

STEP Energy Services Ltd. Reports Second Quarter 2023 Results

Calgary, Alberta – August 2, 2023 - STEP Energy Services Ltd. (the “Company” or “STEP”) is pleased to announce its financial and operating results for the three months ended June 30, 2023. The following press release should be read in conjunction with the management’s discussion and analysis (“MD&A”) and unaudited condensed consolidated interim financial statements and notes thereto as at June 30, 2023 (the “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 press release. 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”).

CONSOLIDATED HIGHLIGHTS

FINANCIAL REVIEW

(\$000s except percentages and per share amounts)	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Consolidated revenue	\$ 232,073	\$ 273,000	\$ 495,441	\$ 492,539
Net income	\$ 15,273	\$ 38,064	\$ 34,929	\$ 47,237
Per share-basic	\$ 0.21	\$ 0.56	\$ 0.49	\$ 0.69
Per share-diluted	\$ 0.21	\$ 0.54	\$ 0.47	\$ 0.67
Adjusted EBITDA ⁽¹⁾	\$ 47,404	\$ 55,251	\$ 92,756	\$ 92,241
Adjusted EBITDA % ⁽¹⁾	20%	20%	19%	19%
Free Cash Flow ⁽¹⁾	34,797	33,167	50,148	49,339

⁽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		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Fracturing services				
Fracturing operating days ⁽²⁾	394	508	866	1,123
Proppant pumped (tonnes)	594,000	697,000	1,104,000	1,298,000
Active horsepower (“HP”), ended ⁽³⁾	380,000	380,000	380,000	380,000
Total HP, ended	490,000	490,000	490,000	490,000
Coiled tubing services				
Coiled tubing operating days ⁽²⁾	1,139	913	2,402	1,988
Active coiled tubing units, ended	21	16	21	16
Total coiled tubing units, ended	35	29	35	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)	June 30 2023	December 31, 2022
Cash and cash equivalents	\$ 5,708	\$ 2,785
Working Capital (including cash and cash equivalents) ⁽¹⁾	\$ 83,842	\$ 66,580
Total assets	\$ 618,090	\$ 682,532
Total long-term financial liabilities ⁽¹⁾	\$ 154,903	\$ 168,746
Net Debt ⁽¹⁾	\$ 115,759	\$ 142,224
Shares outstanding	72,212,966	71,589,626

⁽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.

SECOND QUARTER 2023 HIGHLIGHTS

- Consolidated revenue for the three months ended June 30, 2023 of \$232.1 million, decreased 15% from \$273.0 million as at three months ended June 30, 2022 and decreased 12% from \$263.4 million as at three months ended March 31, 2023.
- Net income for the three months ended June 30, 2023 of \$15.3 million (\$0.21 per diluted share) compared to \$38.1 million (\$0.54 per diluted share) in the same period of 2022 and \$19.7 million (\$0.26 per diluted share) for the three months ended March 31, 2023. Included in income for three months ended June 30, 2023 was share based compensation expense of \$1.4 million, compared to a recovery of \$5.1 million during the three months ended March 31, 2022. Net income for the same period of 2022 included an impairment reversal of \$32.7 million.
- For the three months ended June 30, 2023, Adjusted EBITDA was \$47.4 million or 20% of revenue compared to \$55.3 million or 20% of revenue in Q2 2022 and \$45.4 million or 17% in Q1 2023.
- Free Cash Flow for the three months ended June 30, 2023 was \$34.8 million compared to \$33.2 million in Q2 2022 and \$17.1 million in Q1 2023.
- STEP made significant progress on debt reduction during the quarter while also investing into the long-term sustainability of the business.
 - The Company had Net Debt of \$115.8 million at June 30, 2023, compared to \$142.2 million at December 31, 2022. STEP has reduced Net Debt by nearly \$200 million from peak levels in 2018.
 - The Company invested \$14.4 million into sustaining and optimization capital equipment, completing the Company's first Tier 4 dual fuel fleet conversion that was started in Q4 2022. The Company had sixteen Tier 4 dual fuel units in the field at the end of Q2, providing diesel substitution rates of up to 85%.
- STEP's Canadian fracturing division placed 5,196 metric tons in less than a 24-hour period for a leading Canadian E&P client, setting a new daily proppant pumping record for STEP.

