



2021 THIRD QUARTER RESULTS

For the three and nine months ended September 30, 2021



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Abbreviations

bbl: barrels (oil or natural gas liquids)
bbls/day or **bbbls/d**: barrels per day
boe: barrels of oil equivalent (based on 6 mcf of natural gas equaling one barrel of oil)
boe/d: barrels of oil equivalent per day
mcf: thousand cubic feet (natural gas)
mcf/d: thousand cubic feet per day
mmboe: million barrels of oil equivalent
mmcf: million cubic feet

mmcf per day or **mmcf/day** or **mmcf/d**: million cubic feet per day
MW: megawatt
MWh: megawatt-hour
NGL: natural gas liquids
GJ: gigajoule
NYSE: New York Stock Exchange
TSX: Toronto Stock Exchange
WTI: West Texas Intermediate

Conversions of Units

Imperial	Metric
1 ton	0.907 tonnes
1.102 tons	1 tonne
1 acre	0.40 hectares
2.5 acres	1 hectare
1 bbl	0.159 cubic metres
6.29 bbls	1 cubic metre
1 mcf	28.2 cubic metres
0.035 mcf	1 cubic metre
1 mile	1.61 kilometres
0.62 miles	1 kilometre

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2021

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, 2021 and the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2020. The date of this MD&A is November 5, 2021. 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, net operating costs, 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 natural 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.

Within this MD&A the Company has updated the presentation of our financial figures to disclose dollar figures rounded to the nearest hundred thousand. This may result in immaterial differences in the comparative figures.

Quarterly Financial Summary

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

	Sep. 30	June 30	Mar. 31	Dec. 31	Sep. 30	June 30	Mar. 31	Dec. 31
Three months ended	2021	2021	2021	2020	2020	2020	2020	2019
Production revenues	\$ 124.5	\$ 111.0	\$ 92.2	\$ 72.8	\$ 75.4	\$ 48.2	\$ 79.0	\$ 111.6
Cash flow from operations	65.5	42.2	28.1	11.1	34.8	2.1	31.4	49.5
Basic per share	0.88	0.57	0.38	0.15	0.47	0.03	0.43	0.68
Diluted per share	0.85	0.55	0.37	0.15	0.47	0.03	0.43	0.68
Funds flow from operations ⁽¹⁾	59.3	42.3	36.3	26.4	30.4	24.7	36.3	54.2
Basic per share	0.79	0.57	0.49	0.36	0.41	0.34	0.50	0.74
Diluted per share	0.77	0.55	0.48	0.36	0.41	0.34	0.50	0.74
Net income (loss)	46.6	322.5	23.2	0.2	(3.2)	(21.1)	(747.6)	(543.2)
Basic per share	0.62	4.33	0.32	0.01	(0.04)	(0.29)	(10.24)	(7.44)
Diluted per share	\$ 0.60	\$ 4.23	\$ 0.31	\$ 0.01	\$ (0.04)	\$ (0.29)	\$ (10.24)	\$ (7.44)
Production								
Light oil (bbls/d)	10,314	10,836	10,014	10,055	10,952	12,800	12,512	12,246
Heavy oil (bbls/d)	2,688	2,660	2,788	2,895	2,823	1,966	3,644	3,718
NGLs (bbls/d)	2,213	2,162	2,056	2,087	2,244	2,278	2,239	2,095
Natural gas (mmcf/d)	54	54	50	52	54	53	52	52
Total (boe/d)	24,164	24,651	23,225	23,644	25,031	25,872	27,092	26,639

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

Cash flow from Operations and Funds Flow from Operations

	Three months ended September 30		Nine months ended September 30	
(millions, except per share amounts)	2021	2020	2021	2020
Cash flow from operating activities	\$ 65.5	\$ 34.8	\$ 135.8	\$ 68.3
Change in non-cash working capital	(9.1)	(11.1)	(1.1)	(1.0)
Decommissioning expenditures	1.6	0.6	5.4	8.8
Onerous office lease settlements	2.3	2.4	7.0	7.4
Deferred financing costs	(1.7)	-	(4.4)	-
Financing fees paid	-	-	4.4	-
Realized foreign exchange loss – debt maturities	-	-	0.3	-
Restructuring charges ⁽¹⁾	0.1	-	(1.8)	0.3
Transaction costs	-	2.9	-	2.9
Other expenses ⁽¹⁾	0.6	0.8	(7.7)	4.7
Funds flow from operations	\$ 59.3	\$ 30.4	\$ 137.9	\$ 91.4
Per share – funds flow from operations				
Basic per share	\$ 0.79	\$ 0.41	\$ 1.86	\$ 1.25
Diluted per share	\$ 0.77	\$ 0.41	\$ 1.81	\$ 1.25

(1) Excludes the non-cash portion of restructuring and other expenses.

Both cash flow from operations and funds flow from operations were higher in Q3 2021 and for the first nine months of 2021 than the comparable periods mainly due to higher revenues as a result of higher commodity prices. This was partially offset by lower production levels as base production declines were not replaced by development activity as commencing in March 2020, the Company restricted capital spending in response to the COVID-19 pandemic and resultant volatile commodity price market. The Company re-started development activities in late 2020 with the first wells brought on production in March 2021. Additionally, in 2021, the Company recorded significant share-based compensation charges which reduced funds flow from operations and cash flow from operations, which was predominately due to the significant increase in the Company's share price in Q2 2021.

Business Strategy

We believe our plan to primarily focus on our industry leading Cardium position offers a predictable, liquids weighted, production profile that is capable of generating sustainable value for all stakeholders. Favourable weather and ground conditions allowed us to start our second half development program early, and in light of higher commodity prices and strong production results, we modestly increased our 2021 capital budget and increased our production guidance. With strong results thus far from our 2021 development program, we expect to generate higher fourth quarter and exit 2021 production rates than that achieved in 2020, while still meaningfully reducing debt levels. With a continued constructive pricing environment, our program further positions us for additional production growth that generates even higher free cash flow in 2022.

During our second half 2021 development program we have been utilizing a two-rig continuous drilling program and plan to drill 27 wells (25.7 net), predominantly in our Willesden Green and Pembina Cardium assets, resulting in a total program of 36 wells (34.7 net) for full year 2021 plus 1 well (1.0 net) that was rig released in December 2020. We expect to bring 26 wells (25.0 net) on production in 2021, with the remaining 10 wells (9.7 net) expected to be on production early in Q1 2022. In addition, our successful optimization program continues with approximately \$11 million allocated for 2021 to capture further highly attractive capital efficiencies. The Company has significant capability to scale our development drilling in response to changes in commodity prices.

In Q3 2021, we continued our participation in the Alberta Site Restoration Program (“ASRP”) and Area-Based Closure (“ABC”) program, focusing on inactive fields in Northern Alberta. Our decommissioning activity in 2021 and 2022 will benefit from over \$35 million (gross) of ASRP grants, of which approximately \$11 million (net) have been utilized since inception through Q3 2021.

Peace River Oil Partnership (“PROP”) acquisition

Subsequent to September 30, 2021, the Company announced that we have entered into a purchase and sale agreement to acquire the remaining 45 percent partnership interest in PROP from our joint venture partner, through a wholly-owned subsidiary. Total consideration paid will be \$43.5 million prior to closing adjustments with an effective date of July 1, 2021. The acquisition will be funded by a combination of cash and, if necessary, Obsidian Energy common shares issued to our joint venture partner. Closing adjustments are expected to reduce the total consideration paid at closing by approximately \$7.2 - \$7.5 million to \$36.0 - \$36.3 million, assuming the acquisition closes in mid-November 2021.

The cash consideration for the acquisition will be funded by a \$16.3 million limited-recourse loan secured by the 45 percent interest in PROP, which will be acquired pursuant to the acquisition and proceeds from a new equity offering. The Company has filed and been receipted for an amended and restated preliminary short form prospectus with the securities commissions in each of the provinces of Canada, other than Québec, in connection with a “best efforts” marketed equity offering of subscription receipts for minimum gross proceeds of \$12.5 million and maximum gross proceeds of \$22.5 million.

In connection with the Company’s acquisition of the 45 percent interest in PROP, we have agreed to reduce our aggregate syndicated credit facility commitment amount by \$25 million to \$415 million at closing of the transaction. The \$25 million reduction will be applied against the non-revolving term loan. Also, upon closing of the acquisition, the Company will repay approximately \$3.3 million of the outstanding senior notes.

Business Environment

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

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Benchmark prices								
WTI oil (\$US/bbl)	\$ 70.56	\$ 66.07	\$ 57.84	\$ 42.66	\$ 40.93	\$ 27.85	\$ 46.17	\$ 56.96
Edm mixed sweet par price (CAD\$/bbl)	83.77	77.30	66.61	50.29	49.83	29.55	51.62	67.99
Western Canada Select (CAD\$/bbl)	71.80	67.01	57.45	43.46	42.41	22.42	34.11	54.29
NYMEX Henry Hub (\$US/mmbtu)	4.01	2.83	3.56	2.53	2.00	1.72	1.95	2.50
AECO Index (CAD\$/mcf)	3.60	3.09	3.15	2.77	2.24	1.99	2.22	2.48
Foreign exchange rate (CAD\$/US)	1.260	1.228	1.266	1.303	1.332	1.386	1.345	1.320
Benchmark differentials								
WTI - Edm Light Sweet (\$US/bbl)	(4.08)	(3.11)	(5.24)	(4.07)	(3.51)	(6.14)	(7.58)	(5.37)
WTI - WCS Heavy (\$US/bbl)	(13.58)	(11.49)	(12.47)	(9.31)	(9.08)	(11.47)	(20.53)	(15.83)
Average sales price ⁽¹⁾								
Light oil (CAD\$/bbl)	84.27	76.97	67.34	50.76	50.84	29.20	50.59	70.57
Heavy oil (CAD\$/bbl)	60.87	48.58	40.48	30.00	29.54	5.98	20.07	41.80
NGLs (CAD\$/bbl)	52.79	39.31	38.20	24.61	22.11	11.65	22.52	31.42
Total liquids (CAD\$/bbl)	75.55	66.95	58.27	43.14	43.06	24.18	41.13	60.10
Natural gas (CAD\$/mcf)	\$ 3.89	\$ 3.21	\$ 3.21	\$ 2.81	\$ 2.40	\$ 2.14	\$ 2.20	\$ 2.55

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

Oil

WTI averaged US\$70.56 per barrel during Q3 2021. WTI prices started the quarter at approximately US\$75.00 per barrel but decreased throughout July and August as concerns over rising COVID-19 cases, specifically due to the Delta variant, and uncertainty over OPEC's curtailment plan led to demand uncertainty. In September, OPEC provided more clarity regarding their plan to maintain previously announced production increases and inventory levels showed positive draws which resulted in WTI increasing to approximately US\$75.00 per barrel.

