

STEP

energy services

TSX STEP

Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2024

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at Unaudited (in thousands of Canadian dollars)	Notes	September 30, 2024	December 31, 2023
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 1,482	\$ 1,785
Trade and other receivables	12	156,708	96,156
Income tax receivable		97	-
Inventory		47,355	47,523
Prepaid expenses and deposits		10,041	9,251
		215,683	154,715
Property and equipment	3	418,301	419,751
Right-of-use assets		27,128	27,857
Intangible assets		92	122
Other assets	14	4,157	4,074
		\$ 665,361	\$ 606,519
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	8,12	\$ 127,741	\$ 91,785
Current portion of lease obligations		9,177	8,753
Current portion of other liabilities	12	3,819	4,536
Income tax payable		14,303	7,537
		155,040	112,611
Deferred tax liabilities		18,330	19,390
Lease obligations		18,039	18,731
Other liabilities	8,12	10,016	14,090
Loans and borrowings	5	61,481	86,149
		262,906	250,971
Shareholders' equity			
Share capital	7	447,882	455,679
Contributed surplus		39,258	36,060
Accumulated other comprehensive income		15,278	10,138
Deficit		(99,963)	(146,329)
		402,455	355,548
		\$ 665,361	\$ 606,519

See accompanying notes to the condensed consolidated interim financial statements

See Note 6 – Commitments

See Note 15 – Contingencies and provisions

STEP ENERGY SERVICES LTD.

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

Unaudited (in thousands of Canadian dollars, except per share amounts)	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2024	2023	2024	2023
Revenue	13	\$ 255,991	\$ 255,235	\$ 807,512	\$ 750,676
Operating expenses	10	229,494	214,218	687,162	639,293
Gross profit		26,497	41,017	120,350	111,383
Selling, general and administrative expenses	10	9,679	13,409	32,168	29,132
Results from operating activities		16,818	27,608	88,182	82,251
Finance costs	11	4,336	2,850	10,016	8,557
Foreign exchange (gain) loss		(63)	1,278	1,954	2,036
Unrealized (gain) loss on derivatives	12	802	(3,783)	(1,865)	(1,289)
Gain on disposal of property and equipment		(1,218)	(417)	(4,382)	(1,064)
Impairment of property and equipment	3,4	12,735	-	12,735	-
Amortization of intangible assets		10	10	30	30
Income before income tax		216	27,670	69,694	73,981
Income tax expense (recovery)					
Current		7,148	4,878	24,476	17,948
Deferred		(1,472)	2,058	(1,148)	370
Total income tax expense		5,676	6,936	23,328	18,318
Net income (loss)		(5,460)	20,734	46,366	55,663
Other comprehensive income					
Foreign currency translation gain (loss)		(2,246)	6,039	5,140	56
Total comprehensive income (loss)		\$ (7,706)	\$ 26,773	\$ 51,506	\$ 55,719
Net income (loss) per share:					
Basic	9	\$ (0.08)	\$ 0.29	\$ 0.65	\$ 0.77
Diluted	9	\$ (0.08)	\$ 0.28	\$ 0.62	\$ 0.74

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	Deficit	Total
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 gain		-	-	56	-	56
Share-based compensation		-	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
Balance at January 1, 2024		\$ 455,679	\$ 36,060	\$ 10,138	\$ (146,329)	\$ 355,548
Net income for the period		-	-	-	46,366	46,366
Foreign currency translation gain		-	-	5,140	-	5,140
Share-based compensation	8	-	3,358	-	-	3,358
Exercise of equity share-based compensation	7	4,250	(4,250)	-	-	-
Repurchase of shares	7	(12,047)	4,090	-	-	(7,957)
Balance at September 30, 2024		\$ 447,882	\$ 39,258	\$ 15,278	\$ (99,963)	\$ 402,455

See accompanying notes to the condensed consolidated interim financial statements

