

Q2|22

Second Quarter Results

For the three and six months ended June 30, 2022



TSX: OBE NYSE American: OBE

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Abbreviations

bbl: barrels (oil or natural gas liquids)
bbls/day or **bbls/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
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 six months ended June 30, 2022

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 six months ended June 30 2022 and the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2021. The date of this MD&A is July 27, 2022. All dollar amounts contained in this MD&A are expressed in millions of Canadian dollars unless noted otherwise.

Throughout this MD&A and in other materials disclosed by the Company, we adhere to generally accepted accounting principles ("GAAP"), however the Company also employs certain non-GAAP measures to analyze financial performance, financial position, and cash flow, including funds flow from operations, adjusted funds flow from operations, netback, sales, gross revenues, net operating costs, net debt and free cash flow. Additionally, other financial measures are also used to analyze performance. These non-GAAP and other financial measures do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures provided by other issuers. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss) and cash flow from operating activities, as indicators of our performance.

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 and Other Financial Measures", "Oil and Natural Gas Information", and "Forward-Looking Statements" included at the end of this MD&A.

Quarterly Financial Summary

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

Three months ended	June 30 2022	Mar. 31 2022	Dec. 31 2021	Sep. 30 2021	June 30 2021	Mar. 31 2021	Dec. 31 2020	Sep. 30 2020
Production revenues	\$ 276.5	\$ 203.7	\$ 149.8	\$ 124.5	\$ 111.0	\$ 92.2	\$ 72.8	\$ 75.4
Cash flow from operating activities	125.0	83.9	62.6	65.5	42.2	28.4	11.1	34.8
Basic per share ⁽¹⁾	1.52	1.03	0.81	0.88	0.57	0.39	0.15	0.47
Diluted per share ⁽¹⁾	1.48	1.00	0.78	0.85	0.55	0.37	0.15	0.47
Funds flow from operations ⁽²⁾	157.0	78.6	80.0	59.3	42.3	36.3	26.4	30.4
Basic per share ⁽³⁾	1.91	0.97	1.04	0.79	0.57	0.49	0.36	0.41
Diluted per share ⁽³⁾	1.86	0.94	1.00	0.77	0.55	0.48	0.36	0.41
Net income (loss)	113.9	23.8	21.7	46.6	322.5	23.2	0.2	(3.2)
Basic per share	1.39	0.29	0.28	0.62	4.33	0.32	0.01	(0.04)
Diluted per share	\$ 1.35	\$ 0.28	\$ 0.27	\$ 0.60	\$ 4.23	\$ 0.31	\$ 0.01	\$ (0.04)
Production								
Light oil (bbl/d)	12,261	11,114	11,155	10,314	10,836	10,014	10,055	10,952
Heavy oil (bbl/d)	6,174	5,789	3,237	2,688	2,660	2,788	2,895	2,823
NGLs (bbl/d)	2,406	2,432	2,310	2,213	2,162	2,056	2,087	2,244
Natural gas (mmcf/d)	64	60	58	54	54	50	52	54
Total (boe/d)	31,575	29,407	26,352	24,164	24,651	23,225	23,644	25,031

(1) Supplemental financial measure. See "Non-GAAP and Other Financial Measures".

(2) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures".

(3) Non-GAAP financial ratio. See "Non-GAAP and Other Financial Measures".

Cash flow from Operating Activities, Funds Flow from Operations, Adjusted Funds Flow from Operations and Free Cash Flow

	Three months ended June 30		Six months ended June 30	
(millions, except per share amounts)	2022	2021	2022	2021
Cash flow from operating activities	\$ 125.0	\$ 42.2	\$ 208.9	\$ 70.6
Change in non-cash working capital	26.0	(2.3)	8.0	8.0
Decommissioning expenditures	3.8	0.5	12.3	3.8
Onerous office lease settlements	2.3	2.4	4.6	4.7
Deferred financing costs	(0.7)	(1.7)	(1.4)	(2.7)
Financing fees paid	-	0.3	-	4.4
Restructuring charges ⁽¹⁾	-	0.1	2.5	(1.9)
Transaction costs	-	-	0.1	0.1
Other expenses ⁽¹⁾	0.6	0.8	0.6	(8.4)
Funds flow from operations ⁽²⁾	157.0	42.3	235.6	78.6
Share based compensation ⁽³⁾	(0.2)	8.9	22.5	11.3
Adjusted Funds flow from operations ⁽²⁾	156.8	51.2	258.1	89.9
Share based compensation ⁽³⁾	0.2	(8.9)	(22.5)	(11.3)
Capital expenditures	(40.3)	(21.5)	(143.7)	(51.0)
Decommissioning expenditures	(3.8)	(0.5)	(12.3)	(3.8)
Free Cash Flow ⁽²⁾	\$ 112.9	\$ 20.3	\$ 79.6	\$ 23.8
Per share – funds flow from operations ⁽⁴⁾				
Basic per share	\$ 1.91	\$ 0.57	\$ 2.89	\$ 1.06
Diluted per share	\$ 1.86	\$ 0.55	\$ 2.80	\$ 1.04

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

(2) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures".

(3) Includes expenses associated with our cash settled share-based incentive plans, being the Deferred Share Unit Plan, Performance Share Unit Plan and the Non-Treasury Incentive Award Plan.

(4) Non-GAAP financial ratio. See "Non-GAAP and Other Financial Measures".

In 2022, funds flow from operations, adjusted funds flow from operations, and cash flow from operating activities were significantly higher compared to the first half of 2021 due to higher commodity prices and higher production levels as the Company advanced our development program. In the second half of 2021 and into 2022, the Company increased development activities in response to higher commodity prices which led to higher production levels in 2022. Additionally, in Q4 2021, the Company acquired the remaining 45 percent interest of the Peace River Oil Partnership ("PROP") from our joint venture partner which increased production levels by approximately 2,400 boe per day.

These results were partially offset by higher share-based compensation charges, particularly in Q1 2022 of \$22.5 million related to certain share based incentive plans, primarily due to the significant increase in the Company's share price and resultant mark-to-market charge (June 30, 2022 share price close of \$9.94 compared to December 31, 2021 share price close of \$5.21).

Business Strategy

Our strategy is focused on maintaining moderate production growth, operational excellence, improving our debt leverage and delivering top quartile total shareholder returns. We believe our plan to focus development activity on our Cardium and Peace River assets will generate value for all stakeholders. Our industry leading Cardium position with a deep inventory of high return wells offers a predictable, liquids weighted, production profile that is capable of generating growth and sustainable free cash flow. Additionally, the Company's consolidation of the 100 percent interest in PROP combined with our recent success of adding to our substantial land position in Peace River, results in an asset base with compelling Bluesky development and significant Clearwater potential for future heavy oil production growth and cash flow generation, offering further value for stakeholders.

We successfully completed our first half development program during Q2 2022, drilling 11.0 gross (11.0 net) wells and bringing on production 16.0 gross (15.7 net) wells that resulted in strong production gains. Our eight-well program in our Viking area is currently being completed and expected on production by mid-August. Our second half drilling program began in our Peace River area in mid-July and we recently began our Cardium development program.

Our debt refinancing was completed on July 27, 2022, incorporating both senior and subordinated debt resulting in a more favourable debt structure for a Company of our size. We plan to continue to decrease debt levels as we focus on meeting our 2022 leverage and absolute debt targets by the end of the year. With a stable capital source that provides appropriate operational liquidity and a longer-term maturity profile, the Company anticipates being well positioned to continue developing our strong portfolio of assets while being able to act on new opportunities to our shareholders' benefit.

In the first half of 2022, our participation in the Alberta Site Restoration Program ("ASRP"), focused on inactive fields in Northern Alberta. We have utilized approximately \$24.3 million (net) grants and allocations since the inception of the program in late 2020 through to the end of Q2 2022.

Business Environment

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

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Benchmark prices								
WTI oil (\$US/bbl)	\$ 108.41	\$ 94.29	\$ 77.19	\$ 70.56	\$ 66.07	\$ 57.84	\$ 42.66	\$ 40.93
Edm mixed sweet par price (CAD\$/bbl)	137.76	115.64	93.36	83.77	77.30	66.61	50.29	49.83
Western Canada Select (CAD\$/bbl)	122.06	100.99	78.82	71.80	67.01	57.45	43.46	42.41
NYMEX Henry Hub (\$US/mmbtu)	7.17	4.95	5.83	4.01	2.83	3.56	2.53	2.00
AECO Index (CAD\$/mcf)	7.24	4.74	4.66	3.60	3.09	3.15	2.77	2.24
Foreign exchange rate (\$US/CAD\$)	1.28	1.27	1.26	1.26	1.23	1.27	1.30	1.33
Benchmark differentials								
WTI - Edm Light Sweet (\$US/bbl)	(0.50)	(2.96)	(3.10)	(4.08)	(3.11)	(5.24)	(4.07)	(3.51)
WTI - WCS Heavy (\$US/bbl)	(12.80)	(14.53)	(14.64)	(13.58)	(11.49)	(12.47)	(9.31)	(9.08)
Average sales price ⁽¹⁾ ⁽²⁾								
Light oil (CAD\$/bbl)	139.88	117.91	92.55	84.27	76.97	67.34	50.76	50.84
Heavy oil (CAD\$/bbl)	106.18	84.77	51.76	60.87	48.58	40.48	30.00	29.54
NGLs (CAD\$/bbl)	82.93	68.09	59.46	52.79	39.31	38.20	24.61	22.11
Total liquids (CAD\$/bbl)	123.32	101.72	80.07	75.55	66.95	58.27	43.14	43.06
Natural gas (CAD\$/mcf)	\$ 7.38	\$ 4.96	\$ 5.05	\$ 3.89	\$ 3.21	\$ 3.21	\$ 2.81	\$ 2.40

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

(2) Supplemental financial measures. See "Non-GAAP and Other Financial Measures".

