STEP energy services

TSX STEP

Condensed Consolidated Interim

Financial Statements

As at and for the three and nine months ended September 30, 2023

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of Canadian dollars)	Notes	September 30, 2023	December 31, 2022
ASSETS			
Current Assets			
Cash and cash equivalents		$ 1,486	$ 2,785
Trade and other receivables	9	169,313	199,004
Income tax receivable		-	137
Inventory		51,619	46,410
Prepaid expenses and deposits		11,068	8,025
Risk management contracts	3,9	413	-
		233,899	256,361
Property and equipment		404,819	402,482
Right-of-use assets		27,227	23,528
Intangible assets		132	161
Other assets	11	4,172	-
		$ 670,249	$ 682,532
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	5,9	$ 137,973	$ 165,869
Current portion of lease obligations		8,302	8,326
Current portion of other liabilities	9	2,654	6,526
Income tax payable		12,527	9,060
		161,456	189,781
Deferred tax liabilities		18,348	17,972
Lease obligations		18,461	13,860
Other liabilities	5,9	16,472	14,092
Loans and borrowings	3	89,740	140,794
		304,477	376,499
Shareholders' equity			
Share capital		455,864	453,702
Contributed surplus		34,701	32,843
Accumulated other comprehensive income		16,292	16,236
Deficit		(141,085)	(196,748)
		365,772	306,033
		$ 670,249	$ 682,532

See accompanying notes to the condensed consolidated interim financial statements

See Note 4 – Commitments
See Note 12 – Contingencies and provisions

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME AND OTHER COMPREHENSIVE INCOME

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	For the three months ended September 30, 2023	2022	For the nine months ended September 30, 2023	2022
Revenue	10	$ 255,235	$ 245,085	$ 750,676	$ 737,624
Operating expenses	7	214,218	198,770	639,293	623,622
Gross profit		41,017	46,315	111,383	114,002
Selling, general and administrative expenses	7	13,409	9,007	29,132	43,148
Results from operating activities		27,608	37,308	82,251	70,854
Finance costs, net	8	2,850	1,330	8,557	7,551
Foreign exchange loss (gain)		1,278	(173)	2,036	(224)
Unrealized gain on derivatives	3,9	(3,783)	-	(1,289)	-
Gain on disposal of property and equipment		(417)	(921)	(1,064)	(2,571)
Amortization of intangible assets		10	9	30	135
Impairment reversal of property and equipment	2	-	-	-	(32,708)
Income before income tax		27,670	37,063	73,981	98,671
Income tax expense					
Current		4,878	5,071	17,948	8,423
Deferred		2,058	1,140	370	12,159
Total income tax expense		6,936	6,211	18,318	20,582
Net income		20,734	30,852	55,663	78,089
Other comprehensive income					
Foreign currency translation gain		6,039	13,956	56	17,092
Total comprehensive income		$ 26,773	$ 44,808	$ 55,719	$ 95,181
Net income per share:					
Basic	6	$ 0.29	$ 0.45	$ 0.77	$ 1.14
Diluted	6	$ 0.28	$ 0.43	$ 0.74	$ 1.09

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance at January 1, 2022		$ 435,768	$ 30,820	$ 2,383	$ (291,529)	$ 177,442
Net income for the period		-	-	-	78,089	78,089
Foreign currency translation gain		-	-	17,092	-	17,092
Share-based compensation	5	-	1,990	-	-	1,990
Exercise of equity share-based compensation		735	(735)	-	-	-
Issuance of shares		16,876				16,876
Balance at September 30, 2022		$ 453,379	$ 32,075	$ 19,475	$ (213,440)	$ 291,489
Balance at January 1, 2023		$ 453,702	$ 32,843	$ 16,236	$ (196,748)	$ 306,033
Net income for the period		-	-	-	55,663	55,663
Foreign currency translation loss		-	-	56	-	56
Share-based compensation	5	-	4,020	-	-	4,020
Exercise of equity share-based compensation		2,162	(2,162)	-	-	-
Balance at September 30, 2023		**$ 455,864**	**$ 34,701**	**$ 16,292**	**$ (141,085)**	**$ 365,772**