STEP ENERGY SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2024	2023	2024	2023
Operating activities:					
Net income (loss)		\$ (5,460)	\$ 20,734	\$ 46,366	\$ 55,663
Adjusted for the following:					
Depreciation and amortization		26,022	20,743	72,979	62,614
Share-based compensation expense	8	970	4,045	3,868	307
Unrealized foreign exchange loss		62	1,041	1,536	3,413
Unrealized (gain) loss on derivatives	12	802	(3,783)	(1,865)	(1,289)
Gain on disposal of property and equipment		(1,218)	(417)	(4,382)	(1,064)
Impairment of property and equipment	3,4	12,735	-	12,735	-
Finance costs	11	4,336	2,850	10,016	8,557
Income tax expense		5,676	6,936	23,328	18,318
Income taxes paid		(2,547)	(1,569)	(17,808)	(14,439)
Cash finance costs paid		(3,359)	(2,451)	(8,775)	(8,523)
Funds flow from operations		38,019	48,129	137,998	123,557
Changes in non-cash working capital from operating activities		(2,063)	2,607	(23,537)	8,319
Net cash provided by operating activities		35,956	50,736	114,461	131,876
Investing activities:					
Purchase of property and equipment		(17,656)	(25,232)	(74,625)	(65,606)
Proceeds from disposal of equipment and vehicles		737	75	5,169	2,023
Changes in non-cash working capital from investing activities		(1,514)	2,613	(2,218)	(9,986)
Net cash used in investing activities		(18,433)	(22,544)	(71,674)	(73,569)
Financing activities:					
Repayment of loans and borrowings	5	(16,511)	(30,236)	(27,288)	(53,302)
Repayment of obligations under finance lease		(2,446)	(2,210)	(7,791)	(6,414)
Common shares repurchased	7	(6)	-	(7,957)	-
Net cash used in financing activities		(18,963)	(32,446)	(43,036)	(59,716)
Impact of exchange rate changes on cash and cash equivalents		(33)	32	(54)	110
Decrease in cash and cash equivalents		(1,473)	(4,222)	(303)	(1,299)
Cash and cash equivalents, beginning of the period		2,955	5,708	1,785	2,785
Cash and cash equivalents, end of the period		\$ 1,482	\$ 1,486	\$ 1,482	\$ 1,486

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, 2024 and 2023.

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 and principal place of business of the Company 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.”).

As at September 30, 2024 the significant shareholders of the Company were ARC Energy Fund 6 and ARC Energy Fund 8.

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”). The same accounting policies and methods of computation are followed in these condensed consolidated 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, 2023.

These condensed consolidated interim financial statements were approved by the Board of Directors (“Board”) on November 13, 2024.

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 condensed consolidated interim 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 business is seasonal in nature with the periods of greatest activity being in the first and third quarters. Activity generally tends to decline in the second and fourth quarters because of spring break-up and client budget exhaustion, respectively. 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. Operating activities during the fourth quarter are typically impacted by client budget exhaustion as work programs for the client’s fiscal year are completed.

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 – SUBSEQUENT EVENT

On November 3, 2024, STEP and 2659160 Alberta Ltd. (the “Purchaser”), and ARC Energy Fund 8 entered into a definitive arrangement agreement (the “Agreement”) pursuant to which the Purchaser will acquire all of the issued and outstanding common shares of STEP (each, a “Share”) not already owned, directly or indirectly, by ARC Energy Fund 6, ARC Energy Fund 8 and their affiliates (collectively, “ARC Energy Fund 6” and, together with ARC Energy Fund 8, the “ARC Funds”). Under the terms of the Agreement, the Purchaser will acquire all the Shares that the ARC Funds do not currently own, control or direct, directly or indirectly (the “Minority Shares”) for cash consideration of \$5.00. The transaction will be effected by way of an arrangement under the Business Corporations Act (Alberta) (the “Arrangement”).

The Arrangement, which has been unanimously approved by STEP’s board of directors entitled to vote thereon, will be subject to the approval of the holders of Shares (the “Shareholders”) including the approval of holders of the Minority Shares, court approval and customary closing conditions. Following completion of the Arrangement, it is expected that the Shares will be delisted from trading on the TSX and an application will be made for STEP to cease to be a reporting issuer.