Oil

Oil prices were strong throughout Q2 2022 with WTI averaging US\$108.41 per barrel. This was largely due to continued concerns over supply and the ongoing sanctions on Russia as a result of the Russia/Ukraine conflict. Subsequent to June 30, 2022, oil prices have been volatile as a result of COVID-19 lockdowns in China as well as potential recession fears in North America as interest rates continue to increase, leading to potential concerns over demand.

In Q2 2022, both MSW and WCS differentials narrowed throughout the quarter as inventory levels remained low and several oil sand producers worked through their regular maintenance season which led to supply being offline for periods of time. For Q2 2022, WCS settled at a \$12.80 differential and MSW settled at a \$0.50 differential off WTI.

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

Type	Volume (bbls/d)	Remaining Term	Bought Put Price (C\$/bbl)	Sold Call Price (C\$/bbl)	Swap Price (C\$/bbl)
WTI Swap	6,705	July 2022	-	-	137.77
WTI Swap	5,000	August 2022	-	-	125.07
WTI Swap	6,500	September 2022	-	-	120.77
WTI Collar	5,000	August 2022	118.00	135.39	-
WTI Collar	2,000	September 2022	115.00	127.50	-

Natural Gas

NYMEX Henry Hub gas prices started Q2 2022 at US\$5.43 per mmbtu. Natural gas prices continued to strengthen as global demand for LNG remained strong and peaked in late May at US\$9.44 per mmbtu. The NYMEX Henry Hub price averaged US\$7.17 per mmbtu for Q2 2022.

In Alberta, AECO 5A started the quarter at \$5.93 per mcf, then increased to a high of \$8.77 per mcf in May as demand for US LNG put pressure on the North American market. Increasing Alberta production resulted in AECO declining to \$5.49 per mcf at the end of June. The AECO 5A price for Q2 2022 averaged \$7.24 per mcf.

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

Type	Volume (mcf/d)	Remaining Term	Swap Price (C\$/mcf)
AECO Swap	26,065	July - October 2022	4.74

Average Sales Prices ⁽¹⁾

	Three months ended June 30			Six months ended June 30		
			%			%
	2022	2021	change	2022	2021	change
Light oil (per bbl)	\$ 139.88	\$ 76.97	82	\$ 129.49	\$ 72.37	79
Heavy oil (per bbl)	106.18	48.58	119	95.88	44.46	116
NGL (per bbl)	82.93	39.31	111	75.51	38.77	95
Total liquids (per bbl)	123.32	66.95	84	112.98	62.75	80
Risk management gain (loss) (per bbl)	(5.04)	(0.66)	664	(7.45)	(2.19)	240
Total liquids price, net (per bbl)	118.28	66.29	78	105.53	60.56	74
Natural gas (per mcf)	7.38	3.21	130	6.21	3.21	93
Risk management gain (loss) (per mcf)	(0.65)	(0.04)	1,525	(0.33)	(0.02)	1,550
Natural gas net (per mcf)	6.73	3.17	112	5.88	3.19	84
Weighted average (per boe)	96.44	49.56	95	87.15	46.98	86
Risk management gain (loss) (per boe)	(4.66)	(0.52)	796	(5.58)	(1.44)	288
Weighted average net (per boe)	\$ 91.78	\$ 49.04	87	\$ 81.57	\$ 45.54	79

(1) Supplemental financial measures. See "Non-GAAP and Other Financial Measures".

RESULTS OF OPERATIONS

Production

	Three months ended June 30			Six months ended June 30		
			%			%
	2022	2021	change	2022	2021	change
Daily production						
Light oil (bbls/d)	12,261	10,836	13	11,689	10,427	12
Heavy oil (bbls/d)	6,174	2,660	132	5,982	2,723	120
NGL (bbls/d)	2,406	2,162	11	2,419	2,108	15
Natural gas (mmcf/d)	64	54	19	62	52	19
Total production (boe/d)	31,575	24,651	28	30,497	23,942	27

In Q2 2022, production levels increased compared to 2021 due to strong results from the Company's expanded development program and the acquisition of our partner's non-operated interest in PROP in late 2021. In the comparable period of 2021, production results were yet to benefit from new well production as the Company restarted drilling activity in late 2020 when commodity prices began to improve.

The Company has completed our accelerated first half 2022 development program with increased activity across our entire portfolio resulting in production growth. Our first half 2022 development program brought 28 wells (27.3 net) on production by the end of Q2 2022.

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

	Three months ended June 30			Six months ended June 30		
	2022	2021	% change	2022	2021	% change
Daily production (boe/d) ⁽¹⁾						
Cardium	23,454	20,390	15	22,669	19,726	15
Peace River	6,964	2,895	141	6,718	2,953	127
Alberta Viking	729	812	(10)	710	803	(12)
Legacy	428	554	(23)	400	460	(13)
Total	31,575	24,651	28	30,497	23,942	27

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

Netbacks

		Three months ended June 30	
(per boe)		2022	2021
Netback:			
Sales price ⁽¹⁾	\$	96.44	\$ 49.56
Risk management loss ⁽²⁾		(4.66)	(0.52)
Royalties		(15.53)	(4.90)
Transportation		(3.29)	(1.95)
Net operating costs ⁽³⁾		(14.02)	(13.71)
Netback ⁽³⁾	\$	58.94	\$ 28.48
		(boe/d)	(boe/d)
Production		31,575	24,651

(1) Includes the impact of commodities purchased and sold to/from third parties - \$0.8 million (2021 - \$0.2 million).

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

(3) Non-GAAP financial ratios. See "Non-GAAP and Other Financial Measures".

		Six months ended June 30	
(per boe)		2022	2021
Netback:			
Sales price ⁽¹⁾	\$	87.15	\$ 46.98
Risk management loss ⁽²⁾		(5.58)	(1.44)
Royalties		(13.53)	(3.83)
Transportation		(3.04)	(1.87)
Net operating costs ⁽³⁾		(13.98)	(13.62)
Netback ⁽³⁾	\$	51.02	\$ 26.22
		(boe/d)	(boe/d)
Production		30,497	23,942

(1) Includes the impact of commodities purchased and sold to/from third parties - \$1.1 million (2021 - \$0.4 million).

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

(3) Non-GAAP financial ratios. See "Non-GAAP and Other Financial Measures".

In the first half of 2022, netbacks were higher than the comparable periods primarily due to higher commodity prices. This was partially offset by realized hedging losses, increased royalties due to higher commodity prices, and increased transportation costs due to higher production in Peace River from the PROP acquisition and Bluesky wells brought on production during 2022.

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Netback:				
Sales ^{(1) (2)}	\$ 277.3	\$ 111.2	\$ 481.3	\$ 203.6
Risk management loss ⁽³⁾	(13.4)	(1.2)	(30.8)	(6.3)
Royalties	(44.7)	(10.9)	(74.7)	(16.6)
Transportation	(9.5)	(4.4)	(16.8)	(8.1)
Net operating costs ⁽²⁾	(40.3)	(30.7)	(77.2)	(59.0)
Netback ⁽²⁾	\$ 169.4	\$ 64.0	\$ 281.8	\$ 113.6

(1) Includes the impact of commodities purchased and sold to/from third parties - \$0.8 million (2021 – \$0.2 million) for the second quarter of 2022 and \$1.1 million (2021 – \$0.4 million) for the first six months of 2022.

(2) Non-GAAP financial measures. See "Non-GAAP and Other Financial Measures".

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

Production Revenues

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

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Production revenues	\$ 276.5	\$ 111.0	\$ 480.2	\$ 203.2
Sales of commodities purchased	3.7	1.9	6.8	3.9
Less: Commodities purchased	(2.9)	(1.7)	(5.7)	(3.5)
Sales ⁽¹⁾	277.3	111.2	481.3	203.6
Realized risk management gain (loss) ⁽²⁾	(13.4)	(1.2)	(30.8)	(6.3)
Gross revenues ⁽¹⁾	\$ 263.9	\$ 110.0	\$ 450.5	\$ 197.3

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures".

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

Both production revenues and gross revenues were significantly higher in the 2022 periods compared to the 2021 periods, due to increases in both commodity prices and production volumes. Increases in gross revenues were partially offset by higher realized hedging losses during the 2022 periods compared to the 2021 periods.