In Q3 2021, the MSW differential averaged US\$4.08 per barrel and the WCS differential averaged US\$13.58 per barrel. Differentials for Q3 2021 were marginally wider than Q2 2021, however, they tightened throughout the quarter as various operational issues led to less supply out of Western Canada.

The Company currently has the following financial oil contracts in place on a weighted average basis:

Term	Notional volume	Pricing
October 2021	7,750 bbl/d	\$92.59/bbl
November 2021	6,500 bbl/d	\$100.39/bbl
December 2021	500 bbl/d	\$100.00/bbl

Additionally, the Company currently has the following physical contracts in place:

Notional volume	Term	Pricing
Heavy Oil Differential – USD ⁽¹⁾		
550 bbl/d	Oct – Dec 2021	US\$26.00/bbl

(1) Hedged on a USD basis and inclusive of WCS differential, quality and transportation charges.

Natural Gas

NYMEX Henry Hub gas prices started the quarter at US\$3.79 per mmbtu, reducing to a low of US\$3.56 per mmbtu in early July and then gradually increased throughout the period reaching a high of US\$5.73 per mmbtu in late September due to extremely warm weather in the U.S. and Canada and increased demand for US exported LNG. For Q3 2021, the average price was US\$4.01 per mmbtu.

In Alberta, AECO 5A prices followed a similar pattern, starting the quarter at \$4.35 per mcf due to an early summer heat wave, then decreasing to a low of \$1.25 per mcf in early August as pipeline border restrictions restricted egress out of Alberta. Natural gas prices then increased over the remainder of the quarter, reaching a high of \$5.06 per mcf in late September. The AECO 5A price for Q3 2021 averaged \$3.60 per mcf.

The Company currently has the following financial natural gas contracts in place on a weighted average basis:

Term	Notional volume	Pricing
October 2021	23,695 mcf/d	\$2.70/mcf
November 2021 – March 2022	25,591 mcf/d	\$4.63/mcf

Average Sales Prices

	Three months ended September 30			Nine months ended September 30		
	2021	2020	% change	2021	2020	% change
Light oil (per bbl)	\$ 84.27	\$ 50.84	66	\$ 76.35	\$ 43.14	77
Heavy oil (per bbl)	60.87	29.54	>100	49.94	19.99	>100
NGL (per bbl)	52.79	22.11	>100	43.64	18.73	>100
Total liquids (per bbl)	75.55	43.06	75	67.05	36.14	86
Risk management gain (loss) (per bbl)	(0.13)	-	n/a	(1.50)	4.79	n/a
Total liquids price, net (per bbl)	75.42	43.06	75	65.55	40.93	60
Natural gas (per mcf)	3.89	2.40	62	3.44	2.25	53
Risk management gain (loss) (per mcf)	(0.38)	(0.19)	100	(0.14)	(0.09)	56
Natural gas net (per mcf)	3.51	2.21	59	3.30	2.16	53
Weighted average (per boe)	56.21	32.74	72	50.11	28.43	76
Risk management gain (loss) (per boe)	(0.93)	(0.42)	>100	(1.27)	2.98	n/a
Weighted average net (per boe)	\$ 55.28	\$ 32.32	71	\$ 48.84	\$ 31.41	55

RESULTS OF OPERATIONS

Production

	Three months ended September 30			Nine months ended September 30		
	2021	2020	% change	2021	2020	% change
Daily production						
Light oil (bbls/d)	10,314	10,952	(6)	10,389	12,084	(14)
Heavy oil (bbls/d)	2,688	2,823	(5)	2,712	2,811	(4)
NGL (bbls/d)	2,213	2,244	(1)	2,144	2,254	(5)
Natural gas (mmcf/d)	54	54	-	53	53	-
Total production (boe/d)	24,164	25,031	(3)	24,017	25,995	(8)

During 2020, the Company postponed virtually all development activity from late March to early December, in response to the COVID-19 pandemic and the low commodity price environment, which led to lower production levels throughout the year and in the first nine months of 2021 due to base declines.

Our decision to defer development spending for the majority of 2020 reduced production levels across all areas in the second half of 2020 and in the first three quarters of 2021. Heavy oil production volumes in Peace River were also impacted by our decision to temporarily shut-in certain heavy oil production which remained partially in effect until early Q3 2021. The Company re-started development activity in late 2020 and brought 12 wells on production in the first nine months of 2021, which has partially mitigated base declines. Through further development activities, we expect to generate higher fourth quarter and exit 2021 production rates than achieved in 2020.

Average production within the Company's key development areas and within the Company's Legacy asset area was as follows:

	Three months ended September 30			Nine months ended September 30		
	2021	2020	% change	2021	2020	% change
Daily production (boe/d) ⁽¹⁾						
Cardium	19,807	20,661	(4)	19,753	21,615	(9)
Peace River	2,974	3,196	(7)	2,960	3,123	(5)
Alberta Viking	822	825	-	810	845	(4)
Legacy	561	349	61	494	412	20
Total	24,164	25,031	(3)	24,017	25,995	(8)

(1) Refer to "Supplemental Production Disclosure" for details by product type.

Netbacks

	Three months ended September 30				2020
	2021				
	Liquids (bbl)	Natural Gas (mcf)	Combined (boe)		Combined (boe)
Sales price ⁽¹⁾	\$ 75.55	\$ 3.89	\$ 56.21		\$ 32.74
Risk management gain (loss) ⁽²⁾	(0.13)	(0.38)	(0.93)		(0.42)
Royalties	(8.79)	(0.21)	(5.99)		(1.42)
Transportation	(3.21)	(0.18)	(2.41)		(2.13)
Net operating costs	(18.01)	(0.87)	(13.28)		(11.36)
Netback	\$ 45.41	\$ 2.25	\$ 33.60		\$ 17.41
	(bbls/d)	(mmcf/d)	(boe/d)		(boe/d)
Production	15,215	54	24,164		25,031

(1) Includes the impact of commodities purchased and sold to/from third parties - \$0.4 million (2020 – nil).

(2) Realized risk management gains and losses on commodity contracts.

	Nine months ended September 30				2020
	2021				
	Liquids (bbl)	Natural Gas (mcf)	Combined (boe)		Combined (boe)
Sales price ⁽¹⁾	\$ 67.05	\$ 3.44	\$ 50.11		\$ 28.43
Risk management gain (loss) ⁽²⁾	(1.50)	(0.14)	(1.27)		2.98
Royalties	(6.54)	(0.19)	(4.56)		(1.48)
Transportation	(2.60)	(0.18)	(2.05)		(2.01)
Net operating costs	(18.17)	(0.90)	(13.50)		(10.65)
Netback	\$ 38.24	\$ 2.03	\$ 28.73		\$ 17.27
	(bbls/d)	(mmcf/d)	(boe/d)		(boe/d)
Production	15,245	53	24,017		25,995

(1) Includes the impact of commodities purchased and sold to/from third parties - \$0.8 million (2020 – (\$0.1) million).

(2) Realized risk management gains and losses on commodity contracts.

In 2021, netbacks were higher than the comparable periods due to higher commodity prices as product demand increased with the easing of COVID-19 restrictions and the roll-out of vaccines. This was partially offset by minor realized hedging losses and higher royalties due to stronger oil prices, as well as higher operating costs due to increased activity levels and higher power prices. Note that in Q2 2020 and for a portion of Q3 2020, the Company delayed discretionary operating cost spending in response to the low commodity price environment at that time.

Production Revenues

A reconciliation from production revenues to gross revenues is as follows:

(millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Production revenues	\$ 124.5	\$ 75.4	\$ 327.7	\$ 202.6
Realized risk management gain (loss) ⁽¹⁾	(2.0)	(1.0)	(8.3)	21.2
Sales of commodities purchased	2.8	0.8	6.7	2.8
Less: Commodities purchased	(2.4)	(0.8)	(5.9)	(2.9)
Gross revenues	\$ 122.9	\$ 74.4	\$ 320.2	\$ 223.7

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

Production revenues and gross revenues were higher in 2021 due to increases in commodity prices, which was partially offset by lower production volumes and realized risk management losses versus realized risk management gains in 2020 for the first nine months of the year.

Change in Gross Revenues

(millions)	
Gross revenues – January 1 – September 30, 2020	\$ 223.7
Decrease in liquids production	(20.5)
Increase in liquids prices	129.8
Decrease in natural gas production	(0.4)
Increase in natural gas prices	17.2
Decrease in realized oil risk management	(28.8)
Decrease in realized natural gas risk management	(0.8)
Gross revenues – January 1 – September 30, 2021 ⁽¹⁾	\$ 320.2

(1) Excludes processing fees and other income.

