OBSIDIAN ENERGY POLICIES

HEDGING POLICY

Approved by: Board of Directors
Date: November 5, 2013
Amended: March 6, 2019

PURPOSE AND SCOPE

This Policy outlines the objectives, process and general guidelines that Obsidian Energy will follow with respect to commodity price, input cost, interest rate and foreign exchange hedging activities.

The Policy sets out among other things:

- The objectives of Obsidian Energy's hedging activities.
- The roles and responsibilities of the Hedging Risk Management Committee.
- Guidelines on how hedging targets shall be set.
- Restrictions around hedging activities including authority limits, counterparty credit and permissible structures to be used.

This Policy applies to all hedging or fixed price activities with a duration in excess of one month regardless of whether settlement of the transaction is by financial means or physical delivery. Note physical delivery contracts are under this policy if the contract applies to the full Canadian dollar revenue stream.

This Policy requires review and approval for implementation by Obsidian Energy's Board of Directors, upon recommendation of the Audit Committee of the Board of Directors. With the exception of Schedule A, the supplemental Schedules to this Policy may be amended from time to time by the Hedging Risk Management Committee.

OBJECTIVES OF HEDGING ACTIVITIES

The objective of the risk management program is to manage exposure to commodity price, foreign exchange, interest rate and input cost risks by increasing the predictability of funds flow, and therefore the likelihood that cash flow will be sufficient to fund, in whole or in part, capital programs and the potential return of capital to shareholders. The objectives are in reference to Obsidian Energy's Long Range Business Plan and/or Annual Budget, as appropriate. Additionally, hedging activities may also be executed in conjunction with an acquisition to

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In this Policy:

- Obsidian Energy Ltd. and its subsidiaries are referred to as "Obsidian Energy" or the "Company."
- "Board" means the board of directors of Obsidian Energy.
- "Officer" means any officer of Obsidian Energy duly appointed by the Board.

preserve the economics of the transaction. The intent of this Policy and the guidelines contained herein is to ensure that all hedging activities performed by Obsidian Energy are appropriate and effective for Obsidian Energy's business plans and that the risks of such activities are limited to the extent possible in the circumstances.

HEDGING RISK MANAGEMENT COMMITTEE ("HRMC")

The HRMC shall be comprised of Obsidian Energy's President & Chief Executive Officer (the "**CEO**"), the Chief Financial Officer (**"CFO"**) or delegate and the VP President, Business Development & Commercial or delegate.

The HRMC is responsible for setting all parameters related to hedging targets, including determination of the levels to hedge in accordance with the Authority Limits set forth in Schedule A, strike price levels, appropriate hedging/pricing indices to be used, appropriate types of financial structures to be used (subject to the limitations set forth in Schedule B), term duration and volume of each specific transaction.

The HRMC will meet on an as required basis. In order for any decision of the HRMC to be binding, it must have the approval of both the CEO and CFO who constitute a quorum for the purpose of setting hedging targets. In the event that the CFO is not available, either in person, by telephone or by means of e-mail and no delegate has been assigned, the CEO and Vice President, Business Development & Commercial will constitute a quorum for any proposed transaction relating to Commodities Produced or Input Costs or the CEO and the Controller will constitute a quorum for any proposed transaction relating to Interest Rate or Foreign Exchange or Equity Compensation Costs (as defined below under the section titled "Hedgeable Exposures"). The CEO is required to sign-off on all hedging transactions, thus if the CEO is not available either in person or by means of e-mail, no quorum may be constituted in his absence. Once the HRMC has set hedging targets, one member of the HRMC will notify by e-mail the appropriate group, (Manager, Corporate Planning for Commodity related transactions, Controller for Treasury related transactions), which will be responsible for executing those transactions. This e-mail notification will contain all of the necessary information for the appropriate group to proceed in an effort to execute the proposed transactions put forth by the HRMC (i.e. notional volume, target price, etc.).