Change in Gross Revenues ⁽¹⁾

(millions)	
Gross revenues – January 1 – June 30, 2021	\$ 197.3
Increase in liquids production	45.2
Increase in liquids prices	192.6
Increase in natural gas production	6.0
Increase in natural gas prices	33.9
Decrease in realized oil risk management	(21.0)
Decrease in realized natural gas risk management	(3.5)
Gross revenues – January 1 – June 30, 2022 ⁽²⁾	\$ 450.5

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures".

(2) Excludes processing fees and other income.

Royalties

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Royalties (millions)	\$ 44.7	\$ 10.9	\$ 74.7	\$ 16.6
Average royalty rate ⁽¹⁾	16%	10%	16%	8%

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

For the 2022 periods, both absolute royalties and the average royalty rate increased from the comparable period largely due to higher commodity prices.

Expenses

	Three months ended June 30		Six months ended June 30	
(millions)	2022	2021	2022	2021
Net Operating ⁽¹⁾	\$ 40.3	\$ 30.7	\$ 77.2	\$ 59.0
Transportation	9.5	4.4	16.8	8.1
Financing	10.5	10.8	20.3	22.7
Share-based compensation	\$ 0.8	\$ 9.7	\$ 24.9	\$ 12.4

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures".

Operating

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

	Three months ended June 30		Six months ended June 30	
(millions)	2022	2021	2022	2021
Operating costs	\$ 43.9	\$ 33.9	\$ 84.2	\$ 64.8
Less processing fees	(2.0)	(1.7)	(3.9)	(3.3)
Less road use recoveries	(1.6)	(1.5)	(3.1)	(2.5)
Net Operating costs ⁽¹⁾	\$ 40.3	\$ 30.7	\$ 77.2	\$ 59.0

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures".

Operating costs have increased compared to the 2021 periods due to incremental costs with new wells coming on production, higher power costs as a result of higher natural gas prices (which benefitted our revenue) and general inflationary pressures experienced across the industry. Additionally, the Company increased repair and maintenance activity in 2022 as more projects become economic under the current commodity price environment.

Transportation

The Company continues to utilize multiple sales points in the Peace River area to increase realized prices. The PROP acquisition and new wells drilled in Q4 2021 and the first half of 2022, resulted in higher production and thus higher transportation costs in the 2022 periods compared to the 2021 periods. The increase in realized prices is partially offset by additional transportation costs.

Financing

Financing expense consists of the following:

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest on bank debt and senior secured notes	\$ 6.4	\$ 7.0	\$ 11.9	\$ 12.7
PROP Limited recourse loan	0.5	-	1.0	-
Advisor fees	0.2	0.3	0.5	1.0
Accretion on decommissioning liability	2.5	1.4	5.0	2.9
Accretion on office lease provision	0.4	0.5	0.8	1.0
Accretion on other non-current liability	0.1	0.1	0.2	0.1
Accretion on lease liabilities	0.1	0.1	0.2	0.3
Deferred financing costs	0.7	1.7	1.4	2.7
Debt modification	(0.4)	(0.3)	(0.7)	2.0
Financing	\$ 10.5	\$ 10.8	\$ 20.3	\$ 22.7

Obsidian Energy's debt structure at June 30, 2022 included short-term borrowings under our syndicated credit facility and term financing through our senior secured notes and PROP limited-recourse loan. Financing charges were comparable in the 2022 and 2021 periods as higher interest rates under the Company's current banking agreements in 2022 were offset by lower balances under our syndicated credit facility and senior notes.

At June 30, 2022, the Company had a reserve-based syndicated credit facility with an aggregate amount available of \$358.1 million which consisted of a \$260.0 million revolving syndicated credit facility and a \$98.1 million non-revolving term loan. Subsequent to June 30, 2022, the Company agreed to reduce the non-revolving term loan by \$17.4 million to \$80.7 million and repay US\$2.0 million of the senior secured notes resulting in US\$34.7 million outstanding. 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 June 30, 2022, 84 percent (December 31, 2021 – 82 percent) of the Company's outstanding debt instruments were exposed to changes in short-term interest rates.

On June 30, 2022, the Company was in compliance with all of the financial covenants under our syndicated credit facility and senior secured notes, which consisted of the following:

	Limit	June 30, 2022
Senior debt to capitalization	Less than 75%	27%
Total debt to capitalization	Less than 75%	27%

Summary information on the Company's senior secured notes outstanding as at June 30, 2022 is as follows:

	Amount (millions)	Maturity date	Average interest rate	Weighted average remaining term (years)
2008 Notes	US\$3.1	November 30, 2022	9.37%	0.4
2010 Q1 Notes	US\$7.6	November 30, 2022	8.82%	0.4
2010 Q4 Notes	US\$16.5	November 30, 2022	7.91%	0.4
2011 Notes	US\$9.5	November 30, 2022	7.76%	0.4

In Q4 2021, as part of the 45 percent interest acquisition in PROP, a portion of the cash consideration was obtained through a new \$16.3 million limited-recourse amortizing loan. The maturity date of the loan is December 31, 2022 and it has an interest rate of 10.5 percent. At June 30, 2022, \$5.9 million was outstanding on the loan.

Subsequent to June 30, 2022, the Company completed a refinancing and issued five-year senior unsecured notes for an aggregate principal amount of \$127.6 million (the “New Notes”) as well as entered into new syndicated credit facilities with borrowing capacity of \$205.0 million (the “New Credit Facilities”). The Company used the net proceeds from the New Notes, together with initial draws on the New Credit Facilities, to repay all of our existing senior secured notes due November 30, 2022, repay the outstanding balances under our existing credit facilities due November 30, 2022, and repay the PROP limited recourse loan due on December 31, 2022.

The New Credit Facilities were entered into with a group of lenders providing the Company with a \$175.0 million revolving credit facility and a \$30.0 million non-revolving term loan. The revolving credit facility is subject to a semi-annual borrowing base redetermination typically in May and November of each year and currently has a revolving period to July 27, 2023 and a term-out period of July 27, 2024. The non-revolving term loan has a maturity date of December 31, 2022.

The New Notes have an interest rate of 11.95 percent and mature on July 27, 2027 and were issued at a price of \$980.00 per \$1,000.00 principal amount resulting in aggregate gross proceeds of \$125.0 million. The New Notes will be direct senior unsecured obligations of Obsidian Energy ranking equal with all other present and future senior unsecured indebtedness of the Company.

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:

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
DSUs	\$ (1.2)	\$ 5.7	\$ 10.9	\$ 7.9
PSUs	0.6	2.6	6.6	2.8
NTIP	0.4	0.6	5.0	0.6
Cash settled share-based incentive plans	(0.2)	8.9	22.5	11.3
RSUs	0.8	0.4	1.6	0.7
Options	0.2	0.4	0.8	0.4
Equity settled share-based incentive plans	1.0	0.8	2.4	1.1
Share-based compensation	\$ 0.8	\$ 9.7	\$ 24.9	\$ 12.4

In Q2 2022, the decrease in share-based compensation compared to Q2 2021 is largely attributed to a smaller change in our share price during the quarter than compared to Q2 2021. During Q2 2022, \$3.6 million of DSUs were redeemed; currently, no outstanding DSUs are redeemable.

During the first six months of 2022, there was a significant increase in the Company's share price which closed at \$9.94 per share at June 30, 2022 compared to \$5.21 per share at December 31, 2021. The change in share price at the balance sheet date results in a mark-to-market valuation which is used to calculate the PSU, DSU plan and NTIP plan future obligations.

General and Administrative Expenses (“G&A”)

(millions, except per boe amounts)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Gross	\$ 8.6	\$ 6.7	\$ 16.2	\$ 13.0
Per boe ⁽¹⁾	2.98	3.00	2.94	3.01
Net	4.8	3.8	8.9	7.3
Per boe ⁽¹⁾	\$ 1.64	\$ 1.69	\$ 1.60	\$ 1.69

(1) Supplementary financial measure. See “Non-GAAP and Other Financial Measures”.

Increased staffing levels due to higher activity levels and inflationary pressures largely contributed to the increase in absolute G&A costs in Q2 2022 and for the first six months of 2022. On a per boe basis, G&A was lower due to higher production levels.

Restructuring and other expenses

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Restructuring	\$ -	\$ 0.1	\$ 2.5	\$ (1.9)
Other	\$ 0.6	\$ 0.8	\$ 0.6	\$ (8.4)

For the first six months of 2022, restructuring expenses included severance charges as well as the acceleration of certain expenses under the RPSU plan due to staff changes.

Both restructuring and other expenses in the first six months of 2021 included settlement benefits of previously accrued costs.

Depletion, Depreciation and Impairment

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Depletion and depreciation (“D&D”)	\$ 42.7	\$ 26.9	\$ 82.8	\$ 51.4
PP&E Impairment (reversal)	\$ (0.6)	\$ (312.4)	\$ 10.7	\$ (311.4)

The Company’s D&D expense has increased from the comparable periods, primarily due to higher production and non-cash impairment reversal charges recorded in 2021 in the Cardium and Peace River cash generating units (“CGUs”) which increased the depletable base. These impairment reversals were recorded mainly due to the improved commodity price environment and strong drilling results in the Cardium and Peace River area along with the Company entering into an agreement to purchase the remaining 45 percent interest of our partner in PROP.