Further details regarding the Arrangement will be contained in a management information circular (the “Circular”) to be sent to Shareholders in connection the special meeting of Shareholders to be called and held to approve the Arrangement (the “STEP Meeting”). The Circular is expected to be mailed on or about November 27, 2024, and the STEP Meeting is expected to be held on December 19, 2024.

Closing of the Arrangement is expected to occur on or about December 23, 2024, following the STEP Meeting and upon satisfaction of all conditions precedent, including receipt of the final order of the Court of King’s Bench of Alberta.

NOTE 3 – PROPERTY AND EQUIPMENT

	Land and buildings	Vehicles	Field equipment	Office equipment	Total
Cost:					
Balance at January 1, 2024	\$ 36,448	\$ 561	\$ 871,498	\$ 8,960	\$ 917,467
Additions	-	21	74,604	-	74,625
Disposals	(1,441)	(457)	(54,125)	(5,846)	(61,869)
Effect of exchange rate changes	211	16	8,739	27	8,993
Balance at September 30, 2024	\$ 35,218	\$ 141	\$ 900,716	\$ 3,141	\$ 939,216
Accumulated depreciation:					
Balance at January 1, 2024	\$ 11,755	\$ 341	\$ 477,223	\$ 8,397	\$ 497,716
Depreciation	1,058	22	63,325	208	64,613
Impairment of assets	3,677	-	9,058	-	12,735
Disposals	(808)	(249)	(51,951)	(5,846)	(58,854)
Effect of exchange rate changes	59	9	4,612	25	4,705
Balance at September 30, 2024	\$ 15,741	\$ 123	\$ 502,267	\$ 2,784	\$ 520,915
Carrying amounts:					
As at January 1, 2024	\$ 24,693	\$ 220	\$ 394,275	\$ 563	\$ 419,751
As at September 30, 2024	\$ 19,477	\$ 18	\$ 398,449	\$ 357	\$ 418,301

During the nine months ended September 30, 2024 the Company recognized an impairment expense of \$12.7 million related to buildings and field equipment. See Note 4 for further discussion on the Company’s assessment of impairment.

NOTE 4 – IMPAIRMENT ASSESSMENT OF LONG-LIVED ASSETS

IAS 36 requires the Company to review the carrying values of its long-lived assets at each reporting period for indicators of impairment. STEP has identified four cash generating units (“CGUs”): Canadian Coiled Tubing, Canadian Fracturing, U.S. Coiled Tubing and U.S. Fracturing. During the third quarter of 2024, the Company noted impairment indicators for the U.S. Fracturing CGU as a result of a volatile and oversupplied U.S. fracturing market causing a decline in profitability and as such, an impairment test was performed at September 30, 2024 for this CGU.

The recoverable amount of the U.S. Fracturing CGU was based on the fair value less cost to sell method (“FVLCS”), estimated using discounted cash flows. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used. 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 17.3% (pre-tax 22.6%). 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 2029.

As a result of the impairment testing performed, the recoverable amount of the U.S. Fracturing CGU was estimated to be \$29.7 million compared to a carrying value of \$42.4 million resulting in \$12.7 million recognized as impairment of property and equipment for the three months ended September 30, 2024. A 1% increase in the discount rate would have resulted in an additional impairment charge of \$1.0 million in the U.S. Fracturing CGU. A 1% decrease in the forecasted cashflows would have resulted in an additional impairment charge of \$0.3 million in the U.S. Fracturing CGU.

Assumptions that are valid at the time of preparing the impairment test may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to impairment on an ongoing basis.

NOTE 5 – LOANS AND BORROWINGS

On September 27, 2024, the Company entered into a Fourth Amended and Restated Credit Agreement to, among other things, extend the maturity date of its Credit Facilities (as defined below) to September 27, 2027 and reduce the capacity of the revolving loan facility from \$215.0 million to \$200.0 million. Additional information about the Fourth Amended and Restated Credit Agreement is available on STEP’s profile on SEDAR+ (www.sedarplus.ca).

