MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2020

This management's discussion and analysis of financial condition and results of operations ("MD&A") of Obsidian Energy Ltd. ("Obsidian Energy", the "Company", "we", "us", "our") should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 and the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2019. The date of this MD&A is October 30, 2020. All dollar amounts contained in this MD&A are expressed in millions of Canadian dollars unless noted otherwise.

Certain financial measures such as funds flow from operations, funds flow from operations per share-basic, funds flow from operations per share-diluted, free cash flow, netback, gross revenues and net debt included in this MD&A do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore are considered non-GAAP measures; accordingly, they may not be comparable to similar measures provided by other issuers. This MD&A also contains oil and gas information and forward-looking statements. Please see the Company's disclosure under the headings "Non-GAAP Measures", "Oil and Gas Information", and "Forward-Looking Statements" included at the end of this MD&A.

All per share figures included in this MD&A reflect the 7:1 common share consolidation that was effective June 5, 2019.

Quarterly Financial Summary

(millions, except per share and production amounts) (unaudited)

Three months ended	**Sep. 30 2020**	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018
Oil and natural gas sales and other income	**$ 77**	$ 52	$ 84	$ 112	$ 94	$ 109	$ 103	$ 82
Cash flow from operations	**34**	2	33	49	32	(3)	(1)	19
Basic per share	**0.46**	0.03	0.45	0.67	0.44	(0.04)	(0.01)	0.26
Diluted per share	**0.46**	0.03	0.45	0.67	0.44	(0.04)	(0.01)	0.26
Funds flow from operations [(1)]	**30**	25	37	54	29	41	36	(2)
Basic per share	**0.41**	0.34	0.51	0.74	0.40	0.56	0.50	(0.03)
Diluted per share	**0.41**	0.34	0.51	0.74	0.40	0.56	0.50	(0.03)
Net income (loss)	**(4)**	(22)	(746)	(544)	(28)	(162)	(54)	(113)
Basic per share	**(0.05)**	(0.30)	(10.22)	(7.45)	(0.38)	(2.22)	(0.74)	(1.56)
Diluted per share	**$ (0.05)**	$ (0.30)	$ (10.22)	$ (7.45)	$ (0.38)	$ (2.22)	$ (0.74)	$ (1.56)
Production								
Light oil (bbls/d)	**10,952**	12,800	12,512	12,246	10,802	12,453	12,376	11,429
Heavy oil (bbls/d)	**2,823**	1,966	3,644	3,718	3,991	4,059	4,096	4,784
NGLs (bbls/d)	**2,244**	2,278	2,239	2,095	2,192	2,201	2,122	2,788
Natural gas (mmcf/d)	**54**	53	52	52	51	55	54	65
Total (boe/d)	**25,031**	25,872	27,092	26,639	25,505	27,835	27,651	29,905

(1) Please refer to the prior quarterly filings for reconciliations of cash flow from operations to funds flow from operations.

Cash flow from Operations and Funds Flow from Operations

(millions, except per share amounts)	Three months ended September 30				Nine months ended September 30			
		2020		2019		**2020**		2019
Cash flow from operating activities	**$**	**34**	$	32	**$**	**69**	$	28
Change in non-cash working capital		**(12)**		(13)		**(1)**		46
Decommissioning expenditures		**1**		5		**9**		8
Onerous office lease settlements		**2**		-		**7**		2
Realized foreign exchange loss – debt maturities		**-**		-				3
Restructuring charges		**-**		-		**-**		3
Transaction costs		**3**		-		**3**		-
Other expenses (1)		**2**		5		**5**		16
Funds flow from operations	**$**	**30**	$	29	**$**	**92**	$	106
Per share								
Basic per share	**$**	**0.41**	$	0.40	**$**	**1.26**	$	1.46
Diluted per share	**$**	**0.41**	$	0.40	**$**	**1.26**	$	1.46

(1) Includes mainly legal fees related to claims against former Penn West Petroleum Ltd. ("Penn West") employees related to the Company's 2014 restatement of certain financial results.

In the third quarter of 2020, funds flow from operations and cash flow from operations were slightly higher than the comparable period as lower revenues due to lower crude oil prices were offset by the Company's lower cost structure as we implemented a number of cost saving initiatives within operating costs and general and administrative ("G&A") expenses.

For the first nine months of 2020, funds flow from operations was lower than 2019, primarily due to lower crude oil prices (particularly in the second quarter of 2020), as a result of the impact of the COVID-19 pandemic and potential supply and demand implications, which were partially offset by a lower cost structure.

Cash flow from operations increased in the first nine months of 2020 from the comparable period primarily due to the impact of working capital changes.

Business Strategy

Since March 2020, the oil and gas industry has experienced significant volatility with commodity prices, specifically crude oil prices. This is primarily due to macro-economic factors related to the COVID-19 pandemic and the resultant supply and demand issues. At the time crude oil prices began to fall in March, we had completed the majority of our drilling program for the first half of 2020, which totaled $49 million including drilling 10 horizontal wells, optimization spending and decommissioning expenditures. In response to the current low crude oil price environment, the Company anticipates minimal capital spending for the remainder of the year and is currently estimating total expenditures of $64 million for 2020, including capital and decommissioning expenditures. Similar to the third quarter of 2020, capital activities in the fourth quarter of 2020 will be focused on highly capital efficient, optimization activities. No drilling activity is anticipated for the remainder of 2020; however, we do have the operational flexibility to begin drilling activities quickly should crude oil prices warrant the investment.

The Company actively reviewed our portfolio beginning in March, considering the commodity price outlook at the time and shut-in production deemed uneconomic. This reduced average production in the second quarter of 2020 by approximately 2,100 boe per day. This reduction was primarily composed of heavy oil and associated gas production in the Peace River and Viking areas and certain light-oil properties in the Cardium area. As crude oil prices began to improve in May and June, the Company restarted the majority of the shut-in production and currently there is approximately 300 boe per day of production that remains offline, mostly consisting of heavy oil properties. The Company will continue to economically evaluate and, if required, adjust our production base if commodity price volatility occurs.

In 2020, the Company has continued to focus on cost savings initiatives as well as implementing temporary cost saving measures due to COVID-19 induced oil price reductions. Cost savings on forecasted 2020 operating costs totaled $24 million through these initiatives and shut-in production. We have also achieved $6 million of G&A cost savings for the first nine months of 2020 compared to the same period of 2019.

The Company continues to monitor all applicable government relief programs. Thus far, we have benefited from the Canadian Emergency Wage Subsidy ("CEWS"). The CEWS allows eligible companies to receive a subsidy of employee wages, subject to a cap. The program has been extended into 2021 and we will continue to evaluate our eligibility to participate in the amended CEWS program as further details become available. Additionally, under the Alberta Site Rehabilitation program ("ASRP") the Company has successfully been awarded grants totaling $17 million and an additional $4 million in allocation eligibility as an Area Based Closure program ("ABC" program) participant. These awards will allow the Company to expand our abandonment activities for wells, pipelines, facilities and related site reclamation starting in the fourth quarter of 2020 and thus reduce our decommissioning liability. We will continue to be actively engaged with the Government of Alberta on further ASRP developments, and other provincial and federal programs, as they are announced.

As Obsidian Energy moves forward, we believe our plan to focus on our industry leading Cardium position in addition to our goal of becoming a consolidating entity within the Cardium, offers a predictable, liquids weighted, production profile that is capable of generating sustainable value for all stakeholders. To that end, on September 21, 2020 the Company formally launched an offer to purchase all issued and outstanding common shares ("Bonterra Share") of Bonterra Energy Corp. ("Bonterra") for consideration of two common shares of Obsidian Energy for each Bonterra Share. The Company believes that the combination of the two companies will create the Cardium Champion allowing for the realization of material synergies that have the combined effect of generating increased cash flow, reducing debt levels, further lowering our breakeven $US WTI/barrel costs and ultimately allowing us to return money back to shareholders. Specific benefits we anticipate from this combination are far superior to what Obsidian Energy or Bonterra could achieve on a standalone basis and include:

- The combined entity's increased size will make us a top 20 Western Canadian oil producer, with improved financial metrics, increased capital markets relevance and enhanced positioning for future Cardium consolidation,
- The combined entity will have a strong operating platform with a low decline production base, low cost structure and high netbacks,
- With improved efficiencies, we expect that the combined entity will have over $100 million cost saving synergies over three years resulting in increased funds flow from operations, and,
- Higher free cash flow will achieve accelerated debt repayment (estimated to fall to 2:1X Debt to EBITDA by year-end 2022), lower credit risk, improved access to capital and ultimately, the reinstatement of cash dividend payments and/or a share buy-back program.

The offer is open until 5:00pm (Mountain Standard Time) on January 4, 2021, unless extended, accelerated or withdrawn. Please refer to our Take-Over Bid circular dated September 21, 2020 for further details. The Company will provide updates on the offer as required.

Business Environment

The following table outlines quarterly averages for benchmark prices and Obsidian Energy's realized prices for the previous eight quarters.

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Benchmark prices								
WTI crude oil ($US/bbl)	**$ 40.93**	$ 27.85	$ 46.17	$ 56.96	$ 56.45	$ 59.81	$ 54.90	$ 58.81
Edm mixed sweet par price (CAD$/bbl)	**49.83**	29.55	51.62	67.99	68.40	73.81	66.52	42.97
Western Canada Select (CAD$/bbl)	**42.41**	22.42	34.11	54.29	58.39	65.72	56.73	25.63
NYMEX Henry Hub ($US/mmbtu)	**2.00**	1.72	1.95	2.50	2.32	2.47	2.85	3.68
AECO Index (CAD$/mcf)	**2.24**	1.99	2.22	2.48	0.92	1.08	2.66	1.74
Foreign exchange rate (CAD$/$US)	**1.332**	1.386	1.345	1.320	1.321	1.338	1.329	1.322
Benchmark differentials								
WTI - Edm Light Sweet ($US/bbl)	**(3.51)**	(6.14)	(7.58)	(5.37)	(4.66)	(4.63)	(4.85)	(26.30)
WTI - WCS Heavy ($US/bbl)	**(9.08)**	(11.47)	(20.53)	(15.83)	(12.24)	(10.68)	(12.22)	(39.42)
Average sales price (1)								
Light oil (CAD$/bbl)	**50.84**	29.20	50.59	70.57	68.14	72.20	64.88	37.88
Heavy oil (CAD$/bbl)	**29.54**	5.98	20.07	41.80	40.44	42.63	30.62	7.70
NGLs (CAD$/bbl)	**22.11**	11.65	22.52	31.42	15.75	14.95	21.44	24.99
Total liquids (CAD$/bbl)	**43.06**	24.18	41.13	60.10	54.87	59.05	52.37	28.39
Natural gas (CAD$/mcf)	**$ 2.40**	$ 2.14	$ 2.20	$ 2.55	$ 1.05	$ 1.18	$ 2.41	$ 2.46

(1) Excludes the impact of realized hedging gains or losses.

Crude Oil

WTI prices averaged US$40.93 per barrel in the third quarter of 2020 compared to US$27.85 per barrel in the second quarter of 2020. The improvement in crude oil prices was mainly due to OPEC extending their production cuts and demand being partially restored as some COVID-19 restrictions were eased.

Differentials narrowed from the first half of 2020 and were relatively consistent over the third quarter of 2020 with Mixed Sweet Blend ("MSW") differentials averaging US$3.51 per barrel and Western Canadian Select ("WCS") differentials averaging US$9.08 per barrel. The narrower differentials were mainly due to refining capacity increasing, as demand partially improved, and lower supply due to shut-in production and an extended oil sands maintenance season in Western Canada.