The Manager, Corporate Planning or delegate will be responsible for the following

- selection of the transacting counterparty,
- execution of the transactions,
- providing appropriate notification of the transaction's execution,
- reviewing counterparty confirmations for correctness,
- obtaining appropriate signatures for any confirmation or supporting documentation, and
- satisfying any reporting requirements associated with the transactions, including ensuring compliance with the Company's Board approved hedging limits prior to executing each transaction, completing ongoing valuations and monitoring any credit exposure associated with hedging activity involving "Commodities Produced" and "Input Costs" (as defined below under the section titled "Hedgeable Exposures").

Note that at least two bids are required for each transaction with final approval from the CFO on the counterparty prior to execution of the transaction.

The Controller or delegate will be responsible for the following:

- selection of the transacting counterparty,
- execution of the transactions,
- providing appropriate notification of the transaction's execution,
- reviewing counterparty confirmations for correctness,
- obtaining appropriate signatures for any confirmation or supporting documentation, and;
- satisfying any reporting requirements associated with the transactions, including completing ongoing valuations and monitoring any credit exposure associated with hedging activity involving "Interest Rates", "Foreign Exchange" and "Equity Compensation Costs" (as defined below under the section titled "Hedgeable Exposures").

Note that at least two bids are required for each transaction with final approval from the CFO on the counterparty prior to execution of the transaction.

ESTABLISHMENT OF HEDGING TARGET LEVELS

The HRMC will set hedging targets for the various Hedgeable Exposures listed below at strike levels that increase the predictability of funds flow and therefore the likelihood that cash flow will be sufficient to fund in whole or in part capital programs and the potential return of capital to shareholders (i.e. dividend program). The objectives are in reference to Obsidian Energy's most current Long-Range Business Plan and/or Annual Budget, as appropriate, including forecast updates.

It is acknowledged that from time to time economic conditions may change rapidly and/or unexpectedly alter the outlook for commodity price realizations and input costs before Obsidian Energy can amend or develop a new Long-Range Business Plan and/or Annual Budget, as appropriate. In such cases, the HRMC may, at its discretion, establish hedging targets for the various Hedgeable Exposures at levels that are less than what is required to increase the likelihood of fully funding capital programs and the potential return of capital to shareholders as a defensive tactic.

HEDGEABLE EXPOSURES

Obsidian Energy is permitted to conduct hedging activity to reduce risk in the following four areas of exposure:

1) **Commodities Produced:** Any commodity produced and sold by Obsidian Energy whose price can be fixed using a financial instrument that contains a reasonable price correlation to the underlying commodity is eligible to be hedged. The HRMC will use its discretion to determine what constitutes a reasonable price correlation as it considers the index or basis to be used to hedge a commodity price risk exposure.

2) **Input Costs:** Any input cost that is subject to a liquid market and which has material impact to netbacks, such as Alberta power prices, are eligible to be hedged.

3) **Interest Rates:** Interest rate exposures associated with debt instruments that pose a funds flow risk to Obsidian Energy are eligible to be hedged.

4) **Foreign Exchange:** Foreign exchange exposure associated with any of the above three categories of Hedgeable Exposures, or any foreign denominated debt instrument issued by Obsidian Energy, are eligible to be hedged. Any fixed price commodity transaction or collar of a commodity price, debt instrument or input cost in which the transaction is executed in a currency other than Canadian dollars contains foreign exchange ("FX") exposure and such exposure is eligible to be hedged. The HRMC is only authorized to set hedging targets on direct FX exposure on foreign currency denominated commodity sales or contracts, debt or input cost transactions.

5) **Equity Compensation Costs**: Structures to limit or fix the costs of equity based compensation plans are eligible to be hedged with the approval of the HRMC.

AUTHORITY LIMITS

All hedging targets established by the HRMC and provided as a directive for execution to either the Corporate Planning, Finance/Treasury or Marketing groups must be in compliance with the Authority Limits set out in Appendix A. The Authority Limits set out in Appendix A may only be amended with approval of the Board of Directors, upon recommendation of the Audit Committee of the Board.

