



## GOVERNANCE GUIDELINES

The term "**Corporation**" refers to Obsidian Energy Petroleum Ltd., the term "**Obsidian Energy**" refers collectively to the Corporation and its subsidiaries, the term "**Board**" or "**Board of Directors**" refers to the board of directors of the Corporation, and the term "**Chairman**" refers to the Chairman of the Board.

### A. INTRODUCTION

1. The Board believes that good corporate governance practices provide an important framework for a timely response by the Board to situations that may directly affect shareholder value.
2. The Board wishes to emphasize that the substance of good corporate governance is more important than its form; adoption of a set of guidelines or principles or any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance.

### B. BOARD ADMINISTRATIVE GUIDELINES

The mandate of the Board of Directors defines the role of the Board. The following outlines the key guidelines governing how the Board will operate to carry out its duties of stewardship and accountability.

#### 1. The Board-Management Relationship

- (a) While the Board is called upon to manage or to supervise the management of the business by law, this is done by proxy through the Chief Executive Officer (the "CEO") of the Corporation, who is charged with the day-to-day leadership and management of the Corporation.
- (b) The CEO's prime responsibility is to lead the Corporation. The CEO formulates Corporation policies and proposed actions and presents them to the Board for approval. The Board approves the goals of the business, the objectives and policies within which it is managed, and then monitors and evaluates management's performance. Reciprocally, the CEO keeps the Board fully informed of the Corporation's progress towards the achievement of its goals and of all material deviations from the goals or objectives and policies established by the Board in a timely and candid manner.

- (c) Once the Board has approved the goals, strategies and policies it acts in a unified and cohesive manner in supporting and guiding the CEO subject to its duty to act in the best interests of the Corporation.

## 2. **Terms of Reference**

Mandates for

- (a) the Board;
- (b) the Committees:
  - (i) Audit;
  - (ii) Governance;
  - (iii) Human Resources and Compensation;
  - (iv) Reserves ; and
  - (v) Health, Safety and Environment ;

Terms of Reference for:

- (a) the Chairman; and
- (b) the CEO

are reviewed annually by the Governance Committee. The Governance Committee proposes changes to the Board for approval.

## 3. **Corporate Strategy**

Management is responsible for the development of an overall corporate strategy to be presented to the Board. The Board's role is to ensure there is a strategic planning process, and then review, question, validate, and ultimately approve the strategy and monitor its implementation.

## 4. **Business Risks**

The Board should have a continuing understanding of the principal risks associated with the business, and it is the responsibility of management to ensure the Board and its committees are kept well informed of changing risks. The principal mechanisms through which the Board reviews risks are:

- (a) on-going reports by the CEO;
- (b) the strategic planning process; and
- (c) through the work of the Audit Committee.

## 5. **Succession Planning**

The Board considers succession planning and management development to be an ongoing process, including annual reports to the Board by the CEO. The succession planning process is within the mandate of the Human Resources and Compensation Committee. The CEO's views as to a successor in the event of unexpected incapacity should be discussed regularly with the Human Resources and Compensation Committee.

## 6. **Board Communications Policy**

- (a) The Board approves the content of Obsidian Energy's major communications to shareholders and the investing public, including quarterly and annual reports, management proxy circulars, annual information forms and any prospectuses that may be issued.
- (b) However, the Board believes that it is the function of senior management to speak for Obsidian Energy in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. It is understood that the Chairman or other individual directors may, from time to time, be requested by the CEO to assist with such communications.
- (c) It is expected that when communications from stakeholders are made to the Chairman or to other individual directors, the CEO, if appropriate, will be informed and consulted to determine any appropriate response to be made by the Chairman or senior management, as the case may be.

## 7. **Evaluation of the CEO**

The Board is committed to an annual performance evaluation of the CEO. The CEO evaluation process is within the mandate of the Human Resources and Compensation Committee.

