



Fourth Quarter

Management Discussion and Analysis

As at and for the three and twelve months ended December 31, 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 March 1, 2023 and is a review of the Company’s financial condition and results of operations based on International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. It should be read in conjunction with the audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2022 (the “Annual Financial Statements”). 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, 2022 dated March 1, 2023 (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		Years ended		
	December 31,	December 31,	December 31,	December 31,	December 31,
	2022	2021	2022	2021	2020
Consolidated revenue	\$ 251,394	\$ 158,716	\$ 989,018	\$ 536,309	\$ 368,945
Net income (loss)	\$ 16,692	\$ (6,212)	\$ 94,781	\$ (28,127)	\$ (119,358)
Per share-basic	\$ 0.24	\$ (0.08)	\$ 1.37	\$ (0.41)	\$ (1.77)
Per share-diluted	\$ 0.23	\$ (0.08)	\$ 1.31	\$ (0.41)	\$ (1.77)
Adjusted EBITDA ⁽¹⁾	\$ 48,616	\$ 17,340	\$ 198,906	\$ 62,963	\$ 30,881
Adjusted EBITDA % ⁽¹⁾	19%	11%	20%	12%	8%
Free Cash Flow ⁽¹⁾	22,373	14,212	111,788	27,775	47,291

⁽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.

OPERATIONAL REVIEW

(\$000s except days, proppant, pumped, horsepower and units)	Three months ended		Years ended		
	December 31,	December 31,	December 31,	December 31,	December 31,
	2022	2021	2022	2021	2020
Fracturing services					
Fracturing operating days ⁽²⁾	476	508	2,042	1,681	1,129
Proppant pumped (tonnes)	453,000	495,000	2,229,000	1,972,000	1,376,064
Active horsepower ("HP"), ended ⁽³⁾	380,000	365,000	380,000	365,000	260,000
Total HP, ended	490,000	490,000	490,000	490,000	490,000
Coiled tubing services					
Coiled tubing operating days ⁽²⁾	1,151	955	4,338	3,307	2,583
Active coiled tubing units, ended	19	15	19	15	11
Total coiled tubing units, ended	33	29	33	29	29

⁽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)	2022	2021	2020
As at December 31,			
Cash and cash equivalents	\$ 2,785	\$ 3,698	\$ 1,266
Working capital (including cash and cash equivalents) ⁽¹⁾	\$ 66,580	\$ 3,912	\$ 42,867
Total assets	\$ 682,532	\$ 483,848	\$ 479,859
Total long-term financial liabilities ⁽¹⁾	\$ 168,746	\$ 175,689	\$ 214,848
Net debt ⁽¹⁾	\$ 142,224	\$ 186,885	\$ 208,735
Shares outstanding	71,589,626	68,156,981	67,713,824

⁽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.

2022 ANNUAL HIGHLIGHTS

2022 was an exceptional year for STEP, with the Company achieving record results across many of its key financial metrics:

- Consolidated revenue for the year ended December 31, 2022 of \$989.0 million, increasing 84% from \$536.3 million in the prior year.
- Net income for the year ended December 31, 2022 of \$94.8 million, or \$1.31 per diluted share, compared to a net loss of \$28.1 million in 2021, or a \$0.41 loss per share. Net income was positively impacted by the reversal of \$38.4 million of impairment loss taken in 2020, following the significant improvement in business conditions.
- For the year ended December 31, 2022, Adjusted EBITDA was \$198.9 million or 20% of revenue compared to \$63.0 million or 12% of revenue in the prior year.
- Free Cash Flow for the year ended December 31, 2022 was \$111.8 million compared to \$27.8 million in 2021.
- STEP made significant progress on debt reduction while also investing into the long term sustainability of the business.
 - The Company had net debt of \$142.2 million at December 31, 2022, compared to \$186.9 million at December 31, 2021.
 - The Company invested \$55.3 million into Working Capital and \$82.9 million into its capital equipment
- On July 12, 2022, STEP entered into a Credit Agreement with its syndicate of lenders, which includes a Canadian \$215.0 million revolving loan facility, a Canadian \$15.0 million operating facility, and a U.S. \$15.0 million operating facility (collectively, the “Credit Facilities”). The maturity date of the Credit Facilities is July 12, 2025.
- On September 1, 2022, the Company completed the acquisition of four high-spec, ultradeep capacity coiled tubing units, ancillary equipment from ProPetro Holding Corp. (“ProPetro”), a leading Permian Basin energy services company, for approximately \$20.5 million CAD.
- On September 12, 2022, STEP announced 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 leading intermediate E&P company. These engines displace diesel with cleaner burning natural gas and offer the industry’s best diesel displacement rates of up to 85%.

FOURTH QUARTER 2022 OVERVIEW

The fourth quarter of 2022 capped a successful year for STEP, with the Company setting a record for annual revenue and Adjusted EBITDA on a consolidated basis. The fourth quarter was not as strong as the third quarter in Canada, as many E&P companies completed their capital programs in mid to late Q4 and wound down their activities in December in advance of the holiday season. At times companies will pull capital forward if there is a strong commodity price incentive, but that did not materialize in Q4 2022 as commodity prices were on a weakening trend. Furthermore, most E&P companies significantly outperformed their budgets in the year, further limiting their appetite to add more capital. The reverse occurred in the U.S. as activity stayed strong to year end.

Weather conditions are typically a factor in Canada, which can result in a reduction in activity relative to the third quarter. Specifically, the Q4 2022 Canadian rig count was down 7% from Q3 2022 and data from Rystad Energy⁽¹²⁾, an independent energy research and business intelligence company, showed that fracturing activity fell by 17% relative to Q3 2022. STEP’s fracturing utilization in Canada declined quarter over quarter and the job mix shifted towards lower-intensity well completions. The lower activity and shift in job mix is reflected in the reduction in proppant pumped, which declined in Q4 2022 to 145,000 tonnes from 234,000 tonnes in Q3 2022, resulting in lower average revenue per day. The decline in activity resulted in lower pricing for a minority of our services in the quarter and the deferral of some scheduled work.

The value in having a geographically diversified business model was demonstrated in Q4 2022. In contrast to the declining Canadian market, the U.S. rig count increased 2% sequentially, averaging 760 rigs in Q4 2022. Fracturing activity was also up 2% relative to Q3 2022, according to data from Rystad Energy. The U.S. is a key market for STEP, particularly in Texas. STEP has operating bases in the Permian and Eagleford plays and the gas-focused Haynesville play is within the Company’s operating range. The Permian play had 45% of the rigs operating in the U.S. in Q4 2022, and the highest proportion of the high-spec drilling rigs, followed by the Eagleford and Haynesville, which had just over 9% each. STEP’s fracturing utilization in the U.S. rose quarter over quarter, increasing to 227 days from 173 days, while proppant pumped increased to 309,000 tonnes in Q4 from 244,000 tonnes in Q3.

¹² Shale Intelligence, Rystad Energy, February 1, 2023

Overall, STEP posted the second-highest level of quarterly revenue in its history, achieving \$251.4 million in Q4 2022, up 2.6% from \$245.1 million in Q3 2022 and up 58.4% from the \$158.7 million generated in Q4 2021. Higher activity, particularly in the U.S., drove the sequential increase, while significantly improved pricing in Canada and the U.S. was the differentiating factor in the year-over-year increase. The Company pumped 453,000 tonnes of proppant, which was lower than Q3 2022 and Q4 2021. The reduction in Q4 2022 volumes was due to a shift in job mix to smaller job types in Canada, which place less proppant per day.