The Company has the following physical crude oil contracts in place:

	Q4 2020	Q1 2021
WTI $CAD/bbl	$56.64	$55.54
bbl/day	530	542

Natural Gas

NYMEX Henry Hub prices were volatile during the third quarter of 2020, starting at US$1.69 per mmbtu and increasing to a high of US$2.57 per mmbtu in August as production levels were forecast to be lower due to shut-in production and reduced drilling activity. In September, prices declined to a low of US$1.33 per mmbtu due to predictions of warmer than average Fall weather.

In Alberta, AECO 5A prices trended with NYMEX Henry Hub, starting the third quarter at $1.87 per mcf, increasing to a high of $2.82 per mcf in early September and then decreasing to a low of $1.32 per mcf by the end of the quarter. The third quarter AECO 5A price averaged $2.24 per mcf for the period.

The Company has the following natural gas hedges in place on a weighted average basis:

	Nov 2020 - Mar 2021
AECO $CAD/mcf	2.94
Total mcf/day	23,700

Average Sales Prices

	Three months ended September 30			Nine months ended September 30		
	2020	2019	% change	**2020**	2019	% change
Light oil (per bbl)	**$ 50.84**	$ 68.14	(25)	**$ 43.14**	$ 68.44	(37)
Heavy oil (per bbl)	**29.54**	40.44	(27)	**19.99**	37.89	(47)
NGL (per bbl)	**22.11**	15.75	40	**18.73**	17.31	8
Total liquids (per bbl)	**43.06**	54.87	(22)	**36.14**	55.47	(35)
Risk management gain (loss) (per bbl)	**-**	0.90	(100)	**4.79**	(1.64)	n/a
Total liquids price, net (per bbl)	**43.06**	55.77	(23)	**40.93**	53.83	(24)
Natural gas (per mcf)	**2.40**	1.05	>100	**2.25**	1.55	45
Risk management loss (per mcf)	**(0.19)**	-	n/a	**(0.09)**	-	n/a
Natural gas net (per mcf)	**2.21**	1.05	>100	**2.16**	1.55	39
Weighted average (per boe)	**32.74**	38.64	(15)	**28.43**	40.24	(29)
Risk management gain (loss) (per boe)	**(0.42)**	0.60	n/a	**2.98**	(1.10)	n/a
Weighted average net (per boe)	**$ 32.32**	$ 39.24	(18)	**$ 31.41**	$ 39.14	(20)

RESULTS OF OPERATIONS

Production

Daily production	Three months ended September 30 2020	2019	% change	Nine months ended September 30 2020	2019	% change
Light oil (bbls/d)	**10,952**	10,802	1	**12,084**	11,871	2
Heavy oil (bbls/d)	**2,823**	3,991	(29)	**2,811**	4,048	(31)
NGL (bbls/d)	**2,244**	2,192	2	**2,254**	2,172	4
Natural gas (mmcf/d)	**54**	51	6	**53**	53	-
Total production (boe/d)	**25,031**	25,505	(2)	**25,995**	26,989	(4)

During the third quarter of 2020, the Company completed no development activity in response to the COVID-19 pandemic and a low commodity price environment, which led to a minor decrease in production due to base declines.

For the first nine months of 2020, as a result of the lower crude oil pricing environment, the Company shut-in production deemed temporarily uneconomic which reduced average production by approximately 2,100 boe per day during the second quarter of 2020, mostly related to heavy oil properties in the Peace River area. This contributed to the decrease from the comparable period. Currently there is approximately 300 boe per day that remains offline. The Company will continue to evaluate and adjust our production base as required in this volatile commodity price environment.

Light oil production continued to increase from the comparable periods as the Company's results from our 2020 Cardium development program continued to perform above expectations. As a result, our Cardium production has increased over last year's levels. Heavy oil production declines have reduced our total Company production due to restricted capital spending, our decision to temporarily shut-in certain heavy oil production and our decision to defer the repair of certain failed wells that were uneconomic.

Average production within the Company's asset areas was as follows:

Daily production (boe/d)	Three months ended September 30 2020	2019	% change	Nine months ended September 30 2020	2019	% change
Cardium	**20,661**	19,426	6	**21,615**	20,622	5
Peace River	**3,196**	4,519	(29)	**3,123**	4,528	(31)
Alberta Viking	**825**	1,051	(22)	**845**	1,034	(18)
Legacy	**349**	509	(31)	**412**	805	(49)
Total	**25,031**	25,505	(2)	**25,995**	26,989	(4)

Netbacks

	Three months ended September 30			
			2020	2019
	Liquids (bbl)	Natural Gas (mcf)	**Combined (boe)**	Combined (boe)
Operating netback:				
Sales price	$ 43.06	$ 2.40	**$ 32.74**	$ 38.64
Risk management gain (loss) (1)	-	(0.19)	**(0.42)**	0.60
Royalties	(1.81)	(0.12)	**(1.42)**	(3.12)
Transportation	(2.70)	(0.19)	**(2.13)**	(2.72)
Operating costs (2)	(14.74)	(0.89)	**(11.36)**	(14.65)
Netback	$ 23.81	$ 1.01	**$ 17.41**	$ 18.75
	(bbls/d)	(mmcf/d)	**(boe/d)**	(boe/d)
Production	16,019	54	**25,031**	25,505

(1) Realized risk management gains and losses on commodity contracts.
(2) Includes the benefit of third-party processing fees totaling $2 million (2019 - $2 million).

	Nine months ended September 30			
			2020	2019
	Liquids (bbl)	Natural Gas (mcf)	**Combined (boe)**	Combined (boe)
Operating netback:				
Sales price	$ 36.14	$ 2.25	**$ 28.43**	$ 40.24
Risk management gain (loss) (1)	4.80	(0.09)	**2.98**	(1.10)
Royalties	(2.10)	(0.05)	**(1.48)**	(2.89)
Transportation	(2.40)	(0.21)	**(2.01)**	(2.83)
Operating costs (2)	(13.59)	(0.83)	**(10.65)**	(13.64)
Netback	$ 22.85	$ 1.07	**$ 17.27**	$ 19.78
	(bbls/d)	(mmcf/d)	**(boe/d)**	(boe/d)
Production	17,149	53	**25,995**	26,989

(1) Realized risk management gains and losses on commodity contracts.
(2) Includes the benefit of third-party processing fees totaling $5 million (2019 - $6 million).

For both the third quarter and the first nine months of 2020, netbacks were lower than the comparable periods as the impact of the COVID-19 pandemic and resultant supply and demand implications resulted in lower realized prices in 2020. This was partially offset by lower operating costs as a result of several successful cost saving initiatives, reduced royalty rates due to lower crude oil prices and higher realized risk management gains on crude oil hedges, specifically during the first half of 2020.

Oil and Natural Gas Sales and Gross Revenues

A reconciliation from oil and natural gas sales and other income to gross revenues is as follows:

	Three months ended September 30				Nine months ended September 30			
(millions)		**2020**		2019		**2020**		2019
Oil and natural gas sales and other income	**$**	**77**	$	94	**$**	**213**	$	306
Realized risk management gain (loss) [1]		**-**		1		**22**		(8)
Less: Processing fees		**(2)**		(2)		**(5)**		(6)
Less: Financing income		**-**		(1)		**-**		(2)
Less: Other income		**-**		-		**(6)**		-
Gross revenues	**$**	**75**	$	92	**$**	**224**	$	290

(1) Relates to realized risk management gains and losses on commodity contracts

Oil and natural gas sales and other income and gross revenues were both lower than the comparable periods as a result of lower crude oil prices due to the COVID-19 pandemic, lower production volumes as a result of the Company temporarily shutting-in volumes deemed uneconomic during the second quarter of 2020 and the deferring of development capital spending. This was partially offset by crude oil hedging gains and higher natural gas prices in 2020 compared to 2019.

Change in Gross Revenues

(millions)		
Gross revenues – January 1 – September 30, 2019	$	290
Decrease in liquids production		(7)
Decrease in liquids prices [1]		(69)
Decrease in natural gas production		-
Increase in natural gas prices [1]		10
Gross revenues – January 1 – September 30, 2020 [2]	$	224

(1) Includes realized risk management gains and losses on commodity contracts.
(2) Excludes processing fees and other income.

Royalties

	Three months ended September 30				Nine months ended September 30			
		2020		2019		**2020**		2019
Royalties (millions)	**$**	**4**	$	8	**$**	**11**	$	22
Average royalty rate [1]		**4%**		8%		**5%**		7%
$/boe	**$**	**1.42**	$	3.12	**$**	**1.48**	$	2.89

(1) Excludes effects of risk management activities and other income.

For both the third quarter and for the first nine months of 2020, royalties decreased from the comparable period largely due to lower crude oil prices.

Expenses

(millions)	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Operating	**$ 28**	$ 36	**$ 81**	$ 106
Transportation	**5**	6	**14**	21
Financing	**7**	12	**28**	31
Share-based compensation	**$ 1**	$ 1	**$ 2**	$ 3

(per boe)	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Operating [(1)]	**$ 11.36**	$ 14.65	**$ 10.65**	$ 13.64
Transportation	**2.13**	2.72	**2.01**	2.83
Financing	**3.18**	4.91	**3.99**	4.11
Share-based compensation	**$ 0.30**	$ 0.38	**$ 0.24**	$ 0.48

(1) Includes the benefit of third-party processing fees totaling $2 million (2019 - $2 million) for the third quarter of 2020 and $5 million (2019 - $6 million) for the first nine months of 2020.

Operating

In 2020, the Company continued to progress on several cost saving initiatives and also quickly responded to the lower commodity price environment arising from the COVID-19 pandemic, which resulted in the Company temporally shutting-in production deemed uneconomic. This decision reduced operating costs beginning in the second quarter and partially in the third quarter of 2020, as most shut-in production was restored with oil prices improving. Additionally, the Company benefited from the CEWS program which reduced operating costs by $1.8 million and had a $0.25 per boe impact on operating expenses in the first nine months of 2020. The Company further lowered operating costs by temporarily reducing field staff salaries effective May 1.

The results for 2020 also include the full impact of the Company’s Legacy asset shut-in program, which was completed in 2019.

Transportation

The Company continues to utilize multiple sales points in the Peace River area to increase realized prices. The increase in realized prices is partially offset by additional transportation costs.

In 2020, the Company temporarily shut-in various heavy oil properties located in Peace River beginning in the second quarter and for part of the third quarter, which led to a reduction in transportation costs from the comparable periods.

Financing

Financing expense consists of the following:

(millions)	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Interest on long-term-debt	**$ 5**	$ 8	**$ 19**	$ 22
Advisor fees	**2**	2	**8**	3
Unwinding of discount on lease liabilities	**-**	2	**1**	6
Financing	**$ 7**	$ 12	**$ 28**	$ 31

Obsidian Energy's debt structure includes short-term borrowings under our syndicated credit facility and long-term financing through our senior notes. Financing charges decreased from the comparable periods mainly due to lower interest rates under the Company's syndicated credit facility, partially offset by recent bank extension and various advisor fees.

The interest rates on the Company's syndicated credit facility are subject to fluctuations in short-term money market rates as advances on the syndicated credit facility are generally made under short-term instruments. As at September 30, 2020, 86 percent (December 31, 2019 – 87 percent) of the Company's outstanding debt instruments were exposed to changes in short-term interest rates.