As at September 30, 2024, the Company’s credit facilities with a syndicate of lenders were comprised of a Canadian \$200.0 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 include a general security agreement, providing a security interest over all present and after acquired personal property of the Company and all its subsidiaries including mortgages on certain properties. As amended September 27, 2024, 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, 2024 the Company had an interest coverage ratio of 15.70:1.00.
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 2024, the Company had a Funded Debt to Adjusted Bank EBITDA ratio of 0.43:1.00.

The Company complied with all financial and non-financial covenants under its Credit Facilities as at September 30, 2024.

Interest is payable monthly, at the lead syndicate bank's prime lending rate plus 100 basis points to 225 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, 2024 was 6.87% and 7.15% respectively (September 30, 2023 – 7.06% and 6.78% respectively). The total amount of Credit Facilities outstanding on September 30, 2024 is as follows:

As at	September 30, 2024	December 31, 2023
Revolving loan facility	\$ 59,667	\$ 76,187
Canadian and U.S. operating lines	2,205	11,599
Deferred financing costs	(391)	(1,637)
Total loans and borrowings	\$ 61,481	\$ 86,149

The following table displays the movements in loans and borrowings during the nine months ended September 30, 2024:

	(000's)
Balance at January 1, 2024	\$ 86,149
Repayment of loans and borrowings	(27,288)
Accretion of deferred financing costs	801
Deferred financing costs paid	(650)
Loss on modification of credit facilities	1,095
Effect of exchange rate changes	1,374
Balance at September 30, 2024	\$ 61,481

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 18, 2024, the Company entered into a 30-day CCS of (CAD)\$60.0 million for (USD)\$44.1 million. The derivative contract was revalued to its fair value of a \$0.3 million liability on September 30, 2024. The CCS liability is recorded at fair value in current portion of other liabilities on the condensed consolidated interim statements of financial position.

NOTE 6 – COMMITMENTS

The following table summarizes the Company's estimated commitments that are not included in the condensed consolidated interim statements of financial position related to leases as at September 30, 2024 for the following five years and thereafter:

	2024	2025	2026	2027	2028	Thereafter	Total
Operating expenses for lease obligations ⁽¹⁾	\$ 292	\$ 1,116	\$ 1,038	\$ 986	\$ -	\$ -	\$ 3,432
Short term and low value lease obligations ⁽¹⁾	53	55	-	-	-	-	108
Total commitments	\$ 345	\$ 1,171	\$ 1,038	\$ 986	\$ -	\$ -	\$ 3,540

(1) Includes U.S. obligations at the September 30, 2024 exchange rate of 1 USD = 1.353CAD.

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, 2024 for short term and low value lease obligations was \$0.4 million and \$1.1 million, respectively (September 30, 2023 - \$0.4 million and \$1.1 million, respectively).

As at September 30, 2024, the Company had \$21.0 million (December 31, 2023 - \$30.8 million) of commitments related to capital expenditures. These commitments are expected to be incurred in fiscal 2024 and 2025.

NOTE 7 – SHARE CAPITAL

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

	Shares #	Amount
Balance at January 1, 2024	72,184,464	\$ 455,679
Issued – exercise of share-based instruments ⁽¹⁾	1,417,054	4,250
Repurchased – Normal course issuer bid ⁽²⁾	(1,873,134)	(12,047)
Balance at September 30, 2024	71,728,384	\$ 447,882

(1) Option exercises for the nine months ended September 30, 2024 were on a cashless basis.

(2) Shares repurchased and cancelled through the normal course issuer bid.

Normal Course Issuer Bid

On December 14, 2023 the Company announced the approval from the Toronto Stock Exchange (“TSX”) to proceed with a normal course issuer bid (“NCIB”) for its common shares.

Under the NCIB, the Company may repurchase up to 3,611,653 common shares, representing five percent of its issued and outstanding common shares as at December 6, 2023. The NCIB commenced on December 19, 2023 and has an expiry date of December 18, 2024 or such earlier date if the Company has completed the maximum allowable purchases under the bid. The Company is permitted to purchase and cancel up to 22,557 common shares in any one day under this bid, subject to the block purchase exemption.