Profitability increased in the U.S. while the decrease in work scope in Canada put pressure on margins as fracturing crews bid pricing lower to maintain utilization. The Company generated consolidated Adjusted EBITDA of \$48.6 million, a margin of 19.3%. This was lower than the \$58.1 million (23.7% margin) achieved in Q3 2022, which was a record quarter for the Company, but significantly higher than the \$17.3 million (10.9% margin) posted in Q4 2021.

Net income was \$16.7 million in Q4 2022 (\$0.23 diluted earnings per share), sequentially lower than the \$30.9 million in Q3 (\$0.43 diluted earnings per share), but higher than the \$6.2 million loss (\$0.08 diluted loss per share) realized in Q4 2021. Net income included \$3.0 million in finance costs (Q3 2022 - \$1.3 million, Q4 2021 - \$4.2 million) and \$4.4 million in share-based compensation (Q3 2022 - \$1.4 million, Q4 2021 - \$0.1 million), as well as a \$5.7 million reversal of the remaining balance of a previously recorded impairment in the U.S. in 2020. STEP was profitable in all four quarters in 2022 – a sign of meaningful progress for the Company and the energy business broadly.

Free Cash Flow was \$22.4 million in Q4 2022, sequentially lower than the \$40.1 million in Q3 2022 but higher than the \$14.2 million in Q4 2021. STEP allocated a significant amount of its Free Cash flow through the year to debt reduction, balanced with an increased investment into its fleet. Net debt was reduced to \$142.4 million at the close of Q4 2022 from \$147.5 million at close of Q3 2022 and is down nearly \$45 million on a year-over-year basis. This debt reduction was accomplished while simultaneously investing \$55.3 million into working capital in 2022 and \$25.6 million into optimization capital expenditures during the full year 2022. STEP has now reduced debt by nearly \$170 million from peak levels in 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 0.75:1, well under the limit of 3.00:1 in the Company's Credit Facilities (as defined in *Capital Management – Debt* below).

MARKET OUTLOOK

The recovery in demand for oil and gas across the world and a renewed focus on energy security is expected to continue driving demand for oilfield services in North America. Commodity prices have moderated from the highs seen in 2022 but are expected to stay constructive through 2023.

West Texas Intermediate (“WTI”) oil prices remain more influenced by global market trends and are only modestly off Q4 2022 levels as the world continues to grapple with the effects of sanctions on Russian oil supply and continued production discipline across the market. These commitments to limit supply growth have come from nations belonging to the OPEC+ oil cartel as well as companies in non-OPEC countries that have made public commitments to return free cash flow to shareholders rather than expand production. Management's view is that the current softness in oil prices to date is expected to reverse in the second half of 2023 as concerns over the impact of a potential recession ease and China continues to reopen following two years of tight COVID-19 lockdowns.

The market for natural gas in early 2023 has weakened relative to 2022. Henry Hub prices, the benchmark price for North American natural gas, have been negatively affected by a warmer winter, reduced Liquefied Natural Gas (“LNG”) exports following the unexpected Freeport LNG terminal shutdown, and a growing supply of associated gas coming from oil-driven production, particularly in the Permian. Offsetting this concern is the continued resiliency in the price of natural gas liquids (“NGLs”), which have been more stable than natural gas due to their correlation to oil prices. Canadian gas production is heavily affected by NGLs, with strong demand for condensate to support growing oil sands production. Encouragingly, the lower natural gas prices have driven demand higher on STEP's dual fuel fleets. These fleets can achieve substitution rates of up to 70%, using STEP's proprietary operational procedures. Management is of the view that natural gas prices are unlikely to return to the elevated levels seen in 2022, but a resumption in LNG exports through the Freeport LNG facility and the oncoming summer season are expected to bring support to prices as 2023 unfolds.

The long-term outlook for oilfield services is very constructive. The structural under-investment in hydrocarbon production capacity through the last seven years has been exacerbated by geopolitical tensions, forcing governments and policy makers to confront the reality that oil and gas will be a key part of the energy mix for many years. STEP is proud to work in Canada and

the U.S., countries that have the natural resources, the regulatory frameworks, and the technical expertise to deliver safe and affordable energy to the world.

Canada

Canadian activity levels have been strong for Q1 2023, directionally in line with the sharp increase in the drilling rig count from Q4 2022. Fracturing utilization levels have been high through the quarter to date. Four of STEP's fracturing crews are focused on large multi-well pads in the gas-focused Montney and Duvernay plays, with the smaller fifth crew optimized for coiled tubing fracturing across different plays. This crew operates with a fully electrified combination unit that replaces individual blender, data van and chemical additive units, reducing the wellsite footprint and emissions. Demand for STEP's coiled tubing services has been strong, following a slow start in January. Demand for the Company's nine coiled tubing units has been robust following a slow start. Coiled tubing depends heavily on fracturing activity, so the lower level of fracturing activity in Canada during Q4 2022 resulted in low utilization at the start of the year. Both service lines are largely booked for the balance of the quarter, although timing of spring break-up may affect utilization levels in March. If break-up conditions come early, the remaining Q1 work scope will be pushed into Q2 2023.

Q2 2023 activity levels are expected to be solid for fracturing and coiled tubing, although current market conditions are unlikely to result in the record levels of performance reached in Q2 2022. The Company has been delivering the Tier 4 DGB fracturing pumpers into the field, supplementing STEP's existing Tier 2 dual fuel equipment until the completion of the full Tier 4 DGB fleet, which is anticipated in the second quarter.

The Company has early indications of solid work scope for the second half of the year and expects to finalize agreements with clients in the near term. STEP believes that the re-opening of Blueberry River First Nation lands to industrial development and early LNG-related activity are positive catalysts that are likely to increase demand for oilfield services.

United States

Following a robust year in 2022 where drilling rig counts recovered to pre-COVID levels, rig activity has trickled modestly lower from the start of 2023. The idled rigs are mostly older, legacy, mechanical rigs that have lower efficiency but were pressed into service due to the shortage of the latest generation high-spec rigs. The high-spec rig market remains strong, with activity levels in the Permian basin, home of STEP's three large fracturing crews, holding steady.

Fracturing utilization at the start of the quarter was negatively impacted by drilling delays on two client locations and winter storm conditions in early February. The Company took advantage of this downtime to accelerate some of its optimization capital spending on pump upgrades that will improve efficiency and reliability. Utilization recovered midway through the quarter and is expected to stay steady into the second quarter. Coiled tubing utilization has been strong to date, buoyed by high fracturing activity in Q4 2022, and the Company has activated its twelfth coiled tubing unit in the first quarter. Spring break-up conditions may impact activity at STEP's northern coiled tubing bases in Colorado and North Dakota in late Q1 and early Q2, but utilization is expected to stay steady outside of these periods.

Visibility into the second half of the year is improving, with discussions ongoing with clients for fracturing services into the third and fourth quarters. The drop in natural gas prices will likely result in some fracturing capacity repositioning from the gas-focused regions into the more oil-focused regions, but demand has stayed steady to date. The U.S. fracturing market was in an undersupplied position for much of 2022, which may move closer to a balanced position in 2023 if commodity prices stay lower. STEP is well positioned in oil-focused regions across the U.S. and has the ability to shift fleets to areas where demand is strongest. Demand for STEP's coiled tubing services has steadily grown through 2022 and has shown little sign of slowing in 2023.