AMENDING POSITIONS

If the HRMC believes that it is prudent and in the best interests of the Company to amend or liquidate a transaction having regard to the objectives of this Policy (as set out under "Objectives of Hedging Activities" and "Establishment of Hedging Target Levels"), it may do so, but it must report the details of such activity to the Audit Committee of the Board of Directors no later than the next Audit Committee meeting.

COUNTERPARTIES AND SECURITY

Obsidian Energy will not execute any transaction pursuant to this Policy with a counterparty that is non-investment grade as rated by either Standard & Poors, Moodys, DBRS or Fitch without appropriate financial security or collateral. In the event that a counterparty loses its investment grade rating prior to the expiry of a transaction, Obsidian Energy will make efforts to obtain acceptable security to offset, or collateral to cover any unrealized gains for the remaining term of the transaction as calculated by a mark-to-market using industry standard practices. Obsidian Energy will include language in all contracts to facilitate appropriate credit support for all transactions. Whenever possible, Obsidian Energy will endeavor to transact only with counterparties with whom it has an executed master agreement in the form of an ISDA, Gas EDI or other commonly accepted industry standard or a long form confirmation that has already been reviewed and endorsed by Obsidian Energy for use prior to execution of the transaction.

PERMISSIBLE STRUCTURES

Obsidian Energy will select financial tools that meet its hedging objectives and are not speculative in nature. Financial tools that have been deemed speculative are identified on Schedule B attached to this document and are deemed 'Non Permissible' to use. For further clarity, Schedule B also lists the various tools and financial products currently approved as 'Permissible' for use by the HRMC.

REPORTING

Obsidian Energy will request from each counterparty that it provide Obsidian Energy a mark to market calculation for each contract on at least a quarterly basis. Obsidian Energy will do a reasonability test on these mark to market values. Such tests could include but are not limited to the internal generation of a mark to market calculation on all transactions each month based on the closing price strip for that relevant commodity, interest rate or foreign exchange index on the last day of the month. A summary of the mark to market calculation will be reviewed each quarter by the CFO or Controller for reasonableness and then incorporated in the Company's financial statements.

The HRMC will report hedging activity to the Audit Committee on at least a quarterly basis.

DOCUMENTATION

The HRMC will be notified by e-mail upon the successful execution of a hedging transaction or series of transactions. Such notification will identify at a minimum the counterparty's name, the strike price for the transaction, the term duration and volume transacted. This notification will be sent out by the group that executed the transaction.

Each counterparty will be required to send written confirmation of transactions to the appropriate department, who will review the confirmation for accuracy and arrange for execution in accordance with Obsidian Energy's Authorization for Document Execution Policy.

SCHEDULE A

AUTHORITY LIMITS

The following Schedule defining the authority limits for setting and approving risk management targets may only be amended with the approval of the Board. The Board may, upon the recommendation of the Audit Committee of the Board, approve hedging positions in excess of the limits set out below.

NATURAL GAS		
Authority Level	**% of Budgeted Annual Production**	**Term in Calendar Years**
HRMC	Max of 50% net of royalties	Balance of Current Year + One
HRMC	Max of 25% net of royalties	One Additional Year Thereafter

CRUDE OIL		
Authority Level	**% of Budgeted Annual Production**	**Term in Calendar Years**
HRMC	Max of 50% net of royalties	Balance of Current Year + One
HRMC	Max of 25% net of royalties	One Additional Year Thereafter

FOREIGN EXCHANGE ON COMMODITIES		
Authority Level	**% of Direct FX Exposure**	**Term in Calendar Years**
HRMC	100% of Direct Exposure	Balance of Current Year + Two

FOREIGN EXCHANGE ON DEBT		
Authority Level	**% of Direct FX Exposure**	**Term in Calendar Years**
HRMC	100% of Direct Exposure	Full Term of Debt

AB POWER		
Authority Level	**% of Forecast Consumption**	**Term in Calendar Years**
HRMC	100% of Direct Exposure	Balance of Current Year + One
HRMC	75% of Direct Exposure	One Additional Year Thereafter
HRMC	50% of Direct Exposure	Second Additional Year Thereafter

