ -	\$ 361,540

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

Three months ended March 31, 2021	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 87,829	\$ 16,425	\$ -	\$ 104,254
Coiled tubing	21,533	11,025	-	32,558
Total revenue	109,362	27,450	-	136,812
Expenses				
Operating expenses	96,126	38,029	214	134,369
Selling, general and administrative	1,764	1,406	5,205	8,375
Results from operating activities	11,472	(11,985)	(5,419)	(5,932)
Finance costs	-	-	3,087	3,087
Foreign exchange (gain) loss	(17)	8	-	(9)
(Gain) loss on disposal of property and equipment	(193)	562	-	369
Amortization of intangible assets	10	104	-	114
Income (loss) before income tax	\$ 11,672	\$ (12,659)	\$ (8,506)	\$ (9,493)
Capital expenditures ⁽¹⁾	\$ 6,107	\$ 4,001	\$ -	\$ 10,108
Total assets as at March 31, 2021	\$ 265,666	\$ 227,162	\$ -	\$ 492,828
Total liabilities as at March 31, 2021	\$ 262,913	\$ 34,243	\$ -	\$ 297,156

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

CORPORATE INFORMATION

Management

Regan Davis
Chief Executive Officer

Klaas Deemter
Chief Financial Officer

Steve Glanville
President and Chief Operating Officer

Rory Thompson
President, Canadian Operations

Lori McLeod-Hill
Vice-President, Finance

Joshua Kane
Vice-President, Legal and General Counsel

Directors

Douglas Freel ⁽¹⁾

Evelyn Angelle ⁽²⁾

Regan Davis ⁽³⁾⁽⁴⁾

Jeremy Gackle ⁽²⁾⁽⁵⁾

Donna Garbutt ⁽⁶⁾⁽⁷⁾

James Harbilas ⁽⁸⁾⁽⁹⁾

Jason Skehar ⁽²⁾⁽⁴⁾⁽⁹⁾

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

Corporate office

Bow Valley Square II
#1200, 205 – 5 Ave SW
Calgary, Alberta T2P 2V7

Registered office

4300, 888 – 3rd Street SW
Calgary, Alberta T2P 5C5

Website

www.stepenergyservices.com

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