SECOND QUARTER 2023 OVERVIEW

The second quarter of 2023 continued the trend of positive financial results since the first quarter of 2022. Revenue of \$232.1 million and Adjusted EBITDA of \$47.4 million were driven by solid performance across all service lines. Despite the unstable market environment and the seasonality of spring break up conditions in Canada, the adjusted EBITDA for Q2 2023 was second only to Q2 2022 for second quarter results. Effective January 1, 2023, Adjusted EBITDA reflects the expensing of fracturing fluid ends in Canada, which added \$1.1 million in expense to the quarter. While EBITDA showed a modest decline year over year, it showed a slight improvement sequentially as a result of improved activity in the U.S. segment of our business.

Commodity price volatility was a factor in industry activity levels, as markets grappled with the global macroeconomic uncertainty. Slower Chinese demand and recessionary concerns in the developed world capped gains in oil prices, although a tightening fundamental supply outlook and the decision by the Organization of the Petroleum Exporting Countries ("OPEC") to reduce production kept oil prices in line on a sequential quarterly basis. West Texas Intermediate (WTI), the benchmark U.S. oil price, averaged \$73.84, down 3.0% sequentially. High storage levels in North America and Europe continued to weigh on natural gas prices, pushing the benchmark Henry Hub natural gas price down 16.2% sequentially, to an average of \$2.32 / mmBTU in Q2 2023 and as low as \$1.74 in daily trading.

The commodity price uncertainty impacted E&P activity levels in the U.S., with the rig count declining sequentially from 760 to 719 in Q2 2023. The rig count in the Permian basin, home of STEP's three U.S. fracturing crews, is down 3.3% from closing 2022 numbers, in contrast to the broader U.S. market which has dropped 13.5%¹. Analysis by Rystad Energy, an independent global energy research firm, has determined that E&P companies are operating approximately 60 oil directed rigs over what is required to maintain production², a positive indicator that producers are anticipating more robust market demand in 2024. Rig counts in Canada exhibited the usual spring break up decline, dropping to 123 rigs in Q2 2023 from 230 in Q1 2023.

STEP's fracturing service lines had a solid performance in the quarter. Despite the spring break up conditions, which were exacerbated by drought, then wildfires and floods, the Canadian fracturing service line generated \$111.8 million in revenue on 310,000 tonnes of proppant pumped, the second best Q2 in the Company's history. Activity in the U.S. fracturing service line improved significantly to start the second quarter, despite lower revenue resulting from client supplied product. Coiled tubing operating days set a new quarterly record in the U.S., with good utilization on 12 operating units, while the Canadian coiled tubing service line was more impacted by the seasonal slowdown, resulting in a modest decline in utilization compared to the prior year.

Net income was \$15.3 million in Q2 2023 (\$0.21 diluted earnings per share), sequentially lower than the \$19.7 million in Q1 2023 (\$0.26 diluted earnings per share) and the \$38.1 million in Q2 2022 (\$0.54 diluted earnings per share). Net income included \$2.8 million in finance costs (Q1 2023 - \$2.9 million, Q2 2022 - \$2.9 million) and \$1.4 million in share-based compensation expense (Q1 2023 - \$5.3 million recovery, Q2 2022 - \$9.6 million expense). Net income for Q2 2022 included an impairment reversal of \$32.7 million.

Free Cash Flow was \$34.8 million in Q2 2023, sequentially higher than the \$17.1 million in Q1 2023 and higher than the \$33.2 million in Q2 2022. This Free Cash Flow enabled STEP to reduce Net Debt to \$115.8 million at the close of Q2 2023 from \$133.0 million at close of Q1 2023. This debt reduction was accomplished while investing \$22.8 million into capital expenditures during Q2 2023. STEP has now reduced debt by nearly \$200 million from peak levels in 2018. The reduction in debt and improvement in Adjusted EBITDA resulted in a 12-month trailing Funded Debt to Adjusted Bank EBITDA of 0.68:1.00, well under the limit of 3.00:1 in the Company's Credit Facilities (as defined in *Capital Management – Debt* below).