The Company has a reserve-based syndicated credit facility with an underlying borrowing base and amount available to be drawn of $550 million and $450 million, respectively. The revolving period of the syndicated credit facility ends on January 29, 2021, with the end date of the term period on November 30, 2021. The syndicated credit facility is subject to a semi-annual borrowing base redetermination in May and November of each year. The last two amending agreements are described below.

a) In September 2020, the Company entered into an amending agreement with our lenders. Under the agreement, the syndicated credit facility continued to be available on a revolving basis until October 31, 2020, subject to further extensions, with the end date of the term period set at November 30, 2021. In connection with the extension, the lenders had the option to complete a borrowing base redetermination on October 31, 2020.

b) Subsequent to September 30, 2020, the Company entered into an amending agreement with our lenders which extended the revolving period of the syndicated credit facility to January 29, 2021, subject to further extensions. The end date of the term period remains at November 30, 2021. In connection with the extension, the lenders have the option to complete a borrowing base redetermination on January 29, 2021. Additionally, the lenders have elected to not proceed with the borrowing base redeterminations on October 31, 2020 and on November 30, 2020.

In 2020, the Company agreed with holders of our senior notes to move the maturity dates of the notes due on March 16, 2020, May 29, 2020, December 2, 2020, December 2, 2022 and December 2, 2025 to November 30, 2021.

In September 2019, the Company announced the initiation of a formal strategic alternative process to maximize shareholder value, and this process continues. Such strategic alternatives may include, but are not limited to, a corporate sale, merger or other business combination, a disposition of all or a portion of the Company's assets, a recapitalization, a refinancing of our capital structure, or any combination of the foregoing. On September 21, 2020, the Company formally launched an offer to purchase all issued and outstanding common shares of Bonterra for consideration of two common shares of Obsidian Energy for each Bonterra share. The offer is open until 5:00pm (Mountain Standard Time) on January 4, 2021 unless extended, accelerated or withdrawn. The Company continues to pursue strategic alternatives however there can be no guarantees on the outcome. The outcome of the strategic review process as well as various factors such as government regulations and the commodity price environment lead to risk and uncertainty around revolving period reconfirmations and the terms of future renewals for the syndicated credit facility.

At September 30, 2020, the carrying value of the Company's US dollar denominated senior notes was $63 million (December 31, 2019 – $62 million). The increase in carrying value is the result of a weaker Canadian dollar against the US dollar at the comparable balance sheet dates. Summary information on the Company's senior notes outstanding as at September 30, 2020 is as follows:

	Issue date	Amount (millions)	Initial Term	Average interest rate	Weighted average remaining term
2008 Notes	May 29, 2008	US$4	8 – 12 years	6.40%	1.2
2010 Q1 Notes	March 16, 2010	US$10	5 – 15 years	5.85%	1.2
2010 Q4 Notes	December 2, 2010	US$21	5 – 15 years	4.94%	1.2
2011 Notes	November 30, 2011	US$12	5 – 10 years	4.79%	1.2

Share-Based Compensation

Share-based compensation expense relates to the Company's Stock Option Plan (the "Option Plan"), Restricted shares units ("RSU) granted under the Restricted Performance Share Unit Plan ("RPSU"), Deferred Share Unit Plan ("DSU") and Performance share units ("PSU") granted under the RPSU plan.

Share-based compensation expense consisted of the following:

	Three months ended September 30		Nine months ended September 30	
(millions)	**2020**	2019	**2020**	2019
RSU	**$ 1**	$ 1	**$ 2**	$ 3
Share-based compensation	**$ 1**	$ 1	**$ 2**	$ 3

The share price used in the fair value calculation of the PSU and DSU plans obligations at September 30, 2020 was $0.49 per share (2019 – $1.10). Share-based compensation expense related to the DSU plan, PSU plan and Option plan were insignificant in both periods.

General and Administrative Expenses

	Three months ended September 30		Nine months ended September 30	
(millions, except per boe amounts)	**2020**	2019	**2020**	2019
Gross	**$ 5**	$ 9	**$ 17**	$ 29
Per boe	**2.29**	3.72	**2.41**	3.85
Net	**3**	5	**10**	16
Per boe	**$ 1.40**	$ 2.25	**$ 1.47**	$ 2.15

In 2019, the Company focused our development operations on the Cardium which led to staff reductions, information technology savings and associated lower head office costs. The full effect of these changes are being realized in 2020, which led to decreases in both gross and net costs from 2019.

In 2020, the Company benefited from the CEWS program which reduced net G&A expenses by approximately $0.1 million or $0.05 on a per boe basis in the third quarter and by $0.6 million or $0.08 on a per boe basis for the first nine months of 2020. Additionally, in response to the low commodity price environment due to the COVID-19 pandemic, effective May 1, the Company further reduced G&A expenses by temporarily reducing all head office staff salaries, suspending the Company's matching component under the employee retirement savings plan and reducing Board of Directors retainer fees by 10 percent.

Restructuring and Other expenses

	Three months ended September 30				Nine months ended September 30			
(millions, except per boe amounts)		**2020**		2019		**2020**		2019
Restructuring	**$**	**-**	$	-	**$**	**-**	$	3
Per boe		**-**		-		**-**		0.44
Other		**2**		6		**6**		18
Per boe	**$**	**0.36**	$	2.88	**$**	**0.81**	$	2.57

In 2018, the Company fully utilized available insurance coverage relating to ongoing claims against former Penn West employees arising from the Company's 2014 restatement of certain financial results when we were known as Penn West. A claim brought by the United States Securities and Exchange Commission ("SEC") against Penn West was previously settled. The Company has been indemnifying two former employees pursuant to indemnity agreements in connection with ongoing claims brought by the SEC arising out of the same restatement.

On July 18, 2019, the Company notified the two former employees that the Company did not believe that the former employees met the criteria for indemnification, that the amounts invoiced on account of indemnification to date were in any event unreasonable, and that the Company would not be making any further advancements on account of indemnification. At the same time, the Company commenced a proceeding in the Court of Queen's Bench of Alberta against the two former employees, seeking a declaration that they had no further entitlement to indemnification, an order compelling them to repay all amounts advanced to date on account of indemnification, an order assessing the reasonableness of the amounts paid to date in respect of the indemnification, and other relief. In response, the two former employees brought a preliminary application to limit the evidence admissible in the proceeding. The preliminary application Judge ruled that the Company could not seek a declaration that the former employees are disentitled to advancements or indemnification because they failed to act honestly and in good faith with a view to the best interests of the Company, and had no reasonable grounds for believing that their conduct leading to the SEC Action was lawful, until after the former employees had had the opportunity to defend the allegations made against them in the SEC Action. The Company's application was permitted to proceed on alternate grounds related to the reasonableness and appropriateness of the costs, charges and expenses claimed by the two former employees.

The Company has appealed the preliminary application Judge's decision to the Court of Appeal of Alberta. The appeal is currently scheduled to be heard in December 2020.

On April 28, 2020, the U.S. District Court for the Southern District of New York approved settlements reached between the SEC and the two former employees. Under the settlements, in which the former employees neither admitted to nor denied the allegations made against them by the SEC, the two former employees agreed to make certain monetary payments. The Company currently is evaluating the impact of the SEC settlements on the former employees' claims to advancement and indemnification.

While the Company has been challenging its advancement and indemnification obligations to the former employees in court, we have continued to accrue for the expenses incurred by the former employees which are recorded in Other expenses as shown in the table above.

Transaction costs

(millions, except per boe amounts)	Three months ended September 30 2020	2019	Nine months ended September 30 2020	2019
Transaction costs	**$ 3**	$ -	**$ 3**	$ -
Per boe	**$ 1.20**	$ -	**$ 0.39**	$ -

In September 2020, the Company formally launched an offer to purchase all of the Bonterra Shares for consideration consisting of two common shares of Obsidian Energy for each Bonterra Share. This resulted in recording certain transaction related costs during the third quarter of 2020.

Depletion, Depreciation, Impairment and Accretion

(millions, except per boe amounts)	Three months ended September 30 2020	2019	Nine months ended September 30 2020	2019
Depletion and depreciation ("D&D")	**$ 28**	$ 56	**$ 104**	$ 191
D&D expense per boe	**12.00**	23.38	**14.58**	25.82
Property, Plant & Equipment ("PP&E") Impairment	**-**	-	**763**	130
PP&E Impairment per boe	**-**	-	**107.02**	17.64
Accretion	**1**	2	**6**	7
Accretion expense per boe	**$ 0.81**	$ 0.99	**$ 0.90**	$ 0.99

The Company's D&D expense has decreased from the comparable periods, primarily due to non-cash impairment charges recorded in both the first quarter of 2020 and the fourth quarter of 2019. These impairment charges were recorded mainly due to lower forecast commodity prices and higher discount rates due to continued commodity price and market value volatility within the oil and gas industry.

During the first quarter of 2020, the Company completed impairment tests across all of our cash generating units ("CGU's") as a result of the low commodity price environment, primarily due to the impact of the COVID-19 pandemic and concerns regarding potential supply and demand implications. This led to the Company recording $763 million of non-cash impairments, which included $702 million within our Cardium CGU, $58 million within our Peace River CGU and $19 million within our corporate assets. Additionally, a $16 million impairment recovery was recorded within our Legacy CGU as a result of the Company increasing our discount rate used in our decommissioning liability due to current market conditions. Impairment losses related to PP&E may be reversed in future periods if commodity price forecasts materially improve.

Taxes

As at September 30, 2020, the Company was in a net unrecognized deferred tax asset position of approximately $447 million. Since the Company has not recognized the benefit of deductible timing differences in excess of taxable timing differences, deferred tax expense (recovery) for the quarter is nil.

Foreign Exchange

Obsidian Energy records unrealized foreign exchange gains or losses to translate U.S. denominated senior notes and the related accrued interest to Canadian dollars using the exchange rates in effect on the balance sheet date. Realized foreign exchange gains or losses are recorded upon repayment of the senior notes.

The split between realized and unrealized foreign exchange gains or losses is as follows:

	Three months ended September 30		Nine months ended September 30	
(millions)	**2020**	2019	**2020**	2019
Realized foreign exchange loss	**$ -**	$ -	**$ -**	$ 3
Unrealized foreign exchange loss (gain)	**(2)**	1	**1**	(5)
Foreign exchange loss (gain)	**$ (2)**	$ 1	**$ 1**	$ (2)

Net Loss

	Three months ended September 30		Nine months ended September 30	
(millions except per share amounts)	**2020**	2019	**2020**	2019
Net income (loss)	**$ (4)**	$ (28)	**$ (772)**	$ (244)
Basic per share	**(0.05)**	(0.38)	**(10.55)**	(3.35)
Diluted per share	**$ (0.05)**	$ (0.38)	**$ (10.55)**	$ (3.35)

During the third quarter of 2020, the net loss was lower than the comparative period mainly due to lower depletion charges and reduced operating costs. This was partially offset by lower revenues, primarily as a result of lower crude oil prices from the COVID-19 pandemic.

For the first nine months of 2020, the net loss was mainly due to non-cash, PP&E impairment charges as a result of lower forecasted commodity prices due to the impact of the COVID-19 pandemic and potential supply and demand implications.

Capital Expenditures

	Three months ended September 30		Nine months ended September 30	
(millions)	**2020**	2019	**2020**	2019
Drilling and completions	**$ 3**	$ 21	**$ 34**	$ 50
Well equipping and facilities	**2**	6	**12**	18
Land acquisition and retention	**-**	-	**-**	1
Capital expenditures	**5**	27	**46**	69
Property dispositions, net	**-**	-	**-**	(11)
Total capital expenditures	**$ 5**	$ 27	**$ 46**	$ 58

As a result of the low commodity price environment due to the COVID-19 pandemic, the Company had minimal capital spending during the third quarter of 2020.

In early 2020, the Company continued with our development focus in the Cardium, specifically in the Willesden Green area. All 10 gross wells drilled in the first quarter were in this area and all of these wells were brought on production from March through May of 2020.