## 8. **Board Size and Composition**

- (a) The Board endeavours to maintain a Board size of at least 6, but not more than 11, members, which the Board considers to be an appropriate number for the size of the Corporation and sufficient to provide an appropriate mix of backgrounds and skills for the stewardship of Obsidian Energy. In general, the Board believes smaller boards are more cohesive and work more effectively than larger Boards.
- (b) A majority of the Board must qualify as "independent" directors in accordance with the definition of "independent" director from time to time under the requirements or guidelines for board service under applicable securities laws and the rules of any stock exchange on which the Corporation's securities are listed for trading. Currently, the applicable definitions of independence are contained in National Instrument 58-101 of the Canadian Securities Administrators and Section 303A.02 of the Corporate Governance Rules of the New York Stock Exchange. Members of Obsidian Energy's Audit Committee must also comply with the independence requirements of Section 303A.06 of the Corporate

Governance Rules of the New York Stock Exchange and Rule 10A-3 under the United States Securities Exchange Act of 1934, as amended.``

- (c) In the Board's view, being designated a non-independent director is not to be construed to imply that a non-independent director makes less of a contribution to the Corporation than an independent director or that a non-independent director cannot or does not act with independence or in the best interests of Obsidian Energy.
- (d) Any director who is an independent director and whose circumstances change such that he or she might be considered to be a non-independent director shall promptly advise the Board of the change in circumstances.
- (e) At its meeting to approve the Information Circular for the annual meeting of the shareholders of the Corporation each year, the Board will consider and determine whether a director or nominee to be a director is an independent director.
- (f) The maximum number of management or inside directors on the Board will be two.

**9. Criteria for Board Membership**

- (a) The Governance Committee will review each year the general and specific criteria applicable to candidates to be considered for nomination to the Board.
- (b) The objective of this review will be to maintain the composition of the Board in a way that provides the best mix of skills and experience to guide the long-term strategy and ongoing business operations of Obsidian Energy.
- (c) This review will take into account the desirability of maintaining a reasonable diversity of background skills and experience and personal characteristics among the directors, along with the key common characteristics required for effective Board participation.

**10. Selection of New Directors**

- (a) The Board is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders.
- (b) The Governance Committee has the responsibility of gathering the names of potential nominees, screening their qualifications against the current skill and experience needs of the Board and making recommendations to the full Board.
- (c) All directors are encouraged to identify potential candidates for consideration by the Governance Committee.
- (d) The Chairman and the CEO may provide additional input to the Governance Committee in connection with the process.

- (e) An invitation to stand as a nominee for election to the Board will normally be made to a candidate by the Board through the Chairman.

#### 11. **Directors Who Change Their Present Job Responsibility**

- (a) A director, including the CEO, if he/she is serving on the Board and has a change in personal circumstances which would reasonably interfere with his or her ability to serve as a Director, including a conflict of interest, or which would reflect poorly on Obsidian Energy (for example, a finding by a Court of fraud, or conviction under the Criminal Code or securities legislation) shall offer his or her resignation to the Board for consideration. It is not intended that directors who retire or whose professional positions change should necessarily leave the Board.
- (b) The sense of the Board is that there should be an opportunity for the Board to review, through the Governance Committee, the continued appropriateness of Board membership under such circumstances.

#### 12. **Director Terms**

Each director is elected annually by the Corporation's shareholders. It is understood that in accordance with Obsidian Energy's Director Retirement Policy, each director shall offer their resignation to the Chair of the Governance Committee upon reaching age 65 and annually thereafter.

#### 13. **Director Responsibilities**

- (a) Directors should endeavour to understand the oil and gas business in which Obsidian Energy operates and carries on business.
- (b) Directors should review all meeting materials and endeavour to attend all meetings of the Board as well as all committees of which they are members.
- (c) Directors should endeavour to act with a view to the best interests of Obsidian Energy.

#### 14. **Board Independence**

- (a) The independence of the Board from management is included in the mandate of the Governance Committee and is included in the Terms of Reference for the Chairman.
- (b) At any time any director may request that a meeting of the Board or any committee thereof be held without representatives of management present or that all or some representatives of management absent themselves from any particular portion of any meeting of the Board or any committee thereof. When requested by a director that all or a portion of a meeting be held without management, the Chairman or the committee Chair in question, shall consider and discuss with the independent directors whether or not such action shall be taken. If no such action is to be taken, the respective Chair shall report back to

the director requesting the action, advising the director as to the reasons why such action has not been taken.

- (c) The Board will allow time at the end of each Board meeting to meet without the CEO and any other non-independent directors. This provides an opportunity for directors to raise any issues independently of management and scheduling this session on a regular basis ensures that such meetings are a matter of course for an independent Board and do not indicate any kind of crisis or emergency. The independent members of the Board may meet more frequently as they determine appropriate without the presence of any non-independent directors or members of management. If there are any non-management directors who are not independent, the non-management directors should also meet regularly. The Chairman will preside over meetings of the independent directors and meetings of non-management directors.