Since inception of the NCIB program, 1,921,734 shares had been repurchased and cancelled at a weighted average price of \$4.16 per share. Of these shares 1,873,134 were repurchased and cancelled in 2024 at a weighted average price of \$4.17 per share. There were no share repurchases for the three months ended September 30, 2024.

All purchases were made in accordance with the NCIB at prevalent market prices as permitted by the Toronto Stock Exchange. The NCIB can be cancelled at the discretion of the Company at any time.

NOTE 8 – SHARE-BASED COMPENSATION

Equity settled share-based instruments

	New stock options	Restricted share units	Performance share units	Total
Balance at January 1, 2024	3,059,429	2,087,063	369,864	5,516,356
Granted	282,523	816,995	300,058	1,399,576
Exercised ⁽¹⁾	(865,928)	(924,973)	-	(1,790,901)
Forfeited/Expired	(5,179)	(121,498)	-	(126,677)
Outstanding at September 30, 2024	2,470,845	1,857,587	669,922	4,998,354
Exercisable at September 30, 2024	1,906,247	-	-	1,906,247

(1) Option exercises for the nine month period ended September 30, 2024 were on a cashless basis.

The Company uses the Black-Scholes pricing model to calculate the fair value of equity settled share-based compensation instruments. Regarding PSUs and RSUs, the estimated fair value per unit approximates the five-day weighted average share price on grant date. The Company estimates volatility using the Company's historical share prices and peer information. Estimated fair values for the new stock options granted in the year were calculated using the following weighted average assumptions:

New stock options	2024	2023
For the nine months ended September 30,		
Risk-free interest rate (%)	2.96 – 3.28%	3.16 - 4.00%
Expected life (years)	5.00	5.00
Expected forfeiture rate (%)	8.80 – 8.88%	9.42 - 9.50%
Expected volatility (%)	70.48 – 70.89%	75.19 - 75.67%
Weighted average grant price	\$ 4.22	\$ 4.01

During the nine months ended September 30, 2024, 1,399,576 equity settled units were granted at a weighted average fair value of \$4.22 per share.

Cash settled share-based instruments

	Deferred share units	Cash-settled RSUs	Total
Balance at January 1, 2024	2,209,101	62,275	2,271,376
Granted	94,839	260,114	354,953
Exercised	(343,617)	(24,312)	(367,929)
Forfeited/Expired	-	(12,616)	(12,616)
Outstanding at September 30, 2024	1,960,323	285,461	2,245,784
Exercisable at September 30, 2024	1,960,323	-	1,960,323

During the nine months ended September 30, 2024, 354,953 cash settled units were granted at a weighted average fair value of \$4.22 per share.

Share-based compensation expense

The composition of share-based compensation expense (recovery) incurred was:

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Equity settled				
New stock options	\$ 170	\$ 169	\$ 451	\$ 546
Performance share units	239	132	519	324
Restricted share units	921	1,035	2,388	3,150
	\$ 1,330	\$ 1,336	\$ 3,358	\$ 4,020
Cash settled				
Deferred share units	\$ (490)	\$ 2,647	\$ 283	\$ (2,512)
Performance share units	-	-	-	(942)
Restricted share units	130	62	227	(259)
	\$ (360)	\$ 2,709	\$ 510	\$ (3,713)
Total share-based compensation expense	\$ 970	\$ 4,045	\$ 3,868	\$ 307

NOTE 9 – PER SHARE COMPUTATIONS

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Weighted average number of shares outstanding - basic	71,686,538	72,216,680	71,673,098	71,885,255
Dilutive impact of stock options and other equity-based awards	-	2,986,053	2,555,540	2,944,666
Weighted average number of shares outstanding - diluted	71,686,538	75,202,733	74,228,638	74,829,921

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Net income (loss)	\$ (5,460)	\$ 20,734	\$ 46,366	\$ 55,663
Per share – basic	(0.08)	0.29	0.65	0.77
Per share – diluted	(0.08)	0.28	0.62	0.74

For the three months ended September 30, 2024, 2.5 million new stock options, 1.9 million restricted share units, and 700.0 thousand performance share units were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive. For the nine months ended September 30, 2024, 509.8 thousand new stock options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive (three and nine months ended September 30, 2023; 10.5 thousand prior stock options, 21.0 thousand performance warrants, and 699.0 thousand new stock options).

