



# INVESTOR PRESENTATION

March | 2021

# DISCLAIMER

The information contained in this presentation does not purport to be all-inclusive or to contain all information that prospective investors may require. Readers are encouraged to conduct their own analysis and review of STEP Energy Services Ltd. (“STEP” or the “Company”) and of the information contained in this presentation. Without limitation, prospective investors should read the entire record of publicly filed documents relating to the Company, consider the advice of their financial, legal, accounting, tax and other professional advisors and such other factors they consider appropriate in investigating and analyzing the Company. In this presentation, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. Certain capitalized terms and abbreviations not otherwise defined herein have the meaning assigned to them in the Company’s Annual Information Form dated March 17, 2021 (the “AIF”), which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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## Forward-Looking Statements

Certain statements contained in this presentation constitute “forward-looking statements” or “forward-looking information” within the meaning of applicable securities legislation (collectively, “forward-looking statements”). These statements relate to management’s expectations 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. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this presentation should not be unduly relied upon. These statements speak only as of the date of this presentation. In addition, this presentation may contain forward-looking statements and forward-looking information attributed to third-party industry sources.

With respect to forward-looking statements contained in this presentation, assumptions have been made regarding, among other things: future oil, natural gas and natural gas liquids prices; COVID-19 and its impact on energy demand and the Company’s financial position and business plans, 2021 industry conditions and outlook, OPEC+ related market uncertainty, the Company’s ability to market successfully to current and new clients; the Company’s ability to utilize its

equipment; the Company’s ability to obtain qualified staff and equipment in a timely and cost efficient manner; levels of deployable equipment; future capital expenditures to be made by the Company; future sources of funding for the Company’s capital program; and the impact of competition on the Company.

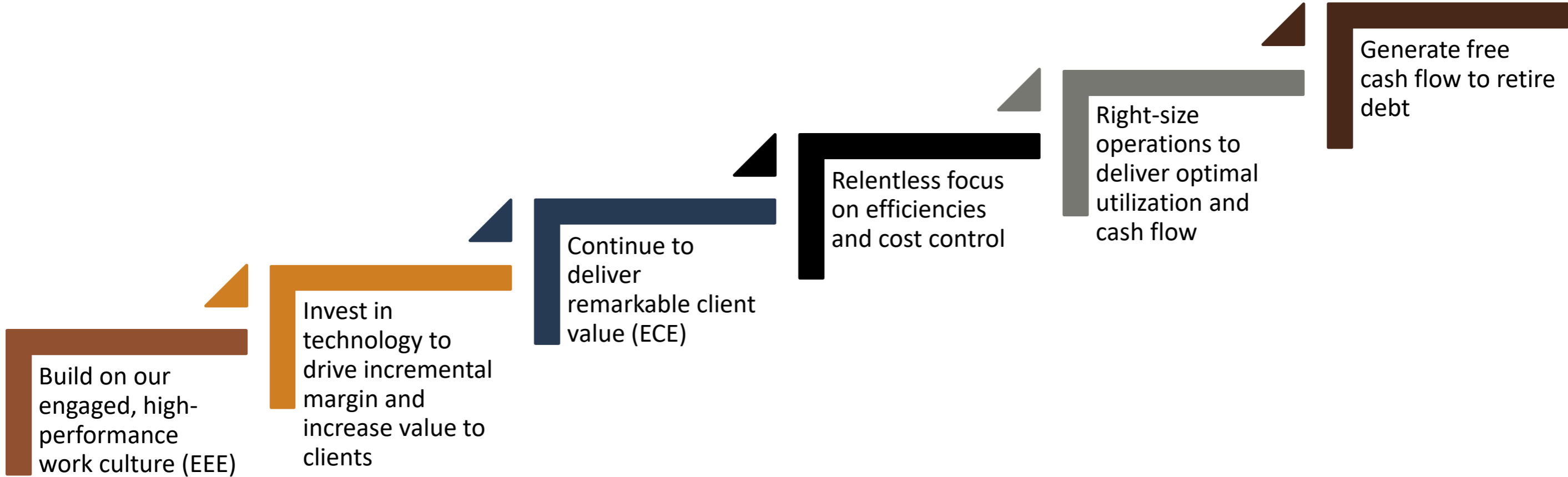
Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth in the AIF under the heading “Risk Factors” and in the Company’s Management Discussion and Analysis for the three and twelve month periods ended December 31, 2020 (the “MD&A”) under the heading “Risk Factors and Risk Management”. The forward-looking statements included in this presentation are expressly qualified by the foregoing cautionary statements and are made as of the date of this presentation. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws. For additional information, including with respect to the assumptions, expectations and risks applicable to such forward-looking information, see “Forward-Looking Information & Statements” in the AIF and the MD&A.