For the first six months of 2022, we recorded a \$10.7 million impairment in our Legacy CGU due to accelerated decommissioning spending in the area. The Legacy CGU has no recoverable amount, as such changes in our decommissioning liability are (recovered) expensed each period.

Taxes

As at June 30, 2022, the Company was in a net unrecognized deferred tax asset position of approximately \$346.5 million (December 31, 2021 - \$378.6 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.

Foreign exchange gain or loss is as follows:

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Foreign exchange loss (gain)	\$ 1.5	\$ (0.9)	\$ 0.8	\$ (1.6)

The Company repaid senior notes in the amount of US\$1.0 million in Q2 2022 and US\$6.7 million during the six-month period ended June 30, 2022.

Net Income

(millions, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Net income	\$ 113.9	\$ 322.5	\$ 137.7	\$ 345.7
Basic per share	1.39	4.33	1.69	4.67
Diluted per share	\$ 1.35	\$ 4.23	\$ 1.64	\$ 4.57

In the 2022 periods, net income was the result of the Company's strong netback, predominantly due to higher commodity prices and higher production levels. This was partially offset by increased depletion and depreciation expenses and higher share-based compensation charges as a result of the Company's significant share price appreciation during the first half of 2022.

In the 2021 periods, net income was due to the Company's improved netback, increasing oil prices and a \$311.5 million impairment reversal, which was recorded in Q2 2021.

Capital Expenditures

(millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Drilling and completions	\$ 20.0	\$ 12.5	\$ 87.8	\$ 33.6
Well equipping and facilities	19.9	8.8	41.7	16.2
Land and geological/geophysical	-	-	13.7	0.9
Corporate	0.4	0.2	0.5	0.3
Capital expenditures	40.3	21.5	143.7	51.0
Property acquisitions, net	0.3	-	0.3	-
Total	\$ 40.6	\$ 21.5	\$ 144.0	\$ 51.0

In Q2 2022, the Company completed our first half development program focused on various completion and tie-in activities from wells drilled earlier in the year, in addition to eight new Viking wells.

In Q1 2022, we successfully purchased 23 sections (14,720 acres) of prospective oil sands rights through Alberta land sales in the Peace River area for a consideration of approximately \$13.7 million.

Drilling

	Six months ended June 30			
	2022		2021	
(number of wells)	Gross	Net	Gross	Net
Oil	33	30	11	9
Injectors, stratigraphic and service	-	-	1	-
Total	33	30	12	9

The Company drilled 30 operated gross wells (29.5 net) during our first half 2022 development program. In addition to this, the Company had a minor non-operated working interest on three oil 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. 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. Obsidian Energy voluntarily entered into the Government of Alberta's Area Based Closure program (the "ABC program") which allowed the Company to accelerate abandonment activities, specifically on inactive properties, in a more cost-effective manner through 2020 and 2021. In 2022, the Company is required to follow the new AER guidance under Directive 088 where a minimum amount of spending is required to abandon inactive sites.

The Company has received ASRP grants and allocations to date of over \$34 million on a gross basis, a portion of which was received in allocation eligibility as an ABC program participant. During the second quarter, the Company was notified that certain grants/allocations that we had previously received under the ASRP program had been revoked by the Government of Alberta due to a broad reduction in program support that impacted many industry participants, which resulted in approximately \$2.3 million reduction. 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 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)	June 30, 2022	December 31, 2021
Long-term debt		
Syndicated credit facility	\$ 282.1	\$ 321.5
PROP Limited recourse loan	5.9	16.0
Senior secured notes	47.3	54.9
Deferred interest	0.6	1.3
Deferred financing costs	(1.3)	(2.7)
Total	334.6	391.0
Working capital deficiency		
Cash	(9.2)	(7.3)
Accounts receivable	(111.2)	(68.9)
Prepaid expenses and other	(15.0)	(9.1)
Accounts payable and accrued liabilities	143.8	107.8
Total	8.4	22.5
Net debt ⁽¹⁾	\$ 343.0	\$ 413.5

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures".

Net debt decreased compared to December 31, 2021, as a result of debt repayments made on the senior secured notes and PROP limited recourse loan in the period, lower drawings on the syndicated credit facility and a decrease in the working capital deficit. Higher revenues as a result of higher production and commodity prices led to an increase in accounts receivable and lower capital expenditures in Q2 2022 led to lower accounts payable.

The Company's credit facility was classified as a current liability at June 30, 2022 as the term-out date is within 12 months from the reporting date.

Liquidity

Currently, the Company has a reserve-based syndicated credit facility with a borrowing limit of \$175.0 million, a \$30 million term loan due on December 31, 2022 and senior unsecured notes totaling \$125 million due in 2027. For further details on the Company's debt instruments 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.

Financial Instruments

Obsidian Energy had the following financial instruments outstanding as at June 30, 2022. 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	3,750 bbl/d	July 2022	\$140.46/bbl	0.6
WTI Swaps ⁽¹⁾	593 bbl/d	Q3 2022	US\$63.26/bbl	(2.8)
WTI Swaps ⁽¹⁾	606 bbl/d	Q4 2022	US\$62.30/bbl	(2.3)
AECO Swaps				
AECO Swaps	26,065 mcf/d	July - October 2022	\$4.74/mcf	(1.5)
Total			\$	(6.0)

(1) PROP Energy 45 Limited Partnership, our wholly owned subsidiary that purchased 45 percent of the PROP units from a third party on November 24, 2021, entered into these financial hedges in conjunction with the limited recourse acquisition financing. These hedges were closed out on July 27, 2022 as part of our refinancing.

Subsequent to June 30, 2022, in conjunction with our refinancing, we closed out the existing hedges under PROP 45 for a risk management loss of US\$3.4 million.

Refer to the Business Environment section above for a full list of hedges currently outstanding including contracts that were entered into subsequent to June 30, 2022.

Based on commodity prices and contracts in place at June 30, 2022, a \$1.00 change in the price per barrel of liquids would change pre-tax unrealized risk management by \$0.3 million and a \$0.10 change in the price per mcf of natural gas would change pre-tax unrealized risk management by \$0.3 million.

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

	Three months ended June 30		Six months ended June 30	
(millions)	2022	2021	2022	2021
Realized				
Settlement of commodity contracts	\$ (13.4)	\$ (1.2)	\$ (30.8)	\$ (6.3)
Total realized risk management loss	\$ (13.4)	\$ (1.2)	\$ (30.8)	\$ (6.3)
Unrealized				
Commodity contracts	\$ 7.1	\$ (4.1)	\$ (3.6)	\$ (3.5)
Total unrealized risk management gain (loss)	7.1	(4.1)	(3.6)	(3.5)
Risk management loss	\$ (6.3)	\$ (5.3)	\$ (34.4)	\$ (9.8)

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.

Change of:	Change	Impact on funds flow from operations ⁽¹⁾	
		\$ millions	\$/share
Price per barrel of liquids	WTI US\$1.00	6.7	0.08
Liquids production	1,000 bbl/day	24.3	0.30
Price per mcf of natural gas	AECO \$0.10	1.4	0.02
Natural gas production	10 mmcf/day	13.9	0.17
Effective interest rate	1%	0.6	0.01
Exchange rate (\$US per \$CAD)	\$ 0.01	5.0	0.06

(1) Non-GAAP financial measure or non-GAAP financial ratio. See "Non-GAAP and Other Financial Measures".

Contractual Obligations and Commitments

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

	2022	2023	2024	2025	2026	Thereafter	Total
Long-term debt ⁽¹⁾	\$ 335.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 335.3
Transportation	7.2	6.3	2.7	2.2	1.7	4.1	24.2
Interest obligations	10.8	-	-	-	-	-	10.8
Office lease	5.0	10.0	10.0	0.8	-	-	25.8
Lease liability	2.2	3.2	0.8	0.2	0.1	5.0	11.5
Decommissioning liability ⁽²⁾	4.7	13.1	11.8	11.1	10.4	63.7	114.8
Total	\$ 365.2	\$ 32.6	\$ 25.3	\$ 14.3	\$ 12.2	\$ 72.8	\$ 522.4

(1) The 2022 figure includes \$282.1 million related to the syndicated credit facility and non-revolving term loan, \$47.3 million of senior notes and \$5.9 million related to the PROP limited recourse amortizing loan all of which mature in 2022. These debt instruments were all outstanding at June 30, 2022, however, were subsequently repaid as part of the Company's refinancing in July 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.

At June 30, 2022 the Company had an aggregate of US\$37.7 million in senior secured notes maturing November 30, 2022 and \$5.9 million related to the PROP limited recourse loan maturing December 31, 2022, both of which were repaid in July 2022 as part of our refinancing. The revolving period of our syndicated credit facility that we entered into subsequent to June 30, 2022 is to July 27, 2023, with a term out period to July 27, 2024. In the future, 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 unsecured 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 outstanding debt instruments.

