

AUDIT COMMITTEE	EFFECTIVE DATE:	February 27, 2017
	REVISED:	-
	VERSION:	2

1. INTRODUCTION

The Audit Committee (the “**Committee**”) is a committee of the board of directors (the “**Board**”) of STEP Energy Services Ltd. (“**STEP**”). The primary function of the Committee is to assist the Board by:

- I. working with the Chief Executive Officer to recruit persons to hold key positions in the financial management of STEP including the Chief Financial Officer, the Controller and any other persons hired to be the primary interface between STEP and its financial agents, lenders or shareholders;
- II. recommending to the Board for consideration and further recommendation to the shareholders the appointment and compensation of the external auditor;
- III. overseeing the work of the external auditor, including gaining an understanding of disagreements between the external auditor and management;
- IV. overseeing the assignment of non-audit services to the external auditor, including but not restricted to pre-approving all non-audit services (or delegating such pre-approval, if and to the extent permitted by law) to be provided to STEP or its subsidiary entities (“subsidaries”) by the external auditor;
- V. reviewing and approving any proposed hiring of any current or former partner or employee of the current or former external auditor of STEP or its subsidiaries;
- VI. establishing procedures for the receipt, retention and treatment of complaints received by STEP regarding accounting, internal controls or auditing matters, and for anything that may be required beyond STEP’s Whistleblower Policy for the confidential, anonymous submission by employees of STEP or its subsidiaries of concerns regarding questionable accounting or auditing matters;
- VII. reviewing and approving the quarterly financial statements, the related Management Discussion and Analysis (“**MD&A**”), and similar financial information provided by STEP to any governmental body, the shareholders of STEP or the public, including by way of press release;
- VIII. reviewing and recommending that the Board approve annual financial statements, the related MD&A, and similar financial information provided by STEP to any governmental body, the shareholders of STEP or the public, including by way of press release; and
- IX. satisfying itself that adequate procedures are in place for the compilation, calculation and review of STEP’s disclosure of financial information, other than as described in (VII) above, extracted or derived from its financial statements, including periodically assessing the adequacy of such procedures.

The Committee should primarily fulfill these roles by carrying out the activities enumerated in this Mandate

2. COMPOSITION AND MEETINGS

- I. The Committee must be comprised of a minimum of three directors, as appointed by the Board, each of whom shall be independent within the meaning of National Instrument 52-110 – *Audit Committees (“NI 52-110”)* of the Canadian Securities Administrators unless the Board determines that an exemption contained in NI 52-110 is available and determines to rely thereon, and free of any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee.
- II. All of the members of the Committee must be financially literate within the meaning of NI 52-110 unless the Board has determined to rely on an exemption in NI 52-110. Being “financially literate” means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by STEP’s financial statements.
- III. The members of the Committee and its Chair shall be elected by the Board on an annual basis, or until they are removed or their successors are duly appointed.
- IV. The members of the Committee may be removed or replaced by the Board at any time. The Chair of the Committee may be removed by the Board at any time. Any member shall automatically cease to be a member of the Committee on ceasing to be a director. The Board may fill vacancies on the Committee. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all of the powers of the Committee, so long as a quorum remains.
- V. The Committee shall meet at least four times annually, or more frequently as circumstances require. The Committee should meet within forty-two (42) days following the end of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related MD&A, and should meet within eighty-five (85) days following the end of the fiscal year end to review and discuss the audited financial results for the preceding quarter and year and the related MD&A.
- VI. The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of STEP with senior employees, officers and the external auditor, and others as they consider appropriate. For greater certainty, corporate information includes information relating to STEP’s affiliates, subsidiaries and their respective operations.
- VII. In order to foster open communication, the Committee or its Chair should meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. In addition, the Committee or its Chair should meet with management quarterly in connection with STEP’s interim financial statements and the Committee should meet not less than quarterly with the auditors, independent of the presence of management.
- VIII. At all meetings of the Committee every question shall be decided by a majority of the votes cast. In case of an equality of votes, the Chair of the meeting shall not be entitled to a second or casting vote and in such cases the undecided matter should be referred to the Board as a whole.

- IX. A quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee or such greater number as the Committee shall by resolution determine.
- X. Meetings of the Committee shall be held from time to time and at such place as any member of the Committee shall determine upon 48 hours' notice to each of its members. The notice period may be waived by all members of the Committee. Each of the Chair of the Board, any Lead Director, the external auditor, the Chief Executive Officer, the Chief Financial Officer or the Corporate Secretary shall also be entitled to call a meeting.
- XI. Agendas shall be circulated to Committee members along with background information on a timely basis prior to the Committee meetings. Minutes of each meeting will be recorded and reviewed for errors or omissions and then filed with the Corporate Secretary and made available to any director at any time. The Committee should report on its activities at each quarterly meeting of the Board or more frequently as material issues are addressed by the Committee. It will be the responsibility of the Chair to report to the Board or delegate such reporting.
- XII. Any issue arising from these meetings that bear on the relationship between the Board and management should be communicated to the Board by a member of the Committee, the Committee being responsible to designate the member responsible for such report.

3. ROLE

In addition to the matters described in the Introduction, and any other duties and authorities delegated to it by the Board from time to time, the role of the Committee is to:

A. General

- Review and recommend to the Board changes to this Mandate, as considered appropriate from time to time.
- Review any and all disclosure regarding the Committee as contemplated by NI 52-110.
- Oversee by direct involvement or by delegation to the Disclosure Committee of management the disclosure of STEP's quarterly and annual financial statements and related filings.
- Summarize in STEP's disclosure materials the Committee's composition and activities, as required.