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)	Notes	For the three months ended September 30, 2023	2022	For the nine months ended September 30, 2023	2022
Operating activities:					
Net income		$ 20,734	$ 30,852	$ 55,663	$ 78,089
Adjusted for the following:					
Depreciation and amortization		20,743	19,378	62,614	63,140
Share-based compensation	5	4,045	1,373	307	16,431
Unrealized foreign exchange loss (gain)		1,041	(837)	3,413	(812)
Unrealized gain on derivatives	3,9	(3,783)	-	(1,289)	-
Gain on disposal of property and equipment		(417)	(921)	(1,064)	(2,571)
Impairment reversal of property and equipment		-	-	-	(32,708)
Finance costs	3,8	2,850	1,330	8,557	7,551
Income tax expense		6,936	6,211	18,318	20,582
Income taxes paid		(1,569)	(117)	(14,439)	(161)
Cash finance costs paid		(2,451)	(3,616)	(8,523)	(9,030)
Changes in non-cash working capital from operating activities		2,607	19,395	8,319	(50,246)
Net cash provided by operating activities		50,736	73,048	131,876	90,265
Investing activities:					
Purchase of property and equipment		(25,232)	(20,226)	(65,606)	(50,322)
Proceeds from disposal of equipment and vehicles		75	888	2,023	5,658
Changes in non-cash working capital from investing activities		2,613	(5,821)	(9,986)	103
Net cash used in investing activities		(22,544)	(25,159)	(73,569)	(44,561)
Financing activities:					
(Repayment) draws of loans and borrowings	3	(30,236)	(46,046)	(53,302)	(41,012)
Repayment of obligations under finance lease		(2,210)	(3,179)	(6,414)	(7,585)
Net cash used in financing activities		(32,446)	(49,225)	(59,716)	(48,597)
Impact of exchange rate changes on cash and cash equivalents		32	914	110	951
Decrease in cash and cash equivalents		(4,222)	(422)	(1,299)	(1,942)
Cash and cash equivalents, beginning of period		5,708	2,178	2,785	3,698
Cash and cash equivalents, end of period		$ 1,486	$ 1,756	$ 1,486	$ 1,756

See accompanying notes to the condensed consolidated interim financial statements

Notes to the condensed consolidated interim financial statements
(unaudited)

As at and for the three and nine months ended September 30, 2023 and 2022.

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

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PREPARATION

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

Statement of Compliance
These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, interim Financial Reporting, as issued by International Accounting Standard Board ("IASB"). Other than discussed below, the same accounting policies and methods of computation are followed in these interim financial statements as compared with the last annual financial statements. These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2022.

These condensed consolidated interim financial statements were approved by the Board of Directors ("Board") on November 1, 2023.

The condensed consolidated interim financial statements were prepared under the historical cost basis, except for the revaluation of cash settled share-based compensation and certain financial assets and liabilities at fair value. These consolidated financial statements are presented in Canadian dollars, which is the presentation currency of the Company. All financial information has been rounded to the nearest thousands, except where indicated.

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

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

NOTE 2 – IMPAIRMENT REVERSAL

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

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

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

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

NOTE 3 – LOANS AND BORROWINGS

As at September 30, 2023, the Company's Credit Facilities with a syndicate of lenders were comprised of a Canadian $215.0 million revolving loan facility, a Canadian $15.0 million operating facility and a U.S. $15.0 million operating facility (the "Credit Facilities"). The Credit Facilities included a general security agreement, providing a security interest over all present and after acquired personal property of the Company and all its subsidiaries including mortgages on certain properties. The maturity date of the Credit Facilities is July 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 September 30, 2023 the Company had an interest coverage ratio of 17.79:1.00.