CAPITAL EXPENDITURES

(\$000's)	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Capital program additions				
Sustaining capital	\$ 23,527	\$ 11,505	\$ 54,058	\$ 33,566
Optimization capital	9,107	199	25,624	3,676
Growth capital ⁽¹²⁾	-	-	20,150	-
Total capital program additions	32,634	11,704	99,832	37,242
Right-of-use asset additions	4,051	5,586	22,450	10,387
Total capital expenditures	\$ 36,685	\$ 17,290	\$ 122,282	\$ 47,629
Capital was incurred for:				
Canada	\$ 23,059	\$ 6,886	\$ 59,735	\$ 22,462
United States	\$ 13,626	\$ 10,404	\$ 62,547	\$ 25,167

⁽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 December 2022 were \$36.7 million, an increase from \$17.3 million for the three months ended December 31, 2021. The increase in capital expenditures was the result of higher activity compared to the same period in 2021 and an increased optimization budget in 2022, including the Tier 4 DGB fleet upgrade. Total capital expenditures for the year ended December 2022 were \$122.3 million, an increase from \$47.6 million in 2021. This includes the \$20.5 million acquisition of coiled tubing assets in the U.S. This 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.

CAPITAL EXPENDITURE OUTLOOK

STEP's Board of Directors approved a \$103 million capital expenditure budget for 2023, split into \$55 million for sustaining capital and \$48 million for optimization capital. The sustaining capital is heavily influenced by activity levels and is oriented towards replacement of major components such as engines, transmissions or power ends required for daily operations, whereas the optimization capital is directed to projects that can generate additional return through improved reliability and/or efficiency to STEP's operations.

Supply chain constraints remain a factor that are impacting new-build and refurbishment timelines. Long lead times on major components and limited third-party shop space can result in cost escalation and project delays. The Company has strong relationships with key vendors which ensures supply, although lead times remain a concern. In certain circumstances, the Company may require approval of capital earlier than otherwise would be typical.

STEP continually monitors its capital budget against industry conditions, striking the balance between continued deleveraging of the balance sheet and investing opportunistically where adequate returns can be generated.

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 and 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		Years ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue:				
Fracturing	\$ 83,093	\$ 68,590	\$ 453,611	\$ 277,076
Coiled tubing	31,733	22,868	114,227	80,455
	114,826	91,458	567,838	357,531
Expenses	102,673	87,211	477,209	328,791
Results from operating activities	\$ 12,153	\$ 4,247	\$ 90,629	\$ 28,740
Adjusted EBITDA ⁽¹⁾	\$ 23,561	\$ 13,591	\$ 136,034	\$ 68,060
Adjusted EBITDA % ⁽¹⁾	21%	15%	24%	19%
Sales mix (% of segment revenue)				
Fracturing	72%	75%	80%	77%
Coiled tubing	28%	25%	20%	23%
Fracturing services				
Number of fracturing operating days ⁽²⁾	249	279	1,194	977
Proppant pumped (tonnes)	145,000	193,000	1,059,000	1,012,000
Stages completed	3,449	3,593	15,330	12,222
Horsepower ("HP")				
Active pumping HP, end of period	215,000	200,000	215,000	200,000
Total pumping HP, end of period ⁽³⁾	282,500	282,500	282,500	282,500
Coiled tubing services				
Number of coiled tubing operating days ⁽²⁾	496	448	1,964	1,569
Active coiled tubing units, end of period	8	7	8	7
Total coiled tubing units, end of period	16	16	16	16

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % 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.

FOURTH QUARTER 2022 COMPARED TO FOURTH QUARTER 2021

Revenue for the three months ended December 31, 2022 was \$114.8 million compared to \$91.5 million for the three months ended December 31, 2021. Revenue improved in Q4 2022 over Q4 2021 primarily due to a rise in pricing for both service lines as a result of an industry-wide increase in activity resulting from a significant improvement in oil and gas prices.

Fracturing operating days decreased to 249 for Q4 of 2022 from 279 during the same period of 2021. E&P companies did not have the same commodity price signal in Q4 2022 to bring capital forward to continue completions activity through December that they had in Q4 2021, when completions activity held steady from Q3 2021 to Q4 2021. Data from Rystad Energy showed basin wide fracturing activity holding flat in 2021 from Q3 to Q4, whereas in 2022 fracturing activity declined by 17% from Q3 to Q4. The slowdown in Q4 2022 activity was exacerbated by the addition of fracturing capacity by a competitor, which resulted in some pressure on pricing as margins were bid lower to gain utilization. Notwithstanding this late quarter pricing pressure, the Company's rates for fracturing services increased period over period as a result of a more constructive pricing environment and inflationary pressures. Coiled tubing revenue benefitted from higher year over year fracturing activity and saw operating days increase to 496 for Q4 2022 from 448 during the comparable period of 2021.

Adjusted EBITDA for the fourth quarter of 2022 was \$23.6 million (21% of revenue) versus \$13.6 million (15% of revenue) in the fourth quarter of 2021. Operating expenses increased in line with the surge in activity experienced through the year, with inflation further increasing costs. STEP has strong client relationships and negotiated pricing increases to cover the cost inflation as well as provide the needed margin expansion that is critical for the Company to reinvest into the business.

FULL YEAR 2022 COMPARED TO FULL YEAR 2021

For the year ended December 31, 2022, Canadian operations had revenue of \$567.8 million, which was a record year for the Company. The 59% increase over the \$357.5 million generated in 2021 was largely the result of increased pricing and operating days for both fracturing and coiled tubing services as a result of the substantially improved macro-economic environment and oilfield activity levels, relative to the difficult conditions that existed throughout much of 2021.

STEP operated five fracturing crews in Canada in 2022, having introduced the fifth crew in early Q1 2022. This smaller crew typically consisted of four fracturing pumps plus ancillary equipment and targeted the oil focused Cardium and Viking plays, which were seeing higher activity levels as the price of oil increased. The additional fracturing crew resulted in a 22% increase in fracturing days, although the smaller size of the fifth crew was a factor in the proppant pumped only increasing approximately 5% during that period. STEP also operated eight coiled tubing units in 2022 with utilization increasing to 67% from 62% one year ago.

Inflation on operating inputs was a major concern in 2022. Lingering and ongoing effects of the COVID-19 pandemic, combined with sanctions imposed on Russia for its invasion of Ukraine, disrupted supply chains. Cost of products, parts and services escalated rapidly and delivery timelines were stretched as the oil and gas sector roared back to life after a multi-year down-cycle. STEP increased its Canadian workforce by 15% in 2022, providing good, high-paying jobs to more than 800 Canadians, drawn from across the country. Compensation costs rose as wages increased and benefits were reinstated. The year-over-year variance in personnel costs was also impacted by the \$6.8 million (\$nil – 2022) that STEP received in 2021 from the Canadian Emergency Wage Subsidy (“CEWS”), which was recorded as a reduction to wage expenses. STEP worked with clients to pass on this inflation, moving in near real time to adjust programs as costs shifted.

Canadian operations generated Adjusted EBITDA of \$136.0 million (24% of revenue) for fiscal 2022 compared to \$68.1 million (19% of revenue) in 2021. The most significant factors in the \$67.9 million increase were the improvement in pricing earned for our services, followed by higher utilization. The margin improvement provides the critical cash flow needed to reinvest into the business to ensure that clients receive the best equipment on their wellsites.