MARKET OUTLOOK

STEP anticipates that commodity markets will continue to remain unsettled through the third quarter before strengthening into the fourth quarter and into 2024. Near-term concerns over a potential recession have weighed on commodity prices, but steps taken to constrain supply are expected to begin a tightening cycle that will be positive for commodities.

OPEC proactively responded to concerns regarding weakened oil demand by lowering production quotas, which will be constructive for supply-demand balances. The International Energy Agency (the "IEA") reiterated in its June 2023 Oil Market Report its expectation that world crude demand will grow by 2.4 million barrels per day in 2023 to a record global demand of 102.3 million barrels per day. The IEA forecasts that total supply is expected to grow to 101.3 million barrels per day, leaving a shortfall that is expected to reverse the trend of growing oil inventories and provide support for oil prices.

U.S. natural gas prices are beginning to respond to the decline in natural gas directed drilling activity, which is expected to slow the growth in U.S. natural gas storage levels. The decline in rig count, coupled with a resumption of exports from the Freeport LNG facility and high power demand to start the U.S. summer season, is expected to be constructive for natural gas prices for the balance of the year. Pricing for natural gas liquids continues to remain strong, providing support for Canadian gas producers.

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.

¹ Baker Hughes North America Rotary Rig Count, July 21, 2023

² Rig Monitor, Rystad Energy, July 13, 2023

STEP's focus for the balance of 2023 and into 2024 is on generation of Free Cash Flow while continuing to invest in emission reducing technologies on our asset base, including the recently deployed Tier 4 dual fuel engines in our Canadian fracturing fleet. The strong results posted year to date support the Company's goals to reduce its balance sheet leverage and make disciplined investments that support STEP's goal of building a resilient company and creating shareholder value.

Canada

Canadian activity levels are expected to hold steady through the second half of the year. STEP had some work scheduled for the second half of 2023 deferred into 2024 due to low natural gas prices but anticipates that most producers have adjusted their work scope to the current price framework and are unlikely to materially alter their programs for the balance of the year. Recent updates from LNG Canada reinforced the timeline to begin shipping in 2025, which will start to build incremental demand for completion services into 2024.

Q3 2023 will be the first full quarter for STEP's first Tier 4 dual fuel fleet, which was completed in the second quarter. The performance of the Tier 4 dual fuel engines in the field has been exemplary relative to a Tier 2 diesel engine, with diesel substitution rates of up to 85%. These high substitution rates bring immediate cost and emission reduction benefits to STEP's clients, as well as providing higher profitability to STEP.

Pricing is expected to stay relatively stable, despite the additional fracturing capacity brought onstream by competitors in 2023. Increased efficiencies, particularly through use of STEP's industry-leading logistics division, have preserved margin performance.

United States

The U.S. fracturing market has responded to the weakness in commodity prices by deactivating fleets, particularly in natural gas-focused basins. Rystad Energy reported that active fracturing fleets declined to 265 at the close of Q2 2023, down from 293 at the end of Q1 2023. STEP deactivated its fourth fleet in mid-Q1 2023.

Fracturing utilization was slow to start the quarter, but STEP has aligned itself with operators that have full programs for the remainder of the year, which should result in consistent utilization through the remainder of 2023. Coiled tubing utilization is expected to remain steady into the second half of the year, with the exception of STEP's unique e-coil service, which is growing consistently quarter over quarter.

Pricing is only down modestly as the sector remains disciplined. Nearly 70% of the total fracturing capacity is controlled by the five largest service providers, who have chosen to deactivate capacity rather than discount heavily, which has been the pattern in previous down cycles.