2. A Funded Debt to Adjusted Bank EBITDA ratio. This refers to total outstanding interest-bearing debt including lease obligations and letters of credit less cash and cash equivalents held with approved financial institutions to Adjusted Bank EBITDA. Adjusted Bank EBITDA means the Net Income (Loss) on a consolidated basis plus or minus: interest expense, the provision for income taxes, depreciation, amortization, deferred income tax expense or recovery, gains or losses on the sale of assets, allowance for doubtful account provisions, non-cash impairment charges, unrealized foreign exchange gains or losses and marking to market hedging instruments, discretionary management bonuses, severance and share based compensation, and any non-typical and non-recurring transactions. Lease expense for current and future finance leases, which would have been accounted for as an operating lease at December 31, 2018, is deducted from net income (loss) when calculating Adjusted Bank EBITDA. The ratio is calculated quarterly on the last day of each fiscal quarter on a four-quarter rolling basis. The Company is required to have Funded Debt to Adjusted Bank EBITDA ratio of not more than 3.00:1.00. At September 30 2023, the Company had a Funded Debt to Adjusted Bank EBITDA ratio of 0.56:1.00.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at September 30, 2023.

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 three and nine months ended September 30, 2023 was 7.06% and 6.78% respectively (September 30, 2022 – 5.40% and 4.99% respectively). The total amount of Credit Facilities outstanding on September 30, 2023 was as follows:

As at		**September 30, 2023**		December 31, 2022
Revolving loan facility	**$**	**82,431**	$	123,896
Canadian and U.S. operating lines		**9,218**		19,602
Deferred financing costs		**(1,909)**		(2,704)
Total loans and borrowings	**$**	**89,740**	$	140,794

The following table displays the movements in loans and borrowings during the nine months ended September 30, 2023:

		(000's)
Balance at January 1, 2023	$	140,794
Repayment of loans and borrowings		(53,302)
Accretion of deferred financing costs		795
Effect of exchange rate changes		1,453
Balance at September 30, 2023	**$**	**89,740**

The Company has entered into Cross Currency Swap ("CCS") derivatives to manage foreign exchange exposure on U.S. denominated debt, fixing the exchange rate on the principal repayments and interest payments. On September 20, 2023, the Company entered into a 30-day CCS of (CAD)$82 million for (USD)$60.7 million. The derivative contract was revalued to its fair value of a $0.4 million asset on September 30, 2023. The CCS asset is recorded at fair value in risk management contracts on the statements of financial position.

NOTE 4 – COMMITMENTS

The following table summarizes the Company's estimated commitments that are not included in the condensed consolidated interim statement of financial position related to leases as at September 30, 2023 for the following five years and thereafter:

		2023		2024		2025		2026		2027		Thereafter		**Total**
Operating expenses for lease obligations(1)	$	277	$	1,001	$	935	$	885	$	844	$	-	**$**	**3,942**
Short term and low value lease obligations(1)		99		128		-		-		-		-		**227**
Total commitments	$	376	$	1,129	$	935	$	885	$	844	$	-	**$**	**4,169**

(1) Includes U.S. obligations at the September 30, 2023 exchange rate of 1 USD = 1.358 CAD.

Operating expenses for lease obligations relate to leases of certain service centers and office space with lease terms of between 1 year and 5 years. The total expense recognized during the three and nine months ended September 30, 2023 for short term and low value lease obligations was $0.4 million and $1.1 million, respectively (September 30, 2022 - $0.4 million and $1.2 million, respectively).

As at September 30, 2023, the Company had $33.7 million (December 31, 2022 - $25.2 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2023 and 2024.

NOTE 5 – SHARE-BASED COMPENSATION

Equity settled share-based instruments

	New stock options	Restricted share units	Performance share units	Prior stock options	Performance warrants	Total
Balance at January 1, 2023	3,100,076	1,673,128	148,190	12,500	25,000	4,958,894
Granted	285,539	1,274,409	250,011	-	-	1,809,959
Exercised(1)	(83,404)	(594,580)	-	-	-	(677,984)
Forfeited/Expired	(40,795)	(235,476)	(28,337)	(2,000)	(4,000)	(310,608)
Outstanding at September 30, 2023	**3,261,416**	**2,117,481**	**369,864**	**10,500**	**21,000**	**5,780,261**
Exercisable at September 30, 2023	2,542,615	-	-	10,500	21,000	2,574,115

(1) Option exercises for the nine month period ended September 30, 2023 were on a cashless basis.