#### 15. **Board Meetings and Agendas**

- (a) The Board meets a minimum of four times per year, usually every quarter.
- (b) The Chairman, the CEO, and the President & Chief Operating Officer, in consultation with the Corporate Secretary and other members of management, develop the agenda for each Board meeting. Under normal circumstances, the agenda and management will endeavour to distribute materials to the directors not less than three business days before each meeting. All directors are free to suggest additions to the agenda.

#### 16. **Board Information**

- (a) Material distributed to the directors in advance of Board meetings will be concise, yet complete, and prepared in a way that focuses attention on critical issues to be considered.
- (b) Reports may be presented during Board meetings by directors, management or staff, or by invited outside advisors. Presentations on specific subjects at Board meetings will briefly summarize the material sent to directors, so as to maximize the time available for discussion on questions regarding the material.
- (c) It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it would not be prudent or appropriate to distribute written material in advance.

#### 17. **Non-Directors at Board Meetings**

- (a) The Board appreciates the value of having certain members of senior management and other experts as appropriate attend each Board meeting to provide information and advice to assist the directors in their deliberations.
- (b) The Chairman and the CEO will determine who shall attend Board meetings and for which agenda items.

## 18. **Committees**

- (a) Committees analyze in depth policies and strategies developed by management, which are consistent with their terms of reference. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated to do so.
- (b) Each committee operates according to a Board approved written mandate outlining its duties and responsibilities.
- (c) The Committee structure may be subject to change as the Board considers from time-to-time which of its responsibilities can best be fulfilled through more detailed review of matters in committee.
- (d) The current committee structure includes:
  - (i) Audit Committee;
  - (ii) Health, Safety, Environment and Regulatory Committee;
  - (iii) Governance Committee;
  - (iv) Human Resources and Compensation Committee; and
  - (v) Reserves and A&D Committee.
- (e) The Board favours a periodic rotation in committee leadership and membership in a way that recognizes and balances the needs for new ideas, continuity and maintenance of functional expertise.
- (f) The Governance Committee is responsible to the Board for proposing the leadership and membership of each committee on an annual basis. In preparing its recommendations the Governance Committee will consult with the Chairman and with the CEO, and take into account the preferences of individual directors.

## 19. **Board Contact with Senior Management**

- (a) All of the directors have open access to the Corporation's senior management. It is expected that directors will exercise judgment to ensure that their contacts with senior management will not distract from the Corporation's business operations.
- (b) Written communications from directors to members of management will be copied to the CEO and to the Chairman.
- (c) The Board also encourages individual directors to make themselves available for consultation with management outside Board meetings in order to provide specific advice and counsel on subjects where such directors have special knowledge and experience.

## 20. **Director Orientation and Continuing Education**

- (a) New directors will be provided with an orientation and education program that will include written information about the duties and obligations of directors, and the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the Corporation expects from its directors), the role and responsibilities of the Board and its committees, the business and operations of Obsidian Energy, documents from recent Board meetings and opportunities for meetings and discussion with senior management and other directors. The details of the orientation of each new director will be tailored to that director's individual needs and areas of interest.
- (b) With the approval of the Governance Committee or its designee, directors may, at the expense of the Corporation, participate in continuing education programs that are designed to maintain or enhance their skills and abilities as directors or to enhance their knowledge and understanding of Obsidian Energy's business and operations.

## 21. **Assessing the Board's Performance**

- (a) The Governance Committee is responsible for ensuring that an annual assessment of the overall performance of the Board and its committees, including the Governance Committee, is made.
- (b) The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. It is expected that the results of such reviews will be to identify any areas where the directors and/or management believe that the Board could make a better collective contribution to overseeing the affairs of Obsidian Energy in such a way as to add shareholder value.

## 22. **Director Compensation**

The Governance Committee will review the form and amount of compensation of the directors each year in view of issues relating to independence and directors' compensation of peer corporations. The Committee will make recommendations to the Board for consideration when it believes changes in compensation are warranted.

## 23. **Limits to Management Authority**

From time to time, the Board establishes limits on management's authority depending on the nature and size of proposed transactions. These limits permit some flexibility within approved budgets but otherwise must not be exceeded without Board approval.

## 24. **Outside Advisors for Individual Directors**

Individual directors may need the services of an advisor to assist on matters involving their responsibilities as a Board member. Except as specifically permitted in a committee's terms of reference, the Board has determined that any director who wishes to engage an outside advisor at the expense of the Corporation, obtain the authorization of the Chairman or the Governance Committee.

25. **Board Guideline Review**

The Governance Committee will review these Guidelines annually and any recommended changes will be submitted to the Board for approval.