INTEREST RATES		
Authority Level	**% of Floating Exposure**	**Term in Calendar Years**
HRMC	100% of Direct Exposure	Full Term of Debt

- Percent of exposure hedged reflects Obsidian Energy’s working interest production budgeted or forecast net of estimated royalties.
- Foreign exchange authority limits represent direct FX exposure resulting from any commodity, debt or input cost transactions executed in any currency other than Canadian dollars.
- Authority limits for power represent percentages of forecast consumption on net working interest production for both operated and non-operated properties.
- Authority limits regarding term duration are referenced in calendar years and reflect the balance of any current calendar year plus the specified number of complete calendar years thereafter.

SCHEDULE B

PERMISSIBLE AND NON-PERMISSIBLE STRUCTURES

While the most commonly used financial risk management instruments are futures, options and derivatives such as swaps, not all of these financial tools are practical or desirable for an oil and gas producer. Depending on how and when they are used, options can be considered speculative instruments notwithstanding that, they can also be used to create defensive structures or structures that retain some portion of exposure to higher prices for the buyer of the option. Permissible financial risk management structures (including those relating to the use of options) are set out below.

Permissible Structures:

Swaps: Often referred to as fixed price swaps or average forward rate swaps (including cross currency swaps), these instruments meet this Policy's criteria of reducing risk to budgeted cash flow by exchanging a floating price exposure over a term with a fixed price exposure thus enabling Obsidian Energy to know with certainty what its revenue stream will be for that portion of production.

Costless Collars: A costless collar is an over the counter transaction whereby the producer sells a call option and simultaneously purchases a put option. The cost of the two options offset each other. Collars are permissible structures as long as the floor price exceeds the targeted price approved by the HRMC.

Funded Collars: A funded collar differs from a costless collar in that the cost of the put purchased is not the same as the cost of the call sold and as such there is an upfront premium to be paid for the transaction. Similar to costless collars these are permissible structures as long as the floor price exceeds the targeted price approved by the HRMC.

Participating Structures: Participating structures allow the producer to participate on some negotiated percentage of any price increase over and above the strike price. This participation is funded either through an upfront cash payment or by agreeing to a strike price that is below the current market level. These are permissible structures.

Put Options: The outright purchase of put options is permissible, but requires a level of funding to be determined and approved by the HRMC.

Three Way Structures: Three way structures with an embedded call spread are permissible so long as they provide a firm floor price.

Swaptions: A swaption is the right, but not an obligation, to purchase or sell a swap at a later date. The purchase of a swaption is a permissible structure, however, the sale of a swaption is not permissible unless approved by the Board.

Call Options: The outright purchase of call options is permissible, but requires a level of funding to be determined and approved by the HRMC.

Extendibles: Extendibles are a call option to extend the duration of a transaction past its original termination date if a certain strike price is achieved. The value of the call option is usually embedded in an increase on the underlying price of the transaction. Extendibles are permissible as long as the extension does not exceed the Authority Limits outlined in Schedule A.

Non-Permissible Structures:

Financial tools that are speculative in nature generally have no firm floor price, have ineffective correlation or involve the sale of an option without an offsetting purchase of an option for the same volume and term. Financial tools that are speculative in nature are non-permissible, and include the following.

Call Options: The sale of a call option is non-permissible unless it is accompanied by the simultaneous purchase of another call or put option for the same commodity of equal volume and term (i.e. a Collar).

Cross Commodity Swaps: These instruments link the price of one commodity to the delta of the price of another commodity. Most cross commodity swaps link two commodities whose prices have no correlation and are thus speculative and therefore are non-permissible. This does not include commodities that are a by-product of another commodity and by convention are priced off of that base commodity, such as ethane and natural gas.

Three Way Structures: Conventional three way structures with an embedded put spread are not permissible due to their lack of a firm floor price.

Knock-Out or Resetting Options: Knock-out or resetting options provide a firm floor to a specific level, but once that level is breached, the firm floor either falls away or is reset at a lower level. As such, knock-out or resetting options are not permissible.