Despite the near-term volatility, the U.S. is a critical market for STEP for the medium and long-term. The U.S. is the world's largest LNG exporter, with plans to double its current export capacity by 2030. A Final Investment Decision ("FID") was reached on NextDecade's Rio Grande Phase 1 LNG project in early Q3 2023, adding to the growing list of LNG capacity under construction in the U.S. FID was also reached on the Williams Louisiana Energy Gateway pipeline project, which will deliver an additional 1.8 Bcfd of Haynesville natural gas to LNG facilities when it is completed in 2024. The Permian Highway Expansion and Whistler Expansion pipelines in the Permian are expected to be completed by year end, adding an additional 1.2 Bcfd in natural gas takeaway capacity.

Demand for next generation equipment continues to remain strong, supporting STEP's plan to begin converting its Tier 4 diesel fleet to a Tier 4 dual fuel fleet, using similar technology already employed on its Tier 2 dual fuel engines. That technology has enabled STEP to displace diesel with cleaner burning natural gas, a significant cost savings for clients, while also reducing emissions. The Tier 4 dual fuel technology allows for diesel displacement of up to 85%. STEP anticipates converting 21 existing Tier 4 pumps to dual fuel, bringing its total U.S. Tier 2 and Tier 4 dual fuel pump count to 48 by year end, enough for two full fracturing fleets.

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 basin. 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		Six months ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue:					
Fracturing	\$	111,793	\$ 140,513	\$ 251,369	\$ 259,527
Coiled tubing		24,124	24,596	58,983	52,394
		135,917	165,109	310,352	311,921
Expenses		111,489	137,634	250,098	262,323
Results from operating activities	\$	24,428	\$ 27,475	\$ 60,254	\$ 49,598
Adjusted EBITDA ⁽¹⁾	\$	33,390	\$ 39,710	\$ 78,166	\$ 71,578
Adjusted EBITDA % ⁽¹⁾		25%	24%	25%	23%
Sales mix (% of segment revenue)					
Fracturing		82%	85%	81%	83%
Coiled tubing		18%	15%	19%	17%
Fracturing services					
Number of fracturing operating days ⁽²⁾		209	279	521	674
Proppant pumped (tonnes)		310,000	358,000	606,000	681,000
Stages completed		2,537	3,114	6,897	7,875
Horsepower ("HP")					
Active pumping HP, end of period ⁽³⁾		215,000	215,000	215,000	215,000
Total pumping HP, end of period		282,500	282,500	282,500	282,500
Coiled tubing services					
Number of coiled tubing operating days ⁽²⁾		348	371	920	932
Active coiled tubing units, end of period		9	8	9	8
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.

SECOND QUARTER 2023 COMPARED TO SECOND QUARTER 2022

Revenue for the three months ended June 30, 2023 was \$135.9 million compared to \$165.1 million for the same period of the prior year. Pricing for fracturing services was stable quarter over quarter, however this was offset by the number of operating days which decreased to 209 for Q2 of 2023 from 279 during the same period of 2022. Extreme weather conditions throughout the WCSB impacted activity levels in the current year as these conditions limited our ability to access client locations. STEP remains focused on proper client alignment which contributed to steady utilization in the coiled tubing business during the quarter however overall days decreased to 348 for Q2 2023 from 371 during the comparable period of 2022. Coiled tubing revenue benefited from warm, dry weather conditions in April which allowed for spillover work from Q1 to be completed.

Adjusted EBITDA for the second quarter of 2023 was \$33.4 million (25% of revenue) versus \$39.7 million (24% of revenue) in the second quarter of 2022. The year-over-year decrease in results is a direct consequence of the weather conditions that persisted during the quarter that caused delayed and cancelled work programs.

SIX MONTHS ENDED JUNE 30, 2023 COMPARED TO SIX MONTHS ENDED JUNE 30, 2022

Revenue for the six months ended June 30, 2023 was \$310.4 million compared to \$311.9 million for the six months ended June 30, 2022. Revenue was effectively flat compared to the prior year as decreasing activity levels have been offset by improved operating rates than the same period in 2022 despite recent pricing pressures. Fracturing operating days decreased to 521 for the first six months of 2023 from 674 during the same period of 2022. Extreme weather conditions throughout most of the operating region restricted our ability to access client locations pushing work into future periods. Coiled tubing operating days decreased slightly to 920 for the first six months of 2023 from 932 during the comparable period of 2022.

