



AUDIT COMMITTEE MANDATE

1. PURPOSE

The purpose of the Audit Committee (the "**Committee**") of the board of directors (the "**Board**") of Obsidian Energy Petroleum Ltd. ("**Obsidian Energy**" or the "**Company**") is to assist the Board in fulfilling its responsibility for oversight of the integrity of Obsidian Energy's consolidated financial statements, Obsidian Energy's compliance with legal and regulatory requirements, the qualifications and independence of Obsidian Energy's independent auditors, and the performance of Obsidian Energy's internal audit function, if any.

The objectives of the Committee are as follows:

- (a) To assist the Board in meeting its responsibilities (especially for accountability) in respect of the preparation and disclosure of the consolidated financial statements of Obsidian Energy and related matters;
- (b) To provide an open avenue of communication between directors, management and independent auditors;
- (c) To assist the Board in meeting its responsibilities regarding the oversight of the independent auditor's qualifications and independence;
- (d) To assist the Board in meeting its responsibilities regarding the oversight of the credibility, integrity and objectivity of financial reports;
- (e) To strengthen the role of the non-management directors by facilitating discussions between directors on the Committee, management and independent auditors;
- (f) To assist the Board in meeting its responsibilities regarding the oversight of the performance of Obsidian Energy's independent auditors and internal audit function (if any);
- (g) To assist the Board in meeting its responsibilities regarding the oversight of Obsidian Energy's compliance with legal and regulatory requirements; and
- (h) To assist the Board by monitoring the effectiveness and integrity of the Corporation's financial reporting systems, management information systems and internal control systems.

2. SPECIFIC DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

- (a) Satisfy itself on behalf of the Board that the Company's internal control systems are sufficient to reasonably ensure that:
 - (i) controllable, material business risks are identified, monitored and mitigated where it is determined cost effective to do so;
 - (ii) internal controls over financial reporting are sufficient to meet the requirements under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* and the *United States Securities Exchange Act of 1934*, as amended, and
 - (iii) there is compliance with legal, ethical and regulatory requirements.

- (b) Review the annual and interim financial statements of the Company prior to their submission to the Board for approval. The process should include, but not be limited to:
- (i) review of changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;
 - (ii) review of significant accruals, reserves or other estimates such as the ceiling test calculation;
 - (iii) review of accounting treatment of unusual or non-recurring transactions;
 - (iv) review of compliance with covenants under loan agreements;
 - (v) review of asset retirement obligations recommended by the Health, Safety, Environment and Regulatory Committee;
 - (vi) review of disclosure requirements for commitments and contingencies;
 - (vii) review of adjustments raised by the independent auditors, whether or not included in the financial statements;
 - (viii) review of unresolved differences between management and the independent auditors, if any;
 - (ix) review of reasonable explanations of significant variances with comparative reporting periods; and
 - (x) determination through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed.
- (c) Review, discuss and recommend for approval by the Board the annual and interim financial statements and related information included in prospectuses, management discussion and analysis, information circular-proxy statements and annual information forms, prior to recommending Board approval.
- (d) Discuss Obsidian Energy's interim results press releases, as well as financial information and earnings guidance provided to analysts and rating agencies (provided that the Committee is not required to review and discuss investor presentations that do not contain financial information or earnings guidance that has not previously been generally disclosed to the public).
- (e) With respect to the appointment of independent auditors by the Board, the Committee shall:
- (i) on an annual basis, review and discuss with the auditors all relationships the auditors have with Obsidian Energy to determine the auditors' independence, ensure the rotation of partners on the audit engagement team in accordance with applicable law and, in order to ensure continuing auditor independence, consider the rotation of the audit firm itself;
 - (ii) be directly responsible for overseeing the work of the independent auditors engaged for the purpose of issuing an auditors' report or performing other audit, review or attest services for Obsidian Energy, including the resolution of disagreements between management and the independent auditor regarding financial reporting, and the independent auditors shall report directly to the Committee;
 - (iii) review and evaluate the performance of the lead partner of the independent auditors;
 - (iv) review the basis of management's recommendation for the appointment of independent auditors and recommend to the Board appointment of independent auditors and their compensation;
 - (v) review the terms of engagement and the overall audit plan (including the materiality levels to be applied) of the independent auditors, including the appropriateness and reasonableness of the auditors' fees;
 - (vi) when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and
 - (vii) review and pre-approve any audit and permitted non-audit services to be provided by the independent auditors' firm and consider the impact on the independence of the auditors.
- (f) The Committee may delegate to one or more Committee members (the "**Delegate**") authority to pre-approve non-audit services in satisfaction of 2(e)(vii) above, subject to the fee restriction below. If such delegation occurs, the pre-approval of non-audit services by the Delegate, must be presented to the Committee at its first scheduled meeting following such pre-approval and the member(s) comply with such other procedures as may be established by the Committee from time to time. The fees for such non-audit services shall not exceed \$50,000, either individually or in the aggregate, for a particular financial year without the approval of the Committee of the Company.