In response to the low commodity price environment, the Company anticipates modest capital spending of $9 million in the fourth quarter of 2020. Activities will focus on optimization and minor infrastructure projects in addition to decommissioning activities. The Company does have the operational flexibility to begin drilling activities quickly should crude oil prices warrant the investment.

Drilling

	Nine months ended September 30			
	2020		2019	
(number of wells)	**Gross**	**Net**	Gross	Net
Oil	**12**	**10**	15	11
Injectors, stratigraphic and service	**1**	**-**	3	-
Total	**13**	**10**	18	11
Success rate [1]		**100%**		100%

(1) Success rate is calculated excluding stratigraphic and service wells.

The Company drilled no wells during the third quarter of 2020.

Environmental and Climate Change

The oil and gas industry has a number of environmental risks and hazards and is subject to regulation by all levels of government. Environmental legislation includes, but is not limited to, operational controls, site restoration requirements and restrictions on emissions of various substances produced in association with oil and natural gas operations. Compliance with such legislation could require additional expenditures and a failure to comply may result in fines and penalties which could, in the aggregate and under certain assumptions, become material.

Obsidian Energy is dedicated to managing the environmental impact from our operations through our environmental programs which include resource conservation, water management and site abandonment/reclamation/remediation. Obsidian Energy has voluntarily entered into the Government of Alberta's ABC Program which has allowed the Company to accelerate abandonment activities, specifically on inactive properties, in a more cost-effective manner. The Company is committed to remaining in the ABC Program for at least 2020 and 2021. Recently the Alberta Government announced the suspension of spending requirements for the ABC Program for 2020 and we expect the $9 million already incurred by the Company in 2020 will be applied to our 2021 program target. Additionally, operations are continuously monitored to minimize both environmental and climate change impacts and allocate sufficient capital to reclamation and other activities to mitigate the impact on the areas in which the Company operates.

The Company has received ASRP grants to date totaling $17 million and an additional $4 million in allocation eligibility as an ABC program participant. These awards will allow the Company to expand our abandonment activities for wells, pipelines, facilities, and related site reclamation starting in the fourth quarter of 2020 and thus reduce our decommissioning liability.

Liquidity and Capital Resources

Net Debt

Net debt is the total of long-term debt and working capital deficiency as follows:

	As at	
(millions)	**September 30, 2020**	December 31, 2019
Long-term debt		
Current portion of long-term debt	**$ -**	$ 434
Long-term portion of long-term debt	**458**	27
Total	**458**	461
Working capital deficiency (1)		
Cash	**(6)**	(3)
Restricted cash	**(1)**	(2)
Accounts receivable	**(36)**	(66)
Prepaid expenses and other	**(16)**	(12)
Accounts payable and accrued liabilities	**80**	117
Total	**21**	34
Net debt	**$ 479**	$ 495

(1) Includes amounts classified as held for sale.

Net debt decreased compared to December 31, 2019, as commodity price decreases due to the impact of COVID-19, which lowered revenues, were more than offset by realized hedging gains, the Company's lower cost structure (specifically within operating costs and G&A expense) and lower capital expenditures. Long-term debt was relatively consistent between the periods.

The Company's credit facility was classified as a long-term liability at September 30, 2020 as the term-out date is November 30, 2021, which is beyond 12 months from the reporting date.

Liquidity

The Company has a reserve-based syndicated credit facility with an underlying borrowing base of $550 million and a borrowing limit of $450 million. For further details on the Company's debt instruments and our recent bank amendment, please refer to the "Financing" section of this MD&A.

The Company actively manages our debt portfolio and considers opportunities to reduce or diversify our debt capital structure. Management contemplates both operating and financial risks and takes action as appropriate to limit the Company's exposure to certain risks. Management maintains close relationships with the Company's lenders and agents to monitor credit market developments. These actions and plans aim to increase the likelihood of maintaining the Company's financial flexibility and appropriate capital program, supporting the Company's ongoing operations and ability to execute longer-term business strategies.

In the first quarter of 2020, the Company entered into amending agreements with holders of our senior notes and our bank syndicate to update our financial covenants as follows:

- for the period from January 1, 2020 onward both the Senior Debt and Total Debt to Adjusted EBITDA covenants have been eliminated; and
- the maximum for both the Senior Debt and Total Debt to Capitalization ratios were permanently increased to 75 percent.

On September 30, 2020, the Company was in compliance with all of our financial covenants which consisted of the following:

	Limit	September 30, 2020
Senior debt to capitalization	Less than 75%	59%
Total debt to capitalization	Less than 75%	59%

As at September 30, 2020, Obsidian Energy had sufficient liquidity under our syndicated credit facility to meet our current obligations. Based on strip commodity pricing as of October 22, 2020, the Company is currently forecasting that sufficient liquidity exists under our syndicated credit facility to fund operations, including planned capital expenditures. The Company continues to generate positive cash flow from operations and funds flow from operations at recent commodity prices as evidenced by our results in the third quarter and for the first nine months of 2020. Additionally, under the Company's current forecast, sufficient liquidity exists in the event that additional strip commodity price reductions were to occur due to a combination of available borrowing capacity and the ability to implement additional proactive actions within the Company's control. However, given the short-term nature of our credit facility extensions and due to significant commodity price volatility experienced since March 2020 mainly due to the impact of the COVID-19 pandemic on the demand for commodities and OPEC production levels, future significant decreases to commodity prices may occur which could impact future cash flows and cause uncertainty as to whether the Company has sufficient liquidity over the next 12 months. As a result, the Company may be required to obtain additional financing to increase liquidity, the availability of which is uncertain at this time. As such there is a material uncertainty that casts substantial doubt on the Company's ability to continue as a going concern.

Financial Instruments

The Company had the following financial instruments outstanding as at September 30, 2020. Fair values are determined using external counterparty information, which is compared to observable market data. Obsidian Energy limits our credit risk by executing counterparty risk procedures which include transacting only with institutions within our syndicated credit facility or companies with high credit ratings and by obtaining financial security in certain circumstances.

	Notional volume	Remaining term	Pricing	Fair value (millions)
Financial AECO Swaps				
AECO Swaps	23,700 mcf/d	Nov 2020 - Mar 2021	$2.94/mcf	$ -
Total				$ -

The components of risk management on the Consolidated Statements of Income (Loss) are as follows:

	Three months ended September 30		Nine months ended September 30	
(millions)	**2020**	2019	**2020**	2019
Realized gain (loss)				
Settlement of commodity contracts	**$ -**	$ 1	**$ 22**	$ (8)
Total realized risk management	**$ -**	$ 1	**$ 22**	$ (8)
Unrealized gain (loss)				
Commodity contracts	**$ -**	$ 3	**$ -**	$ (5)
Total unrealized risk management	**-**	3	**-**	(5)
Risk management gain (loss)	**$ -**	$ 4	**$ 22**	$ (13)

Additionally, the Company had the following physical contract outstanding at September 30, 2020.

	Notional volume	Remaining term	Pricing
Physical Crude Oil Contracts			
WTI	530 bbl/d	Oct - Dec 2020	$56.64/bbl

Subsequent to September 30, 2020, the Company entered into an additional physical crude oil contract for 542 barrels per day from January – March 2021 at a price of $55.54 per barrel.

Outlook

For the second half of 2020, we still anticipate modest capital activity given the current commodity price environment. Capital spending will focus on highly capital efficient optimization projects and decommissioning activities. The Company increased our capital expenditure guidance by $2 million for the second half of 2020 as a result of adding minor infrastructure projects; otherwise, our guidance remains unchanged. Current second half and full year 2020 estimates on our key metrics are as follows:

Metric		Second Half 2020 Guidance Range	Full Year 2020 Guidance Range
Average Production (1) (2)	boe per day	24,000 – 24,500	25,000 – 25,500
Capital Expenditures	$ millions	12	53
Decommissioning Expenditures	$ millions	3	11
Operating expense (3)	$/boe	$12.00 – $12.50	$11.10 – $11.50
G&A (3)	$/boe	$1.50 – $1.65	$1.50 – $1.60

(1) Adjusted for asset sales of 115 boe per day.
(2) Mid-point of guidance for second half of 2020 is 10,840 bbls per day light oil, 2,995 bbls per day heavy oil, 2,000 bbls per day NGLs and 50,500 mcf per day natural gas. Mid-point of full year guidance for 2020 is 11,680 bbls per day light oil, 2,885 bbls per day heavy oil, 2,135 bbls per day of NGLs and 51,300 mcf per day natural gas.
(3) The Company is anticipating a minor impact related to the CEWS during the fourth quarter of 2020 based on recent commodity prices and the current criteria for the program, both of which are subject to change.

This outlook section is included to provide shareholders with information about Obsidian Energy's expectations as at October 30, 2020 for average production, capital expenditures, decommissioning expenditures, operating costs and G&A expenses for the second half and fiscal 2020 and readers are cautioned that the information may not be appropriate for any other purpose. This information constitutes forward-looking information. Readers should note the assumptions, risks and discussion under "Forward-Looking Statements" and are cautioned that numerous factors could potentially impact the Company and our ability to meet our guidance, including fluctuations in commodity prices, any decision we make to shut-in additional production or resume production from shut-in properties, the impact of the COVID-19 pandemic on supply and demand for commodities, particularly crude oil, changes to the Government of Alberta's mandatory crude oil and bitumen curtailment program, or our ability to qualify for and receive payments under government assistance programs, and acquisition and disposition activity.

All press releases are available on Obsidian Energy's website at www.obsidianenergy.com, on SEDAR at www.sedar.com, and on EDGAR at www.sec.gov.

Sensitivity Analysis

Estimated sensitivities to selected key assumptions on funds flow from operations for the 12 months subsequent to the date of this MD&A, including risk management contracts entered to date, are based on forecasted results as discussed in the Outlook above.

		Impact on funds flow	
Change of:	Change	$ millions	$/share
Price per barrel of liquids	WTI US$1.00	6	0.07
Liquids production	1,000 bbls/day	9	0.12
Price per mcf of natural gas	AECO $0.10	1	0.02
Natural gas production	10 mmcf/day	2	0.03
Effective interest rate	1%	4	0.05
Exchange rate ($US per $CAD)	$0.01	2	0.03

Contractual Obligations and Commitments

Obsidian Energy is committed to certain payments over the next five calendar years and thereafter as follows:

	2020	2021	2022	2023	2024	Thereafter	Total
Long-term debt (1)	**$ -**	$ 458	$ -	$ -	$ -	$ -	$ 458
Transportation	**2**	7	5	3	2	7	26
Power infrastructure	**2**	6	2	-	-	-	10
Interest obligations	**5**	19	-	-	-	-	24
Office lease	**2**	10	10	10	10	1	43
Lease liability	**1**	5	3	1	-	6	16
Decommissioning liability (2)	**3**	7	7	1	1	41	60
Total	**$ 15**	$ 512	$ 27	$ 15	$ 13	$ 55	$ 637

(1) The 2021 figure includes $395 million related to the syndicated credit facility that is due for renewal in November 2021.
(2) These amounts represent the inflated, discounted future reclamation and abandonment costs that are expected to be incurred over the life of the Company's properties.

The scheduled revolving period of our syndicated credit facility continues to January 29, 2021, with an additional term out period to November 30, 2021. In addition, the Company has an aggregate of US$47 million in senior notes maturing in 2021. If the Company is unsuccessful in renewing or replacing the syndicated credit facility or obtaining alternate funding for some or all of the maturing amounts of the senior notes, it is possible that we could be required to seek to obtain other sources of financing, including other forms of debt or equity arrangements if available.

The Company is involved in various litigation and claims in the normal course of business and records provisions for claims as required.