The Company's Canadian operating expenses decreased slightly with decreased activity levels however, inflationary pressures continue to be a factor during the first six months of 2023. Continued supply chain disruptions, commodity price appreciation, and strong industry activity has costs escalating across all expense categories.

Canadian operations generated Adjusted EBITDA of \$78.2 million (25% of revenue) for the first six months of 2023 compared to \$71.6 million (23% of revenue) in the same period of 2022. The most significant factor in the \$6.6 million increase in EBITDA was continued cost management while retaining pricing improvements achieved since early 2022. 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 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. The U.S. fracturing business has 207,500 fracturing HP, of which 80,000 HP is Tier 4 low emission 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		Six months ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue:					
Fracturing	\$	48,648	\$ 81,574	\$ 97,965	\$ 131,241
Coiled tubing		47,508	26,317	87,124	49,377
		96,156	107,891	185,089	180,618
Expenses		90,299	103,723	186,355	174,754
Results from operating activities	\$	5,857	\$ 4,168	\$ (1,266)	\$ 5,864
Adjusted EBITDA ⁽¹⁾	\$	18,332	\$ 20,324	\$ 23,148	\$ 30,144
Adjusted EBITDA % ⁽¹⁾		19%	19%	13%	17%
Sales mix (% of segment revenue)					
Fracturing		51%	76%	53%	73%
Coiled tubing		49%	24%	47%	27%
Fracturing services					
Number of fracturing operating days ⁽²⁾		185	229	345	449
Proppant pumped (tonnes)		284,000	339,000	498,000	617,000
Stages completed		1,438	1,435	2,439	2,557
Horsepower ("HP")					
Active pumping HP, end of period ⁽³⁾		165,000	165,000	165,000	165,000
Total pumping HP, end of period		207,500	207,500	207,500	207,500
Coiled tubing services					
Number of coiled tubing operating days ⁽²⁾		791	542	1,482	1,056
Active coiled tubing units, end of period		12	8	12	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.

SECOND QUARTER 2023 COMPARED TO SECOND QUARTER 2022

Revenue for the three months ended June 30, 2023 was \$96.2 million compared to \$107.9 million at June 30, 2022. The transition to client-supplied product for fracturing services was the main contributor to the revenue decline compared to the prior year however, this was predominately offset by the increase in active coiled tubing units and resultant increase in operating days for these services. The additional coiled tubing units acquired last year enabled STEP to deploy more fleets to key basins and benefit from the strong oilfield activity levels.

U.S. fracturing had a good second quarter after being impacted by shifting client schedules during the first quarter of 2023, however, instability in the U.S. market resulted in a decline in operating days compared to the prior year. STEP continues to focus on establishing partnerships with key clients to fully deploy its fleet of dual-fuel fracturing pumps. The recent transition to dedicated clients with larger scale programs should provide operating stability in the back half of 2023.

U.S. operations generated Adjusted EBITDA of \$18.3 million (19% of revenue) for second quarter 2023 versus \$20.3 million (19% of revenue) in the second quarter of 2022. Despite the increase in stages completed, overall fracturing operating days declined in the quarter contributing to the slight drop in EBITDA.

SIX MONTHS ENDED JUNE 30, 2023 COMPARED TO SIX MONTHS ENDED JUNE 30, 2022

Revenue for the six months ended June 30, 2023 was \$185.1 million compared to \$180.6 million for the six months ended June 30, 2022. U.S. operations realized a significant increase in utilization for the coiled tubing service line reflecting the acquisition completed in the third quarter of 2022. Operating days across the Company's U.S. fracturing operations decreased to 345 in the first six months of 2023 from 449 days during the same period of 2022 due to shifting client schedules related to drilling delays to start the year. Adjusted EBITDA was \$23.1 million (13% of revenue) for the six months ended June 30, 2023, compared to an Adjusted EBITDA of \$30.1 million (17% of revenue) for the six months ended June 30, 2022.