- (g) At least annually, obtain and review the report by the independent auditors describing the independent auditors' internal quality control procedures, any material issues raised by the most recent interim quality-control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues.
- (h) Review with the independent auditors (and internal auditors, if any) their assessment of the internal controls of the Company, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee shall also review annually with the independent auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Obsidian Energy and its subsidiaries.
- (i) At least annually, obtain and review a report by the independent auditors describing (i) all critical accounting policies and practices used by Obsidian Energy, (ii) all alternative accounting treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the accounting firm, and (iii) other material written communications between the accounting firm and management of Obsidian Energy.
- (j) Obtain assurance from the independent auditors that disclosure to the Committee is not required pursuant to the provisions of the *United States Securities Exchange Act of 1934*, as amended, regarding the discovery by the independent auditors of illegal acts.
- (k) Review, set and approve hiring policies relating to current and former staff of current and former independent auditors.
- (l) Review all public disclosure containing financial information before release (provided that the Committee is not required to review investor presentations that do not contain financial information or earnings guidance that has not previously been generally disclosed to the public).
- (m) Review all pending significant litigation to ensure disclosures are sufficient and appropriate.
- (n) Satisfy itself that adequate procedures are in place for the review of Obsidian Energy's public disclosure of financial information from Obsidian Energy's financial statements and periodically assess the adequacy of those procedures.
- (o) Review and discuss major financial risk exposures and the steps management has taken to monitor and control such exposures.
- (p) Establish procedures independent of management for:
 - (i) the receipt, retention and treatment of complaints received by Obsidian Energy regarding accounting, internal accounting controls, or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of Obsidian Energy of concerns regarding questionable accounting or auditing matters.
- (q) Review any other matters required by law, regulation or stock exchange requirement, or that the Committee feels are important to its mandate or that the Board chooses to delegate to it.
- (r) Establish, review and update periodically a Code of Business Conduct and ensure that management has established systems to enforce these codes.
- (s) Review management's monitoring of Obsidian Energy's compliance with the organization's Code of Business Conduct.
- (t) Review and discuss with the Chief Executive Officer, the Chief Financial Officer and the independent auditors, the matters required to be reviewed with those persons in connection with any certificates required by applicable laws, regulations or stock exchange requirements to be provided by the Chief Executive Officer and the Chief Financial Officer.
- (u) Review and discuss major issues regarding accounting principles and financial statement presentations, including any significant changes in Obsidian Energy's selection or application of accounting principles.
- (v) Review and discuss major issues as to the adequacy of Obsidian Energy's internal controls and any special audit steps adopted in light of material control deficiencies.
- (w) Review and discuss analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on the financial statements.
- (x) Review and discuss the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on Obsidian Energy's financial statements.

- (y) Review and discuss the type and presentation of information to be included in earnings press releases, paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information.
- (z) Annually review the Committee's Mandate and the Committee Chair's Terms of Reference and recommend any proposed changes to the Board for consideration.
- (aa) Review and/or approve any other matters specifically delegated to the Committee by the Board

3. KNOWLEDGE & EDUCATION

Committee members shall be "financially literate" within the meaning of National Instrument 52-110 *Audit Committees* ("**NI 52-110**"), and should have or obtain sufficient knowledge of Obsidian Energy's financial and audit policies and procedures to assist in providing advice and counsel on related matters. Members shall be encouraged as appropriate to attend relevant educational opportunities at the expense of Obsidian Energy.

4. COMPOSITION

- (a) Committee members shall be appointed and removed by the Board and the Committee shall be composed of three directors of Obsidian Energy or such greater number as the Board may from time to time determine. Provided the Board Chair is an "independent" director as contemplated in subparagraph 4(b) below and "financially literate" as contemplated in subparagraph (c) below, the Board Chair shall be a non-voting *ex officio* member of the Committee, subject to subparagraph 5(e) below.
- (b) Each member of the Committee shall be an "independent" director in accordance with the definition of "independent" in (a) NI 52-110 *Audit Committees* and (b) Section 303A.02 and 303A.07 of the New York Stock Exchange Listed Company Manual, and in accordance with all other applicable securities laws or rules of any stock exchange on which Obsidian Energy's securities are listed for trading.
- (c) All of the members must be "financially literate" within the meaning of NI 52-110 and Section 303A.07(a) of the New York Stock Exchange Listed Company Manual unless the Board has determined to rely on an exemption in NI 52-110. Being "financially literate" means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by Obsidian Energy's financial statements. In addition, at least one member of the Committee must have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment.
- (d) In connection with the appointment of the members of the Committee, the Board will determine whether any proposed nominee for the Committee serves on the audit committees of more than three public companies. To the extent that any proposed nominee for membership on the Committee serves on the audit committees of more than three public companies, the Board will make a determination as to whether such simultaneous services would impair the ability of such member to effectively serve on the Company's Audit Committee and will disclose such determination in Obsidian Energy's annual management proxy circular and annual report on Form 40-F filed with the United States Securities and Exchange Commission.
- (e) The Board shall appoint the Chair of the Committee from among the Committee members.