Equity Instruments

Common shares issued:	
As at September 30, 2020	73,506,743
Issuances under RSU	5,911
As at October 30, 2020	73,512,654
Options outstanding:	
As at September 30, 2020 and October 30, 2020	961,954

Changes in Internal Control Over Financial Reporting (“ICFR”)

Obsidian Energy’s senior management has evaluated whether there were any changes in the Company's ICFR that occurred during the period beginning on July 1, 2020 and ending on September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No changes to the Company’s ICFR were made during the quarter.

Obsidian Energy utilizes the original Internal Control - Integrated Framework (2013) issued by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) to design and evaluate our internal control over financial reporting.

Off-Balance-Sheet Financing

Obsidian Energy has off-balance-sheet financing arrangements consisting of operating leases. The operating lease payments are summarized in the Contractual Obligations and Commitments section.

Non-GAAP Measures

Certain financial measures including funds flow from operations, funds flow from operations per share-basic, funds flow from operations per share-diluted, free cash flow, netback, gross revenues and net debt, included in this MD&A do not have a standardized meaning prescribed by IFRS and therefore are considered non-GAAP measures; accordingly, they may not be comparable to similar measures provided by other issuers. Funds flow from operations is cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, onerous office lease settlements, the effects of financing related transactions from foreign exchange contracts and debt repayments, restructuring charges, transaction costs and certain other expenses and is representative of cash related to continuing operations. Funds flow from operations is used to assess the Company’s ability to fund our planned capital programs. See “Cash flow from Operations and Funds Flow from Operations” above for a reconciliation of funds flow from operations to cash flow from operating activities, being our nearest measure prescribed by IFRS. Free cash flow is FFO less both capital and decommissioning expenditures. Netback is the per unit of production amount of revenue less royalties, operating expenses, transportation expenses and realized risk management gains and losses, and is used in capital allocation decisions and to economically rank projects. See "Results of Operations – Netbacks" above for a calculation of the Company’s netbacks. Gross revenues are oil and natural gas sales and other income including realized risk management gains and losses on commodity contracts and excludes processing fees, financing income and other revenue and is used to assess the cash realizations on commodity sales. See "Oil and Natural Gas Sales and Gross Revenues" above for a reconciliation of gross revenues to oil and natural gas sales and other income, being our nearest measure prescribed by IFRS. Net debt is the total of long-term debt and working capital deficiency and is used by the Company to assess our liquidity. See "Liquidity and Capital Resources – Net Debt" above for a calculation of the Company’s net debt.

Oil and Gas Information

Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the price of crude oil as compared to natural gas from time to time may be different from the energy equivalency conversion ratio of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Forward-Looking Statements

Certain statements contained in this document constitute forward-looking statements or information (collectively "forward-looking statements"). In particular, this document contains forward-looking statements pertaining to, without limitation, the following: that the Company anticipates minimal capital spending for the remainder of the year and what the current estimate is for 2020, including capital and decommissioning expenditures; that the Company will continue to economically evaluate and adjust our production base as required in this volatile commodity price environment; that the Company continues to monitor all applicable government relief programs to determine if we qualify to participate in them and will continue to evaluate our eligibility to participate in the amended CEWS program as further details become available; how the ASRP will allow the Company to expand the program, the timing thereof and staying actively engage in these types of programs; our plan to focus on our industry leading Cardium position in additional to our goal of becoming a consolidating entity within the Cardium, offer a predictable, liquids weighted, production profile that is capable of generating sustainable value for all stakeholders; the benefits and synergies attributable to the offer to purchase all the Bonterra Shares and that those attributes are fair superior to what either entity could achieve on a standalone basis; the expected re-confirmation and term out dates, as applicable, the lender option date to complete a borrowing base redetermination on the credit facility, and the maturity dates on the senior notes; the possible outcome of the strategic review process as well as various factors such as government regulations and the commodity price environment lead to risk and uncertainty around revolving period reconfirmations and the terms of future renewals of the syndicated credit facility; environment that the appeal with former Penn West employees will likely be heard in December 2020; that the impairment losses related to PP&E can be reversed in future periods if commodity price forecasts materially improve; what the capital focus will be for the fourth quarter of 2020 and the operational flexibility to begin drilling activities quickly should crude oil prices warrant the investment; that the compliance with certain environmental legislation could require additional expenditures and a failure to comply may result in fines and penalties which could, in the aggregate and under certain assumptions, become material; that we are dedicated to managing the environmental impact from our operations through the environmental programs which include resource conservation, water management and site abandonment/ reclamation/ remediation; that we will remain in the ABC program for 2020 and 2021; that the ABC program remains suspended in 2020 and amounts spent in 2020 under the program can be applied to our 2021 target; that the Company continuously monitors operations to minimize environmental impact and allocate sufficient capital to reclamation and other activities to mitigate the impact on the areas in which the Company operates; the financial covenant amendments and time frames that are applicable in connection with the amending agreements; that management contemplates both operating and financial risks and takes action as appropriate to limit the Company's exposure to certain risks and that management maintains close relationships with the Company's lenders and agents to monitor credit market developments, and these actions and plans aim to increase the likelihood of maintaining the Company's financial flexibility and capital program, supporting the Company's ongoing operations and ability to execute longer-term business strategies; our hedges; that we are forecasting that sufficient liquidity exists under our syndicated credit facility to fund operations and, based on these strip prices, does not expect to have a development capital program; that due to significant commodity price volatility currently due to the COVID-19 pandemic and potential lack of storage forcing production shut-ins, future significant decreases to commodity prices may occur which could impact future cash flows and cause uncertainty as to whether the Company has sufficient liquidity over the next 12 months, and as a result the Company may be required to obtain additional financing to increase liquidity, the availability of which is uncertain at this time; the second half and full year 2020 guidance including average production range, capital expenditures and decommissioning expenditures and operating and G&A expense ranges; and the sensitivity analysis and contractual obligations and commitments moving forward.

With respect to forward-looking statements contained in this document, the Company has made assumptions regarding, among other things: the benefits to be derived by the Company and its stakeholders from the proposed acquisition of Bonterra; we will have the ability to continue as a going concern going forward and realize our assets and discharge our liabilities in the normal course of business; that the Company does not dispose of or acquire material producing properties or royalties or other interests therein other than stated herein (provided that, except where otherwise stated, the forward-looking statements contained herein (including our guidance set out under "Outlook") do not assume the completion of the proposed transaction); the impact of regional and/or global health related events, including the ongoing COVID-19 pandemic, on energy demand and commodity prices; that the Company's operations and production will not be disrupted by circumstances attributable to the COVID-

19 pandemic and the responses of governments and the public to the pandemic; global energy policies going forward, including the continued ability of members of OPEC, Russia and other nations to agree on and adhere to production quotas from time to time; our ability to qualify for (or continue to qualify for) new or existing government programs created as a result of the COVID-19 pandemic (including the CEWS and ASRP) or otherwise, and obtain financial assistance therefrom, and the impact of those programs on our financial condition; our ability to execute our plans as described herein and in our other disclosure documents and the impact that the successful execution of such plans will have on our Company and our stakeholders; future capital expenditure and decommissioning expenditure levels; future operating costs and G&A costs; future crude oil, natural gas liquids and natural gas prices and differentials between light, medium and heavy oil prices and Canadian, WTI and world oil and natural gas prices; future hedging activities; future crude oil, natural gas liquids and natural gas production levels, including that we will not be required to shut-in additional production due to the continuation of low commodity prices or the further deterioration of commodity prices and our expectations regarding when commodity prices will improve such that any remaining shut-in properties can be returned to production; future exchange rates and interest rates; future debt levels; our ability to execute our capital programs as planned without significant adverse impacts from various factors beyond our control, including extreme weather events, wild fires, infrastructure access and delays in obtaining regulatory approvals and third party consents; our ability to obtain equipment in a timely manner to carry out development activities and the costs thereof; our ability to market our oil and natural gas successfully to current and new customers; our ability to obtain financing on acceptable terms, including our ability (if necessary) to continue to extend the revolving period and term out period of our credit facility, our ability to maintain the existing borrowing base under our credit facility, our ability to renew or replace our syndicated bank facility and our ability to finance the repayment of our senior notes on maturity; and our ability to add production and reserves through our development and exploitation activities.

Although the Company believes that the expectations reflected in the forward-looking statements contained in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the forward-looking statements contained herein will not be correct, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: the possibility that we are not able to continue as a going concern and realize our assets and discharge our liabilities in the normal course of business; the possibility that the Company will not be able to continue to successfully execute our business plans and strategies in part or in full, and the possibility that some or all of the benefits that the Company anticipates will accrue to our Company and our stakeholders as a result of the successful execution of such plans and strategies do not materialize; the possibility that the Company is unable to complete one or more of the potential transactions being pursued pursuant to our ongoing strategic alternatives review process (including the proposed acquisition of Bonterra), on favorable terms or at all, or that the Company and its stakeholders do not realize the anticipated benefits of any such transaction that is completed (including the benefits of the proposed acquisition of Bonterra described herein); the possibility that the Company ceases to qualify for, or does not qualify for, one or more existing or new government assistance programs implemented in connection with the COVID-19 pandemic and other regional and/or global health related events or otherwise, that the impact of such programs falls below our expectations, that the benefits under one or more of such programs is decreased, or that one or more of such programs is discontinued; the impact on energy demand and commodity prices of regional and/or global health related events, including the ongoing COVID-19 pandemic, and the responses of governments and the public to the pandemic, including the risk that the amount of energy demand destruction and/or the length of the decreased demand exceeds our expectations; the risk that the significant decrease in the valuation of oil and natural gas companies and their securities and the decrease in confidence in the oil and natural gas industry generally that has been caused by the COVID-19 pandemic persists or worsens; the risk that the COVID-19 pandemic adversely affects the financial capacity of the Company's contractual counterparties and potentially their ability to perform their contractual obligations; the possibility that the revolving period and/or term out period of our credit facility and the maturity date of our senior notes is not further extended (if necessary), that the borrowing base under our credit facility is reduced, that the Company is unable to renew our credit facilities on acceptable terms or at all and/or finance the repayment of our senior notes when they mature on acceptable terms or at all and/or obtain debt and/or equity financing to replace one or both of our credit facilities and senior notes; the possibility that we breach one or more of the financial covenants pursuant to our agreements with our lenders and the holders of our senior notes; the possibility that we are forced to shut-in additional production or continue existing production shut-ins longer than anticipated, whether due to commodity prices failing to rise or decreasing further or changes to existing government curtailment programs or the imposition of new programs; the risk that OPEC, Russia and other nations fail to agree on and/or adhere to production quotas from time to time that are sufficient to balance supply and demand fundamentals for crude oil; general economic and political conditions in Canada, the U.S. and globally, and in particular, the effect that those conditions have on commodity prices and our access to capital; industry conditions, including fluctuations in the price of crude oil, natural gas liquids and natural gas, price differentials for crude oil and natural gas produced in Canada as compared to other markets, and transportation restrictions, including pipeline and railway capacity constraints; fluctuations in foreign exchange or interest rates; unanticipated operating events or environmental events that can reduce production or cause production to be shut-in or delayed (including extreme cold during winter months, wild fires and flooding); the possibility that fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to hydrocarbons and technological advances in fuel economy and renewable energy generation systems could permanently reduce the demand for oil and natural gas and/or permanently impair the Company's ability to obtain financing on acceptable terms or at all, and the possibility that some or all of these risks are heightened as a result of the response of governments and consumers to the ongoing COVID-19 pandemic; and the other factors described under "Risk Factors" in our Annual Information Form and described in our public filings, available in Canada at www.sedar.com and in the United States at www.sec.gov. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking statements contained in this document speak only as of the date of this document. Except as expressly required by applicable securities laws, the Company does not undertake any obligation to publicly update any forward-looking statements. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

Additional Information

Additional information relating to Obsidian Energy, including Obsidian Energy's Annual Information Form, is available on the Company's website at www.obsidianenergy.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

Obsidian Energy Ltd.
Consolidated Balance Sheets

(CAD millions, unaudited)	Note		**September 30, 2020**		December 31, 2019
Assets					
Current					
Cash		**$**	**6**	$	1
Restricted cash			**1**		2
Accounts receivable			**36**		62
Prepaid expenses and other			**16**		12
Lease receivable	3		**-**		9
Assets held for sale	4		**-**		83
			59		169
Non-current					
Lease receivable	3		**-**		30
Property, plant and equipment	5		**909**		1,705
			909		1,735
Total assets		**$**	**968**	$	1,904
Liabilities and Shareholders' Equity					
Current					
Accounts payable and accrued liabilities		**$**	**80**	$	111
Current portion of long-term debt	6		**-**		434
Current portion of lease liabilities	7		**5**		29
Current portion of provisions	8		**17**		16
Liabilities related to assets held for sale	4		**-**		13
			102		603
Non-current					
Long-term debt	6		**458**		27
Lease liabilities	7		**8**		85
Provisions	8		**78**		97
			646		812
Shareholders' equity					
Shareholders' capital	11		**2,187**		2,187
Other reserves	12		**104**		102
Deficit			**(1,969)**		(1,197)
			322		1,092
Total liabilities and shareholders' equity		**$**	**968**	$	1,904

Basis of presentation (Note 2)
Subsequent events (Note 6 and 9)
Commitments and contingencies (Note 13)

See accompanying notes to the unaudited interim consolidated financial statements.