Royalties

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Royalties (millions)	\$ 13.3	\$ 3.3	\$ 29.9	\$ 10.6
Average royalty rate ⁽¹⁾	11%	4%	9%	5%
\$/boe	\$ 5.99	\$ 1.42	\$ 4.56	\$ 1.48

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

For 2021, royalties, including the average royalty rate and per boe metrics, increased from the comparable periods largely due to higher commodity prices.

Expenses

	Three months ended September 30		Nine months ended September 30	
(millions)	2021	2020	2021	2020
Net Operating	\$ 29.5	\$ 26.2	\$ 88.5	\$ 75.9
Transportation	5.4	4.9	13.5	14.3
Financing	8.7	7.3	27.4	28.4
Share-based compensation	\$ 3.0	\$ 0.7	\$ 15.4	\$ 1.7

	Three months ended September 30		Nine months ended September 30	
(per boe)	2021	2020	2021	2020
Net Operating	\$ 13.28	\$ 11.36	\$ 13.50	\$ 10.65
Transportation	2.41	2.13	2.05	2.01
Financing	3.84	3.18	4.16	3.99
Share-based compensation	\$ 1.41	\$ 0.30	\$ 2.36	\$ 0.24

Operating

A reconciliation of operating costs to net operating costs is as follows:

	Three months ended September 30		Nine months ended September 30	
(millions)	2021	2020	2021	2020
Operating costs	\$ 32.3	\$ 28.0	\$ 97.1	\$ 83.9
Less processing fees	(1.6)	(1.3)	(4.9)	(4.6)
Less road use recoveries	(1.2)	(0.5)	(3.7)	(3.4)
Net Operating costs	\$ 29.5	\$ 26.2	\$ 88.5	\$ 75.9

In 2021, the Company returned to normal activity levels compared to 2020 where the Company restricted discretionary spending beginning in March 2020 and into Q3 2020 as a result of the low commodity price environment. During 2021, the Company was impacted by high power prices particularly in the first half of 2021, mostly due to extreme weather (cold in Q1 and heat in Q2) in several parts of North America which increased demand and, when combined with higher natural gas prices (power input cost), led to an increase in operating costs. The increase in power costs was more than offset by the increase in our natural gas revenue.

For the first nine months of 2021 the Canadian Emergency Wage Subsidy ("CEWS") program reduced operating costs by \$0.3 million.

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 had certain take-or-pay contracts terminate which led to a reduction in transportation costs in the first nine months of 2021. Additionally, in the comparable period of Q3 2020, temporarily shut in production at various properties in the Peace River area (due to low commodity prices) resulted in lower transportation costs in 2020. The majority of the shut in production was brought back on-line late in Q3 2020.

Financing

Financing expense consists of the following:

(millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Interest on bank debt and senior notes	\$ 6.8	\$ 5.5	\$ 19.5	\$ 19.0
Advisor fees	0.4	1.6	1.4	8.1
Deferred financing costs	1.7	-	4.4	-
Unwinding of discount on lease liabilities	0.2	0.2	0.5	1.3
Loss (gain) on debt modification	(0.4)	-	1.6	-
Financing	\$ 8.7	\$ 7.3	\$ 27.4	\$ 28.4

Obsidian Energy's debt structure includes short-term borrowings under our syndicated credit facility and term financing through our senior notes. In Q3 2021, financing charges increased mainly due to higher interest rates under the Company's current banking agreements which was partially offset by lower drawn balances under our syndicated credit facility. For the first nine months of 2021, lower advisor costs primarily contributed to lower financing costs which was partially offset by the before mentioned higher interest rates.

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, 2021, 85 percent (December 31, 2020 – 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 which is subject to a semi-annual borrowing base redetermination typically in May and November of each year. The aggregate amount available under the syndicated credit facility is \$440 million which consists of a \$225 million revolving syndicated credit facility and a \$215 million non-revolving term loan. The revolving period under the syndicated credit facility is set at May 31, 2022, with the maturity date of both the syndicated credit facility and non-revolving term loan of November 30, 2022. Additionally, the Company has a revolving period reconfirmation date on January 17, 2022, whereby, on or prior to such date, the lenders may accelerate the end date of the revolving period to February 1, 2022. In this case, the end date of the term period would remain unchanged at November 30, 2022. Furthermore, the Company's revolving credit facility will have a one-time adjustment to reduce our undrawn availability to \$35 million at December 31, 2021. Any borrowing availability at this time in excess of that amount will be used to reduce amounts outstanding on the non-revolving term loan and senior notes.

In connection with our announced acquisition of the 45 percent interest in PROP, we have agreed with our lenders to reduce the syndicated credit facility commitment amount by \$25 million to \$415 million at closing of the acquisition. The \$25 million reduction will be applied against the non-revolving term loan. We will also repay \$3.3 million of senior notes upon close of the acquisition.

At September 30, 2021, the carrying value of the Company's US dollar denominated senior notes was \$58.9 million (December 31, 2020 – \$60.3 million). In Q1 2021, the Company repaid senior notes in the amount of US\$1.1 million (CAD \$1.4 million) which resulted in a decrease in the carrying value. Additionally, a stronger Canadian dollar against the US dollar at the comparable balance sheet dates contributed to a lower carrying value. Summary information on the Company's senior notes outstanding as at September 30, 2021 is as follows:

	Amount (millions)	Maturity date	Average interest rate	Weighted average remaining term (years)
2008 Notes	US\$4.0	November 30, 2022	8.52%	1.2
2010 Q1 Notes	US\$9.5	November 30, 2022	7.97%	1.2
2010 Q4 Notes	US\$20.8	November 30, 2022	7.06%	1.2
2011 Notes	US\$12.0	November 30, 2022	6.91%	1.2

Share-Based Compensation

Share-based compensation expense relates to the Company's Stock Option Plan (the "Option Plan"), restricted shares units ("RSUs") granted under the Restricted and Performance Share Unit Plan ("RPSU plan"), restricted awards granted under the Non-Treasury Incentive Award Plan ("NTIP"), Deferred Share Unit Plan ("DSU plan") and performance share units ("PSUs") granted under the RPSU plan.

Share-based compensation expense consisted of the following:

	Three months ended September 30		Nine months ended September 30	
(millions)	2021	2020	2021	2020
RSU grants	\$ 0.2	\$ 0.7	\$ 0.9	\$ 1.5
PSU grants	0.8	-	3.6	-
DSU plan	0.8	-	8.7	0.2
Options	0.4	-	0.8	-
NTIP	0.8	-	1.4	-
Share-based compensation	\$ 3.0	\$ 0.7	\$ 15.4	\$ 1.7

In 2021, the increase in share-based compensation is largely attributed to the significant increase in the Company's share price which closed at \$4.51 per share at September 30, 2021 compared to \$0.87 per share at December 31, 2020 and \$4.24 per share at June 30, 2021. The majority of the increase occurred in Q2 2021. During Q3 2021, approximately \$1.5 million of DSUs vested and were consequently exercised and will no longer be included in future share-based compensation changes.

The share price at September 30, 2021 of \$4.51 (2020 – \$0.49) was used in the fair value calculation of the RPSU, DSU and NTIP plan obligations.

General and Administrative Expenses ("G&A")

	Three months ended September 30		Nine months ended September 30	
(millions, except per boe amounts)	2021	2020	2021	2020
Gross	\$ 7.5	\$ 5.3	\$ 20.5	\$ 17.1
Per boe	3.36	2.29	3.13	2.41
Net	4.1	3.2	11.4	10.4
Per boe	\$ 1.82	\$ 1.40	\$ 1.73	\$ 1.47

Beginning in Q2 2020, the Company implemented a number of temporary measures to reduce costs, specifically lower salaries and staff benefits in response to the low commodity price environment. Most of these temporary reductions were eliminated prior to Q2 2021 which led to the increase in G&A in 2021 compared to 2020.

Our decision to defer development spending for the majority of 2020 reduced production levels and partially contributed to higher per boe costs in 2021 compared to 2020.

Restructuring and other expenses

(millions, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Restructuring	\$ 0.1	\$ 0.1	\$ (1.8)	\$ 0.4
Per boe	0.07	0.05	(0.27)	0.07
Other	0.6	0.8	(7.7)	5.8
Per boe	\$ 0.27	\$ 0.36	\$ (1.17)	\$ 0.81

In 2021, restructuring expenses include a settlement benefit of a prior cancelled office lease that resulted in a \$2.0 million recovery of previously accrued costs recorded in Q1 2021.

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 had been indemnifying two former employees pursuant to indemnity agreements in connection with the claims brought by the SEC arising out of the same restatement. In 2020, the SEC reached a settlement with the two former employees.

The Company continued to accrue for, but not pay, defense costs incurred on behalf of the two former employees and in Q1 2021 agreed to a settlement to pay \$6.4 million of the defense costs equally over a 30-month period beginning in April 2021. As a result of the settlement, the Company recorded a recovery of previously accrued costs in Q1 2021 within Other in the Consolidated Statements of Income (Loss).

Depletion, Depreciation, Impairment and Accretion

(millions, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Depletion and depreciation ("D&D")	\$ 32.4	\$ 27.6	\$ 83.8	\$ 103.9
D&D expense per boe	14.60	12.00	12.78	14.58
PP&E Impairment (reversal)	(22.3)	-	(333.7)	762.3
PP&E Impairment (reversal) per boe	(10.02)	-	(50.89)	107.02
Accretion	2.0	1.9	6.0	6.5
Accretion expense per boe	\$ 0.89	\$ 0.81	\$ 0.92	\$ 0.90

The Company's D&D expense has increased in Q3 2021 due to a non-cash impairment reversal recorded in Q2 2021 due to the higher commodity price environment and capital additions within our Cardium Cash Generating Unit ("CGU").

The decrease in D&D expense from the comparable period for the first nine months of 2021 is primarily due to non-cash impairment charges recorded in Q1 2020. These impairment charges were recorded mainly due to lower forecasted commodity prices and higher discount rates due to continued commodity price and market value volatility within the oil and natural gas industry.