## Non-IFRS Measures


In addition to using financial measures prescribed by IFRS, references are made in this presentation to “Adjusted EBITDA” and “Adjusted EBITDA Margin”, which are measures that do not have any standardized meaning as prescribed by IFRS. Accordingly, the Company’s use of such terms may not be comparable to similarly defined measures presented by other entities. “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, loss (gain) on disposal of property and equipment, current and deferred income tax provisions and recoveries, share-based compensation, transaction costs, foreign exchange forward contract (gain) loss, foreign exchange (gain) loss, and impairment losses. “Adjusted EBITDA Margin” is defined as Adjusted EBITDA divided by revenue. These non-IFRS measures should also be read in conjunction with the MD&A, and the financial statements of STEP for the relevant periods, all of which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

References to “Funded Debt to EBITDA Ratio”, “Covenant Relief Period”, “Funded Debt to Tangible Net Worth Ratio”, “Interest Coverage Ratio”, and “Adjusted Bank EBITDA” are references to certain financial and non-financial covenants contained in STEP’s Second Amended and Restated Credit Agreement with its syndicate of lenders dated August 13, 2020, as amended (the “Credit Facilities”). References to these terms should be read in conjunction with Credit Facilities, and the MD&A all of which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

# STRATEGIC PRIORITIES




We are focused on environmental, social and governance activities and have been since we started the company.



**ENVIRONMENTAL**

- Dual-fuel fracturing fleets in Canada (natural gas substitution) reduce diesel consumption and CO<sub>2</sub> emissions
- Innovative equipment results in fewer trucks on the road and fewer assets on location
- Reduce, re-use and recycle fresh water requirement with specialty chemicals
- Idle Reduction Control on frac pumps reduces diesel consumption
- Reliability kits maximize oil change intervals
- Office and industrial recycling programs
- Large bore treating iron minimizes connections and the risk of spills




**PEOPLE**

- Our work environment inspires our professionals to bring their best to the work place
- Goal zero remains our HSE priority; we routinely operate for extended periods without a recordable injury
- Most recent safety audit score of 95%
- Extensive in-house training capacity including class-1 driver school, operation and competency training and leadership development
- A robust COVID-19 response plan has enabled our professionals to work safely, throughout the pandemic