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 June 30, 2022 and July 27, 2022	82,151,499
Options outstanding:	
As at June 30, 2022 and July 27, 2022	2,565,383
RSUs outstanding:	
As at June 30, 2022 and July 27, 2022	839,028

Supplemental Production Disclosure

Outlined below is production by product type for each area and in total for the three and six months ended June 30, 2022 and 2021.

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Daily production (boe/d)				
<i>Cardium</i>				
Light oil (bbls/d)	12,019	10,502	11,468	10,154
Heavy oil (bbls/d)	49	48	48	48
NGLs (bbls/d)	2,326	2,089	2,345	2,037
Natural gas (mmcf/d)	54	47	53	45
Total production (boe/d)	23,454	20,390	22,669	19,726
<i>Peace River</i>				
Light oil (bbls/d)	-	-	-	-
Heavy oil (bbls/d)	6,008	2,429	5,802	2,497
NGLs (bbls/d)	6	3	5	3
Natural gas (mmcf/d)	6	3	5	3
Total production (boe/d)	6,964	2,895	6,718	2,953
<i>Viking</i>				
Light oil (bbls/d)	136	170	139	164
Heavy oil (bbls/d)	103	108	104	115
NGLs (bbls/d)	39	39	31	39
Natural gas (mmcf/d)	3	3	3	3
Total production (boe/d)	729	812	710	803
<i>Legacy</i>				
Light oil (bbls/d)	106	164	82	109
Heavy oil (bbls/d)	14	75	28	63
NGLs (bbls/d)	35	31	38	29
Natural gas (mmcf/d)	1	1	1	1
Total production (boe/d)	428	554	400	460
<i>Total</i>				
Light oil (bbls/d)	12,261	10,836	11,689	10,427
Heavy oil (bbls/d)	6,174	2,660	5,982	2,723
NGLs (bbls/d)	2,406	2,162	2,419	2,108
Natural gas (mmcf/d)	64	54	62	52
Total production (boe/d)	31,575	24,651	30,497	23,942

Reconciliation of Cash flow from operating activities to Funds flow from operations

Three months ended	June 30 2022	Mar. 31 2022	Dec. 31 2021	Sep. 30 2021	June 30 2021	Mar. 31 2021	Dec. 31 2020	Sep. 30 2020
Cash flow from operating activities	\$ 125.0	\$ 83.9	\$ 62.6	\$ 65.5	\$ 42.2	\$ 28.4	\$ 11.1	\$ 34.8
Change in non-cash working capital	26.0	(18.0)	6.2	(9.1)	(2.3)	10.3	7.6	(11.1)
Decommissioning expenditures	3.8	8.5	2.7	1.6	0.5	3.3	2.3	0.6
Onerous office lease settlements	2.3	2.3	2.1	2.3	2.4	2.3	2.3	2.4
Deferred financing costs	(0.7)	(0.7)	(1.1)	(1.7)	(1.7)	(1.0)	(2.8)	-
Financing fees paid	-	-	0.3	-	0.3	4.1	5.6	-
Restructuring charges ⁽¹⁾	-	2.5	-	0.1	0.1	(2.0)	0.9	-
Transaction costs	-	0.1	3.4	-	-	0.1	-	2.9
Other expenses ⁽¹⁾	0.6	-	0.1	0.6	0.8	(9.2)	(0.6)	0.8
Commodities purchased from third parties	-	-	3.7	-	-	-	-	-
Funds flow from operations	\$ 157.0	\$ 78.6	\$ 80.0	\$ 59.3	\$ 42.3	\$ 36.3	\$ 26.4	\$ 30.4

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

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 April 1, 2022 and ending on June 30, 2022 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 and Other Financial Measures

Throughout this MD&A and in other materials disclosed by the Company, we employ certain measures to analyze financial performance, financial position, and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures provided by other issuers. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss) and cash flow from operating activities, as indicators of our performance.

Non-GAAP Financial Measures

“Free cash flow” is funds flow from operations less both capital and decommissioning expenditures and the Company believes it is a useful measure to determine and indicate the funding available to Obsidian Energy for investing and financing activities, including the repayment of debt, reallocation to existing business units, and deployment into new ventures. See “Cash flow from Operating Activities, Funds Flow from Operations, Adjusted Funds Flow from Operations and Free Cash Flow” above for a reconciliation of free cash flow to cash flow from operating activities, being our nearest measure prescribed by IFRS.

"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, certain other expenses and certain commodities purchased from third parties, 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 Operating Activities, Funds Flow from Operations, Adjusted Funds Flow from Operations and Free Cash Flow" and "Reconciliation of Cash flow from operating activities to Funds flow from operations" above for reconciliations of funds flow from operations to cash flow from operating activities, being our nearest measure prescribed by IFRS.

"Adjusted Funds flow from operations" is funds flow from operations less share based compensation relating to the Company's Deferred Share Unit plan, Performance Share Unit plan and Non-Treasury Incentive Award plan. The Company believes it is a useful measure to determine and indicate the funding available to Obsidian Energy for investing and financing activities, including the repayment of debt, reallocation to existing business units, and deployment into new ventures. See "Cash flow from Operating Activities, Funds Flow from Operations, Adjusted Funds Flow from Operations and Free Cash Flow" above for a reconciliation of adjusted funds flow from operations to cash flow from operating activities, being our nearest measure prescribed by IFRS.

"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 "Results of Operations – Production Revenues" for a reconciliation of gross revenues to production revenues, being our nearest measure prescribed by IFRS.

"Sales" is production revenues plus sales of commodities purchased less commodities purchased and is used to assess the cash realizations on commodity sales before realized risk management gains and losses. See "Results of Operations – Production Revenues" for a reconciliation of sales 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 reconciliation of net debt to long-term debt, being our nearest measure prescribed by IFRS.

"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 "Results of Operations – Expenses – Operating" above for a reconciliation of net operating costs to operating costs, being our nearest measure prescribed by IFRS.

"Netback" is 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 a reconciliation of netbacks to sales.

Non-GAAP Financial Ratios

"Funds flow from operations – basic per share" is comprised of funds flow from operations divided by basic weighted average common shares outstanding. Funds flow from operations is a non-GAAP financial measure. See "Cash flow from Operating Activities, Funds Flow from Operations, Adjusted Funds Flow from Operations and Free Cash Flow" above.

"Funds flow from operations – diluted per share" is comprised of funds flow from operations divided by diluted weighted average common shares outstanding. Funds flow from operations is a non-GAAP financial measure. See "Cash flow from Operating Activities, Funds Flow from Operations, Adjusted Funds Flow from Operations and Free Cash Flow" above.

"Net operating costs per bbl", "Net operating costs per mcf" and "Net operating costs per boe" are net operating costs divided by weighted average daily production on a per bbl, per mcf or per boe basis, as applicable. Net operating costs is a non-GAAP financial measure. See "Results of Operations – Expenses – Operating".

"Netback per bbl", "Netback per mcf" and "Netback per boe" are netbacks divided by weighted average daily production on a per bbl, per mcf or per boe basis, as applicable. Management believes that netback per boe is a key industry performance measure of operational efficiency and provides investors with information that is also commonly presented by other oil and natural gas producers. Netback is a non-GAAP financial measure. See "Results of Operations – Netbacks" above.

Supplementary Financial Measures

Average sales prices for light oil, heavy oil, NGLs, total liquids and natural gas are supplementary financial measures calculated by dividing each of these components of production revenues by their respective production volumes for the periods.

"Cash flow from operating activities – basic per share" is comprised of cash flow from operating activities, as determined in accordance with IFRS, divided by basic weighted average common shares outstanding.

"Cash flow from operating activities – diluted per share" is comprised of cash flow from operating activities, as determined in accordance with IFRS, divided by diluted weighted average common shares outstanding.

"G&A gross – per boe" is comprised of general and administrative expenses on a gross basis, as determined in accordance with IFRS, divided by boe for the period.

"G&A net – per boe" is comprised of general and administrative expenses on a net basis, as determined in accordance with IFRS, divided by boe for the period.

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.

ABBREVIATIONS

<u>Oil</u>		<u>Natural Gas</u>	
bbl	barrel or barrels	mcf	thousand cubic feet
bbl/d	barrels per day	mmcf	million cubic feet
boe	barrel of oil equivalent	mmcf/d	million cubic feet per day
boe/d	barrels of oil equivalent per day	mmbtu	Million British thermal unit
MSW	Mixed Sweet Blend	AECO	Alberta benchmark price for natural gas
WTI	West Texas Intermediate	NGL	natural gas liquids

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 strategy of maintaining moderate production growth, operational excellence, improving our debt leverage and delivering top quartile total shareholder return; our belief that our plan to focus development activity on our Cardium and Peace River assets will generate value for all stakeholders; that our Cardium position with a deep inventory of high return wells offers a predictable, liquids weighted, production profile capable of generating growth and sustainable free cash flow; that there is compelling Bluesky development and significant Clearwater potential for future heavy oil production growth and cash flow generation, offering further value for stakeholders; our expected development, ability to act on new opportunities and on-production dates; our expectation for debt levels in 2022;

our hedges; the terms and conditions of our New Credit Facilities including the semi-annual borrowing base redetermination dates, maturity dates and revolving period for the syndicated credit facility and non-revolving term loan; 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 impact 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 the environmental programs which include resource conservation, water management and site abandonment / reclamation / remediation; that the Company will follow the new AER guidance under Directive 088 where a minimum amount of spending is required to abandon inactive sites; that we will continue the ASRP work in 2022; 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 sensitivity analysis and contractual obligations and commitments moving forward.