UNITED STATES FINANCIAL AND OPERATIONS REVIEW

STEP's U.S. business commenced operations in 2015 with coiled tubing services. STEP has a fleet of 19 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. The U.S. fracturing business primarily operates in the Permian and Eagle Ford basins in Texas. The Company deploys or idles coiled tubing units and 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		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue:				
Fracturing	\$ 97,697	\$ 44,773	\$ 296,732	\$ 109,735
Coiled tubing	38,871	22,485	124,448	69,043
	136,568	67,258	421,180	178,778
Expenses	121,970	69,016	387,758	203,501
Results from operating activities	\$ 14,598	\$ (1,758)	\$ 33,422	\$ (24,723)
Adjusted EBITDA ⁽¹⁾	\$ 28,627	\$ 8,012	\$ 79,585	\$ 10,236
Adjusted EBITDA % ⁽¹⁾	21%	12%	19%	6%
Sales mix (% of segment revenue)				
Fracturing	72%	67%	70%	61%
Coiled tubing	28%	33%	30%	39%
Fracturing services				
Number of fracturing operating days ⁽²⁾	227	229	848	704
Proppant pumped (tonnes)	309,000	302,000	1,170,000	960,000
Stages completed	1,302	1,515	4,980	4,636
Horsepower ("HP")				
Active pumping HP, end of period	165,000	165,000	165,000	165,000
Total pumping HP, end of period ⁽³⁾	207,500	207,500	207,500	207,500
Coiled tubing services				
Number of coiled tubing operating days ⁽²⁾	655	507	2,374	1,738
Active coiled tubing units, end of period	11	8	11	8
Total coiled tubing units, end of period	19	13	19	13

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA % is 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.

FOURTH QUARTER 2022 COMPARED TO FOURTH QUARTER 2021

Revenue for the three months ended December 31, 2022 was \$136.6 million, a record result for the U.S. geographic region. The U.S. is a key market for STEP, particularly in Texas. STEP has operating bases in the prolific oil-focused Permian and Eagleford plays and the gas-focused Haynesville play is within the Company's operating range. The Permian play had 45% of the rigs operating in the U.S. in Q4 2022, and the highest proportion of the high-spec drilling rigs, followed by the Eagleford and Haynesville which had just over 9% each. Rig counts in these plays increased by 124, or 34%, from Q4 2021 to Q4 2022. The 103% increase over the \$67.3 million of revenue generated for the same period in 2021 was largely the result of increased pricing and higher operating days for coiled tubing services as a result of the substantially improved macro-economic environment and oilfield activity levels, relative to the difficult conditions that existed throughout much of 2021.

Fracturing operating days for the fourth quarter of 2022 were flat on a year-over-year basis, with only a marginal increase in proppant pumped. The \$52.9 million increase in revenue was primarily due to the improvement in pricing for STEP's services. Further impacting the increase in prices was due to the increase in STEP-sourced proppant, which increased from 36% in 2021 to 49% in 2022. Coiled tubing operations were able to add three units primarily as a result of the acquisition of Pro-Petro's coiled tubing division in September 2023. The service line had 655 operating days in Q4 2022 compared to 507 in Q4 2021.

U.S. operations generated Adjusted EBITDA of \$28.6 million (21% of revenue) for fourth quarter 2022. The earnings potential that exists within a pressure pumping business was clearly demonstrated when comparing the Q4 results of 2022 versus 2021. Adjusted EBITDA was 3.5x higher on nearly the same number of operating days, increasing by \$20.6 million over the \$8.0 million of Adjusted EBITDA generated for the same period a year prior.

FULL YEAR 2022 COMPARED TO FULL YEAR 2021

Revenue for the year ended December 31, 2022 was \$421.2 million, a record result for the U.S. geographic region. The significant increase in commodity prices, particularly in the second and third quarters, propelled the U.S. rig count from an average of 477 in 2021 to 723 in 2022. STEP operated three fracturing crews for the entirety of 2022, increasing its operating days by 20% over 2021, when it added the third crew in mid-Q3. The acquisition of Pro-Petro's coiled tubing division in late Q3 2022 enabled STEP to add three coiled tubing units to its active fleet, contributing to the 636 year-over-year increase in operating days, which increased to 2,374 in 2022. The increase in operating days was a key factor in the increase in revenue, as was the pricing improvement made possible by the discipline shown by much of the industry to keep available capacity in check. These factors drove the 136% increase in revenue from 2021 revenue of \$178.8 million.

Inflation was a significant headwind for the industry, creating volatility in input costs as supply chains struggled to keep up with the sharp increase in activity while overcoming the lingering effects of the COVID-19 pandemic and the geopolitical challenges associated with the war in Ukraine. Inflation hit every major cost category in the value chain, raising costs, but also stretching lead times for major components and parts, requiring the Company to increase the number of active units required to support ongoing operations. STEP's North American buying power blunted some of the extreme effects of inflation, but the remainder was passed on to clients.

U.S. operations produced an Adjusted EBITDA of \$79.6 million (19% of revenue) in 2022, almost eight times higher compared to the \$10.2 million (6% of revenue) generated in 2021. Increased activity and improved pricing led to higher leverage on the fixed cost structure, returning the geographic region to more sustainable profitability.

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		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Expenses:				
Operating expenses	506	360	2,375	1,161
Selling, general and administrative	6,841	4,108	31,418	19,532
Results from operating activities	\$ (7,347)	\$ (4,468)	\$ (33,793)	\$ (20,693)
Add:				
Depreciation	198	137	635	610
Share-based compensation	3,577	68	16,445	4,750
Adjusted EBITDA ⁽¹⁾	\$ (3,572)	\$ (4,263)	\$ (16,713)	\$ (15,333)
Adjusted EBITDA % ⁽¹⁾	(1%)	(3%)	(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.

FOURTH QUARTER 2022 COMPARED TO FOURTH QUARTER 2021

For the three months ended December 31, 2022 expenses from corporate activities were \$7.3 million compared to \$4.5 million for the same period in 2021. Cash settled share-based compensation expense was \$3.5 million higher in Q4 2022 relative to Q4 2021, as the Company's share price increased by \$3.72 from December 31, 2021 to December 31, 2022 compared to a share price increase of \$0.87 during the same period of the prior year. This resulted in higher expenses from the mark to market adjustment in the current period.

FULL YEAR 2022 COMPARED TO FULL YEAR 2021

Expenses from corporate activities were \$33.8 million for the year ended December 31, 2022, an increase of 63% from \$20.7 million for the year ended December 31, 2021. Share-based compensation increased as STEP's improved results and overall economic recovery resulted in a higher share price throughout the year which impacted the value of both the cash settled awards as well as the fair value assigned to new equity settled grants in fiscal 2022.

CONSOLIDATED FINANCIAL REVIEW

(\$000's except per share amounts)	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue	\$ 251,394	\$ 158,716	\$ 989,018	\$ 536,309
Operating expenses	217,811	152,271	841,433	518,552
Gross profit	33,583	6,445	147,585	17,757
Selling, general and administrative	14,179	8,424	57,327	34,433
Results from operating activities	19,404	(1,979)	90,258	(16,676)
Finance costs	3,026	4,196	10,577	14,624
Foreign exchange (gain) loss	(7,646)	245	(1,020)	(165)
Unrealized loss on derivatives	8,361	-	1,511	-
Gain on disposal of property and equipment	(638)	(638)	(3,209)	(969)
Amortization of intangible assets	10	116	145	459
Impairment reversal	(5,680)	-	(38,388)	-
Income (loss) before income tax	21,971	(5,898)	120,642	(30,625)
Income tax expense (recovery)	5,279	314	25,861	(2,498)
Net income (loss)	16,692	(6,212)	94,781	(28,127)
Other comprehensive income (loss)	(3,239)	(215)	13,853	(1,429)
Total comprehensive income (loss)	\$ 13,453	\$ (6,427)	\$ 108,634	\$ (29,556)
Income (loss) per share – basic	\$ 0.24	\$ (0.08)	\$ 1.37	\$ (0.41)
Income (loss) per share – diluted	\$ 0.23	\$ (0.08)	\$ 1.31	\$ (0.41)
Adjusted EBITDA ⁽¹⁾	\$ 48,616	\$ 17,340	\$ 198,906	\$ 62,963
Adjusted EBITDA % ⁽¹⁾	19%	11%	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 months ended December 31, 2022, depreciation and amortization expense increased to \$24.8 million from \$19.4 million in the same period of 2021. For the year ended December 31, 2022, depreciation and amortization expense increased to \$88.0 million from \$73.4 million in the same period of 2021. The Company has increased its asset base over the year through additions, impairment reversal and organic growth, 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 during the year ended December 31, 2022.