NOTE 10 – PRESENTATION OF EXPENSES

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Operating expenses				
Employee costs	\$ 55,524	\$ 61,099	\$ 183,575	\$ 184,148
Operating expense	54,154	62,344	176,307	183,993
Materials and inventory costs	93,362	69,816	253,445	208,156
	203,040	193,259	613,327	576,297
Depreciation	25,866	20,451	72,489	61,772
Share-based compensation expense	588	508	1,346	1,224
Total operating expenses	\$ 229,494	\$ 214,218	\$ 687,162	\$ 639,293
Selling, general and administrative expenses				
Employee costs	\$ 6,003	\$ 6,132	\$ 19,895	\$ 20,271
General expenses	3,208	2,908	8,964	8,244
	9,211	9,040	28,859	28,515
Allowance for doubtful accounts expense (recovery)	(60)	550	327	722
Depreciation	146	282	460	812
Share-based compensation expense (recovery)	382	3,537	2,522	(917)
Total selling, general and administrative expenses	\$ 9,679	\$ 13,409	\$ 32,168	\$ 29,132

NOTE 11 – FINANCE COSTS

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Interest on loans and borrowings	\$ 1,795	\$ 2,016	\$ 5,909	\$ 6,459
Interest on lease obligations	1,177	551	2,190	1,310
Interest income	(1)	(3)	(1)	(55)
Accretion of deferred financing charges	263	272	801	795
Loss on modification of credit facilities	1,095	-	1,095	-
Other	7	14	22	48
Total finance costs	\$ 4,336	\$ 2,850	\$ 10,016	\$ 8,557

NOTE 12 – FINANCIAL INSTRUMENTS

Accounting classifications and fair values

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

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

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

	September 30, 2024		December 31, 2023	
	Asset	Liabilities	Asset	Liabilities
Foreign cross currency swaps	\$ -	\$ 335	\$ -	\$ 1,843
Contract embedded derivatives	-	531	-	888

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 and trade and other receivables on the condensed consolidated interim statements 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 2024 or 2023.

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, 2024	December 31, 2023
Current (0 to 30 days from invoice date)	\$ 113,982	\$ 52,920
31 - 60 days	30,943	35,305
61 - 90 days	8,051	7,409
91+ days	1,314	1,495
Receivables from trade clients	154,290	97,129
Allowance for doubtful accounts	(1,352)	(1,266)
Other amounts	3,770	293
Total trade and other receivables	\$ 156,708	\$ 96,156

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 6 for commitments).

The expected timing of cash outflows relating to financial liabilities on the condensed consolidated interim statements of financial position as at September 30, 2024 are:

	2024	2025	2026	2027	2028	Thereafter	Total
Lease obligations ⁽¹⁾	\$ 2,980	\$ 10,256	\$ 7,795	\$ 3,348	\$ 1,223	\$ 7,259	\$ 32,861
Trade and other payables	127,741	-	-	-	-	-	127,741
Loans and borrowings ⁽²⁾	1,115	4,424	4,424	65,181	-	-	75,144
	\$ 131,836	\$ 14,680	\$ 12,219	\$ 68,529	\$ 1,223	\$ 7,259	\$ 235,746

(1) Includes interest portion of lease obligations.

(2) Loans and borrowing balances are based on the credit facility in place at September 30, 2024. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at September 30, 2024. 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% change in the bankers' prime rate would result in a \$0.2 million and \$0.5 million increase or decrease

in interest expense for the three and nine months ended September 30, 2024 respectively (September 30, 2023 - \$0.2 million and \$0.7 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 5 – Loans and Borrowings). As at September 30, 2024 the Company was not materially exposed to foreign exchange risk.