During Q3 2021, as a result of the Company entering into an agreement to purchase the 45 percent interest of our partner in PROP, the Company concluded that an indicator of impairment reversal was present within our Peace River CGU. The Company followed the fair value less costs of disposal method using the estimated purchase price of the acquisition which resulted in a \$26.5 million impairment reversal. The reversal was partially offset by a \$4.2 million impairment charge on our Legacy CGU.

In Q2 2021, as a result of recent improvements in forecasted commodity prices and continued positive drilling results, the Company recorded a \$311.5 million impairment reversal in our Cardium CGU.

In 2020, the Company completed impairment tests across all of our 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 \$762.9 million of non-cash impairments in Q1 2020.

Taxes

As at September 30, 2021, the Company was in a net unrecognized deferred tax asset position of approximately \$357.9 million (December 31, 2020 - \$448.6 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 gain or loss is as follows:

	Three months ended September 30		Nine months ended September 30	
(millions)	2021	2020	2021	2020
Realized foreign exchange loss	\$ -	\$ -	\$ 0.3	\$ -
Unrealized foreign exchange (gain)/loss	1.6	(1.3)	(0.3)	1.5
Foreign exchange (gain)/loss	\$ 1.6	\$ (1.3)	\$ -	\$ 1.5

In Q1 2021, the Company repaid senior notes in the amount of US\$1.1 million which resulted in the realized foreign exchange loss.

Net Income/(Loss)

	Three months ended September 30		Nine months ended September 30	
(millions, except per share amounts)	2021	2020	2021	2020
Net income/(loss)	\$ 46.6	\$ (3.2)	\$ 392.3	\$ (771.9)
Basic per share	0.62	(0.04)	5.28	(10.55)
Diluted per share	\$ 0.60	\$ (0.04)	\$ 5.14	\$ (10.55)

In 2021, net income was associated with the Company's strong netback which was supported by higher oil prices. Additionally, during Q3 2021, the Company recorded a \$26.5 million impairment reversal in our Peace River CGU.

For the first nine months of 2021, the Company recorded a \$311.5 million impairment reversal in Q2 2021 in our Cardium CGU due to higher forecasted commodity prices and strong drilling results. In Q1 2021, the Company recorded a recovery within Other in the Consolidated Statements of Income (Loss) as a result of a settlement on a previously accrued provision.

In 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

(millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Drilling and completions	\$ 30.8	\$ 2.3	\$ 64.4	\$ 32.9
Well equipping and facilities	14.4	2.2	30.6	12.2
Land and geological/geophysical	(0.3)	-	0.6	0.3
Corporate	0.2	0.1	0.5	0.2
Capital expenditures	45.1	4.6	96.1	45.6
Property dispositions, net	-	-	-	(0.1)
Total capital expenditures	\$ 45.1	\$ 4.6	\$ 96.1	\$ 45.5

The Company began drilling our second half 2021 program in our Willesden Green and Pembina plays in the Cardium in June 2021 which includes 25 wells. A total of 11 gross (10.2 net) wells were rig-released during Q3 2021 with three gross (3.0 net) brought on production.

The remainder of our second half 2021 drilling program includes 16 gross (15.5 net) additional wells to be drilled and 14 gross (13.0 net) operated wells expected to be brought on production in Q4 2021.

Drilling

(number of wells)	Nine months ended September 30			
	2021		2020	
	Gross	Net	Gross	Net
Oil	23	19	12	10
Gas	1	1	-	-
Injectors, stratigraphic and service	3	1	1	-
Total	27	21	13	10
Success rate ⁽¹⁾	100%		100%	

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

The Company rig released 20 wells relating to our 2021 development program between December 2020 and September 2021. In addition to this, the Company had a minor non-operated working interest on four oil wells and three injector wells that were drilled by a partner during the period.

Environmental and Climate Change

The oil and natural 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 Area Based Closure program (the "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 2021 and 2022. The Alberta Government announced the suspension of spending requirements for the ABC program for 2020 and the \$11 million 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 and allocations to date of over \$35 million on a gross basis, a portion of which was received in allocation eligibility as an ABC program participant. Total grant support will be determined by final project costs. These awards have allowed the Company to expand our abandonment activities for wells, pipelines, facilities, and related site reclamation and thus reduce our decommissioning liability. We began utilizing the ASRP grants in Q4 2020 and continued this work in 2021. We will continue to utilize these grants for the remainder of 2021 and throughout 2022.

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, 2021	December 31, 2020
Long-term debt		
Syndicated credit facility	\$ 340.0	\$ 395.0
Senior secured notes	58.9	60.3
Deferred interest	1.6	-
Deferred financing costs	(3.5)	(3.5)
Total	397.0	451.8
Working capital deficiency		
Cash	(4.0)	(8.1)
Accounts receivable	(56.5)	(40.8)
Prepaid expenses and other	(12.0)	(9.2)
Accounts payable and accrued liabilities	103.6	74.1
Total	31.1	16.0
Net debt	\$ 428.1	\$ 467.8

Net debt decreased compared to December 31, 2020, as a result of free cash flow generation due to higher commodity prices and strong production performance which led to higher netbacks and lower drawings on the syndicated credit facility, which has been reduced by \$55 million since December 31, 2020.

The Company's credit facility was classified as a long-term liability at September 30, 2021 as the term-out date is November 30, 2022, which is beyond 12 months from the reporting date.

Liquidity

The Company has a reserve-based syndicated credit facility with a borrowing limit of \$440.0 million with \$340.0 million drawn at September 30, 2021. 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.

On September 30, 2021, the Company was in compliance with all of our financial covenants which consisted of the following:

	Limit	September 30, 2021
Senior debt to capitalization	Less than 75%	36.0%
Total debt to capitalization	Less than 75%	36.0%

Financial Instruments

Obsidian Energy had the following financial instruments outstanding as at September 30, 2021. 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)
Oil				
WTI Swaps	6,750 bbl/d	October 2021	\$91.54/bbl	\$ (0.7)
AECO Swaps				
AECO Swaps	23,695 mcf/d	October 2021	\$2.70/mcf	(1.1)
AECO Swaps	21,325 mcf/d	November/21 – March/22	\$4.46/mcf	(2.4)
Total				\$ (4.2)

Refer to the Business Environment section above for a full list of hedges currently outstanding including trades that were entered into subsequent to September 30, 2021.

Based on commodity prices and contracts in place at September 30, 2021, a \$1.00 change in the price per barrel of liquids of WTI would change pre-tax unrealized risk management by \$0.2 million and a \$0.10 change in the price per mcf of natural gas would change pre-tax unrealized risk management by \$0.4 million.

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

(millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Realized				
Settlement of commodity contracts	\$ (2.0)	\$ (1.0)	\$ (8.3)	\$ 21.2
Total realized risk management gain (loss)	\$ (2.0)	\$ (1.0)	\$ (8.3)	\$ 21.2
Unrealized				
Commodity contracts	\$ (0.9)	\$ 0.2	\$ (4.4)	\$ 0.4
Total unrealized risk management gain (loss)	(0.9)	0.2	(4.4)	0.4
Risk management gain (loss)	\$ (2.9)	\$ (0.8)	\$ (12.7)	\$ 21.6

Refer to the Business Environment section above for a full list of physical hedges currently outstanding including trades that were entered into subsequent to September 30, 2021.

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 into to date, are based on forecasted results (before giving effect to the proposed acquisition of the remaining 45% interest in PROP).

Change of:	Change	Impact on funds flow	
		\$ millions	\$/share
Price per barrel of liquids	WTI US\$1.00	5	0.07
Liquids production	1,000 bbls/day	25	0.34
Price per mcf of natural gas	AECO \$0.10	1	0.02
Natural gas production	10 mmcf/day	14	0.18
Effective interest rate	1%	3	0.04
Exchange rate (\$US per \$CAD)	\$0.01	3	0.05

Contractual Obligations and Commitments

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

	2021	2022	2023	2024	2025	Thereafter	Total
Long-term debt ⁽¹⁾	\$ -	\$ 389.9	\$ -	\$ -	\$ -	\$ -	\$ 389.9
Transportation	1.5	6.0	5.0	2.6	2.1	6.0	23.2
Interest obligations	7.4	27.2	-	-	-	-	34.6
Office lease	2.5	10.0	10.0	10.0	0.8	-	33.3
Lease liability	1.1	4.1	2.9	0.3	0.1	5.2	13.7
Decommissioning liability ⁽²⁾	2.6	13.6	3.5	3.3	3.1	39.3	65.4
Total	\$ 15.1	\$ 450.8	\$ 21.4	\$ 16.2	\$ 6.1	\$ 50.5	\$ 560.1

(1) The 2022 figure includes \$340.0 million related to the syndicated credit facility and non-revolving term loan that is due for renewal in 2022 and \$58.9 million of senior notes set to mature in 2022; refer to the Financing section above for further details. Historically, the Company has successfully renewed its syndicated credit facility.

(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 revolving period of our syndicated credit facility continues to May 31, 2022, with a term out period to November 30, 2022, provided that if the lenders do not reconfirm the revolving period on January 17, 2022 the revolving period will accelerate to February 1, 2022 and the end date of the term period will continue to be November 30, 2022. In addition, the Company has an aggregate of US\$46.3 million in senior notes maturing November 30, 2022. 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. Please see the Financing section of this MD&A for further details regarding our syndicated credit facility and senior notes.