Finance costs

Finance costs were \$3.0 million and \$10.6 million for the three and twelve months ended December 31, 2022 compared to \$4.2 million and \$14.6 million for the three and twelve months ended December 31, 2021, respectively. The effective borrowing rate for loans and borrowings were 5.27% and 6.10% for the three and twelve months ended December 31, 2022, respectively, compared to 5.15% and 4.94% for the same periods in 2021. Finance costs decreased in comparison to the same period in 2021 due to comparatively lower levels of outstanding debt in fiscal 2022 as compared to fiscal 2021.

Foreign exchange gains and losses

STEP recorded a foreign exchange gain of \$7.6 million and \$1.0 million for the three and twelve months ended December 31, 2022, respectively, compared to a loss of \$0.2 million and a gain of \$0.2 million in the corresponding periods of 2021. Foreign exchange gains and losses arise from the translation of assets or liabilities that are held in U.S. dollars by Canadian operations, including the revolving secured overnight financing rate ("SOFR") loan denominated in USD. The gain year to date over prior year to date was due to the strengthening Canadian dollar relative to the U.S. dollar and the net liability position of the U.S. dollar transactions in Canada.

Unrealized gains and losses on derivatives

STEP recorded an unrealized loss on derivatives of \$8.4 million and \$1.5 million for the three and twelve months ended December 31, 2022, respectively, compared to a nil amount in the corresponding periods of 2021. Unrealized gains and losses on derivatives arise from the revaluation of the fair value of any outstanding derivative contracts as at period end. The unrealized loss recorded during the period ended December 31, 2022 relates to the fair value of the cross-currency swap (“CCS”) derivatives. The unrealized loss on derivatives will reverse against the SOFR unrealized foreign exchange gain in January 2023 upon settlement and the cash impact from these two transactions, collectively, will be immaterial.

Gains or losses on disposal of property and equipment

The Company recorded gains on disposal of property and equipment of \$0.6 million and \$3.2 million for the three months and year ended December 31, 2022, respectively, compared to gains of \$0.6 million and \$1.0 million in the same periods of 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 \$5.7 million and \$38.4 million for the three and twelve months ended December 31, 2022 (2021 - \$nil). As required by IAS 36, the Company is required to assess whether there are any external or internal indicators of impairment or reversal of previous impairments that exist at the end of each reporting period. Through this assessment, the Company determined that due to the favourable results and outlook for the industry the impairments taken on the Canadian Fracturing cash generating unit (“CGU”) and U.S. Fracturing CGU should be reversed during the year ended December 31, 2022. The \$32.7 million impairment on the Canadian Fracturing CGU was reversed in Q2 2022 and the \$5.7 million impairment on the U.S. CGU was reversed in Q4 2022. This was the maximum amount of the 2020 impairment, net of depreciation that otherwise would have been expensed.

Share-based compensation

For the three and twelve months ended December 31, 2022, STEP recorded share-based compensation expense of \$4.4 million and \$20.8 million, respectively, compared to \$0.1 million and \$6.7 million in the same periods of 2021. The year over year increase is primarily due to the increase in fair value of cash settled instruments due to the 231% improvement in share price through the current year.

Income taxes

STEP recorded a total income tax expense of \$5.3 million and \$25.9 million for the three and twelve months ended December 31, 2022, respectively. This compares to a total income tax expense of \$0.3 million and a recovery of \$2.5 million for the comparable periods of 2021. The transition from a loss to income resulted in deferred income tax expense during the current period compared to deferred income tax recovery in the comparable period of 2021.

LIQUIDITY AND CAPITAL RESOURCES

(\$000's)	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Net cash provided by (used in)				
Operating activities	\$ 32,336	\$ 36,366	\$ 122,601	\$ 58,846
Investing activities	(21,877)	(9,766)	(66,438)	(30,708)
Financing activities	(9,178)	(25,232)	(57,775)	(25,671)
Impact of foreign exchange on cash	(252)	(7)	699	(35)
Increase (decrease) in cash and cash equivalents	\$ 1,029	\$ 1,361	\$ (913)	\$ 2,432
Opening cash balance	1,756	2,337	3,698	1,266
Ending cash balance	\$ 2,785	\$ 3,698	\$ 2,785	\$ 3,698

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Net cash provided by operating activities totaled \$32.3 million and \$122.6 million for the three months and year ended December 31, 2022, respectively, compared to \$36.4 million and \$58.8 million in the comparable periods of 2021. Net cash provided by operating activities slightly decreased for the three months ended December 31, 2022 compared to the same

period in 2021, primarily due to changes in non-cash working capital. Net cash provided by operating activities significantly increased for the twelve months ended December 31, 2022 compared to the same period in 2021, primarily due to increased activity and improved operating results in 2022 offset by changes in non-cash working capital.

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash used in investing activities totaled \$21.9 million for the three months ended December 31, 2022 compared to \$9.8 million used for the three months ended December 31, 2021. Net cash used in investing activities totaled \$66.4 million for the twelve months ended December 31, 2022 compared to \$30.7 million for the same period in 2021. The increase was due to increased capital spending as improvements in activity drove higher sustaining capital spending and an improved outlook allowed for capital investment in optimization projects.

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

Net cash used in financing activities totaled \$9.2 million and \$57.8 million for the three and twelve months ended December 31, 2022, respectively. Net cash used in financing activities totalled \$25.2 million and \$25.7 million for three and twelve months ended December 31, 2021. Financing activities primarily relate to the repayment of loans and borrowings and the repayment of obligations under finance leases. For the three months ended December 31, 2022 there were repayments of loans and borrowings of \$5.5 million and repayments of obligations under finance leases of \$3.7 million. For the twelve months ended December 31, 2022 there were repayments of loans and borrowings of \$46.5 million and repayments of obligations under finance leases of \$11.2 million. This decrease in cash was due to an increase in debt repayments in Q4 2022 as a result of stronger financial results in the quarter.