Cash settled share-based instruments

	Deferred share units	Cash-settled RSUs	Cash-settled PSUs	Total
Balance at January 1, 2023	2,620,177	278,186	426,400	3,324,763
Granted	81,250	63,450	246,715	391,415
Exercised	-	(221,824)	-	(221,824)
Forfeited/Expired	-	(23,099)	(673,115)	(696,214)
Outstanding at September 30, 2023	**2,701,427**	**96,713**	**-**	**2,798,140**
Exercisable at September 30, 2023	2,701,427	-	-	2,701,427

The aggregate liability for all cash settled share-based instruments of $11.6 million is included in the condensed consolidated interim statement of financial position; $1.9 million in trade and other payables and $9.7 million in other long-term liabilities. At each reporting date, between grant date and settlement date of cash settled share-based instruments, the fair value of the liability is re-measured with any changes in fair value recognized in share-based compensation expense for the period (refer to Note 7 – Presentation of Expenses).

Share-based compensation expense

The composition of share-based compensation expense incurred was:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	**2023**	2022
Equity settled				
New stock options	**$ 169**	$ 143	**$ 546**	$ 507
Performance warrants	**-**	-	**-**	4
Performance share units	**132**	56	**324**	82
Restricted share units	**1,035**	777	**3,150**	1,397
	$ 1,336	$ 976	**$ 4,020**	$ 1,990
Cash settled				
Deferred share units	**$ 2,647**	$ (550)	**$ (2,512)**	$ 7,598
Performance share units	**-**	852	**(942)**	3,951
Restricted share units	**62**	95	**(259)**	2,892
	$ 2,709	$ 397	**$ (3,713)**	$ 14,441
Total share-based compensation expense	**$ 4,045**	$ 1,373	**$ 307**	$ 16,431

NOTE 6 – PER SHARE COMPUTATIONS

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	**2023**	2022
Weighted average number of shares outstanding - basic	**72,216,680**	69,150,361	**71,885,255**	68,713,091
Dilutive impact of stock options	**2,986,053**	3,199,895	**2,944,666**	2,662,416
Weighted average number of shares outstanding - diluted	**75,202,733**	72,350,256	**74,829,921**	71,375,507

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	**2023**	2022
Net income	**$ 20,734**	$ 30,852	**$ 55,663**	$ 78,089
Per share – basic	**0.29**	0.45	**0.77**	1.14
Per share – diluted	**0.28**	0.43	**0.74**	1.09

For both the three and nine months ended September 30, 2023, 10.5 thousand prior stock options, 21 thousand performance warrants, and 699 thousand new stock options, and nil restricted share units were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (three months ended September 30, 2022: 25 thousand performance warrants and 202 thousand new stock options, nine months ended September 30, 2022: 12.5 thousand prior stock options, 25 thousand performance warrants and 443 thousand new stock options).

NOTE 7 – PRESENTATION OF EXPENSES

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	**2023**	2022
Operating expenses				
Employee costs	**$ 61,099**	$ 52,732	**$ 184,148**	$ 154,833
Operating expense	**62,344**	55,217	**183,993**	171,564
Materials and inventory costs	**69,816**	71,316	**208,156**	232,438
	193,259	179,265	**576,297**	558,835
Depreciation	**20,451**	19,171	**61,772**	62,375
Share-based compensation expense	**508**	334	**1,224**	2,412
Total operating expenses	**$ 214,218**	$ 198,770	**$ 639,293**	$ 623,622
Selling, general and administrative expenses				
Employee costs	**$ 6,132**	$ 5,734	**$ 20,271**	$ 21,719
General expenses	**2,908**	2,434	**8,244**	6,678
	9,040	8,168	**28,515**	28,397
Allowance for doubtful accounts expense (recovery)	**550**	(398)	**722**	102
Depreciation	**282**	198	**812**	630
Share-based compensation expense (recovery)	**3,537**	1,039	**(917)**	14,019
Total selling, general and administrative expenses	**$ 13,409**	$ 9,007	**$ 29,132**	$ 43,148