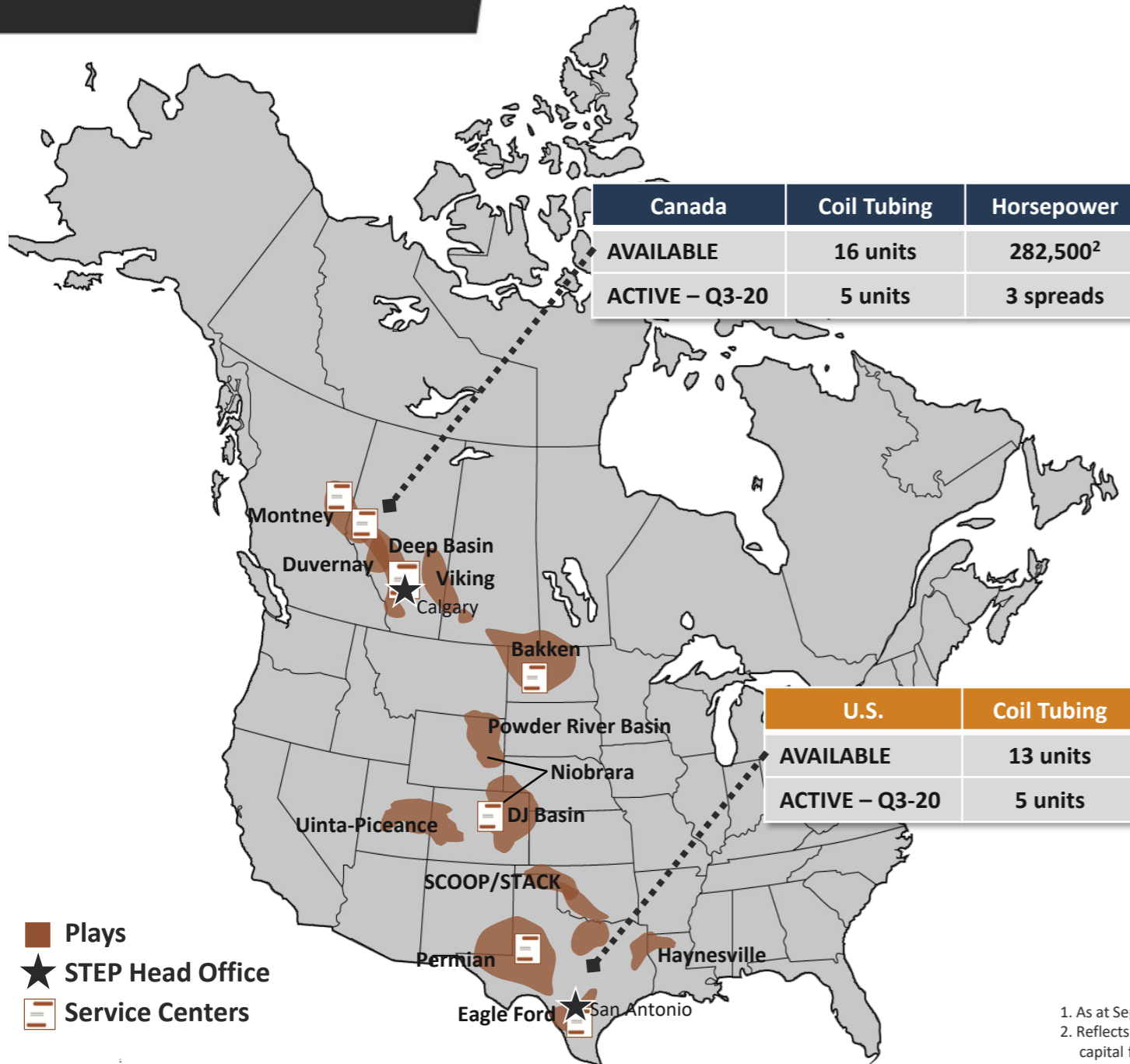
**COMMUNITY**

- Since inception, STEP professionals have raised over \$450,000 for charities across North America through the annual Christmas Spirit Campaign
- STEP provides financial support and encourages involvement in many local charities
- Community and financial partnership with Red Deer College, STARS, IMPACT Society
- Indigenous policy and program
- Annual golf tournament with proceed supporting families in need
- Always Safe Always Professional (ASAP) campaign brings safety to our homes and communities