WORKING CAPITAL AND CASH REQUIREMENTS

As at December 31, 2022, STEP had positive working capital of \$66.6 million, compared to \$3.9 million as at December 31, 2021. Trade and other receivables increased from \$86.6 million at December 31, 2021 to \$199.0 million at December 31, 2022, primarily due to increased activity and resulting higher revenue in the fourth quarter of 2022 when compared to 2021. Trade and other payables increased to \$165.9 million at year end 2022 from \$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. At December 31, 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 December 31, 2022, the Company was in compliance with all terms of its Credit Facilities. Based on currently available information, the Company anticipates maintaining compliance with the covenants during the next twelve months and the Company will have sufficient liquidity during the next year and beyond, to support its ongoing operations.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND PROVISIONS

(\$000s)	2023	2024	2025	2026	2027	Thereafter	Total
Trade and other payables	\$ 165,869	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,869
Operating commitments ^(5,6)	1,215	1,115	1,048	893	845	-	5,116
Short-term and low value lease obligations ⁽⁶⁾	112	-	-	-	-	-	112
Lease obligations ^(6,7)	9,426	8,075	3,551	2,205	1,057	30	24,344
Loans and borrowings ⁽⁸⁾	7,562	7,583	147,890	-	-	-	163,035
Capital expenditure commitments ⁽⁹⁾	25,189	-	-	-	-	-	25,189
Total commitments	\$ 209,373	\$ 16,773	\$ 152,489	\$ 3,098	\$ 1,902	\$ 30	\$ 383,665

⁽⁵⁾ The Company leases certain office and operating facilities that contain an operating expense commitment. The lease terms range from one to five years with an option to renew upon expiry.

⁽⁶⁾ Balance includes U.S. obligations at a forecast exchange rate of 1 USD = 1.360 CAD.

⁽⁷⁾ Balance includes interest portion of lease obligations.

⁽⁸⁾ Loans and borrowing balances are based on the credit facility in place at December 31, 2022. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at December 31, 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

As at December 31, (\$000s)	2022	2021	2020
Shareholders' equity	\$ 306,033	\$ 177,442	\$ 204,579
Lease obligations	22,186	15,373	12,717
Loans and borrowings	140,794	189,957	207,630
Total capital	\$ 469,013	\$ 382,772	\$ 424,926

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 March 1, 2023 there were 71,617,464 common shares in the capital of STEP ("Common Shares") issued and outstanding.

Debt

As at December 31, 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 July 12, 2025. 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 December 31, 2022 the Company had an interest coverage ratio of 21.85:1.00.
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 December 31, 2022, the Company had a Funded Debt to Adjusted Bank EBITDA ratio of 0.75:1.00.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at December 31, 2022.

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 75 basis points to 200 basis points depending on certain financial ratios of the Company. The effective borrowing rate for loans and borrowings for the year ended December 31, 2022 was 6.10% (December 31, 2021 – 4.94%). The total amount of Credit Facilities outstanding on December 31, 2022 was as follows:

As at	December 31,		December 31,	
	2022		2021	
Revolving loan facility	\$	123,896	\$	189,300
Canadian and U.S. operating lines		19,602		1,283
Deferred financing costs		(2,704)		(626)
Total loans and borrowings	\$	140,794	\$	189,957
Less: current portion of term loan facility		-		(27,950)
Long term portion of loans and borrowings	\$	140,794	\$	162,007

The following table displays the movements in loans and borrowings during the year ended December 31, 2022:

	(000's)	
Balance at January 1, 2022	\$	189,957
Repayment of loans and borrowings		(46,537)
Accretion of deferred financing costs		969
Deferred financing costs paid		(806)
Gain on modification of credit facilities		(2,239)
Effect of exchange rate changes		(550)
Balance at December 31, 2022	\$	140,794

The Company has entered into CCS derivatives to manage the foreign exchange exposure on U.S. denominated debt, fixing the exchange rate on the principal repayments and interest payments. On October 17, 2022, the Company entered into a 90-day CCS of (CAD)\$90 million for (USD)\$65.4 million. On December 15, 2022, the Company entered into a 30-day CCS of (CAD)\$35 million for (USD)\$25.7 million. The derivative contracts were revalued to a fair value of a \$1.5 million liability on December 31, 2022. The CCS liability is recorded at fair value in the current portion of other liabilities 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 have impacted the amount of impairment reversed at June 30, 2022.

On December 31, 2022, as a result of improved results and due to an improved future outlook for the U.S. 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 \$5.7 million in the U.S. Fracturing CGU at December 31, 2022. A change in the pre and post discount rate of 1% would not have impacted the amount of impairment reversed at December 31, 2022.

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								
(\$000's, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2022	2022	2022	2022	2021	2021	2021	2021
Revenue								
Canadian Operations	114,826	141,091	165,109	146,812	91,458	83,546	73,165	109,362
United States Operations	136,568	103,994	107,892	72,727	67,258	49,689	34,381	27,450
	251,394	245,085	273,000	219,539	158,716	133,235	107,546	136,812
Net income (loss) attributable to shareholders								
	16,692	30,852	38,064	9,173	(6,212)	(3,388)	(10,582)	(7,944)
Adjusted EBITDA ⁽¹⁾								
Canadian Operations	23,561	40,895	39,710	31,868	13,591	17,307	15,633	21,531
United States Operations	28,627	20,814	20,324	9,820	8,012	4,220	1,022	(3,017)
Corporate	(3,572)	(3,659)	(4,783)	(4,698)	(4,263)	(3,539)	(4,979)	(2,554)
	48,616	58,050	55,251	36,990	17,340	17,988	11,676	15,960
Capital expenditures ⁽¹¹⁾								
Canadian Operations	23,059	11,113	14,820	10,743	6,886	4,216	5,253	6,107
United States Operations ⁽¹²⁾	13,626	33,490	9,173	6,258	10,404	5,293	5,469	4,001
	36,685	44,603	23,993	17,001	17,290	9,509	10,722	10,108
Per Common Share								
Net income (loss) – basic	0.24	0.45	0.56	0.14	(0.08)	(0.05)	(0.16)	(0.12)
Net income (loss) – diluted	0.23	0.43	0.54	0.13	(0.08)	(0.05)	(0.16)	(0.12)
Adjusted EBITDA ⁽¹⁾ – basic	0.70	0.84	0.81	0.54	0.25	0.26	0.17	0.24
Adjusted EBITDA ⁽¹⁾ – diluted	0.67	0.80	0.78	0.53	0.25	0.26	0.17	0.24
Canada								
Exit active fracturing spreads	5	5	5	5	4	4	4	4
Exit active HP (000's)	215	215	215	215	200	200	200	200
Total HP (000's)	283	283	283	283	283	283	283	283
Exit active coiled tubing units	8	8	8	8	7	7	7	7
Total coiled tubing units	16	16	16	16	16	16	16	16
United States								
Exit active fracturing spreads	3	3	3	3	3	3	2	2
Exit active HP (000's)	165	165	165	165	165	165	110	110
Total HP (000's)	208	208	208	208	208	208	208	208
Exit active coiled tubing units	11	11	8	8	8	8	8	7
Total coiled tubing units	19	17	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.

⁽²⁾ Active horsepower denotes units active on client work sites. An additional 20-25% 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.

⁽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.

FOURTH QUARTER – 2022

Q4 2022 showed the benefit of geographic diversity as activity slowed down in Canada but remained strong in the U.S. Activity decreased in Canada for both service lines as many E&P companies completed their capital programs in mid to late Q4 while activity remained strong in the U.S. for both service lines as market fundamentals supported nearly full deployment of staffed units. Profitability increased in the U.S. as a result of the strong pricing environment and additional STEP supplied product but decreased in Canada due to margin pressures in response to the decrease in work scope.

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.

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

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.

The following is a summary of the Company's derivative contracts outstanding:

	December 31, 2022		December 31, 2021	
	Asset	Liabilities	Asset	Liabilities
Foreign cross currency swaps	\$ -	\$ 1,511	\$ -	\$ -

These CCS derivatives are measured at fair value using the Level 2 input of foreign exchange forward pricing. There were no transfers between levels in the fair value hierarchy in either 2022 or 2021.