The year over year increase in operating expenses reflects the increased maintenance costs from the U.S operations' intensive preventative maintenance program completed on idle equipment during the first quarter which was partially offset by a shift to more client supplied product during the period. Inflationary pressures and supply chain constraints showed signs of easing towards the end of Q2 2023, but costs are higher on a year over year basis across most expense categories.

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		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Expenses:				
Operating expenses	\$ 463	\$ 795	\$ 948	\$ 1,366
Selling, general and administrative	4,863	11,828	3,397	20,550
Results from operating activities	\$ (5,326)	\$ (12,623)	\$ (4,345)	\$ (21,916)
Add:				
Depreciation	194	148	415	286
Share-based compensation expense (recovery)	814	7,692	(4,628)	12,149
Adjusted EBITDA ⁽¹⁾	\$ (4,318)	\$ (4,783)	\$ (8,558)	\$ (9,481)
Adjusted EBITDA % ⁽¹⁾	(2%)	(2%)	(2%)	(2%)

⁽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.

SECOND QUARTER 2023 COMPARED TO SECOND QUARTER 2022

For the three months ended June 30, 2023, expenses from corporate activities were \$5.3 million compared to expenses of \$12.6 million for the same period in 2022 due to the mark to market adjustment on cash settled share-based compensation in the current period. This expense was \$7.3 million lower in Q2 2023 relative to Q2 2022, as the Company's share price decreased by \$0.10 from March 31, 2023 to June 30, 2023 compared to a share price increase of \$1.88 during the same period of the prior year. Adjusted EBITDA of \$(4.3) million for the three months ended June 30, 2023 remained aligned with Adjusted EBITDA of \$(4.8) million for the same period in 2022.

SIX MONTHS ENDED JUNE 30, 2023 COMPARED TO SIX MONTHS ENDED JUNE 30, 2022

For the six months ended June 30, 2023 expenses from corporate activities were \$4.3 million compared to \$21.9 million for the same period in 2022. Cash settled share-based compensation expense was lower in the first six months of 2023 as the share price decreased \$2.07 from December 31, 2022 to June 30, 2023 compared to a share price increase of \$3.07 during the same period of the prior year, resulting in lower expenses from the mark to market adjustment in the current period. Adjusted EBITDA of \$(8.6) million for the six months ended June 30, 2023 was relatively consistent with Adjusted EBITDA of \$(9.5) million for the same period of the prior year. Adjusted EBITDA saw a slight improvement for the six months ended June 30, 2023 compared to the prior due to lower employee related costs.

NON-IFRS MEASURES AND RATIOS

This Press Release 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.

(\$000s except percentages)	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income	\$ 15,273	\$ 38,064	\$ 34,929	\$ 47,237
Add (deduct):				
Depreciation and amortization	21,097	26,690	41,871	43,762
Gain on disposal of equipment	(374)	(832)	(647)	(1,650)
Finance costs	2,807	2,904	5,707	6,221
Income tax expense	5,213	11,811	11,382	14,371
Share-based compensation – Cash settled	(4)	8,880	(6,422)	14,046
Share-based compensation – Equity settled	1,362	673	2,684	1,013
Foreign exchange (gain) loss	588	(231)	758	(51)
Unrealized loss on derivatives	1,442	-	2,494	-
Impairment reversal	-	(32,708)	-	(32,708)
Adjusted EBITDA	\$ 47,404	\$ 55,251	\$ 92,756	\$ 92,241
Adjusted EBITDA %	20%	20%	19%	19%

"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)	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net cash provided by (used in) operating activities	\$ 35,304	\$ 34,060	\$ 81,140	\$ 17,217
Add (deduct):				
Changes in non-cash working capital from operating activities	8,210	18,836	(5,712)	69,641
Sustaining capital	(6,919)	(10,514)	(21,621)	(19,425)
Term loan principal repayments	-	(6,987)	-	(13,975)
Lease payments (net of sublease receipts)	(1,798)	(2,228)	(3,659)	(4,119)
Free Cash Flow	\$ 34,797	\$ 33,167	\$ 50,148	\$ 49,339