NOTE 8 – FINANCE COSTS

	For the three months ended September 30, 2023	2022	For the nine months ended September 30, 2023	2022
Interest on loans and borrowings	$ 2,016	$ 2,731	$ 6,459	$ 8,126
Interest on lease obligations	551	337	1,310	935
Interest income	(3)	-	(55)	(12)
Accretion of deferred financing charges	272	489	795	696
Gain on modification of credit facilities	-	(2,239)	-	(2,239)
Other	14	12	48	45
Total finance costs, net	$ 2,850	$ 1,330	$ 8,557	$ 7,551

NOTE 9 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

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

	September 30, 2023		December 31, 2022	
	Asset	Liabilities	Asset	Liabilities
Foreign cross currency swaps	$ 413	$ -	$ -	$ 1,511
Contract embedded derivatives	-	636	-	-

The Company entered into foreign CCS derivative contracts to manage risk associated with foreign exchange movements on its estimated future net cash inflows denominated in U.S. dollars. These risk management derivatives are a component of the Company's overall risk management program and are captured under other liabilities on the statement of financial position. These CCS derivatives are measured at fair value using the Level 2 input of foreign exchange forward pricing.

The Company entered into a three-year service agreement that resulted in the recognition of embedded derivatives (contract embedded derivatives) which have been classified as Level 3 within the fair value hierarchy. The contract embedded derivatives are accounted for at fair value with unrealized gains and losses recognized in net income. The fair value is measured using the contracted future service price at the reporting date compared to the Company's base service price for similar portfolios of work.

The significant unobservable inputs that impact the fair value of the Level 3 derivative instruments are contracted service prices based on forward WTI pricing and the Company's base service price. Forward WTI prices are obtained from the Chicago Mercantile Exchange Group ("CME") long-term price forecast. The Company's base service price is calculated using average customer data such as contract revenues, scope of work and contract structure.

There were no transfers between levels in the fair value hierarchy in either the third quarter of 2023 or 2022.

Credit risk

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

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

As at		September 30, 2023		December 31, 2022
Current (0 to 30 days from invoice date)	$	145,410	$	105,534
31 - 60 days		16,644		82,447
61 - 90 days		5,682		6,128
91+ days		2,444		1,634
Receivables from trade clients		170,180		195,743
Allowance for doubtful accounts		(1,433)		(730)
Other amounts		566		3,991
Total trade and other receivables	$	169,313	$	199,004

The cash and cash equivalents and the derivative contracts are held with major banks and counterparties.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company's objective in managing liquidity risk is to maintain sufficient available resources to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in the cash and cash equivalents account (See Note 4 for commitments).

The expected timing of cash outflows relating to financial liabilities on the consolidated interim statement of financial position as at September 30, 2023 are:

		2023		2024		2025		2026		2027		Thereafter		Total
Lease obligations(1)	$	2,618	$	9,454	$	6,262	$	3,993	$	2,258	$	8,516	$	33,101
Trade and other payables		137,973		-		-		-		-		-		137,973
Loans and borrowings(2)		1,566		6,229		95,230		-		-		-		103,025
	$	142,157	$	15,683	$	101,492	$	3,993	$	2,258	$	8,516	$	274,099

(1) Includes interest portion of lease obligations.
(2) Loans and borrowing balances are based on the credit facility in place at September 30, 2023. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at September 30, 2023. Both are variable in nature.

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

Market Risk

Market risk is the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market rates. Market risk is comprised of interest rate risk, currency risk and other price risks which consist primarily of fluctuations in commodity prices.

Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness. Based on the average outstanding consolidated debt, a 1.0% change in the bankers' prime rate would result in a $0.2 million and $0.7 million increase or decrease in interest expense for the three and nine months ended September 30, 2023 respectively (September, 30 2022 - $0.4 million and $1.2 million respectively).

Foreign exchange rate risk

As the Company operates in both Canada and the U.S., fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar can have an impact on the operating results and the future cash flows of the Company's financial assets and liabilities. The Canadian segment is exposed to foreign exchange risk on U.S. dollar denominated purchases made in the normal course of business and debt held in U.S. dollars. The Company manages risk to foreign currency exposure by monitoring financial assets and liabilities denominated in U.S. dollars and exchange rates on an ongoing basis. Exposure to foreign exchange rate changes is further mitigated using CCS (refer to Note 3 – Loans and Borrowings). As at September 30, 2023 the Company was not materially exposed to foreign exchange risk.