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 measures potential loss exposures on trade and other receivables at an amount equal to lifetime expected credit losses ("ECL"s). 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. During the year ended December 31, 2022, the Company recorded \$0.4 million in the allowance for doubtful accounts and recorded no write-offs of trade accounts receivable against the allowance for doubtful accounts.

During the year ended December 31, 2022, there was no one client representing 10% or more of consolidated revenue. During the year ended December 31, 2021, one Canadian segment client represented 12% of consolidated revenue. As at December 31, 2022, one US segment client accounted for 16% of trade accounts receivable. As at December 31, 2021, one Canadian segment client accounted for 13% of trade accounts receivable.

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

As at December 31,	2022		2021	
Current (0 to 30 days from invoice date)	\$	105,534	\$	66,523
31 - 60 days		82,447		17,966
61 - 90 days		6,128		504
91+ days		1,634		194
Receivables from trade clients		195,743		85,187
Allowance for doubtful accounts		(730)		(312)
Other amounts		3,991		1,769
Total trade and other receivables	\$	199,004	\$	86,644

The Company held cash and cash equivalents of \$2.8 million as at December 31, 2022 (December 31, 2021 - \$3.7 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major banks and financial institution counterparties (Level 1).

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 \$1.4 increase or decrease in interest expense for the year ended December 31, 2022 (December, 2021 - \$1.8 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 derivatives.

Fluctuations in the value of foreign currencies on financial instruments denominated in U.S. dollars as at December 31, 2022 would have had the following impact on net loss and other comprehensive loss:

For the year ended December 31,	Impact on Net Loss		Impact on Other Comprehensive Loss	
	2022	2021	2022	2021
1% change in the value of the U.S. dollar	\$ 240	\$ 220	\$ 1,647	\$ 1,518

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at December 31, 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		Year ended		
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2020
Net income (loss)	\$ 16,692	\$ (6,212)	\$ 94,781	\$ (28,127)	\$ (119,358)
Add (deduct):					
Depreciation and amortization	24,829	19,376	87,969	73,381	88,940
Gain on disposal of equipment	(638)	(638)	(3,209)	(969)	(3,777)
Finance costs	3,026	4,196	10,577	14,624	14,663
Income tax expense (recovery)	5,279	314	25,861	(2,498)	(25,985)
Share-based compensation – Cash settled	3,302	-	17,743	4,298	688
Share-based compensation – Equity settled	1,091	59	3,081	2,419	2,922
Foreign exchange (gain) loss	(7,646)	245	(1,020)	(165)	443
Unrealized loss on derivatives	8,361	-	1,511	-	-
Impairment reversal	(5,680)	-	(38,388)	-	72,345
Adjusted EBITDA	\$ 48,616	\$ 17,340	\$ 198,906	\$ 62,963	\$ 30,881
Adjusted EBITDA %	19%	11%	20%	12%	8%

“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		Year ended		
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2020
Net cash provided by (used in) operating activities	\$ 32,336	\$ 36,366	\$ 122,601	\$ 58,846	\$ 46,803
Add (deduct):					
Changes in non-cash Working Capital from (used in) operating activities	15,251	(7,334)	65,497	6,935	22,440
Sustaining capital	(23,526)	(11,505)	(54,058)	(30,131)	(15,933)
Term loan principal repayments	-	-	(13,975)	-	-
Lease payments (net of sublease receipts)	(1,688)	(3,315)	(8,277)	(7,875)	(6,019)
Free Cash Flow	\$ 22,373	\$ 14,212	\$ 111,788	\$ 27,775	\$ 47,291

“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)	December 31, 2022	December 31, 2021
Current assets	\$ 256,361	\$ 133,255
Current liabilities	(189,781)	(129,343)
Working Capital (including cash and cash equivalents)	\$ 66,580	\$ 3,912

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

(\$000s)	December 31, 2022	December 31, 2021
Long-term loans	\$ 140,794	\$ 162,007
Long-term leases	13,860	9,163
Other long-term liabilities	14,092	4,519
Total long-term financial liabilities	\$ 168,746	\$ 175,689

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

As at December 31, (\$000s)	2022	2021	2020
Loans and borrowings	\$ 140,794	\$ 189,957	\$ 207,630
Add back: Deferred financing costs	2,704	626	2,371
Less: Cash and cash equivalents	(2,785)	(3,698)	(1,266)
Less: CCS Derivatives Asset	1,511	-	-
Net debt	\$ 142,224	\$ 186,885	\$ 208,735

ACCOUNTING POLICIES AND ESTIMATES

FUTURE ACCOUNTING PRONOUNCEMENTS

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements include:

- 1) Amendments to IAS 1 Presentation of Financial Statements— Classification of liabilities as current or non-current - The amendments are effective from January 1, 2024.
- 2) Amendments to IAS 1 Presentation of Financial Statements— Updating “significant” accounting policy disclosures to “material” accounting policy disclosures. The amendments are effective from January 1, 2023.

The Company is currently evaluating the potential impact of adopting these amendments.

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. In accordance with the requirements of NI 52-109, an evaluation of the effectiveness of the Company's DC&P was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P were effectively designed and operating as at December 31, 2022.

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”).

Based on the COSO Framework, an evaluation of the effectiveness of the Company's ICFR was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR is effectively designed and operating as at December 31, 2022.

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 ended December 31, 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 Annual Financial Statements. The preparation of the Annual 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 Annual Financial Statements may change as events unfold, additional knowledge is acquired or the environment in which the Company operates changes. Refer to 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.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in the financial statements.

Business combination

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 this case, the Company estimates the fair value of assets acquired and liabilities incurred as well as any fair value of intangible assets identified as a result of business combinations. This requires an assessment of estimated cash flows and market conditions in order to determine the fair value of net identifiable assets. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets, goodwill, and deferred taxes in the purchase price equation. Goodwill, if any, is allocated to the Cash Generating Unit ("CGU") which represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

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.

Allowance for doubtful accounts

The Company performs ongoing credit evaluations of its customers and provides credit based on a review of historical collections, current aging status, the customer's financial condition and anticipated market conditions. Customer payments are regularly monitored. A provision of doubtful accounts is established based off the Company's lifetime ECLs for trade receivables and probability weighted collectability of significant accounts.

Impairment and Impairment Reversal

Management judgment is required to assess when impairment or impairment reversal indicators exist and calculation of the recoverable amount is required. The assessment of impairment or impairment reversal indicators is based on management's judgment of whether there are internal and external factors that would indicate that a CGU and specifically the long-lived assets within the CGU are impaired or that a previous impairment may have reversed. The assessment of external indicators considers expected industry activity levels, commodity price environment and market capitalization. The assessment of internal indicators also considers forecasted cash flows of each CGU.

If an indicator of impairment or impairment reversal is identified for a particular asset or CGU, its recoverable amount is estimated. If the carrying value of such asset or CGU exceeds its estimated recoverable amount, an impairment charge is recognized. If the estimated recoverable amount of an asset or CGU that was previously impaired exceeds its carrying value, impairment charges recognized in prior periods are reversed to a maximum of the carrying value that would have been determined, net of depreciation, in the case that no impairment charges were recognized for that CGU in prior periods.

The determination of CGUs is based on management's judgment regarding shared equipment, mobility of equipment, geographical proximity and materiality. The Company's CGUs are defined as: Canadian Coiled Tubing, Canadian Fracturing, U.S.

Coiled Tubing, and U.S. Fracturing. Considerations set out in management's analysis included cash inflows by business line, operational considerations and the nature of asset usage.