With respect to forward-looking statements contained in this document, the Company has made assumptions regarding, among other things: that the Company does not dispose of or acquire material producing properties or royalties or other interests therein; 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 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 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; 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 (if necessary) to replace our syndicated bank facility and our ability (if necessary) to finance the repayment of our new term loan and notes on maturity; and our ability to add production and reserves through our development and exploitation activities.

Although the Company believes that the expectations reflected in the forward-looking statements contained in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the forward-looking statements contained herein will not be correct, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: the possibility that we change our 2022 budget in response to internal and external factors, including those described herein; 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 there is another significant decrease in the valuation of oil and natural gas companies and their securities and in confidence in the oil and natural gas industry generally, whether caused by a resurgence of the COVID-19 pandemic, the worldwide transition towards less reliance on fossil fuels and/or other factors; the risk that the COVID-19 pandemic and/or other factors 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 notes is not further extended (if necessary), that the borrowing base under our credit facility is reduced, that the Company is unable to renew or refinance our credit facilities on acceptable terms or at all and/or finance the repayment of our notes when they mature on acceptable terms or at all and/or obtain debt and/or equity financing to replace one or all of our credit facilities, and 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 notes; the possibility that we are forced to shut-in production, whether due to commodity prices decreasing, extreme weather events or other factors; the risk that OPEC 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; the risk that our costs increase significantly due to inflation, supply chain disruptions and/or other factors, adversely affecting our profitability; 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 risk that wars and other armed conflicts adversely affect world economies and the demand for oil and natural gas, including the ongoing war between Russian and Ukraine; 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; 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.

Additional Information

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

Obsidian Energy Ltd.
Consolidated Balance Sheets

(CAD millions, unaudited)	Note	As at	June 30, 2022	December 31, 2021
Assets				
Current				
Cash		\$	9.2	\$ 7.3
Accounts receivable			111.2	68.9
Risk management	7		0.6	1.8
Prepaid expenses and other			15.0	9.1
			136.0	87.1
Non-current				
Property, plant and equipment	3		1,405.0	1,342.1
			1,405.0	1,342.1
Total assets		\$	1,541.0	\$ 1,429.2
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities		\$	143.8	\$ 107.8
Current portion of long-term debt	4		334.6	391.0
Current portion of lease liabilities	5		4.2	4.1
Current portion of provisions	6		20.1	23.4
Risk management	7		6.6	4.2
			509.3	530.5
Non-current				
Lease liabilities	5		3.5	4.6
Provisions	6		116.5	123.8
Other non-current liabilities			6.9	6.8
			636.2	665.7
Shareholders' equity				
Shareholders' capital	9		2,221.6	2,213.8
Other reserves			99.0	103.2
Deficit			(1,415.8)	(1,553.5)
			904.8	763.5
Total liabilities and shareholders' equity		\$	1,541.0	\$ 1,429.2

Subsequent events (Note 4 and 7)

Commitments and contingencies (Note 11)

See accompanying notes to the unaudited interim consolidated financial statements.

Obsidian Energy Ltd.
Consolidated Statements of Income

(CAD millions, except per share amounts, unaudited)	Note	Three months ended June 30		Six months ended June 30	
		2022	2021	2022	2021
Production revenues	8	\$ 276.5	\$ 111.0	\$ 480.2	\$ 203.2
Processing fees		2.0	1.7	3.9	3.3
Royalties		(44.7)	(10.9)	(74.7)	(16.6)
Sales of commodities purchased from third parties		3.7	1.9	6.8	3.9
		237.5	103.7	416.2	193.8
Other income		1.6	1.5	3.1	2.5
Government decommissioning assistance	12	(2.3)	1.1	11.1	5.9
Risk management loss	7	(6.3)	(5.3)	(34.4)	(9.8)
		230.5	101.0	396.0	192.4
Expenses					
Operating		43.9	33.9	84.2	64.8
Transportation		9.5	4.4	16.8	8.1
Commodities purchased from third parties		2.9	1.7	5.7	3.5
General and administrative		4.8	3.8	8.9	7.3
Restructuring		-	0.1	2.5	(1.9)
Share-based compensation	10	0.8	9.7	24.9	12.4
Depletion, depreciation and impairment	3	42.1	(285.5)	93.5	(260.0)
Gain on provisions	6	-	(0.3)	-	(0.3)
Foreign exchange loss (gain)	4	1.5	(0.9)	0.8	(1.6)
Financing	4	10.5	10.8	20.3	22.7
Transaction costs		-	-	0.1	0.1
Other		0.6	0.8	0.6	(8.4)
		116.6	(221.5)	258.3	(153.3)
Income before taxes		113.9	322.5	137.7	345.7
Deferred tax expense		-	-	-	-
Net and comprehensive income		\$ 113.9	\$ 322.5	\$ 137.7	\$ 345.7
Net income per share					
Basic		\$ 1.39	\$ 4.33	\$ 1.69	\$ 4.67
Diluted		\$ 1.35	\$ 4.23	\$ 1.64	\$ 4.57
Weighted average shares outstanding (millions)					
Basic	9	82.1	74.5	81.6	74.0
Diluted	9	84.6	76.3	84.1	75.6

See accompanying notes to the unaudited interim consolidated financial statements.

Obsidian Energy Ltd.
Consolidated Statements of Cash Flows

		Three months ended June 30		Six months ended June 30	
(CAD millions, unaudited)	Note	2022	2021	2022	2021
Operating activities					
Net income		\$ 113.9	\$ 322.5	\$ 137.7	\$ 345.7
Government decommissioning assistance		2.3	(1.1)	(11.1)	(5.9)
Depletion, depreciation and impairment	3	42.1	(285.5)	93.5	(260.0)
Provisions	6	-	(0.3)	-	(0.3)
Financing	4	3.4	3.5	6.9	9.0
Share-based compensation	10	1.0	0.8	2.4	1.1
Unrealized risk management loss (gain)	7	(7.1)	4.1	3.6	3.5
Foreign exchange loss (gain)	4	1.5	(0.9)	0.8	(1.6)
Decommissioning expenditures	6	(3.8)	(0.5)	(12.3)	(3.8)
Onerous office lease settlements	6	(2.3)	(2.4)	(4.6)	(4.7)
Financing fees paid		-	(0.3)	-	(4.4)
Change in non-cash working capital		(26.0)	2.3	(8.0)	(8.0)
		125.0	42.2	208.9	70.6
Investing activities					
Capital expenditures	3	(40.3)	(21.5)	(143.7)	(51.0)
Property acquisitions	3	(0.3)	-	(0.3)	-
Change in non-cash working capital		(41.1)	(3.4)	(4.3)	3.4
		(81.7)	(24.9)	(148.3)	(47.6)
Financing activities					
Decrease in long-term debt	4	(29.7)	(16.0)	(39.4)	(25.0)
Repayments of senior notes/PROP limited recourse loan	4	(5.9)	-	(18.5)	(1.4)
Lease liabilities settlements	5	(1.0)	(1.1)	(2.0)	(2.3)
Exercised compensation plans		0.2	(0.1)	1.2	(0.1)
		(36.4)	(17.2)	(58.7)	(28.8)
Change in cash and cash equivalents		6.9	0.1	1.9	(5.8)
Cash and cash equivalents, beginning of period		2.3	2.2	7.3	8.1
Cash and cash equivalents, end of period		\$ 9.2	\$ 2.3	\$ 9.2	\$ 2.3

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, 2022		\$ 2,213.8	\$ 103.2	\$ (1,553.5)	\$ 763.5
Net and comprehensive income		-	-	137.7	137.7
Share-based compensation	10	-	2.4	-	2.4
Issued on exercise of equity compensation plans	10	7.8	(6.6)	-	1.2
Balance at June 30, 2022		\$ 2,221.6	\$ 99.0	\$ (1,415.8)	\$ 904.8

(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		-	-	345.7	345.7
Share-based compensation	10	-	1.0	-	1.0
Issued on exercise of equity compensation plans	10	2.5	(2.5)	-	-
Balance at June 30, 2021		\$ 2,189.5	\$ 102.1	\$ (1,621.8)	\$ 669.8

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 which includes 100 percent of the Peace River Oil Partnership (“PROP”) effective November 24, 2021.

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 and our wholly owned subsidiaries.

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

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 financial statements should be read in conjunction with Obsidian Energy’s audited annual consolidated financial statements as at and for the year ended December 31, 2021.

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, 2021.

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 July 27, 2022.