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, 2021 and November 5, 2021	74,852,877
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Options outstanding:

As at September 30, 2021 and November 5, 2021	3,033,610
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RSUs

As at September 30, 2021	1,183,538
Forfeited	(8,167)
As at November 5, 2021	1,175,371

Supplemental Production Disclosure

Outlined below is production by product type for each area as follows for the periods indicated:

	Three months ended September 30		Nine months ended September 30	
Daily production (boe/d)	2021	2020	2021	2020
<i>Cardium</i>				
Light oil (bbls/d)	9,988	10,695	10,098	11,793
Heavy oil (bbls/d)	60	43	52	38
NGLs (bbls/d)	2,127	2,175	2,067	2,184
Natural gas (mmcf/d)	46	46	45	46
Total production (boe/d)	19,807	20,661	19,753	21,615
<i>Peace River</i>				
Light oil (bbls/d)	-	-	-	-
Heavy oil (bbls/d)	2,449	2,701	2,481	2,647
NGLs (bbls/d)	2	-	3	2
Natural gas (mmcf/d)	3	3	3	3
Total production (boe/d)	2,974	3,196	2,960	3,123
<i>Viking</i>				
Light oil (bbls/d)	177	202	168	215
Heavy oil (bbls/d)	122	62	118	47
NGLs (bbls/d)	49	41	43	38
Natural gas (mmcf/d)	3	4	3	3
Total production (boe/d)	822	825	810	845
<i>Legacy</i>				
Light oil (bbls/d)	149	55	123	76
Heavy oil (bbls/d)	57	17	61	79
NGLs (bbls/d)	35	28	31	30
Natural gas (mmcf/d)	2	1	2	1
Total production (boe/d)	561	349	494	412
<i>Total</i>				
Light oil (bbls/d)	10,314	10,952	10,389	12,084
Heavy oil (bbls/d)	2,688	2,823	2,712	2,811
NGLs (bbls/d)	2,213	2,244	2,144	2,254
Natural gas (mmcf/d)	54	54	53	53
Total production (boe/d)	24,164	25,031	24,017	25,995

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, 2021 and ending on September 30, 2021 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.

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, net operating costs, 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 funds flow from operations less both capital and decommissioning expenditures. Netback is the per unit of production amount of revenue less royalties, net operating costs, 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 our calculation of netbacks. Net operating costs are calculated by deducting processing income and road use recoveries from operating costs and is used to assess the Company's cost position. Processing fees are primarily generated by processing third party volumes at the Company's facilities. In situations where the Company has excess capacity at a facility, it may agree with third parties to process their volumes as a means to reduce the cost of operating/owning the facility. Road use recoveries are a cost recovery for the Company as we operate and maintain roads that are also used by third parties. See "Expenses – Operating" above for a reconciliation of operating costs to net operating costs. Gross revenues are production revenues including realized risk management gains and losses on commodity contracts and adjusted for commodities purchased and sales of commodities purchased and is used to assess the cash realizations on commodity sales. See "Production Revenues" above for a reconciliation of gross revenues to production revenues, 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 Natural 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 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 current price of oil as compared to natural gas is significantly different from the energy equivalency conversion ratio of 6:1, utilizing a conversion on a 6:1 basis is 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") within the meaning of the "safe harbour" provisions of applicable securities legislation. In particular, this document contains forward-looking statements pertaining to, without limitation, the following: our belief that our plan to primarily focus on our industry leading Cardium position offers a predictable, liquids weighted, production profile that is capable of generating sustainable value for all stakeholders; that we expect to generate higher fourth quarter and exit 2021 production rates than achieved in 2020, while still meaningfully reducing debt levels; that with a constructive pricing environment, our program further positions us for additional production growth that generates even greater free cash flow in 2022; expectations regarding our 2021 and second half 2021 drilling program, locations, completion and on production dates, optimization program and significant capability to scale our development drilling in response to changes in commodity prices; that our decommissioning activity will benefit in 2021 and 2022 from our ASRP grants; all matters relating to our proposed acquisition of the remaining 45% interest in PROP, including the purchase price, amount of estimated closing adjustments, nature of the consideration, proposed closing date, funding sources, and related agreement to reduce the amount of our credit facility commitment amount and to repay a portion of the principal amount of our senior notes; all matters relating to our proposal to obtain a limited-recourse loan and to complete a prospectus offering of new equity to fund the proposed acquisition; the expected re-confirmation and term out dates, as applicable, in connection with our reserve-based syndicated credit facility, the lender option date to complete a borrowing base redetermination on the credit facility, the available revolving capacity at the end of the year depending on the amount drawn under the credit facility, and the maturity dates and interest rates on the senior notes; the use of borrowing availability to reduce amounts outstanding on the non-revolving term loan and senior notes; 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 the Company continuously monitors operations to minimize 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; that we are dedicated to managing the environmental impact from our operations through our environmental programs which include resource conservation, water management and site abandonment / reclamation / remediation; that we will remain in the ABC program for 2021 and 2022; how the ASRP will allow the Company to expand the abandonment activities, the timing thereof and staying actively engaged in these types of programs; that amounts spent in 2020 under the ABC program can be applied to our 2021 target; the continued use of ASRP grants in 2021 and 2022; the information disclosed under "Sensitivity Analysis"; our future payment obligations as disclosed under "Contractual Obligations and Commitments"; 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; and the Company's need to require additional sources of financing in certain circumstances.

With respect to forward-looking statements contained in this document, the Company has made assumptions regarding, among other things: that the Company does not dispose of or acquire material producing properties or royalties or other interests therein other than as stated herein in respect of our proposed acquisition of the remaining 45% interest in PROP; that the Government of Alberta will not impose oil and bitumen production quotas under its curtailment rules again in the future; 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 and willingness 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 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 oil, natural gas liquids and natural gas production levels, including that we will not be required to shut-in production due to a deterioration of commodity prices; 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 such as wild fires and flooding, 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; our ability to add production and reserves through our development and exploitation activities; and our ability to complete the proposed acquisition of the remaining 45% interest in PROP, including our ability to secure the necessary financing to pay the purchase price and satisfy all of the conditions precedent to closing the acquisition including the related financing matters in respect thereof.

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 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 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, among other things, the COVID-19 pandemic and the worldwide transition towards less reliance on fossil fuels 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 new 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 production, whether due to commodity prices decreasing or the Alberta government reactivating its curtailment program; 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 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 oil, natural gas liquids and natural gas, price differentials for 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 and/or insurance 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, financial institutions and consumers to the ongoing COVID-19 pandemic and/or public opinion and/or special interest groups; the risk that we are unable to complete our proposed acquisition of the remaining 45% interest in PROP due to an inability to raise financing on acceptable terms or at all or satisfy one or more of the conditions precedent to closing such acquisition; 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

		As at	
(CAD millions, unaudited)	Note	September 30, 2021	December 31, 2020
Assets			
Current			
Cash		\$ 4.0	\$ 8.1
Accounts receivable		56.5	40.8
Risk management	7	-	0.8
Prepaid expenses and other		12.0	9.2
		72.5	58.9
Non-current			
Property, plant and equipment	3	1,258.0	905.2
		1,258.0	905.2
Total assets		\$ 1,330.5	\$ 964.1
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		\$ 103.6	\$ 74.1
Current portion of long-term debt	4	-	451.8
Current portion of lease liabilities	5	4.2	4.8
Current portion of provisions	6	21.7	16.3
Risk management	7	4.2	0.6
		133.7	547.6
Non-current			
Long-term debt	4	397.0	-
Lease liabilities	5	5.3	5.6
Provisions	6	71.3	87.7
Other non-current liabilities		6.2	0.1
		613.5	641.0
Shareholders' equity			
Shareholders' capital	9	2,189.6	2,187.0
Other reserves	9	102.6	103.6
Deficit		(1,575.2)	(1,967.5)
		717.0	323.1
Total liabilities and shareholders' equity		\$ 1,330.5	\$ 964.1

Commitments and contingencies (Note 11)

Subsequent events (Notes 7 and 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		Nine months ended September 30	
		2021	2020	2021	2020
Production revenues	8	\$ 124.5	\$ 75.4	\$ 327.7	\$ 202.6
Processing fees		1.6	1.3	4.9	4.6
Royalties		(13.3)	(3.3)	(29.9)	(10.6)
Sales of commodities purchased from third parties		2.8	0.8	6.7	2.8
		115.6	74.2	309.4	199.4
Other income		1.2	1.2	3.7	9.9
Government decommissioning assistance	12	2.9	-	8.8	
Risk management gain (loss)	7	(2.9)	(0.8)	(12.7)	21.6
		116.8	74.6	309.2	230.9
Expenses					
Operating		32.3	28.0	97.1	83.9
Transportation		5.4	4.9	13.5	14.3
Commodities purchased from third parties		2.4	0.8	5.9	2.9
General and administrative		4.1	3.2	11.4	10.4
Restructuring		0.1	0.1	(1.8)	0.4
Share-based compensation	10	3.0	0.7	15.4	1.7
Depletion, depreciation, impairment and accretion	3,6	12.1	29.5	(243.9)	872.7
(Gain)/loss on provisions	6	(0.1)	1.0	(0.4)	(22.0)
Foreign exchange loss (gain)	4	1.6	(1.3)	-	1.5
Financing	4,5	8.7	7.3	27.4	28.4
Transaction costs		-	2.8	-	2.8
Other	11	0.6	0.8	(7.7)	5.8
		70.2	77.8	(83.1)	1,002.8
Income (loss) before taxes		46.6	(3.2)	392.3	(771.9)
Deferred tax expense (recovery)		-	-	-	-
Net and comprehensive income (loss)		\$ 46.6	\$ (3.2)	\$ 392.3	\$ (771.9)
Net income (loss) per share					
Basic		\$ 0.62	\$ (0.04)	\$ 5.28	\$ (10.55)
Diluted		\$ 0.60	\$ (0.04)	\$ 5.14	\$ (10.55)
Weighted average shares outstanding (millions)					
Basic	9	74.9	73.5	74.3	73.2
Diluted	9	77.3	73.5	76.4	73.2

See accompanying notes to the unaudited interim consolidated financial statements.