“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)	June 30, 2023	December 31, 2022
Current assets	\$ 193,156	\$ 256,361
Current liabilities	(109,314)	(189,781)
Working Capital (including cash and cash equivalents)	\$ 83,842	\$ 66,580

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

(\$000s)	June 30, 2023	December 31, 2022
Long-term loans	\$ 118,784	\$ 140,794
Long-term leases	19,066	13,860
Other long-term liabilities	17,053	14,092
Total long-term financial liabilities	\$ 154,903	\$ 168,746

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

(\$000s)	June 30, 2023	December 31, 2022
Loans and borrowings	\$ 118,784	\$ 140,794
Add back: Deferred financing costs	2,181	2,704
Less: Cash and cash equivalents	(5,708)	(2,785)
Less: CCS Derivatives liability	502	1,511
Net Debt	\$ 115,759	\$ 142,224

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 Press Release 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 Press Release 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 Press Release contains forward-looking statements pertaining to: 2023 and 2024 industry conditions and outlook, including the effect of Russia related sanctions and OPEC supply limitations, demand for oil and gas, industry production discipline, and other macroeconomic factors, the effect of new LNG facilities, as well as the resumption of U.S. LNG exports; OPEC production as it relates to oil prices; anticipated 2023 and 2024 utilization levels, commodity prices, and pricing for the Company’s services; recession risk, including its effect on oil prices; the timing of completion of the Company’s tier 4 dual fuel conversions and anticipated substitution rates in the Company’s dual fuel fleets; IEA forecasted demand for crude oil; the effect of under-investment in hydrocarbon production; the effect or large clients and their programs may have on the Company’s activity levels; 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 changes in work scope on expected margins; the Company’s focus on Free Cash Flow and investment in emissions reduction technologies; the Company’s ability to meet all financial commitments including interest payments over the next twelve months; the Company’s plans regarding equipment; the Company’s ability to manage its capital structure; expected debt repayment and Funded Debt to Adjusted Bank EBITDA ratios; expected income tax and derivative 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; 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 Press Release 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 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; Client demand for dual fuel fleets and emissions reduction technologies; 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 Press Release.

Any financial outlook or future orientated financial information contained in this Press Release 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 Press Release 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.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at	June 30,	December 31,
Unaudited (in thousands of Canadian dollars)	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,708	\$ 2,785
Trade and other receivables	136,307	199,004
Income tax receivable	-	137
Inventory	48,601	46,410
Prepaid expenses and deposits	2,540	8,025
	193,156	256,361
Property and equipment	393,054	402,482
Right-of-use assets	27,598	23,528
Intangible assets	142	161
Other assets	4,140	-
	\$ 618,090	\$ 682,532
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables	\$ 86,600	\$ 165,869
Current portion of lease obligations	7,927	8,326
Current portion of other liabilities	5,571	6,526
Income tax payable	9,216	9,060
	109,314	189,781
Deferred tax liabilities	16,209	17,972
Lease obligations	19,066	13,860
Other liabilities	17,053	14,092
Loans and borrowings	118,784	140,794
	280,426	376,499
Shareholders' equity		
Share capital	455,833	453,702
Contributed surplus	33,396	32,843
Accumulated other comprehensive income	10,254	16,236
Deficit	(161,819)	(196,748)
	337,664	306,033
	\$ 618,090	\$ 682,532

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME AND OTHER COMPREHENSIVE INCOME