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

Oil and Gas assets/ Facilities, Corporate assets

Cost	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	\$ 10,528.7	\$ 10,838.3
Capital expenditures	143.7	140.9
Business acquisition	-	32.9
Acquisitions	0.3	0.1
Net decommissioning changes	11.6	62.3
Derecognition on acquisition	-	(545.8)
Balance, end of period	\$ 10,684.3	\$ 10,528.7

Accumulated depletion and depreciation	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	\$ 9,194.6	\$ 9,942.6
Depletion and depreciation	81.0	116.3
Impairments	10.7	19.5
Impairment reversals	-	(338.0)
Derecognition on acquisition	-	(545.8)
Balance, end of period	\$ 9,286.3	\$ 9,194.6

	June 30, 2022	As at December 31, 2021
Net book value		
Total	\$ 1,398.0	\$ 1,334.1

Right-of-use assets

Cost	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	\$ 24.8	\$ 22.7
Additions	0.8	2.1
Balance, end of period	\$ 25.6	\$ 24.8

Accumulated amortization	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	\$ 16.8	\$ 13.2
Amortization	1.8	3.6
Balance, end of period	\$ 18.6	\$ 16.8

	June 30, 2022	As at December 31, 2021
Net book value		
Total	\$ 7.0	\$ 8.0

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	
	June 30, 2022	December 31, 2021
Oil and Gas assets, Facilities, Corporate assets	\$ 1,398.0	\$ 1,334.1
Right-of-use assets	7.0	8.0
Total	\$ 1,405.0	\$ 1,342.1

At June 30, 2022, the Company completed an assessment to determine if indicators of impairment or an impairment reversal were present. No indicators were noted for our Cardium, Peace River and Viking cash generating units ("CGUs").

During the first half of 2022, we recorded a \$10.7 million impairment in our Legacy CGU due to accelerated decommissioning spending in the area. The Legacy CGU has no recoverable amount, as such changes in our decommissioning liability are expensed each period.

4. Long-term debt

	As at	
	June 30, 2022	December 31, 2021
Syndicated credit facility	\$ 282.1	\$ 321.5
PROP Limited recourse loan		
10.50%, maturing December 31, 2022	5.9	16.0
Senior secured notes – 2008 Notes		
9.37%, US\$3.1 million, maturing November 30, 2022	4.0	4.7
Senior secured notes – 2010 Q1 Notes		
8.82%, US\$7.6 million, maturing November 30, 2022	9.8	11.3
Senior secured notes – 2010 Q4 Notes		
7.85%, US\$10.3 million, maturing November 30, 2022	13.3	15.4
7.95%, US\$4.5 million, maturing November 30, 2022	5.8	6.8
8.20%, US\$1.7 million, maturing November 30, 2022	2.1	2.5
Senior secured notes – 2011 Q4 Notes		
7.76%, US\$9.5 million, maturing November 30, 2022	12.3	14.2
Total credit facility and senior secured notes	335.3	392.4
Deferred interest	0.6	1.3
Deferred financing costs	(1.3)	(2.7)
Total long-term debt	\$ 334.6	\$ 391.0
Current portion	\$ 334.6	\$ 391.0
Non-current portion	\$ -	\$ -

At June 30, 2022 and December 31, 2021, the term-out date of the syndicated credit facility was within one year of the balance sheet date, which resulted in the outstanding amount being presented as a current liability.

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

	June 30, 2022	As at December 31, 2021
Weighted average remaining life (years)	0.4	0.9
Weighted average interest rate	8.4%	8.2%

At June 30, 2022, the Company had a reserve-based syndicated credit facility with an aggregate amount available of \$358.1 million which consisted of a \$260.0 million revolving syndicated credit facility and a \$98.1 million non-revolving term loan. Subsequent to June 30, 2022, the Company agreed to reduce the non-revolving term loan by \$17.4 million to \$80.7 million and repay US\$2.0 million of the senior secured notes resulting in US\$34.7 million outstanding.

At June 30, 2022, letters of credit totaling \$5.0 million were outstanding (December 31, 2021 – \$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 June 30		Six months ended June 30	
(millions)	2022	2021	2022	2021
Interest on bank debt and senior secured notes	\$ 6.4	\$ 7.0	\$ 11.9	\$ 12.7
PROP Limited recourse loan	0.5	-	1.0	-
Advisor fees	0.2	0.3	0.5	1.0
Accretion on decommissioning liability	2.5	1.4	5.0	2.9
Accretion on office lease provision	0.4	0.5	0.8	1.0
Accretion on other non-current liability	0.1	0.1	0.2	0.1
Accretion on lease liabilities	0.1	0.1	0.2	0.3
Deferred financing costs	0.7	1.7	1.4	2.7
Debt modification	(0.4)	(0.3)	(0.7)	2.0
Financing	\$ 10.5	\$ 10.8	\$ 20.3	\$ 22.7

Subsequent to June 30, 2022, the Company completed a refinancing and issued five-year senior unsecured notes for an aggregate principal amount of \$127.6 million (the “New Notes”) as well as entered into new syndicated credit facilities with borrowing capacity of \$205.0 million (the “New Credit Facilities”). The Company used the net proceeds from the New Notes, together with initial draws on the New Credit Facilities, to repay all of our existing senior secured notes due November 30, 2022, repay the outstanding balances under our existing credit facilities due November 30, 2022, and repay the PROP limited recourse loan due on December 31, 2022.

The New Credit Facilities were entered into with a group of lenders providing the Company with a \$175.0 million revolving credit facility and a \$30.0 million non-revolving term loan. The revolving credit facility is subject to a semi-annual borrowing base redetermination typically in May and November of each year and currently has a revolving period to July 27, 2023 and a term-out period of July 27, 2024. The non-revolving term loan has a maturity date of December 31, 2022.

The New Notes have an interest rate of 11.95 percent and mature on July 27, 2027 and were issued at a price of \$980.00 per \$1,000.00 principal amount resulting in aggregate gross proceeds of \$125.0 million. The New Notes will be direct senior unsecured obligations of Obsidian Energy ranking equal with all other present and future senior unsecured indebtedness of the Company.

5. Lease liabilities

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

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	\$ 8.7	\$ 10.4
Additions	0.8	2.1
Accretion charges	0.2	0.6
Lease payments	(2.0)	(4.4)
Balance, end of period	\$ 7.7	\$ 8.7
Current portion	\$ 4.2	\$ 4.1
Non-current portion	\$ 3.5	\$ 4.6

6. Provisions

	June 30, 2022	As at December 31, 2021
Decommissioning liability	\$ 114.8	\$ 121.6
Office lease provision	21.8	25.6
Total	\$ 136.6	\$ 147.2
Current portion	\$ 20.1	\$ 23.4
Non-current portion	\$ 116.5	\$ 123.8

Decommissioning liability

At June 30, 2022, the decommissioning liability was determined by applying an inflation factor of 2.0 percent (December 31, 2021 - 2.0 percent) and the inflated amount was discounted using a credit-adjusted rate of 9.0 percent (December 31, 2021 - 9.0 percent) over the expected useful life of the underlying assets, currently extending over 50 years into the future. At June 30, 2022, the total decommissioning liability on an undiscounted, uninflated basis was \$583.4 million (December 31, 2021 - \$594.6 million).

Changes to the decommissioning liability were as follows:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	\$ 121.6	\$ 70.5
Net liabilities added ⁽¹⁾	0.7	0.1
Acquisition	-	2.1
Increase due to changes in estimates	10.9	62.2
Liabilities settled	(12.3)	(8.1)
Government decommissioning assistance	(11.1)	(11.0)
Accretion charges	5.0	5.8
Balance, end of period	\$ 114.8	\$ 121.6
Current portion	\$ 11.2	\$ 14.5
Non-current portion	\$ 103.6	\$ 107.1

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

Office lease provision

The office lease provision represents the net present value of non-lease components on future office lease payments. The office lease provision was determined by applying an asset specific credit-adjusted discount rate of 6.5 percent (December 31, 2021 – 6.5 percent) over the remaining life of the lease contracts, extending into 2025.

Changes to the office lease provision were as follows:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	\$ 25.6	\$ 33.5
Increase (decrease) due to changes in estimates	-	(0.7)
Settlements	(4.6)	(9.1)
Accretion charges	0.8	1.9
Balance, end of period	\$ 21.8	\$ 25.6
Current portion	\$ 8.9	\$ 8.9
Non-current portion	\$ 12.9	\$ 16.7

7. Risk management

Financial instruments consist of cash, accounts receivable, fair values of derivative financial instruments, accounts payable and accrued liabilities and long-term debt. At June 30, 2022, except for the senior secured notes described in Note 4 with a carrying value of \$47.3 million (December 31, 2021 – \$54.9 million) and a fair value of \$46.9 million (December 31, 2021 - \$54.4 million), the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments.