Obsidian Energy Ltd.
Consolidated Statements of Cash Flows

		Three months ended September 30		Nine months ended September 30	
(CAD millions, unaudited)	Note	2021	2020	2021	2020
Operating activities					
Net income (loss)		\$ 46.6	\$ (3.2)	\$ 392.3	\$ (771.9)
Government decommissioning assistance	12	(2.9)	-	(8.8)	-
Other income		-	-	-	(0.3)
Depletion, depreciation, impairment and accretion	3,6	12.1	29.5	(243.9)	872.7
Provisions	6	(0.1)	1.0	(0.4)	(22.0)
Financing	4,5	1.5	0.2	6.5	1.3
Share-based compensation	10	0.6	0.7	1.7	1.5
Unrealized risk management loss (gain)	7	0.9	(0.2)	4.4	(0.4)
Unrealized foreign exchange loss (gain)	4	1.6	(1.3)	(0.3)	1.5
Other		-	-	-	1.1
Decommissioning expenditures	6	(1.6)	(0.6)	(5.4)	(8.8)
Onerous office lease settlements	6	(2.3)	(2.4)	(7.0)	(7.4)
Financing fees paid		-	-	(4.4)	-
Change in non-cash working capital		9.1	11.1	1.1	1.0
		65.5	34.8	135.8	68.3
Investing activities					
Capital expenditures	3	(45.1)	(4.6)	(96.1)	(45.6)
Property dispositions (acquisitions), net	3	-	-	-	0.1
Change in non-cash working capital		12.4	0.6	15.8	(13.2)
		(32.7)	(4.0)	(80.3)	(58.7)
Financing activities					
Decrease in syndicated credit facility	4	(30.0)	(25.0)	(55.0)	(4.0)
Repayments of senior notes	4	-	-	(1.4)	-
Realized foreign exchange loss on repayments	4	-	-	0.3	-
Lease receivable receipts		-	-	-	2.2
Lease liabilities settlements	5	(1.1)	(1.6)	(3.4)	(5.0)
Exercised compensation plans		-	-	(0.1)	-
		(31.1)	(26.6)	(59.6)	(6.8)
Change in cash and cash equivalents		1.7	4.2	(4.1)	2.8
Cash and cash equivalents, beginning of period		2.3	1.6	8.1	3.0
Cash and cash equivalents, end of period		\$ 4.0	\$ 5.8	\$ 4.0	\$ 5.8

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, 2021		\$ 2,187.0	\$ 103.6	\$ (1,967.5)	\$ 323.1
Net and comprehensive income		-	-	392.3	392.3
Share-based compensation	10	-	1.7	-	1.7
Issues on exercise of equity compensation plans		2.6	(2.7)	-	(0.1)
Balance at September 30, 2021		\$ 2,189.6	\$ 102.6	\$ (1,575.2)	\$ 717.0

(CAD millions, unaudited)	Note	Shareholders' Capital	Other Reserves	Deficit	Total
Balance at January 1, 2020		\$ 2,186.7	\$ 101.8	\$ (1,195.8)	\$ 1,092.7
Net and comprehensive loss		-	-	(771.9)	(771.9)
Share-based compensation	10	-	1.5	-	1.5
Issues on exercise of equity compensation plans		0.3	(0.3)	-	-
Balance at September 30, 2020		\$ 2,187.0	\$ 103.0	\$ (1,967.7)	\$ 322.3

See accompanying notes to the unaudited interim consolidated financial statements.

Notes to the Unaudited Interim Consolidated Financial Statements

(All tabular amounts are in CAD millions except numbers of common shares, per share amounts, percentages and various figures in Note 7)

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. Additionally, within these interim consolidated financial statements the Company has updated the presentation of our financial figures to disclose dollar figures rounded to the nearest hundred thousand. This may result in immaterial differences in the comparative figures.

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.

These 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, 2020.

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

These interim consolidated financial statements were approved for issuance by the Board of Directors on November 5, 2021.

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

Oil and Gas assets/ Facilities, Corporate assets

Cost	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	\$ 10,838.3	\$ 10,387.2
Capital expenditures	96.1	57.2
Dispositions	-	(0.1)
Transfer from/(to) assets held for sale	-	423.0
Change in decommissioning liability	4.8	(29.0)
Balance, end of period	\$ 10,939.2	\$ 10,838.3

Accumulated depletion and depreciation	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	\$ 9,942.6	\$ 8,708.3
Depletion and depreciation	81.2	122.1
Impairments	4.3	766.2
Impairment reversals	(338.0)	-
Transfers from/(to) asset held for sale	-	346.0
Balance, end of period	\$ 9,690.1	\$ 9,942.6

Net book value	September 30, 2021	December 31, 2020
Total	\$ 1,249.1	\$ 895.7

Right-of-use assets

The following table includes a break-down of the categories for right-of-use assets.

Cost							
		Office	Transportation	Vehicle	Surface		Total
Balance, January 1, 2020	\$	12.6	\$ 16.7	\$ 4.1	\$ 2.1	\$	35.5
Additions (Terminations)		(12.6)	(1.8)	1.6	-		(12.8)
Balance, December 31, 2020	\$	-	\$ 14.9	\$ 5.7	\$ 2.1	\$	22.7
Additions		-	1.4	0.6	-		2.0
Balance, September 30, 2021	\$	-	\$ 16.3	\$ 6.3	\$ 2.1	\$	24.7

Accumulated amortization							
		Office	Transportation	Vehicle	Surface		Total
Balance, January 1, 2020	\$	2.4	\$ 6.0	\$ 1.3	\$ 0.1	\$	9.8
Amortization		0.5	4.5	1.3	-		6.3
Termination		(2.9)	-	-	-		(2.9)
Balance, December 31, 2020	\$	-	\$ 10.5	\$ 2.6	\$ 0.1	\$	13.2
Amortization		-	1.6	1.0	-		2.6
Balance, September 30, 2021	\$	-	\$ 12.1	\$ 3.6	\$ 0.1	\$	15.8

Net book value	September 30, 2021	December 31, 2020
Total	\$ 8.9	\$ 9.5

Total PP&E

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

PP&E	As at	
	September 30, 2021	December 31, 2020
Oil and Gas assets, Facilities, Corporate assets	\$ 1,249.1	\$ 895.7
Right-of-use assets	8.9	9.5
Total	\$ 1,258.0	\$ 905.2

At September 30, 2021, the Company completed an assessment to determine if indicators of impairment or an impairment reversal were present. As a result of the Company entering into an agreement to purchase the 45 percent interest of our partner in the Peace River Oil Partnership subsequent to September 30, 2021, the Company concluded that an indicator of impairment reversal was present within our Peace River CGU. The Company followed the fair value less costs of disposal method using the purchase price of the acquisition (a Level 2 fair value measure) which resulted in a recoverable amount of \$50.8 million and a \$26.5 million non-cash impairment reversal. See Note 13 for additional information regarding the proposed acquisition. Additionally, as a result of the Company revising estimates related to our decommissioning liability, the Company recorded a \$4.2 million impairment within our Legacy CGU. No indicator of impairment or impairment reversal was noted for our Cardium or Viking CGU's, thus no test was performed.

At June 30, 2021, the Company recorded a \$311.5 million non-cash impairment reversal within our Cardium CGU mainly due to the improved commodity price environment and strong drilling results in the area.

In 2020, the Company recorded \$766.2 million of non-cash net impairments across multiple CGU's, primarily as a result of the low commodity price environment due to the impact of the COVID-19 pandemic.

4. Long-term debt

	As at	
	September 30, 2021	December 31, 2020
Syndicated credit facility	\$ 340.0	\$ 395.0
Senior secured notes – 2008 Notes		
8.52%, US\$4.0 million, maturing November 30, 2022	5.0	5.2
Senior secured notes – 2010 Q1 Notes		
7.97%, US\$9.5 million, maturing November 30, 2022	12.2	12.4
Senior secured notes – 2010 Q4 Notes		
7.00%, US\$13.0 million, maturing November 30, 2022	16.5	16.9
7.10%, US\$5.7 million, maturing November 30, 2022	7.2	7.4
7.35%, US\$2.1 million, maturing November 30, 2022	2.7	2.7
Senior secured notes – 2011 Q4 Notes		
6.91%, US\$12.0 million, maturing November 30, 2022	15.3	15.7
Total credit facility and senior secured notes	398.9	455.3
Deferred interest	1.6	-
Deferred financing costs	(3.5)	(3.5)
Total long-term debt	\$ 397.0	\$ 451.8
Current portion	\$ -	\$ 451.8
Long-term portion	\$ 397.0	\$ -

As a result of entering into amending agreements with our banking syndicate and senior secured noteholders during the first quarter of 2021 and the extension of the term-out periods to November 30, 2022, the Company's syndicated credit facility and senior secured notes are classified as non-current on September 30, 2021. Additionally, as part of the amending agreements, the Company made a US\$1.1 million (CAD\$1.4 million) repayment on our senior secured notes during the first quarter of 2021.

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

	As at	
	September 30, 2021	December 31, 2020
Weighted average remaining life (years)	1.2	0.9
Weighted average interest rate	7.3%	5.2%

The Company has a reserve-based syndicated credit facility which is subject to a semi-annual borrowing base redetermination typically in May and November of each year. The aggregate amount available under the syndicated credit facility is \$440 million which consists of a \$225 million revolving syndicated credit facility and a \$215 million non-revolving term loan. The revolving period under the syndicated credit facility is set at May 31, 2022, with the maturity date of both the syndicated credit facility and non-revolving term loan of November 30, 2022. Additionally, the Company has a revolving period reconfirmation date on January 17, 2022, whereby, on or prior to such date, the lenders may accelerate the end date of the revolving period to February 1, 2022. In this case, the end date of the term period would remain unchanged at November 30, 2022. Furthermore, the Company's revolving credit facility will have a one-time adjustment to reduce our undrawn availability to \$35 million at December 31, 2021. Any borrowing availability at this time in excess of that amount will be used to reduce amounts outstanding on the non-revolving term loan and senior notes. The borrowing base for the syndicated credit facility is based on the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations. The recent commodity price volatility and the economic impact of COVID-19 pandemic may result in increased risk regarding borrowing base redeterminations, maintaining available credit limits and extending debt instruments upon maturity.