Unaudited (in thousands of Canadian dollars, except per share amounts)	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Revenue	\$ 232,073	\$ 273,000	\$ 495,441	\$ 492,539
Operating expenses	196,120	234,789	425,075	424,852
Gross profit	35,953	38,211	70,366	67,687
Selling, general and administrative expenses	10,994	19,191	15,723	34,141
Results from operating activities	24,959	19,020	54,643	33,546
Finance costs	2,807	2,904	5,707	6,221
Foreign exchange loss (gain)	588	(231)	758	(51)
Unrealized loss on derivatives	1,442	-	2,494	-
Gain on disposal of property and equipment	(374)	(832)	(647)	(1,650)
Amortization of intangible assets	10	12	20	126
Impairment reversal of property and equipment	-	(32,708)	-	(32,708)
Income before income tax	20,486	49,875	46,311	61,608
Income tax expense (recovery)				
Current	4,718	3,352	13,070	3,352
Deferred	495	8,459	(1,688)	11,019
Total income tax expense	5,213	11,811	11,382	14,371
Net income	15,273	38,064	34,929	47,237
Other comprehensive income				
Foreign currency translation (loss) gain	(4,742)	4,980	(5,982)	3,136
Total comprehensive income	\$ 10,531	\$ 43,044	\$ 28,947	\$ 50,373
Net income per share:				
Basic	\$ 0.21	\$ 0.56	\$ 0.49	\$ 0.69
Diluted	\$ 0.21	\$ 0.54	\$ 0.47	\$ 0.67

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Operating activities:				
Net income	\$ 15,273	\$ 38,064	\$ 34,929	\$ 47,237
Adjusted for the following:				
Depreciation and amortization	21,097	26,690	41,871	43,762
Share-based compensation (recovery)	1,358	9,553	(3,738)	15,058
Unrealized foreign exchange loss (gain)	2,258	(265)	2,372	25
Unrealized loss on derivatives	1,442	-	2,494	-
Gain on disposal of property and equipment	(374)	(832)	(647)	(1,650)
Impairment reversal of property and equipment	-	(32,708)	-	(32,708)
Finance costs	2,807	2,904	5,707	6,221
Income tax expense	5,213	11,811	11,382	14,371
Income taxes paid	(3,020)	(44)	(12,870)	(44)
Cash finance costs paid	(2,540)	(2,277)	(6,072)	(5,414)
Changes in non-cash working capital from operating activities	(8,210)	(18,836)	5,712	(69,641)
Net cash provided by operating activities	35,304	34,060	81,140	17,217
Investing activities:				
Purchase of property and equipment	(14,382)	(18,382)	(40,374)	(30,096)
Proceeds from disposal of equipment and vehicles	1,622	4,369	1,948	4,770
Changes in non-cash working capital from investing activities	(3,295)	3,352	(12,599)	5,924
Net cash used in investing activities	(16,055)	(10,661)	(51,025)	(19,402)
Financing activities:				
(Repayment) draws of loans and borrowings	(12,540)	(25,566)	(23,066)	5,034
Repayment of obligations under finance lease	(2,205)	(2,371)	(4,204)	(4,406)
Net cash (used in) provided by financing activities	(14,745)	(27,937)	(27,270)	628
Impact of exchange rate changes on cash	(33)	79	78	37
Increase (decrease) in cash and cash equivalents	4,471	(4,459)	2,923	(1,520)
Cash and cash equivalents, beginning of period	1,237	6,637	2,785	3,698
Cash and cash equivalents, end of period	\$ 5,708	\$ 2,178	\$ 5,708	\$ 2,178

ABOUT STEP

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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STEP will host a conference call on Thursday, August 3, 2023 at 9:00 a.m. MT to discuss the results for the Second Quarter of 2023.

To listen to the webcast of the conference call, please click on the following URL:

https://viaid.webcasts.com/starthere.jsp?ei=1623985&tp_key=d042f7b434.

You can also visit the Investors section of our website at www.stepenergyservices.com and click on “Reports, Presentations & Key Dates”.

To participate in the Q&A session, please call the conference call operator at: 1-888-886-7786 (toll free) 15 minutes prior to the call’s start time and ask for “STEP Energy Services Second Quarter and 2023 Earnings Results Conference Call”.

The conference call will be archived on STEP’s website at www.stepenergyservices.com/investors.