Obsidian Energy Ltd.
Consolidated Statements of Income (Loss)

(CAD millions, except per share amounts, unaudited)	Note	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Oil and natural gas sales and other income	10	**$ 77**	$ 94	**$ 213**	$ 306
Royalties		**(4)**	(8)	**(11)**	(22)
		73	86	**202**	284
Risk management gain (loss)	9	**-**	4	**22**	(13)
		73	90	**224**	271
Expenses					
Operating	14	**28**	36	**81**	106
Transportation		**5**	6	**14**	21
General and administrative	14	**3**	5	**10**	16
Restructuring		**-**	-	**-**	3
Share-based compensation	12	**1**	1	**2**	3
Depletion, depreciation, impairment and accretion	5,8	**29**	58	**873**	328
Provisions loss (gain)	8	**1**	(7)	**(22)**	(9)
Foreign exchange loss (gain)	6	**(2)**	1	**1**	(2)
Financing	6,7	**7**	12	**28**	31
Transaction costs	15	**3**	-	**3**	-
Other		**2**	6	**6**	18
		77	118	**996**	515
Income (loss) before taxes		**(4)**	(28)	**(772)**	(244)
Deferred tax expense (recovery)		**-**	-	**-**	-
Net and comprehensive income (loss)		**$ (4)**	$ (28)	**$ (772)**	$ (244)
Net income (loss) per share					
Basic		**$ (0.05)**	$ (0.38)	**$ (10.55)**	$ (3.35)
Diluted		**$ (0.05)**	$ (0.38)	**$ (10.55)**	$ (3.35)
Weighted average shares outstanding (millions)					
Basic	11	**73.5**	73.0	**73.2**	72.8
Diluted	11	**73.5**	73.0	**73.2**	72.8

See accompanying notes to the unaudited interim consolidated financial statements.

Obsidian Energy Ltd.
Consolidated Statements of Cash Flows

(CAD millions, unaudited)	Note	Three months ended September 30 **2020**	Three months ended September 30 2019	Nine months ended September 30 **2020**	Nine months ended September 30 2019
Operating activities					
Net income (loss)		**$ (4)**	$ (28)	**$ (772)**	$ (244)
Other income	3	**-**	(1)	**-**	(2)
Depletion, depreciation, impairment and accretion	5,8	**29**	58	**873**	328
Provisions loss (gain)	8	**1**	(7)	**(22)**	(9)
Financing	6,7	**-**	2	**1**	6
Share-based compensation	12	**1**	1	**2**	3
Unrealized risk management loss (gain)	9	**-**	(3)	**-**	5
Unrealized foreign exchange loss (gain)	6	**(2)**	1	**1**	(5)
Other		**-**	1	**1**	2
Decommissioning expenditures	8	**(1)**	(5)	**(9)**	(8)
Onerous office lease settlements	8	**(2)**	-	**(7)**	(2)
Change in non-cash working capital		**12**	13	**1**	(46)
		34	32	**69**	28
Investing activities					
Capital expenditures	5	**(5)**	(27)	**(46)**	(69)
Property dispositions (acquisitions), net	5	**-**	-	**-**	11
Change in non-cash working capital		**1**	14	**(13)**	(5)
		(4)	(13)	**(59)**	(63)
Financing activities					
Lease receivable receipts	3	**-**	2	**2**	7
Lease liabilities settlements	7	**(1)**	(5)	**(5)**	(20)
Increase (decrease) in long-term debt	6	**(25)**	(12)	**(4)**	67
Repayments of senior notes	6	**-**	-	**-**	(17)
Realized foreign exchange loss on repayments	6	**-**	-	**-**	3
		(26)	(15)	**(7)**	40
Change in cash and cash equivalents		**4**	4	**3**	5
Cash and cash equivalents, beginning of period		**2**	1	**3**	-
Cash and cash equivalents, end of period		**$ 6**	$ 5	**$ 6**	$ 5

Cash and cash equivalents includes cash and bank overdraft.

See accompanying notes to the unaudited interim consolidated financial statements.

Obsidian Energy Ltd.
Statements of Changes in Shareholders' Equity

(CAD millions, unaudited)	Note		Shareholders' Capital		Other Reserves		Deficit		Total
Balance at January 1, 2020		$	2,187	$	102	$	(1,197)	$	1,092
Net and comprehensive loss			-		-		(772)		(772)
Share-based compensation	12		-		2		-		2
Balance at September 30, 2020		**$**	**2,187**	**$**	**104**	**$**	**(1,969)**	**$**	**322**

(CAD millions, unaudited)	Note		Shareholders' Capital		Other Reserves		Deficit		Total
Balance at January 1, 2019		$	2,185	$	99	$	(409)	$	1,875
Net and comprehensive loss			-		-		(244)		(244)
Share-based compensation	12		-		3		-		3
Issued on exercised equity plans	12		1		(1)		-		-
Balance at September 30, 2019		**$**	**2,186**	**$**	**101**	**$**	**(653)**	**$**	**1,634**

See accompanying notes to the unaudited interim consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements
(All tabular amounts are in CAD millions except numbers of common shares, per share amounts, percentages and various figures in Note 9)

1. Structure of Obsidian Energy

Obsidian Energy Ltd. ("Obsidian Energy", the "Company", "we", "us" or "our") is an exploration and production company and is governed by the laws of the Province of Alberta, Canada. The Company operates in one segment, to explore for, develop and hold interests in oil and natural gas properties and related production infrastructure in the Western Canada Sedimentary Basin directly and through investments in securities of subsidiaries holding such interests. Obsidian Energy's portfolio of assets is managed at an enterprise level, rather than by separate operating segments or business units. The Company assesses our financial performance at the enterprise level and resource allocation decisions are made on a project basis across our portfolio of assets, without regard to the geographic location of projects. Obsidian Energy owns the petroleum and natural gas assets or 100 percent of the equity, directly or indirectly, of the entities that carry on the remainder of the oil and natural gas business of Obsidian Energy, except for an unincorporated joint arrangement (the "Peace River Oil Partnership") in which Obsidian Energy's wholly owned subsidiaries hold a 55 percent interest.

2. Basis of presentation and statement of compliance

a) Basis of Presentation

The unaudited condensed interim consolidated financial statements ("interim consolidated financial statements") include the accounts of Obsidian Energy, our wholly owned subsidiaries and our proportionate interest in partnerships. Results from acquired properties are included in the Company's reported results subsequent to the closing date and results from properties sold are included until the closing date.

All intercompany balances, transactions, income and expenses are eliminated on consolidation.

Certain comparative figures have been reclassified to correspond with current period presentation.

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that Obsidian Energy will be able to realize our assets and discharge our liabilities in the normal course of business.

As at September 30, 2020, Obsidian Energy was in compliance with all financial covenants in our syndicated credit facility and senior notes and had sufficient liquidity under our syndicated credit facility to meet our current obligations. In the first quarter of 2020, our Debt to Adjusted EBITDA covenant was eliminated; thus, our going concern assessment is focused on liquidity capacity over the next 12 months. Based on strip commodity pricing as of October 22, 2020, the Company is currently forecasting that sufficient liquidity exists under our syndicated credit facility to fund operations, including planned capital expenditures. The Company continues to generate positive cash flow from operations and funds flow from operations at recent commodity prices as evidenced by our results in the third quarter and for the first nine months of 2020. Additionally, under the Company's current forecast, sufficient liquidity exists in the event that additional strip commodity price reductions were to occur due to a combination of available borrowing capacity and the ability to implement additional proactive actions within the Company's control.

However, given the short-term nature of our credit facility extensions and due to significant commodity price volatility experienced since March 2020 mainly due to the impact of the COVID-19 pandemic on the demand for commodities and OPEC production levels, future significant decreases to commodity prices may occur which could impact future cash flows and cause uncertainty as to whether the Company has sufficient liquidity over the next 12 months. As a result, the Company may be required to obtain additional financing to increase liquidity, the availability of which is uncertain at this time. As such, there is a material uncertainty that casts substantial doubt on the Company's ability to continue as a going concern. These interim consolidated financial statements do not include adjustments in the carrying values of the assets and liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

b) Statement of Compliance

These interim consolidated financial statements are prepared in compliance with IAS 34 “Interim Financial Reporting” and accordingly do not contain all of the disclosures included in Obsidian Energy’s annual audited consolidated financial statements.

The interim consolidated financial statements were prepared using the same accounting policies as in the annual consolidated financial statements as at and for the year ended December 31, 2019. Beginning in March 2020, the impact of the COVID-19 pandemic and potential supply and demand implications for crude oil has resulted in significant commodity price volatility. The Company’s critical accounting judgements and key estimates remain the same as disclosed in our annual consolidated financial statements as at and for the year ended December 31, 2019, however, the COVID-19 pandemic and resulting market volatility has increased the complexity of these judgements and estimates when preparing these interim consolidated financial statements, particularly within the measurement uncertainty of the inputs used in the Company’s assessment of the recoverability of asset carrying values as well as the credit risk-adjusted discount rate used within our decommissioning liability and office lease provision.

All tabular amounts are in millions of Canadian dollars, except numbers of common shares, per share amounts, percentages and other figures as noted.

The interim consolidated financial statements were approved for issuance by the Board of Directors on October 30, 2020.

c) Significant Accounting policies

Government Grants

Obsidian Energy recognizes government grants as they are received or if there is reasonable assurance that the Company is in compliance with all associated conditions. The grant is recognized within the Consolidated Statements of Income (Loss) in the period in which the income is earned or the related expenditures are incurred. If the grant relates to an asset, it is recognized as a reduction to the carrying value of the asset and amortized into income over the expected useful life of the asset through lower depletion and depreciation.

3. Lease receivable

Lease receivable relates to the lease component of sub-leased office space. Total lease receivable included in the Consolidated Balance Sheets is as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of period	**$ 39**	$ 43
Additions (terminations)	**(37)**	3
Finance income	**-**	2
Lease payments received	**(2)**	(9)
Balance, end of period	**$ -**	$ 39
Current portion	**$ -**	$ 9
Long-term portion	**$ -**	$ 30

In the first quarter of 2020, the Company entered into an amending agreement with our building landlord which resulted in renewed lease terms for our Calgary office space. Under the revised agreement, the amounts received from subtenants no longer meet the criteria to be classified as a finance lease and thus the lease receivable has been removed. The office lease provision referenced in Notes 7 and 8 has been updated to reflect the accounting treatment under the revised terms.