Drawings on the Company's syndicated credit facility are subject to fluctuations in short-term money market rates as they are generally held as short-term borrowings. As at September 30, 2021, 85 percent (December 31, 2020 – 87 percent) of Obsidian Energy's long-term debt instruments were exposed to changes in short-term interest rates.

At September 30, 2021, letters of credit totaling \$5.0 million were outstanding (December 31, 2020 – \$5.0 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	
	2021	2020	2021	2020
Interest on bank debt and senior notes	\$ 6.8	\$ 5.5	\$ 19.5	\$ 19.0
Advisor fees	0.4	1.6	1.4	8.1
Deferred financing costs	1.7	-	4.4	-
Unwinding discount on lease liabilities	0.2	0.2	0.5	1.3
Loss (gain) on debt modification	(0.4)	-	1.6	-
Financing	\$ 8.7	\$ 7.3	\$ 27.4	\$ 28.4

The senior note amending agreements entered into during the first quarter of 2021 resulted in a debt modification under IFRS 9 ("Financial Instruments") and the recognition of a non-cash loss of \$2.3 million due to the extended term and increase in interest rates.

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		
	2021		2020	2021		2020
Realized foreign exchange loss	\$ -	\$	-	\$ 0.3	\$	-
Unrealized foreign exchange (gain)/loss	1.6		(1.3)	(0.3)		1.5
Foreign exchange (gain)/loss	\$ 1.6	\$	(1.3)	\$ -	\$	1.5

The Company is subject to Senior debt and Total debt to Capitalization financial covenants with a maximum ratio of 75 percent, as more specifically defined in the applicable lending agreements. At September 30, 2021, the Company was in compliance with our financial covenants under such lending agreements.

5. Lease liabilities

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

	Nine months ended September 30, 2021		Year ended December 31, 2020	
Balance, beginning of period	\$	10.4	\$	113.8
Additions (terminations)		2.0		(98.6)
Unwinding of discount on lease liabilities		0.5		1.5
Lease payments		(3.4)		(6.3)
Balance, end of period	\$	9.5	\$	10.4
Current portion	\$	4.2	\$	4.8
Long-term portion	\$	5.3	\$	5.6

The following table sets out a maturity analysis of lease payments, disclosing the undiscounted balance after September 30, 2021:

	2021	2022	2023	2024	2025	Thereafter	Total
Transportation	\$ 0.7	\$ 2.6	\$ 1.8	\$ -	\$ -	\$ -	\$ 5.1
Vehicle	0.4	1.4	1.0	0.2	-	-	3.0
Surface	-	0.1	0.1	0.1	0.1	5.2	5.6
Total	\$ 1.1	\$ 4.1	\$ 2.9	\$ 0.3	\$ 0.1	\$ 5.2	\$ 13.7

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

The Company recorded \$nil 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.

6. Provisions

	As at	
	September 30, 2021	December 31, 2020
Decommissioning liability	\$ 65.4	\$ 70.5
Office lease provision	27.6	33.5
Total	\$ 93.0	\$ 104.0
Current portion	\$ 21.7	\$ 16.3
Long-term portion	\$ 71.3	\$ 87.7

Decommissioning liability

At September 30, 2021, the decommissioning liability was determined by applying an inflation factor of 2.0 percent (December 31, 2020 - 2.0 percent) and the inflated amount was discounted using a credit-adjusted rate of 9.0 percent (December 31, 2020 - 9.0 percent) over the expected useful life of the underlying assets, currently extending over 50 years into the future. At September 30, 2021, the total decommissioning liability on an undiscounted, uninflated basis was \$580.0 million (December 31, 2020 - \$596.6 million).

Changes to the decommissioning liability were as follows:

	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	\$ 70.5	\$ 100.1
Net liabilities added (disposed) ⁽¹⁾	0.5	(0.4)
Increase (decrease) due to changes in estimates	4.3	(28.6)
Liabilities settled	(5.4)	(11.1)
Government decommissioning assistance	(8.8)	(2.2)
Transfers from (to) liabilities for assets held for sale	-	7.0
Accretion charges	4.3	5.7
Balance, end of period	\$ 65.4	\$ 70.5
Current portion	\$ 12.8	\$ 7.3
Long-term portion	\$ 52.6	\$ 63.2

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

Office lease provision

The office lease provision represents the net present value of non-lease components on future office lease payments. The office lease provision was determined by applying an asset specific credit-adjusted discount rate of 6.5 percent (December 31, 2020 – 6.5 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, 2021	Year ended December 31, 2020
Balance, beginning of period	\$ 33.5	\$ 12.7
Net additions (dispositions)	-	27.0
Increase (decrease) due to changes in estimates	(0.4)	1.0
Cash settlements	(7.0)	(9.7)
Accretion charges	1.5	2.5
Balance, end of period	\$ 27.6	\$ 33.5
Current portion	\$ 8.9	\$ 9.0
Long-term portion	\$ 18.7	\$ 24.5

7. 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, 2021, except for the senior notes described in Note 4 with a carrying value of \$58.9 million (December 31, 2020 – \$60.3 million) and a fair value of \$55.5 million (December 31, 2020 - \$49.3 million) and the syndicated credit facility, the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments. The carrying value of the syndicated credit facility approximates its carrying value as the loans bears interest at market rates.

The fair values of all outstanding financial commodity related 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, 2021 and December 31, 2020, 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, 2021	Year ended December 31, 2020
Balance, beginning of period	\$ 0.2	\$ (0.6)
Unrealized gain (loss) on financial instruments:		
Commodity collars and swaps	(4.4)	0.8
Total fair value, end of period	\$ (4.2)	\$ 0.2
Current portion	\$ (4.2)	\$ 0.2
Long-term portion	\$ -	\$ -

Obsidian Energy had the following financial instruments outstanding as at September 30, 2021. 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)
Oil				
WTI Swaps	6,750 bbl/d	October 2021	\$91.54/bbl	\$ (0.7)
AECO Swaps				
AECO Swaps	23,695 mcf/d	October 2021	\$2.70/mcf	(1.1)
AECO Swaps	21,325 mcf/d	November/21 – March/22	\$4.46/mcf	(2.4)
Total			\$	(4.2)

Based on commodity prices and contracts in place at September 30, 2021, a \$1.00 change in the price per barrel of WTI oil would change pre-tax unrealized risk management by \$0.2 million and a \$0.10 change in the price per mcf of natural gas would change pre-tax unrealized risk management by \$0.4 million.

Subsequent to September 30, 2021 the Company entered into the following additional financial hedges on a weighted average basis:

	Notional volume	Term	Pricing
Oil			
WTI Swaps	1,000 bbl/d	October 2021	\$99.71/bbl
WTI Swaps	6,500 bbl/d	November 2021	\$100.39/bbl
WTI Swaps	500 bbl/d	December 2021	\$100.00/bbl
AECO Swaps			
AECO Swaps	4,265 mcf/d	November 2021 – March 2022	\$5.49/mcf

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	
	2021	2020	2021	2020
Realized				
Settlement of commodity contracts	\$ (2.0)	\$ (1.0)	\$ (8.3)	\$ 21.2
Total realized risk management gain (loss)	\$ (2.0)	\$ (1.0)	\$ (8.3)	\$ 21.2
Unrealized				
Commodity contracts	\$ (0.9)	\$ 0.2	\$ (4.4)	\$ 0.4
Total unrealized risk management gain (loss)	(0.9)	0.2	(4.4)	0.4
Risk management gain (loss)	\$ (2.9)	\$ (0.8)	\$ (12.7)	\$ 21.6

Additionally, the Company had the following physical contracts outstanding at September 30, 2021.

	Notional volume	Term	Pricing
Heavy Oil Differential - USD ⁽¹⁾			
	550 bbl/d	October – December 2021	US\$26.00/bbl

(1) Hedged on a US\$ basis and inclusive of WCS differential, quality and transportation charges.

Market risks

Obsidian Energy is exposed to normal market risks inherent in the oil and natural 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.

COVID-19 Pandemic Risk

In March 2020, the World Health Organization declared COVID-19 a global pandemic. Since that time, the oil and natural gas industry has experienced significant volatility with commodity prices, and in particular oil prices, as a result of a decline in economic activity and lower demand for commodities in both Canada and around the world. In 2021, oil prices have recovered from the lows that occurred in the second quarter of 2020 as restrictions eased and vaccines continue to be administered. The timing for achieving full demand recovery remains uncertain as countries are at various stages of rolling-out vaccines while virus outbreaks continue to occur, mainly due to new variants, which has resulted in activity restrictions in certain countries. This market volatility has not only impacted oil and natural gas sales but has increased the complexity of certain judgements and estimates when preparing our third quarter financial information, particularly within the measurement uncertainty of the inputs used in the Company's assessment of the recoverability of asset carrying values, assessing counterparty credit risk as well as the credit risk-adjusted discount rate used within our decommissioning liability and office lease provision.