B. Internal Controls

- Satisfy itself on behalf of the Board with respect to STEP's internal control systems, including in particular but not exclusively:
 - matters relating to derivative instruments;
 - management's identification, monitoring and development of strategies to avoid and /or mitigate business risks;
 - the adequacy of the security measures that are in place in respect of STEP's information systems and the information technology that is utilized by STEP; and
 - ensuring compliance with legal and regulatory requirements.

C. Documents/ Reports Review

- Review and recommend to the Board for approval STEP's annual financial statements; and

- Review and approve STEP’s quarterly financial statements, including in each case any certification, report, opinion or review rendered by the external auditor, and related MD&A.
 - The process of reviewing annual and quarterly financial statements should include but not be limited to:
 - reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years’ financial statements;
 - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
 - reviewing accounting treatment of unusual or non-recurring transactions;
 - ascertaining compliance with covenants under loan agreements;
 - reviewing financial reporting relating to asset retirement obligations;
 - reviewing disclosure requirements for commitments and contingencies;
 - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
 - reviewing unresolved differences between management and the external auditors;
 - obtaining explanations of significant variances with comparative reporting periods; and
 - determining through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed.
 - Review the financial statements, prospectuses, MD&A, annual information forms and all public disclosure containing financial information that is based upon the financial statements of STEP that has not previously been released, before release and prior to Board approval, if required.
 - Seek to ensure that adequate procedures are in place for the review of STEP’s disclosure of financial information extracted or derived from STEP’s financial statements and periodically assess the adequacy of those procedures.

D. External Auditor

- Recommend to the Board the nomination of the external auditor for shareholder approval, considering independence and effectiveness, and review the fees and other compensation to be paid to the external auditor. Instruct the external auditor that its ultimate client is the shareholders of STEP as a group.
- Advise the external auditor that it is required to report directly to the Committee, and not to management of STEP and, if it has any concerns regarding the conduct of the Committee or any member thereof, it should contact the Chair of the Board or any other director.
- Monitor the relationship between management and the external auditor including reviewing any management letters or other reports of the external auditor and discussing any material differences of opinion between management and the external auditor.

- Review and discuss, on an annual basis, with the external auditor all significant relationships they have with STEP, its management or employees to determine their independence.
- Review and approve requests for any material management consulting or other engagement to be performed by the external auditor and be advised of any other material study undertaken by the external auditor at the request of management that is beyond the scope of the audit engagement letter and related fees.
- Review the performance of the external auditor and any proposed dismissal or non-renewal of the external auditor when circumstances warrant.
- Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has or has not taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.
- Review with external auditors (and internal auditor if one is appointed by STEP) their assessment of the internal controls of STEP, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses.
- Communicate directly with the external auditor, and arrange for the external auditor to report directly to the Committee.
- Communicate directly with the external auditor, and arrange for the external auditor to be available to the Committee and the full Board as needed.

E. Financial Reporting Processes

- Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor as the Committee sees fit.
- Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of STEP's accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices relative to STEP's peers.
- Review all material balance sheet issues, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions.
- Consider proposed major changes to STEP's accounting principles and practices.

F. Reporting Process

- If considered appropriate, establish separate systems of reporting to the Committee by each of management and the external auditor.
- Review the scope and plans of the external auditor's audit and reviews. The Committee may authorize the external auditor to perform supplemental reviews or audits as the Committee may deem desirable.
- Review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of STEP and its subsidiaries.
- Periodically consider the need for an internal audit function, if not present.

- Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.
- Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements.
- Where there are significant unsettled issues between management and the external auditors that do not affect the audited financial statements, the Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.
- Review with the external auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
- Review the system in place to seek to ensure that the financial statements, related MD&A and other financial information disseminated to governmental organizations and the public satisfy applicable requirements.
- When there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change.

G. Risk Management

- Review program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance.
- Review, not less than quarterly, a mark to market assessment of STEP's hedge positions and counterparty credit risk and exposure.

H. General

- If considered appropriate, conduct or authorize investigations into any matters within the Committee's scope of activities. The Committee is empowered to retain independent counsel, accountants and other professionals to assist it in the conduct of any such investigation or otherwise as it determines necessary to carry out its duties. The Committee may set and pay (at the expense of STEP) the compensation for any such advisors.
- Perform any other activities as the Committee deems necessary or appropriate.

4. COMPLAINT PROCEDURES

A. Submitting a Complaint

- Anyone may submit a whistle blower notice or complaint regarding conduct by STEP or its subsidiaries or their respective employees or agents (including its independent auditors) reasonably believed to involve questionable accounting, internal accounting controls or auditing matters. The Chair or in his/her absence or by his/her delegation, any other member of the Committee should oversee the treatment of such complaints.

B. Procedures

- The Chair of the Committee is designated to receive and administer or supervise the administration of employee complaints with respect to accounting or financial control matters.
- In order to preserve anonymity when submitting a complaint regarding questionable accounting or auditing matters, the employee may submit a complaint in accordance with STEP's Whistleblower Policy, and such complaint shall be addressed in accordance with that policy.

C. Records and Report

- The Chair of the Committee should maintain a log of complaints, tracking their receipt, investigation, findings and resolution, and should prepare a summary report for the Committee.

Approved by the Board of Directors on February 27, 2017.