4. Assets and liabilities held for sale

Assets and liabilities classified as held for sale consisted of the following:

	As at	
	September 30, 2020	December 31, 2019
Assets held for sale		
Cash	**$ -**	$ 2
Accounts receivable	**-**	4
Property, plant and equipment	**-**	77
	$ -	$ 83
Liabilities related to assets held for sale		
Accounts payable and accrued liabilities	**$ -**	$ 6
Decommissioning liability	**-**	7
	$ -	$ 13

At December 31, 2019, the Company was continuing to progress through a sales process for our interest in the Peace River Oil Partnership. As a result of commodity price volatility, primarily due to the COVID-19 pandemic, the completion of a potential transaction is uncertain at this time, thus the Company has no longer classified this asset as held for sale.

5. Property, plant and equipment ("PP&E")

Oil and Gas assets/ Facilities, Corporate assets

Cost	**Nine months ended September 30, 2020**	Year ended December 31, 2019
Balance, beginning of period	**$ 10,388**	$ 10,776
Capital expenditures	**46**	103
Dispositions	**-**	(52)
Transfer from/(to) assets held for sale	**423**	(423)
Net decommissioning dispositions	**(42)**	(16)
Balance, end of period	**$ 10,815**	$ 10,388

Accumulated depletion and depreciation	**Nine months ended September 30, 2020**	Year ended December 31, 2019
Balance, beginning of period	**$ 8,709**	$ 8,202
Depletion and depreciation	**99**	236
Impairments	**763**	658
Transfers from/(to) asset held for sale	**346**	(346)
Dispositions	**-**	(41)
Balance, end of period	**$ 9,917**	$ 8,709

	As at	
Net book value	**September 30, 2020**	December 31, 2019
Total	**$ 898**	$ 1,679

Right-of-use assets

The following table includes a break-down of the categories for right-of-use assets. Refer to Note 8 for further discussion on amendments to our office lease agreement.

Cost		Office		Transportation		Vehicle		Surface		Total
Balance, January 1, 2019	$	15	$	17	$	3	$	2	$	37
Additions (Terminations)		(2)		-		1		-		(1)
Balance, December 31, 2019	$	13	$	17	$	4	$	2	$	36
Additions (Terminations)		(13)		(2)		2		-		(13)
Balance, September 30, 2020	**$**	**-**	**$**	**15**	**$**	**6**	**$**	**2**	**$**	**23**

Accumulated amortization		Office		Transportation		Vehicle		Surface		Total
Balance, January 1, 2019	$	-	$	-	$	-	$	-	$	-
Amortization		3		6		1		-		10
Balance, December 31, 2019	$	3	$	6	$	1	$	-	$	10
Amortization		-		4		1		-		5
Termination		(3)		-		-		-		(3)
Balance, September 30, 2020	**$**	**-**	**$**	**10**	**$**	**2**	**$**	**-**	**$**	**12**

				As at
Net book value		**September 30, 2020**		December 31, 2019
Total	**$**	**11**	$	26

In the first quarter of 2020, the Company entered into an amending agreement with our building landlord which resulted in renewed lease terms for our Calgary office space. Under the revised agreement, the office lease no longer meets the criteria to be classified as a right-of-use asset. The office lease provision referenced in Notes 7 and 8 has been updated to reflect the accounting treatment under the revised terms.

Total PP&E

Total PP&E including Oil and Gas assets, Facilities, Corporate assets and Right-of-use assets is as follows:

				As at
PP&E		**September 30, 2020**		December 31, 2019
Oil and Gas assets, Facilities, Corporate assets	**$**	**898**	$	1,679
Right-of-use assets		**11**		26
Total	**$**	**909**	$	1,705

At September 30, 2020, the Company completed an assessment to determine if indicators of impairment or an impairment reversal were present. No indicators were noted.

During the first quarter of 2020, the Company completed impairment tests across all of our Cash Generating Units ("CGU's") as a result of the low commodity price environment, primarily due to the impact of the COVID-19 pandemic and concerns regarding potential lack of storage forcing production shut-ins. This led to the Company recording $763 million of non-cash impairments, which included $702 million within our Cardium CGU, $58 million within our Peace River CGU and $19 million within our corporate assets. Additionally, a $16 million impairment recovery was recorded within our Legacy CGU as a result of the Company increasing our discount rate used in our decommissioning liability due to current market conditions.

6. Long-term debt

		As at
	September 30, 2020	December 31, 2019
Bankers' acceptances and prime rate loans	**$ 395**	$ 399
Senior secured notes – 2008 Notes		
6.40%, US$4 million, maturing November 30, 2021	**5**	5
Senior secured notes – 2010 Q1 Notes		
5.85%, US$10 million, maturing November 30, 2021	**13**	13
Senior secured notes – 2010 Q4 Notes		
4.88%, US$13 million, maturing November 30, 2021	**18**	17
4.98%, US$6 million, maturing November 30, 2021	**8**	8
5.23%, US$2 million, maturing November 30, 2021	**3**	3
Senior secured notes – 2011 Q4 Notes		
4.79%, US$12 million, maturing November 30, 2021	**16**	16
Total long-term debt	**$ 458**	$ 461
Current portion	**$ -**	$ 434
Long-term portion	**$ 458**	$ 27

As a result of entering into amending agreements with our banking syndicate in 2020 and the extension of the term-out period to November 30, 2021, the Company's syndicated credit facility was classified as non-current on September 30, 2020.

Additional information on Obsidian Energy's senior secured notes was as follows:

		As at
	September 30, 2020	December 31, 2019
Weighted average remaining life (years)	**1.2**	1.5
Weighted average interest rate	**5.2%**	5.7%

The Company has a reserve-based syndicated credit facility with an underlying borrowing base and amount available to be drawn of $550 million and $450 million, respectively. The revolving period of the syndicated credit facility ends on January 29, 2021, with the end date of the term period on November 30, 2021. The syndicated credit facility is subject to a semi-annual borrowing base redetermination in May and November of each year. The last two amending agreements are described below.

a. In September 2020, the Company entered into an amending agreement with our lenders. Under the agreement, the syndicated credit facility continued to be available on a revolving basis until October 31, 2020, subject to further extensions, with the end date of the term period set at November 30, 2021. In connection with the extension, the lenders had the option to complete a borrowing base redetermination on October 31, 2020.

b. Subsequent to September 30, 2020, the Company entered into an amending agreement with our lenders which extended the revolving period of the syndicated credit facility to January 29, 2021, subject to further extensions. The end date of the term period remains at November 30, 2021. In connection with the extension, the lenders have the option to complete a borrowing base redetermination on January 29, 2021. Additionally, the lenders have elected to not proceed with the borrowing base redeterminations on October 31, 2020 and on November 30, 2020.

In 2020, the Company agreed with holders of our senior notes to move the maturity dates of the notes due on March 16, 2020, May 29, 2020, December 2, 2020, December 2, 2022 and December 2, 2025 to November 30, 2021.

In September 2019, the Company announced the initiation of a formal strategic alternative process to maximize shareholder value, and this process continues. Such strategic alternatives may include, but are not limited to, a corporate sale, merger or other business combination, a disposition of all or a portion of the Company's assets, a recapitalization, a refinancing of our capital structure, or any combination of the foregoing. On September 21, 2020, the Company formally launched an offer to purchase all issued and outstanding common shares of Bonterra Energy Corp. ("Bonterra") for consideration of two common shares of Obsidian Energy for each Bonterra common share. The offer is open until 5:00pm (Mountain Standard Time) on January 4, 2021, unless extended, accelerated or withdrawn. The Company continues to pursue strategic alternatives however there can be no guarantees on the outcome. The outcome of the strategic review process as well as various factors such as government regulations and the commodity price environment lead to risk and uncertainty around revolving period reconfirmations and the terms of future renewals for the syndicated credit facility.

Drawings on the Company's bank facility are subject to fluctuations in short-term money market rates as they are generally held as short-term borrowings. As at September 30, 2020, 86 percent (December 31, 2019 – 87 percent) of Obsidian Energy's long-term debt instruments were exposed to changes in short-term interest rates.

At September 30, 2020, letters of credit totaling $5 million were outstanding (December 31, 2019 – $8 million) that reduce the amount otherwise available to be drawn on the syndicated credit facility.

Financing expense consists of the following:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Interest on long-term-debt	**$ 5**	$ 8	**$ 19**	$ 22
Advisor fees	**2**	2	**8**	3
Unwinding discount on lease liabilities	**-**	2	**1**	6
Financing	**$ 7**	$ 12	**$ 28**	$ 31

Obsidian Energy records unrealized foreign exchange gains or losses on our senior notes as amounts are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Realized foreign exchange gains or losses are recorded upon actual repayment of senior notes. The split between realized and unrealized foreign exchange is as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Realized foreign exchange loss	**$ -**	$ -	**$ -**	$ 3
Unrealized foreign exchange loss (gain)	**(2)**	1	**1**	(5)
Foreign exchange loss (gain)	**$ (2)**	$ 1	**$ 1**	$ (2)

The Company is subject to Senior debt and Total debt to Capitalization financial covenants with a maximum ratio of 75%, as more specifically defined in the applicable lending agreements. At September 30, 2020, the Company was in compliance with our financial covenants under such lending agreements.

7. Lease liabilities

Total lease liabilities included in the Consolidated Balance Sheets are as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of period	**$ 114**	$ 136
Additions (terminations)	**(97)**	1
Unwinding of discount on lease liabilities	**1**	7
Lease payments	**(5)**	(30)
Balance, end of period	**$ 13**	$ 114
Current portion	**$ 5**	$ 29
Long-term portion	**$ 8**	$ 85

In the first quarter of 2020, the Company entered into an amending agreement with our building landlord which resulted in renewed lease terms for our Calgary office space. The revised agreement no longer meets the criteria to be classified as a lease liability, thus the office lease portion has been removed. The office lease provision referenced in Note 8 has been adjusted to reflect the revised appropriate accounting treatment.

The following table sets out a maturity analysis of lease payments, disclosing the undiscounted balance after September 30, 2020:

	2020	2021	2022	2023	2024	Thereafter	Total
Transportation	**$ 1**	$ 3	$ 2	$ -	$ -	$ -	$ 6
Vehicle	**-**	2	1	1	-	-	4
Surface	**-**	-	-	-	-	6	6
Total	**$ 1**	$ 5	$ 3	$ 1	$ -	$ 6	$ 16

Amounts recognized in Consolidated Statements of Income (Loss) and Consolidated Statements of Cash Flows

The Company recorded $nil of income from sub-leases related to our right-of-use assets. Expenses related to short-term leases and leases of low-value assets were insignificant during the period.

8. Provisions

	As at	
	September 30, 2020	December 31, 2019
Decommissioning liability	**$ 60**	$ 100
Office lease provision	**35**	13
Total	**$ 95**	$ 113
Current portion	**$ 17**	$ 16
Long-term portion	**$ 78**	$ 97

Decommissioning liability

The decommissioning liability was determined by applying an inflation factor of 2.0 percent (December 31, 2019 - 2.0 percent) and the inflated amount was discounted using a credit-adjusted rate of 9.0 percent (December 31, 2019 – 7.0 percent) over the expected useful life of the underlying assets, currently extending over 50 years into the future. At September 30, 2020, the total decommissioning liability on an undiscounted, uninflated basis was $605 million (December 31, 2019 - $621 million).