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

8. Revenue and Other Income

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

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Oil	\$ 94.6	\$ 58.9	\$ 252.7	\$ 158.3
NGLs	10.7	4.6	25.5	11.6
Natural gas	19.2	11.9	49.5	32.7
Production revenues	124.5	75.4	327.7	202.6
Processing fees	1.6	1.3	4.9	4.6
Oil and natural gas sales	126.1	76.7	332.6	207.2
Other income	1.2	1.2	3.7	9.9
Oil and natural gas sales and other income	\$ 127.3	\$ 77.9	\$ 336.3	\$ 217.1

Other income includes \$1.2 million in road use recoveries for the third quarter of 2021 (2020 - \$0.5 million) and \$3.7 million for the nine-month period ended September 30, 2021 (2020 - \$3.4 million). In 2020, the remainder of other income primarily relates to curtailment sales, whereby the Company sold unused production limit capacity under the Alberta Government Curtailment production limits.

9. Shareholders' equity

i) Issued

Shareholders' capital	Common Shares	Amount
Balance, December 31, 2019	73,011,488	\$ 2,186.7
Issued pursuant to equity compensation plans ⁽¹⁾	504,737	0.3
Balance, December 31, 2020	73,516,225	\$ 2,187.0
Issued pursuant to equity compensation plans ⁽¹⁾	1,336,652	2.6
Balance, September 30, 2021	74,852,877	\$ 2,189.6

(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)	2021	2020	2021	2020
Basic	74.9	73.5	74.3	73.2
Dilutive impact of stock options/ RSUs	2.4	-	2.1	-
Diluted ⁽¹⁾	77.3	73.5	76.4	73.2

(1) 2020 excludes the impact of 3.3 million weighted average shares related to options outstanding under the Stock Option Plan ("Option Plan") and Restricted Share Units ("RSUs") outstanding under the Restricted and Performance Share Unit plan ("RPSU plan") that were considered anti-dilutive and/or not in the money.

10. Share-based compensation

Restricted and Performance Share Unit plan

Restricted Share Unit 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 TSX. Consideration can be in the form of cash or shares purchased on the open market or issued from treasury.

RSUs (number of shares equivalent)	Nine months ended September 30, 2021	Year ended December 31, 2020
Outstanding, beginning of period	2,355,408	1,100,278
Granted	190,500	1,818,840
Vested	(1,336,652)	(510,738)
Forfeited	(25,718)	(52,972)
Outstanding, end of period	1,183,538	2,355,408

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

	Nine months ended September 30	
	2021	2020
Average fair value of units granted (per unit)	\$ 1.99	\$ 0.55
Expected life of units (years)	1.0	3.0
Expected forfeiture rate	nil	0.6%

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 purchased on the open market or issued from treasury.

PSUs (number of shares equivalent)	Nine months ended September 30, 2021	Year ended December 31, 2020
Outstanding, beginning of period	453,845	92,424
Granted	684,620	376,310
Vested	-	(10,716)
Forfeited	-	(4,173)
Outstanding, end of period	1,138,465	453,845

The liability associated with the PSUs under the RPSU plan was \$3.7 million at September 30, 2021 (December 31, 2020 - \$0.1 million) including \$0.3 million recorded as a current liability and \$3.4 million as a non-current liability.

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, 2021		Year ended December 31, 2020	
Options	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	961,954	\$ 0.94	89,178	\$ 10.41
Granted	2,116,120	1.99	917,490	0.56
Forfeited	(44,464)	8.74	(44,714)	12.06
Outstanding, end of period	3,033,610	\$ 1.56	961,954	\$ 0.94
Exercisable, end of period	379,376	\$ 0.56	44,464	\$ 8.74

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

	Nine months ended September 30	
	2021	2020
Average fair value of options granted (per option)	\$ 1.11	\$ 0.29
Expected volatility	86.9%	83.6%
Expected life of options (years)	3.4	2.2
Expected forfeiture rate	0.5%	1.0%

Non-Treasury Incentive Award Plan (“NTIP”)

Beginning in the second quarter of 2021, Obsidian Energy implemented the NTIP that allows the Company to issue restricted awards whereby employees receive consideration that fluctuates based on the Company's share price on the TSX. The Company currently anticipates that the consideration will be in the form of cash, however, we do have the option to provide the consideration in the form of shares purchased on the open market.

NTIP Restricted Awards	Nine months ended September 30, 2021	Year ended December 31, 2020
Outstanding, beginning of period	-	-
Granted	1,089,560	-
Forfeited	(18,970)	-
Outstanding, end of period	1,070,590	-

The liability associated with the NTIP was \$1.4 million at September 30, 2021 (December 31, 2020 – nil), including \$0.7 million recorded as a current liability and \$0.7 million as a non-current liability.

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, 2021, 2,018,304 DSUs (December 31, 2020 – 2,087,580) were outstanding and \$9.1 million was recorded as a current liability (December 31, 2020 – \$1.9 million).

Share-based compensation

Share-based compensation consisted of the following:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
RSU grants	\$ 0.2	\$ 0.7	\$ 0.9	\$ 1.5
PSU grants	0.8	-	3.6	-
DSU plan	0.8	-	8.7	0.2
Options	0.4	-	0.8	-
NTIP	0.8	-	1.4	-
Share-based compensation	\$ 3.0	\$ 0.7	\$ 15.4	\$ 1.7

The share price used in the fair value calculation of the RPSU, DSU and NTIP plan obligations at September 30, 2021 was \$4.51 per share (2020 – \$0.49).

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. This was partially re-instated on May 1, 2021 with Obsidian Energy matching contributions at a rate of \$0.50 for each \$1.00 of employee contribution and subsequently fully re-instated on August 1, 2021 with Obsidian Energy matching the remaining additional \$0.50 for each \$1.00 of employee contribution up to 10 percent of an employee’s salary. However, in order for an employee to receive the full contribution from August 1, 2021 onwards, they must allocate at least 25 percent (50 percent for officers) of their contribution into Obsidian Energy shares.

11. 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.

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 had been indemnifying two former employees pursuant to indemnity agreements in connection with the claims brought by the SEC arising out of the same restatement. In 2020, the SEC reached a settlement with the two former employees.

The Company continued to accrue for, but not pay, defense costs incurred on behalf of the two former employees and recently agreed to a settlement to pay \$6.4 million of the defense costs equally over a 30-month period beginning in April 2021. As a result of the settlement, the Company recorded a recovery of costs in the first quarter of 2021 previously accrued which was recorded within Other in the Consolidated Statements of Income (Loss).

12. Government grants

The Company has received payments as part of the Canadian Emergency Wage Subsidy program (“CEWS”). CEWS allows eligible companies to receive a subsidy of employee wages, subject to a maximum. For the first nine months of 2021, this resulted in a benefit to the Company of approximately \$0.5 million (2020 – \$2.8 million) which resulted in a \$0.3 million reduction to operating costs, a \$0.1 million reduction to general and administrative costs and a \$0.1 million reduction to capital expenditures.

The Company received a grant allocation under the Alberta Site Rehabilitation Program beginning in 2020. These awards will allow the Company to expand our abandonment activities for wells, pipelines, facilities, and related site reclamation and thus reduce our decommissioning liability. The Company utilized \$8.8 million of net grants during the first nine months of 2021 (2020 – nil).

13. Peace River Oil Partnership (“PROP”) acquisition

Subsequent to September 30, 2021, the Company announced that we have entered into a purchase and sale agreement to acquire the remaining 45 percent partnership interest in PROP from our joint venture partner, through a wholly-owned subsidiary. Total consideration paid will be \$43.5 million prior to closing adjustments with an effective date of July 1, 2021. The acquisition will be funded by a combination of cash and, if necessary, Obsidian Energy common shares issued to our joint venture partner. Closing adjustments are expected to reduce the total consideration paid at closing by approximately \$7.2 - \$7.5 million to \$36.0 - \$36.3 million, assuming the acquisition closes in mid-November 2021.

The cash consideration for the acquisition will be funded by a \$16.3 million limited-recourse loan secured by the 45 percent interest in PROP, which will be acquired pursuant to the acquisition and proceeds from a new equity offering. The Company has filed and been receipted for an amended and restated preliminary short form prospectus with the securities commissions in each of the provinces of Canada, other than Québec, in connection with a “best efforts” marketed equity offering of subscription receipts for minimum gross proceeds of \$12.5 million and maximum gross proceeds of \$22.5 million.

In connection with the Company’s acquisition of the 45 percent interest in PROP, we have agreed to reduce our aggregate syndicated credit facility commitment amount by \$25 million to \$415 million at closing of the transaction. The \$25 million reduction will be applied against the non-revolving term loan. Also, upon closing of the acquisition, the Company will repay approximately \$3.3 million of the outstanding senior notes.

Corporate Information

Directors

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Chairman
Calgary, Alberta

John Brydson ⁽¹⁾⁽²⁾⁽³⁾
Director
Greenwich, Connecticut

Raymond D. Crossley ⁽²⁾⁽³⁾
Director
Calgary, Alberta

Michael J. Faust ⁽¹⁾⁽²⁾
Director
Anchorage, Alaska

Edward H. Kernaghan ⁽¹⁾⁽²⁾
Director
Toronto, Ontario

Stephen E. Loukas
Director
Greenwich, Connecticut

Senior Officers

Stephen E. Loukas
Interim President and Chief Executive Officer

Peter D. Scott
Senior Vice President and Chief Financial Officer

Aaron Smith
Senior Vice President, Development and Operations

Gary Sykes
Senior Vice President, Commercial

Mark Hawkins
Vice President, Legal, General Counsel and
Corporate Secretary

(1) Member of the Operations and Reserves Committee

(2) Member of the Human Resources, Governance and Compensation Committee

(3) Member of the Audit Committee

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Independent Reserve Evaluator

Sproule Associates Limited
Calgary, Alberta

Auditors

KPMG, LLP
Calgary, Alberta

Bankers

Royal Bank of Canada
The Bank of Nova Scotia
Alberta Treasury Branches
Bank of Montreal
Canadian Imperial Bank of Commerce
Export Development Canada
Business Development Bank of Canada
The Fédération des caisses Desjardins du Québec
National Bank of Canada

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Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol: OBE

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