NOTE 10 – OPERATING SEGMENTS

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

Segmented operating results and activity

Three months ended September 30, 2023	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	$ 127,415	$ 47,579	$ -	$ 174,994
Coiled tubing	30,241	50,000	-	80,241
Total revenue	157,656	97,579	-	255,235
Expenses				
Operating expenses	121,977	91,751	490	214,218
Selling, general and administrative	3,437	2,713	7,259	13,409
Results from operating activities	32,242	3,115	(7,749)	27,608
Finance costs	-	-	2,850	2,850
Foreign exchange (gain) loss	1,083	(1)	196	1,278
Unrealized gain on derivatives	-	-	(3,783)	(3,783)
Loss (gain) on disposal of property and equipment	53	(470)	-	(417)
Amortization of intangible assets	10	-	-	10
Income (loss) before income tax	$ 31,096	$ 3,586	$ (7,012)	$ 27,670
Capital expenditures (1)	$ 12,198	$ 15,436	$ -	$ 27,634
Total assets as at September 30, 2023	$ 348,565	$ 319,928	$ 1,756	$ 670,249
Total liabilities as at September 30, 2023	$ 220,925	$ 83,552	$ -	$ 304,477

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

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

Nine months ended September 30, 2023		Canadian Operations		U.S. Operations		Corporate		Total
Revenue								
Fracturing	$	378,784	$	145,544	$	-	$	524,328
Coiled tubing		89,224		137,124		-		226,348
Total revenue		468,008		282,668		-		750,676
Expenses								
Operating expenses		365,833		272,022		1,438		639,293
Selling, general and administrative		9,679		8,797		10,656		29,132
Results from operating activities		92,496		1,849		(12,094)		82,251
Finance costs		-		-		8,557		8,557
Foreign exchange loss		1,959		67		10		2,036
Unrealized gain on derivatives		-		-		(1,289)		(1,289)
Gain on disposal of property and equipment		(226)		(838)		-		(1,064)
Amortization of intangible assets		30		-		-		30
Income (loss) before income tax	$	90,733	$	2,620	$	(19,372)	$	73,981
Capital expenditures (1)	$	34,549	$	42,510	$	-	$	77,059
Total assets as at September 30, 2023	$	348,565	$	319,928	$	1,756	$	670,249
Total liabilities as at September 30, 2023	$	220,925	$	83,552	$	-	$	304,477

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

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

NOTE 11 – OTHER ASSETS

At September 30, 2023, the Company had an ongoing tax dispute relating to a tax claim in a foreign jurisdiction of approximately $4.2 million. The Company believes this claim is without merit and intends to vigorously defend its tax filing position. The Company paid the entire claim amount as a deposit to the foreign jurisdiction in order to avoid interest and penalties. This amount was recorded as an other asset in the condensed consolidated interim statement of financial position at September 30, 2023.

NOTE 12 - CONTINGENCIES AND PROVISIONS

Litigation

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

CORPORATE INFORMATION

Management

Steve Glanville
President and Chief Executive Officer

Klaas Deemter
Chief Financial Officer

Rory Thompson
Chief Operating Officer

Joshua Kane
Vice-President, Legal and General Counsel

Brad McFarlane
Vice-President, Finance

Mike Burvill
Vice-President, Business Development and Innovation

Tara Boucher
Vice-President, Human Resources

Chistine Crawford
Vice-President, Sustainability and Communications

Directors

Douglas Freel (1)(6)

Evelyn Angelle (2)

Steve Glanville (3)(4)

Jeremy Gackle (5)

James Harbilas (7)(8)

Jason Skehar (2)(4)(8)

Rachel Moore

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

Corporate office

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

Registered office

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

Website

www.stepenergyservices.com

Trustee and transfer agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario

Bank

ATB Corporate Financial Services

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Legal Counsel

Stikeman Elliott LLP

Stock Symbol

"STEP"
Toronto Stock Exchange