NOTE 13 – OPERATING SEGMENTS

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

Segmented operating results and activity

Three months ended September 30, 2024	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 172,980	\$ 2,908	\$ -	\$ 175,888
Coiled tubing	37,675	42,428	-	80,103
Total revenue	210,655	45,336	-	255,991
Expenses				
Operating expenses	169,372	59,615	507	229,494
Selling, general and administrative	3,462	2,193	4,024	9,679
Results from operating activities	37,821	(16,472)	(4,531)	16,818
Finance costs	-	-	4,336	4,336
Foreign exchange (gain) loss	(239)	-	176	(63)
Unrealized loss on derivatives	-	-	802	802
Gain on disposal of property and equipment	(253)	(965)	-	(1,218)
Impairment of property and equipment	-	12,735	-	12,735
Amortization of intangible assets	10	-	-	10
Income (loss) before income tax	\$ 38,303	\$ (28,242)	\$ (9,845)	\$ 216
Capital expenditures ⁽¹⁾	\$ 14,893	\$ 6,369	\$ -	\$ 21,262
Depreciation expense	\$ 10,822	\$ 15,080	\$ 110	\$ 26,012
Total assets as at September 30, 2024	\$ 417,581	\$ 246,941	\$ 839	\$ 665,361
Total liabilities as at September 30, 2024	\$ 214,131	\$ 48,775	\$ -	\$ 262,906

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
Depreciation expense	\$ 8,270	\$ 12,241	\$ 222	\$ 20,733
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

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

Nine months ended September 30, 2024	Canadian Operations	U.S. Operations	Corporate	Total
Revenue				
Fracturing	\$ 496,225	\$ 63,747	\$ -	\$ 559,972
Coiled tubing	116,485	131,055	-	247,540
Total revenue	612,710	194,802	-	807,512
Expenses				
Operating expenses	475,846	209,694	1,622	687,162
Selling, general and administrative	10,489	6,744	14,935	32,168
Results from operating activities	126,375	(21,636)	(16,557)	88,182
Finance costs	-	-	10,016	10,016
Foreign exchange loss	1,739	-	215	1,954
Unrealized gain on derivatives	-	-	(1,865)	(1,865)
Gain on disposal of property and equipment	(1,109)	(3,273)	-	(4,382)
Impairment of property and equipment	-	12,735	-	12,735
Amortization of intangible assets	30	-	-	30
Income (loss) before income tax	\$ 125,715	\$ (31,098)	\$ (24,923)	\$ 69,694
Capital expenditures ⁽¹⁾	\$ 47,510	\$ 38,429	\$ -	\$ 85,939
Depreciation expense	\$ 30,125	\$ 42,479	\$ 345	\$ 72,949
Total assets as at September 30, 2024	\$ 417,581	\$ 246,941	\$ 839	\$ 665,361
Total liabilities as at September 30, 2024	\$ 214,131	\$ 48,775	\$ -	\$ 262,906

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 (gain) loss	1,959	67	10	2,036
Unrealized loss 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
Depreciation expense	\$ 25,099	\$ 36,848	\$ 637	\$ 62,584
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

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

NOTE 14 – OTHER ASSETS

At September 30, 2024, the Company had an ongoing tax dispute relating to a tax claim in a foreign jurisdiction of approximately \$4.2 million (December 31, 2023 - \$4.1 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, 2024.

NOTE 15 - 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

Christine Crawford
Vice-President, Sustainability and Communications

Directors

Douglas Freel ⁽¹⁾⁽⁴⁾

Evelyn Angelle ⁽²⁾

Steve Glanville ⁽³⁾⁽⁴⁾

Jeremy Gackle ⁽⁵⁾

James Harbilas ⁽⁷⁾⁽⁸⁾

Rachel Moore ⁽²⁾⁽⁸⁾

Edward LaFehr ⁽⁶⁾

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

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#1200, 205 – 5 Ave SW
Calgary, Alberta T2P 2V7

Registered office

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Calgary, Alberta T2P 2V7

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