The fair values of all outstanding financial 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 June 30, 2022 and December 31, 2021, 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:

	Six months ended June 30, 2022	Year ended December 31, 2021
Risk management asset (liability)		
Balance, beginning of period	\$ (2.4)	\$ 0.2
Unrealized loss on financial instruments:		
Commodity collars and swaps	(3.6)	(2.6)
Total fair value, end of period	\$ (6.0)	\$ (2.4)
Current asset portion	\$ 0.6	\$ 1.8
Current liability portion	\$ (6.6)	\$ (4.2)

Obsidian Energy had the following financial instruments outstanding as at June 30, 2022. 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	3,750 bbl/d	July 2022	\$140.46/bbl	\$ 0.6
WTI Swaps ⁽¹⁾	593 bbl/d	Q3 2022	US\$63.26/bbl	(2.8)
WTI Swaps ⁽¹⁾	606 bbl/d	Q4 2022	US\$62.30/bbl	(2.3)
AECO Swaps				
AECO Swaps	26,065 mcf/d	July - October 2022	\$4.74/mcf	(1.5)
Total			\$	(6.0)

(1) PROP Energy 45 Limited Partnership ("PROP 45"), our wholly owned subsidiary that purchased 45 percent of the PROP units from a third party on November 24, 2021, entered into the financial hedges in conjunction with the limited recourse acquisition financing.

Subsequent to June 30, 2022, in conjunction with our refinancing, we closed out the existing hedges under PROP 45 for a risk management loss of US\$3.4 million.

Subsequent to June 30, 2022 the Company entered into the following additional oil financial hedges:

Type	Volume (bbls/d)	Remaining Term	Bought Put Price (C\$/bbl)	Sold Call Price (C\$/bbl)	Swap Price (C\$/bbl)
WTI Swap	2,955	July 2022	-	-	134.35
WTI Swap	5,000	August 2022	-	-	125.07
WTI Swap	6,500	September 2022	-	-	120.77
WTI Collar	5,000	August 2022	118.00	135.39	-
WTI Collar	2,000	September 2022	115.00	127.50	-

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

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Realized				
Settlement of commodity contracts	\$ (13.4)	\$ (1.2)	\$ (30.8)	\$ (6.3)
Total realized risk management loss	\$ (13.4)	\$ (1.2)	\$ (30.8)	\$ (6.3)
Unrealized				
Commodity contracts	\$ 7.1	\$ (4.1)	\$ (3.6)	\$ (3.5)
Total unrealized risk management gain (loss)	7.1	(4.1)	(3.6)	(3.5)
Risk management loss	\$ (6.3)	\$ (5.3)	\$ (34.4)	\$ (9.8)

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.

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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Oil	\$ 215.1	\$ 87.5	\$ 376.9	\$ 158.1
NGLs	18.2	7.7	33.1	14.8
Natural gas	43.2	15.8	70.2	30.3
Production revenues	276.5	111.0	480.2	203.2
Processing fees	2.0	1.7	3.9	3.3
Oil and natural gas sales	278.5	112.7	484.1	206.5
Other income	1.6	1.5	3.1	2.5
Oil and natural gas sales and other income	\$ 280.1	\$ 114.2	\$ 487.2	\$ 209.0

9. Shareholders' equity

i) Issued

Shareholders' capital	Common Shares	Amount
Balance, December 31, 2020	73,516,225	\$ 2,187.0
Issued pursuant to equity compensation plans ⁽¹⁾	1,356,610	2.6
Equity issue	5,880,681	25.9
Share issue costs	-	(1.7)
Balance, December 31, 2021	80,753,516	\$ 2,213.8
Issued pursuant to equity compensation plans ⁽¹⁾	1,397,983	7.8
Balance, June 30, 2022	82,151,499	\$ 2,221.6

(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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Average shares outstanding (millions)	82.1	74.5	81.6	74.0
Basic				
Dilutive impact of stock options/ Restricted Share Units ("RSUs")	2.5	1.8	2.5	1.6
Diluted	84.6	76.3	84.1	75.6

10. Share-based compensation

Restricted and Performance Share Unit plan ("RPSU 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 Toronto Stock Exchange ("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)	Six months ended June 30, 2022	Year ended December 31, 2021
Outstanding, beginning of period	1,167,351	2,355,408
Granted	488,565	190,500
Vested	(784,514)	(1,344,672)
Forfeited	(32,374)	(33,885)
Outstanding, end of period	839,028	1,167,351

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

	Six months ended June 30	
	2022	2021
Average fair value of units granted (per unit)	\$ 10.56	\$ 1.99
Expected life of units (years)	2.9	1.0
Expected forfeiture rate	0.5%	0.0%

Performance Share Unit (“PSU”) grants under the RPSU plan

The RPSU plan allows Obsidian Energy to grant PSUs to employees of the Company. Members of the Board of Directors are not eligible for grants of PSUs under the RPSU plan. The PSU obligation is classified as a liability due to the cash settlement feature and could be settled in cash, shares purchased on the open market or shares issued from treasury.

PSUs (number of shares equivalent)	Six months ended June 30, 2022	Year ended December 31, 2021
Outstanding, beginning of period	1,138,465	453,845
Granted	124,610	684,620
Vested	(181,018)	-
Forfeited	(133,017)	-
Outstanding, end of period	949,040	1,138,465

PSU liability	June 30, 2022	As at December 31, 2021
Current	\$ 4.8	\$ 0.2
Non-current	5.1	4.2
Total	\$ 9.9	\$ 4.4

Stock Option Plan

Obsidian Energy has a Stock Option Plan that allows the Company to issue options to acquire common shares (“Options”) to officers, employees, directors and other service providers.

	Six months ended June 30, 2022		Year ended December 31, 2021	
	Number of	Weighted Average Exercise Price	Number of	Weighted Average Exercise Price
Options	Options		Options	
Outstanding, beginning of period	3,021,672	\$ 1.56	961,954	\$ 0.94
Granted	156,400	10.64	2,116,120	1.99
Exercised	(612,689)	1.55	(11,938)	0.56
Forfeited	-	-	(44,464)	8.74
Outstanding, end of period	2,565,383	\$ 2.12	3,021,672	\$ 1.56
Exercisable, end of period	892,558	\$ 1.55	748,438	\$ 1.29

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

	Six months ended June 30	
	2022	2021
Average fair value of Options granted (per Option)	\$ 6.56	\$ 1.11
Expected volatility	87.0%	86.9%
Expected life of Options (years)	3.9	3.4
Expected forfeiture rate	0.3%	0.5%

Non-Treasury Incentive Award Plan (“NTIP”)

In 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 has the option to provide the consideration in the form of cash or shares purchased on the open market.

	Six months ended June 30, 2022	Year ended December 31, 2021
NTIP Restricted Awards		
Outstanding, beginning of period	1,093,800	-
Granted	3,400	1,120,660
Vested	(353,503)	-
Forfeited	(28,309)	(26,860)
Outstanding, end of period	715,388	1,093,800

		As at
NTIP liability	June 30, 2022	December 31, 2021
Current	\$ 2.1	\$ 1.4
Non-current	1.5	1.1
Total	\$ 3.6	\$ 2.5

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 from the Board, a cash payment based on the volume-weighted-average trading price of the common shares on the TSX.

	Six months ended June 30, 2022	Year ended December 31, 2021
Deferred Share Units		
Outstanding, beginning of period	2,018,499	2,087,580
Granted	27,483	239,754
Exercised	(249,763)	(308,835)
Outstanding, end of period	1,796,219	2,018,499

		As at
DSU Liability	June 30, 2022	December 31, 2021
Current	\$ 18.0	\$ 10.7
Non-current	-	-
Total	\$ 18.0	\$ 10.7

During Q2 2022, \$3.6 million of DSUs were redeemed; currently, no outstanding DSUs are redeemable.

Share-based compensation

Share-based compensation consisted of the following:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
DSUs	\$ (1.2)	\$ 5.7	\$ 10.9	\$ 7.9
PSUs	0.6	2.6	6.6	2.8
NTIP	0.4	0.6	5.0	0.6
Cash settled share-based incentive plans	\$ (0.2)	\$ 8.9	\$ 22.5	\$ 11.3
RSUs	\$ 0.8	\$ 0.4	\$ 1.6	\$ 0.7
Options	0.2	0.4	0.8	0.4
Equity settled share-based incentive plans	1.0	0.8	2.4	1.1
Share-based compensation	\$ 0.8	\$ 9.7	\$ 24.9	\$ 12.4

The share price used in the fair value calculation of the DSU, NTIP and PSU obligations at June 30, 2022 was \$9.94 per share (2021 – \$4.24).

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.

12. Government grants

The Company received a grant allocation under the Alberta Site Rehabilitation Program ("ASRP") beginning in 2020. 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. During Q2 2022, the Company was notified that certain grants/allocation that we had previously received under the ASRP program had been revoked by the Government of Alberta due to a broad reduction in program support that impacted many industry participants. As a result, the Company reversed \$2.3 million through income during the period. For the first six months of 2022, the Company utilized \$11.1 million of net grants (2021 – \$5.9 million).

Corporate Information

DIRECTORS

Gordon M. Ritchie ⁽³⁾

Chairman
Calgary, Alberta

Shani Bosman ⁽¹⁾

Director
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

Gary Sykes

Senior Vice President, Commercial and Development

Mark Hawkins

Vice President, Legal, General Counsel and Corporate Secretary

Cliff Swadling

Vice President, Operations

(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
Bank of Montreal
Canadian Western Bank

Transfer Agent

TSX Trust Company
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Montreal, Quebec H3B 3K3

Investors are encouraged to contact TSX Trust Company for information regarding their security holdings. They can be reached at (416) 682-3860 or toll-free throughout North America at 1-800-387-0825
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