Changes to the decommissioning liability were as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of period	**$ 100**	$ 129
Net liabilities added (disposed) [1]	**-**	(6)
Increase (decrease) due to changes in estimates	**(42)**	(10)
Liabilities settled	**(9)**	(14)
Transfers from (to) liabilities for assets held for sale	**7**	(7)
Accretion charges	**4**	8
Balance, end of period	**$ 60**	$ 100
Current portion	**$ 8**	$ 13
Long-term portion	**$ 52**	$ 87

(1) Includes additions from drilling activity, facility capital spending and disposals related to net property dispositions.

Office lease provision

The office lease provision represents the net present value of non-lease components on future office lease payments. These payments are reduced by recoveries under current sub-lease agreements that were recognized as non-lease components. The office lease provision was determined by applying an asset specific credit-adjusted discount rate of 6.5 percent (December 31, 2019 – 6.0 percent) over the remaining life of the lease contracts, extending into 2025.

Changes to the office lease provision were as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of period	**$ 13**	$ 22
Net additions (dispositions)	**26**	(5)
Increase (decrease) due to changes in estimates	**1**	(3)
Cash settlements	**(7)**	(2)
Accretion charges	**2**	1
Balance, end of period	**$ 35**	$ 13
Current portion	**$ 9**	$ 3
Long-term portion	**$ 26**	$ 10

In the first quarter of 2020, the Company entered into an amending agreement with our building landlord which resulted in renewed lease terms for our Calgary office space. Under the terms of the amending agreement our annual net rent payable will be a maximum of $0.8 million per month ($10 million per annum) for the period from February 1, 2020 through January 31, 2025, when the lease expires. Additionally, the building landlord has agreed to indemnify the Company on all existing subleases. Based on the revised terms, all costs associated with the agreement now meet the criteria to be classified as an onerous lease.

9. Risk management

Financial instruments consist of cash and cash equivalents, accounts receivable, fair values of derivative financial instruments, accounts payable and accrued liabilities and long-term debt. At September 30, 2020, except for the senior notes described in Note 6 with a carrying value of $63 million (December 31, 2019 – $62 million) and a fair value of $47 million (December 31, 2019 - $59 million), the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments.

The fair values of all outstanding financial and commodity contracts are reflected on the Consolidated Balance Sheets with the changes during the period recorded in income as unrealized gains or losses.

At September 30, 2020 and December 31, 2019, the only asset or liability measured at fair value on a recurring basis was the risk management asset and liability, which was valued based on “Level 2 inputs” being quoted prices in markets that are not active or based on prices that are observable for the asset or liability.

The following table reconciles the changes in the fair value of financial instruments outstanding:

Risk management asset (liability)	**Nine months ended September 30, 2020**	Year ended December 31, 2019
Balance, beginning of period	**$ -**	$ 9
Unrealized gain (loss) on financial instruments:		
Commodity collars and swaps	**-**	(9)
Total fair value, end of period	**$ -**	$ -

Obsidian Energy had the following financial instruments outstanding as at September 30, 2020. Fair values are determined using external counterparty information, which is compared to observable market data. The Company limits our credit risk by executing counterparty risk procedures which include transacting only with institutions within our syndicated credit facility or companies with high credit ratings and by obtaining financial security in certain circumstances.

	Notional volume	**Remaining term**	**Pricing**	**Fair value (millions)**
Financial AECO Swaps				
AECO Swaps	23,700 mcf/d	Nov 2020 - Mar 2021	$2.94/mcf	$ -
Total				$ -

Based on commodity prices and contracts in place at September 30, 2020, a $0.50 change in the price per mcf of natural gas would have changed pre-tax unrealized risk management by $2 million.
The components of risk management on the Consolidated Statements of Income (Loss) are as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Realized				
Settlement of commodity contracts	**$ -**	$ 1	**$ 22**	$ (8)
Total realized gain (loss)	**$ -**	$ 1	**$ 22**	$ (8)
Unrealized				
Commodity contracts	**$ -**	$ 3	**$ -**	$ (5)
Total unrealized gain (loss)	**-**	3	**-**	(5)
Risk management gain (loss)	**$ -**	$ 4	**$ 22**	$ (13)

Additionally, the Company had the following physical contract outstanding at September 30, 2020.

	Notional volume	Remaining term	Pricing
Physical Crude Oil Contracts			
WTI	530 bbl/d	Oct - Dec 2020	$56.64/bbl

Subsequent to September 30, 2020, the Company entered into an additional physical crude oil contract for 542 bbl per day from January – March 2021 at a price of $55.54/bbl.

Market risks

Obsidian Energy is exposed to normal market risks inherent in the oil and gas business, including, but not limited to, commodity price risk, foreign currency rate risk, credit risk, interest rate risk and liquidity risk. The Company seeks to mitigate these risks through various business processes and management controls and from time to time by using financial instruments.

Beginning in March 2020, the oil and gas industry has experienced significant volatility with crude oil prices due to macro-economic uncertainty, mainly due to reduced demand for crude oil as a result of the COVID-19 pandemic, fluctuating OPEC production levels and potential supply and demand implications. The duration and impact of these global events remain uncertain and could impact our cash flow and financial condition in the future.

There have been no material changes to these risks from those discussed in the Company's annual audited consolidated financial statements.

10. Revenue

The Company's significant revenue streams consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Crude Oil	**$ 59**	$ 83	**$ 158**	$ 265
NGL	**4**	3	**11**	10
Natural gas	**12**	5	**33**	23
Production revenues	**75**	91	**202**	298
Other revenue	**-**	-	**6**	-
Processing fees	**2**	2	**5**	6
Financing income	**-**	1	**-**	2
Oil and natural gas sales and other income	**$ 77**	$ 94	**$ 213**	$ 306

11. Shareholders' equity

i) Issued

Shareholders' capital	Common Shares		Amount
Balance, December 31, 2018	72,473,719	$	2,185
Issued on exercise of equity compensation plans (1)	537,769		2
Balance, December 31, 2019	**73,011,488**	**$**	**2,187**
Issued on exercise of equity compensation plans (1)	**495,255**		**-**
Balance, September 30, 2020	**73,506,743**	**$**	**2,187**

(1) Upon vesting or exercise of equity awards, the net benefit is recorded as a reduction of other reserves and an increase to shareholders' capital.

ii) Earnings per share - Basic and Diluted

The weighted average number of shares used to calculate per share amounts was as follows:

	Three months ended September 30		Nine months ended September 30	
Average shares outstanding (millions)	**2020**	2019	**2020**	2019
Basic and Diluted	**73.5**	73.0	**73.2**	72.8

For the third quarter of 2020 and for the first nine months of 2020, 1.0 million common shares (2019 – 0.2 million) that are issuable under the Stock Option Plan ("Option Plan") were excluded in calculating the weighted average number of diluted shares outstanding as they were considered anti-dilutive.

12. Share-based compensation

Restricted and Performance Share Unit plan ("RPSU plan")

Restricted Share units ("RSU") grants under the RPSU plan

Obsidian Energy awards RSU grants under the RPSU plan whereby employees receive consideration that fluctuates based on the Company's share price on the Toronto Stock Exchange ("TSX"). Consideration can be in the form of cash or shares purchased on the open market or issued from treasury.

RSU plan (number of shares equivalent)	**Nine months ended September 30, 2020**	Year ended December 31, 2019
Outstanding, beginning of period	**1,100,278**	1,235,202
Granted	**1,818,840**	971,916
Vested	**(507,565)**	(574,706)
Forfeited	**(36,244)**	(532,134)
Outstanding, end of period	**2,375,309**	1,100,278

The fair value and weighted average assumptions of the RSU plan units granted during the nine-month periods were as follows:

	Nine months ended September 30	
	2020	2019
Average fair value of units granted (per unit)	**$ 0.55**	$ 2.77
Expected life of units (years)	**3.0**	3.0
Expected forfeiture rate	**0.6%**	1.0%

Performance Share Unit ("PSU") grants under the RPSU plan

The RPSU plan allows Obsidian Energy to grant PSUs to employees of the Company. Members of the Board of Directors are not eligible for the RPSU plan. The PSU obligation is classified as a liability due to the cash settlement feature and could be settled in cash or shares.

PSU awards (number of shares equivalent)	**Nine months ended September 30, 2020**	Year ended December 31, 2019
Outstanding, beginning of period	**92,424**	163,129
Granted	**376,310**	144,211
Vested	**-**	(22,929)
Forfeited	**(4,173)**	(191,987)
Outstanding, end of period	**464,561**	92,424

The liability associated with the PSU's under the RPSU plan was insignificant at both September 30, 2020 and December 31, 2019.

Stock Option Plan

Obsidian Energy has an Option Plan that allows the Company to issue options to acquire common shares to officers, employees, directors and other service providers.

	Nine months ended September 30, 2020		Year ended December 31, 2019	
Options	**Number of Options**	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**89,178**	**$ 10.41**	287,996	$ 25.34
Granted	**917,490**	**0.56**	-	-
Forfeited	**(44,714)**	**12.06**	(198,818)	32.04
Outstanding, end of period	**961,954**	**$ 0.94**	89,178	$ 10.41
Exercisable, end of period	**44,464**	**$ 8.74**	77,066	$ 10.67

The fair value and weighted average assumptions of the options granted during the nine-month periods were as follows:

	Nine months ended September 30	
	2020	2019
Average fair value of options granted (per option)	**$ 0.29**	$ -
Expected life of options (years)	**2.2**	-
Expected forfeiture rate	**1.0%**	-

Deferred Share Unit ("DSU") plan

The DSU plan allows the Company to grant DSUs in lieu of cash fees to non-employee directors providing a right to receive, upon retirement, a cash payment based on the volume-weighted-average trading price of the common shares on the TSX. At September 30, 2020, 1,863,521 DSUs (December 31, 2019 – 847,100) were outstanding and $1 million was recorded as a current liability (December 31, 2019 – $1 million).

Share-based compensation

Share-based compensation consisted of the following:

	Nine months ended September 30	
	2020	2019
RSU grants	**$ 2**	$ 3
Share-based compensation	**$ 2**	$ 3

The share price used in the fair value calculation of the DSU plan obligations at September 30, 2020 was $0.49 per share (2019 – $1.10). Share-based compensation expense related to the DSU plan, PSU plan and Option plan were insignificant in both periods.

Employee retirement savings plan

Obsidian Energy has an employee retirement savings plan (the "savings plan") for the benefit of all employees. Under the savings plan, employees may elect to contribute up to 10 percent of their salary and Obsidian Energy matches these contributions at a rate of $1.00 for each $1.00 of employee contribution. Both the employee's and Obsidian Energy's contributions are used to acquire Obsidian Energy common shares or are placed in low-risk investments. Shares are purchased in the open market at prevailing market prices.

Effective May 1, 2020, due to the low commodity price environment, the Company temporarily suspended the employer match portion of the savings plan.

13. Commitments and contingencies

The Company is involved in various litigation and claims in the normal course of business and records provisions for claims as required.

14. Government grants

The Company has received payments as part of the Canadian Emergency Wage Subsidy ("CEWS"). The CEWS allows eligible companies to receive a subsidy of employee wages, subject to a maximum. For the first nine months of 2020, this resulted in a benefit to the Company of approximately $2.8 million which resulted in a $1.8 million reduction to operating costs and a $0.6 million reduction to general and administrative costs.

15. Potential Business Combination

In September 2020, the Company formally announced the commencement of an offer to purchase all of the issued and outstanding common shares of Bonterra for consideration consisting of two common shares of Obsidian Energy for each Bonterra common share. This resulted in recording certain transaction related costs during the third quarter of 2020.