The recoverable amount of CGUs is determined as the greater of fair value less costs to sell ("FVLCTS") or value in use ("VIU"). These calculations require the use of estimates applied by management regarding significant assumption including forecasted activity levels, expected future results, and discount rates among others, and are subject to changes as new information becomes available. Changes in assumptions used in determining the recoverable amount could have a material effect on the carrying value of the related assets and CGUs. In determining the estimated recoverable amount for a specific asset that is inactive with no expectation of returning to active cash generating use, the Company uses recent market transactions, if available, or other valuation models.

Net realizable value of inventory

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of items based on historical usage patterns, known changes to equipment or processes, estimated replacement costs and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of expense recognized.

Depreciation and amortization

Depreciation and amortization of the Company's property and equipment, right-of-use assets and intangible assets incorporates estimates of useful lives and residual values. These estimates may change as more knowledge is obtained or as general market conditions change, or technological advancements are made.

Lease liabilities and right-of-use assets

The measurement of lease liabilities and right-of-use assets incorporates an estimate of lease terms. The term of a lease is determined as the non-cancellable period of a lease and includes periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. In considering the option to extend a lease, the Company considers all relevant facts and circumstances that create an economic incentive to exercise or not exercise the option. The lease term is revised if there is a change in circumstances in which the Company does or does not extend the lease extension option previously included in the initial measurement of a lease, or an event occurs that obliges or prohibits the Company from further extending the lease. In the event there is a change in estimate of a lease term, the Company remeasures lease liabilities and right-of-use assets at the date of the change in estimate.

Functional currency

Management applies judgment in determining the functional currency of its foreign subsidiaries. The decision is influenced by the currency that is used for sales prices, labour, materials and other costs as well as financings and receipts from operations.

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax basis. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The calculation of income taxes involves many complex factors including the Company's interpretation of the relevant tax legislation and regulations.

Share-based payments

The fair value of equity settled share-based compensation instruments is estimated at the grant date using the Black-Scholes option pricing model, which includes estimating underlying assumptions related to the risk-free interest rate, average expected life of the instrument, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

Contingencies and provisions

The Company establishes provisions for legal claims when the outcome of such matters is probable. Facts and circumstances surrounding the matter and input from legal and other advisors is considered in establishing the estimate.

Derivative financial instruments

The Company entered into CCS derivatives in order to manage certain exposures to fluctuations in foreign exchange rates. They are initially recognized at fair value at period end 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 unrealized loss on derivatives. The CCS derivatives contracts are recognized in the statement of financial position under other assets when in a foreign exchange gain position and in current portion of other liabilities when in a foreign exchange loss position.

Climate Change and Environmental, Social and Governance ("ESG")

Climate change, environmental, and ESG culture policies are evolving at regional, national and international levels. The International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.

The direct or indirect costs of compliance with climate change regulations and ESG directives may have an adverse effect on the Company's and its customers' business, financial condition, results of operations and prospects; however, at this time these costs have not yet been quantified. Significant estimates and judgment currently made by management which could be significantly impacted by climate and climate-related matters include:

- Recoverability of asset carrying values;
- Useful life of assets; and
- Cash flow projections for purpose of impairment tests.

RISK FACTORS AND RISK MANAGEMENT

The oilfield services industry involves many risks, which may influence the ultimate success of the Company. The risks and uncertainties set out are not the only ones the Company is facing. There are additional risks and uncertainties that the Company does not currently know about or that the Company currently considers immaterial which may also impair the Company's business operations and can cause the price of the Common Shares to decline. If any of the following risks occur, the Company's business may be harmed and the Company's financial condition and results of operations may suffer significantly:

- The Company's business depends on the oil and natural gas industry and particularly on the level of exploration, development and production for North American oil and natural gas, which is volatile;
- Difficulty in retaining, replacing or adding personnel could adversely affect the Company's business;
- If the Company is unable to obtain raw materials, diesel fuel and component parts from its current suppliers or obtain them at competitive prices, it could have a material adverse effect on the Company's business;
- STEP's reliance on equipment suppliers and fabricators exposes it to risks including timing of delivery and quality of equipment;
- Radical activism could harm the Company's business;
- Natural disasters and pandemics (including COVID-19) could adversely affect the Company;
- The Company's industry is affected by excess equipment levels;
- The Company's industry is intensely competitive;
- The Company's current technology may become obsolete or experience a decrease in demand;
- Cyber-attacks and loss of the Company's information and computer systems could adversely affect the Company's business;
- The Company's client base is concentrated and loss of a significant client could cause its revenue to decline substantially.
- Fluctuations in currency exchange rates could adversely affect the Company's business;
- Legislation, regulations, and court rulings could result in increased costs and additional operating restrictions or delays;
- The Company is subject to a number of health, safety and environmental laws and regulations that may require it to make substantial expenditures or cause it to incur substantial liabilities;
- Political and social events and decisions could have an adverse effect on the Company;
- The Company is susceptible to seasonal volatility in its operating and financial results due to adverse weather conditions.
- The Company may be exposed to third-party credit risk;
- The Company's operations are subject to hazards inherent in the oilfield services industry, which risks may not be covered to the full extent by the Company's insurance policies;
- Failure to maintain the Company's safety standards and record could lead to a decline in the demand for services.
- Access to capital may become restricted, more expensive, or repayment could be required;
- Actual results may differ materially from management estimates and assumptions;
- The Company may become subject to legal proceedings which could have a material adverse effect on its business, financial condition and results of operations;
- The direct and indirect costs of various GHG regulations, existing and proposed, may adversely affect the Company's business, operations and financial results;
- The Company's internal controls may not be sufficient to ensure the Company maintains control over its financial processes and reporting;
- Business acquisitions involve numerous risks and the failure to realize anticipated benefits of acquisitions and dispositions could negatively affect the Company's results of operations;
- There can be no assurance that the steps the Company takes to protect its intellectual property rights will prevent misappropriation or infringement;
- Improper access to confidential information could adversely affect the Company's business; and
- Some of the Company's directors and officers have conflicts of interest as a result of their involvement with other oilfield services companies.

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. For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading "Risk Factors" in the AIF which is available on the SEDAR website at www.sedar.com and is incorporated by reference herein.

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: 2023 industry conditions and outlook, including the effect of Russia related sanctions and OPEC+ supply limitations, recovery in demand for oil and gas, a renewed focus global energy security concerns, industry production discipline, and other macroeconomic factors; the effect of return on capital goals vs. production goals; anticipated 2023 results; recession risk, including its effect on oil prices; the effect of the reopening of the Chinese economy on oil prices; the effect of resumed industrial activity on Blueberry River First Nation territorial lands; the potential for fracturing capacity repositioning from gas to oil focused regions; anticipated diesel substitution rates in the Company’s dual fuel fracturing fleets; the effect of new LNG facilities as well as the resumption of U.S. LNG exports; the effect of natural gas liquids and condensate on gas production; the effect of under-investment in hydrocarbon production; supply and demand for the Company’s and its competitors’ services, including the ability for the industry to respond to demand increases; the effect of inflation and 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 commodity price volatility; the effect of competitor consolidation on industry pricing discipline; the effect of changes in work scope on expected margins; the remaining effects of the COVID-19 pandemic; timing of completion of the Company’s Tier 4 DGB fracturing fleet; 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 Bank EBITDA ratios; 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 potential for the fracturing market to shift from an undersupplied state to a more balanced state, resulting in possible pressure to pricing and margins; supply chain constraints impact on new-build and refurbishment timelines; 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.

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.