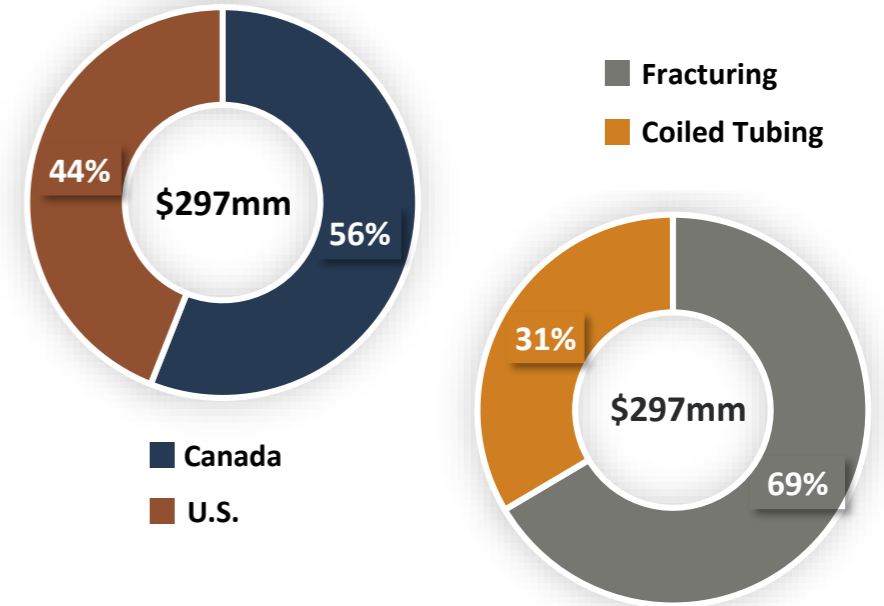


**GOVERNANCE**

- Board of Directors
  - Attendance – almost 100%
  - Diversity – two of seven directors are female
- Every employee signs off on the STEP Code of Conduct annually
- Audit Committee receives regular compliance reports with respect to Whistle Blower Policy and compliance hotline
- Received votes 98% in favor at most recent AGM and Special Meeting
- Passed the ISS Equity Plan Score Card evaluation (EPSC)
- Board position with PSAC
- Workplace diversity, gender, nationality, ethnicity, religion



Year-To-Date 2020 Revenue<sup>1</sup>



1. As at September 2020  
 2. Reflects total available horsepower as at September 30, 2020, and includes 15,000 HP that STEP has available for deployment (some of which may require capital for maintenance and refurbishment)

**Every part of our business has been fined-tuned to ensure we maximize free cash flow:**

We reacted quickly to the pandemic:

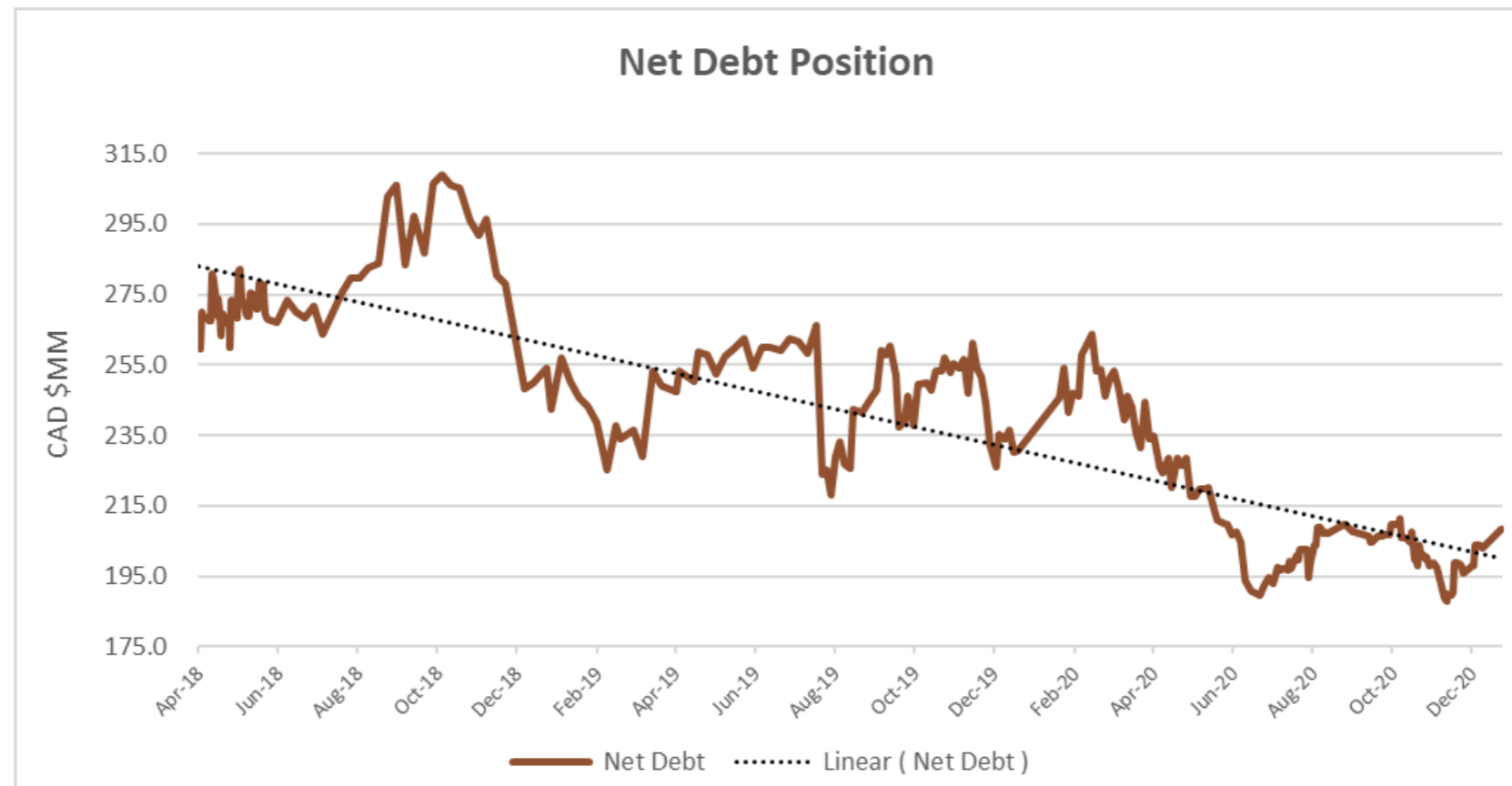
- CAPEX spending reduced from \$47.1mm to \$17.5mm
- Disposal of redundant, permanently idle assets
- Reduced headcount to match operating assets
- Reduced salaries, RRSPs, bonuses, implemented work furloughs and eliminated all discretionary spending
- Participated in all applicable government support programs
- Continue to work with suppliers on costs

All business decisions are focused on generating free cash flow:

- Capital investments supported by robust pay out analysis
- All client tenders must generate free cash flow relative to replacement value of assets
- Robust modelling to allow cost accuracy on all quotes / tenders
- Post job analysis are completed to measure and learn

## Significant debt reduction over a challenging period:

- Peak debt of \$310mm in October 2018 has been reduced by \$101mm or a 33% reduction
- Current balance of \$209mm versus January 1, 2020 balance of \$232mm



## Summary:

<b>Total Facilities</b>	CAD\$260mm
<b>Maturity</b>	June 25, 2022
<b>Financial Covenants</b>	<p>Funded Debt to EBITDA Ratio – <u>Waived</u> for Covenant Relief Period (Q3/20 – Q2/21) and replaced with:</p> <ul style="list-style-type: none"> <li><i>Funded Debt to Tangible Net Worth Ratio</i></li> </ul> <p>Interest Coverage Ratio</p> <p>Maximum Capex Covenant</p> <ul style="list-style-type: none"> <li><i>Agreed to with syndicate based on approved capital budget</i></li> </ul> <p>Minimum Quarterly EBITDA Test</p> <ul style="list-style-type: none"> <li><i>Set off of downside case – performance to date has materially outperformed the downside case</i></li> </ul>