5. MEETINGS

- (a) The Committee shall meet at least four times per year at the call of the Committee Chair. The Committee Chair may call additional meetings as required. In addition, a meeting may be called by the Board Chair, the Chief Executive Officer, the Chief Financial Officer or any member of the Committee.
- (b) As part of its job to foster open communication, the Committee should meet at least annually with management, internal auditors (if any) and the independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. In addition, the Committee shall meet with the independent auditors and management quarterly to review Obsidian Energy's interim financials. The Committee shall also meet with management and independent auditors on an annual basis to review and discuss Obsidian Energy's annual financial statements and the management's discussion and analysis of financial conditions and results of operations.

- (c) Notice of the time and place of every meeting may be given orally, in writing, by facsimile or by other electronic means of communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting. A member may, in any manner, waive notice of the meeting. Attendance of a member at a meeting shall constitute waiver of notice.
- (d) Agendas, with input from management and the Committee Chair, shall be circulated by the Committee Secretary to Committee members and relevant members of management along with appropriate meeting materials and background reading on a timely basis prior to Committee meetings.
- (e) A quorum shall be a majority of the members of the Committee present in person or by telephone or video conference or by other electronic or communication medium or by a combination thereof. If an independent *ex officio* non-voting member's presence is required to attain a quorum, then such member shall be a voting member of the Committee for such meeting.
- (f) The Committee Chair shall be a full voting member of the Committee. If the Committee Chair is unavailable or unable to attend a meeting of the Committee, the Committee Chair shall ask another member to chair the meeting, failing which a member of the Committee present at the meeting shall be chosen to preside over the meeting by a majority of the members of the Committee present at such meeting. The Chair of any Committee meeting (including, without limitation, any Chair selected in accordance with paragraph (h) above)) shall have a casting vote in the event of a tie on any matter upon which the Committee votes during such meeting.
- (g) Members of the Company's management and such other Company staff as are appropriate to provide information to the Committee shall be available to attend meetings upon invitation by the Committee. The Committee shall have the right to determine who shall and who shall not be present at any time during a meeting of the Committee; however, independent directors, including the Board Chair, shall always have the right to be present. As part of each Committee meeting the Committee members will also meet "in-camera" without any members of management present, and in the Committee's discretion, without any other members of the Board who are not Committee members present.
- (h) The secretary to the Committee (the "**Committee Secretary**") will be either the Corporate Secretary of Obsidian Energy or his/her designate. The Committee Secretary shall record minutes of the meetings of the Committee, which shall be reviewed and approved by the Committee and maintained with Obsidian Energy's records by the Committee Secretary. The Committee shall report its activities and proceedings to the Board by oral or written report at the next Board meeting and by distributing the minutes of its meetings. Supporting schedules and information reviewed by the Committee shall be available for examination by any Director.

6. RESOURCES

- (a) The Committee may retain special legal, accounting, financial or other consultants or advisors to advise the Committee at the Company's expense and shall have sole authority to retain and terminate any such consultants or advisors and to approve any such consultant's or advisor's fees and retention terms, subject to review by the Board, and at the expense of the Company.
- (b) The Committee shall have access to Obsidian Energy's senior management and documents as required to fulfill its responsibilities and shall be provided with the resources necessary to carry out its responsibilities.
- (c) The Committee shall have the authority to investigate any financial activity of Obsidian Energy and to communicate directly with the internal auditors (if any) and independent auditors. All employees are to cooperate as requested by the Committee.

7. DELEGATION

The Committee may delegate from to time to any person or committee of persons any of the Audit Committee's responsibilities that are permitted to be delegated to such person or committee in accordance with applicable laws, regulations and stock exchange requirements.

8. STANDARDS OF LIABILITY

- (a) Nothing contained in this Mandate is intended to expand applicable standards of liability under statutory, regulatory or other legal requirements for the Board or members of the Committee. The purposes and responsibilities outlined in this Mandate are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional

procedures and standards as it deems necessary from time to time to fulfill its responsibilities, subject to applicable statutory, regulatory and other legal requirements.

- (b) The duties and responsibilities of a member of the Committee are in addition to those duties set out for a member of the Board.