- In compliance with all applicable financial and non-financial covenants at September 30, 2020:

Covenant	Ratio Required	Q3/20 Actual
Funded Debt to Tangible Net Worth Ratio	≤ 1.25 : 1.00	0.93
Minimum quarterly Adjusted Bank EBITDA	≥ (\$844k)	\$10.1mm
Interest Coverage Ratio	≥ 1.50 : 1.00	2.62

- Borrowing base availability of \$42.0 million (nothing drawn against base)
- STEP expects to be in compliance with all covenants at December 31, 2020



Despite unprecedented industry disruption, we have generated free cash flow from operations, arguably among the top financial results in our peer group.

## CONSOLIDATED

### Third Quarter and Nine Months of 2020 Results

(\$ in CAD millions except percentages)

	<u>Q3/20</u>	<u>9M/20</u>
<u>Revenue</u>		
STEP Energy Services	\$ 62.4	\$ 297.4
<u>Adjusted EBITDA</u>		
STEP Energy Services	\$ 10.5	\$ 35.7
<u>Adjusted EBITDA Margin*</u>		
STEP Energy Services	16.8%	12.0%
Competitor A	8.9%	3.1%
Competitor B	12.8%	10.5%

## CANADIAN OPERATIONS

### Third Quarter and Nine Months of 2020 Results

(\$ in CAD millions except percentages)

	<u>Q3/20</u>	<u>9M/20</u>
<u>Revenue</u>		
STEP Energy Services	\$ 44.8	\$ 167.5
<u>Adjusted EBITDA</u>		
STEP Energy Services	\$ 18.3	\$ 45.8
<u>Adjusted EBITDA Margin*</u>		
STEP Energy Services	40.8%	27.3%
Competitor A	16.1%	15.3%
Competitor B**	19.8%	17.5%

\*Adjusted EBITDA Margin is normalized for one-time expenses including severance, bad debt expense and adjusted for different accounting treatment of fluid ends.

\*\*Competitor B results have been normalized for a corporate segment.

The value we bring to our clients and the subsequent benefit to our margins is a direct result of our investment in technology:



- Ongoing focus on internal systems to streamline workflow, optimize efficiencies, reduce expenditures and improve client experience.



- Idle Reduction
- Dual-Fuel
- Predictive Maintenance
- STEP-XPRS
- STEP-IQ™ Real-Time Data Services
- Large bore treating manifolds



- Single Shot IOR™ - post-production oil recovery; a patented technology in pre-commercial development enabled by our global suite of waterless fracturing IP.

## From the gut wrenching lows in Q2-20, forecasts suggest industry improvement in 2021:

- While we expect that the current competitive market conditions will persist, we are encouraged by the increased requests for proposals and bids for 2021 work in both Canada and the U.S.
- A return to more stable demand and supply for crude oil will partially depend upon actions taken by health and government authorities and individual responses to these measures, as we deal with COVID-19.
- Geopolitical tensions, the ability of OPEC+ to maintain production targets and new presidency in U.S. will add to industry uncertainty.
- STEP is well positioned to capitalize on the improved outlook and expects high utilization in Q1/Q2 of 2021:

Region	Service Line	Available	Active Q4-20	Anticipated Q1-21
Canada	Coiled Tubing Services	16 units	5 units	7 units
	Fracturing Services	282,500 HP <sup>1</sup>	3 spreads	4 spreads
U.S.	Coiled Tubing Services	13 units	5 units	8 units
	Fracturing Services	207,500 HP	1 spread	2 spreads

1. Reflects total available horsepower as at September 30, 2020, and includes 15,000 HP that STEP has available for deployment (some of which may require capital for maintenance and refurbishment)

# STEP

energy services

[STEPENERGYSERVICES.COM](http://STEPENERGYSERVICES.COM)