POLICIES & PROCEDURES

HEDGING & RISK MANAGEMENT POLICY

I. PURPOSE AND SCOPE

This Policy outlines the purpose, processes and guidelines that Tamarack Valley Energy Ltd. and its operating subsidiaries (collectively “TVE” or the "Corporation") will follow in pursuing risk management activities to manage its exposure to changes in crude oil and natural gas commodity prices and foreign exchange ("FX"). If left unmanaged, these exposures could have negative impact on cash flow and capital expenditures hindering the ability of the Corporation to grow.

The Policy sets out:

- The objectives of the risk management strategy;
- The responsibilities of the Risk Management Committee ("RMC");
- The authority limits of management;
- The reporting and compliance requirements of the RMC;
- Potential restrictions on hedging activities; and
- The credit requirements for counterparties.

The terms and conditions outlined in this Policy relate to all hedging activities regardless of whether they are executed for physical delivery or financial settlement.

Implementation of this Policy is overseen by the RMC.

II. POLICY

A. Objectives of Risk Management

The overall objective of the Corporation's risk management program is to enhance and protect cash flow and Shareholder value consistent with the Corporation's business plan.

The secondary objectives which TVE may pursue from time to time with respect to risk management include:

- Enhancing or protecting the economics of an acquisition as prices vary from those used in the evaluation of the acquisition; and
- Capitalizing on perceived market anomalies.

In developing the hedging strategy, the RMC will take budget forecasts into consideration when selecting the hedging targets. However, in order to provide the RMC the flexibility to best achieve TVE's risk management objectives, this Policy will not stipulate that the RMC must transact whenever market prices are above budget prices.

As certain commodities are initially priced at markets located in the United States, TVE's risk management strategy may encompass foreign exchange hedging as well as commodity hedging. This Policy provides guidelines that will enable the Corporation to effectively hedge the appropriate level of pricing exposure in compliance with all terms of this Policy.

B. Risk Management Committee

The RMC shall be comprised of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and the Chairman of the Board of Directors (COB) and shall be responsible for ensuring compliance with this Policy, as well as formulating the risk management strategy under the overall direction of the Board of Directors, which includes the following:

- Determination of what proportion of TVE's production should be hedged at any given time and for what period(s);
- Determination of which commodity pricing or FX exposures should be hedged;
- Determination of which pricing indices are appropriate to hedge against;
- Determination of type of structures/instruments to be used **(Appendix "D")**; and
- Determination of pricing levels to be targeted.

The RMC will meet at least once per quarter or more frequently if required. Communication on hedging strategies and hedging decisions will be documented through minutes at RMC meetings or e-mail communications among RMC members. Hedging strategies developed by the RMC which exceed the authority limits of the CEO shall be put before the Board for approval.

C. Hedging Restrictions

The Corporation's bank credit facility agreement contains the following covenants. Definitions of capitalized terms below are contained in the bank credit facility agreement.

Credit Facilities – National Bank of Canada dated June 19, 2020; Negative Covenants

14.4(c) (IV). In the case of Commodity Swaps, for a term not to exceed 3 years, and the aggregate amounts hedged under all Commodity Swaps at the time any Commodity Swap is entered into and after giving effect thereto (a) cannot exceed seventy percent (70%) of production volumes calculated based on the average forecasted daily petroleum and natural gas production of the Loan Parties in the most recently approved forecast delivered in accordance with Section 14.2(c) hereof (net of royalties) split by commodity in year 1, (b) cannot exceed sixty percent (60%) of production volumes calculated based on the average forecasted daily petroleum and natural gas production of the Loan Parties in the most recently approved forecast *delivered in accordance with Section 14.2(c) hereof (net of royalties) split by commodity in year 2, and (c) cannot exceed fifty percent (50%) of production volumes calculated based on the average forecasted daily petroleum and natural gas production of the Loan Parties in the most recently approved forecast delivered in accordance with Section 14.2(c) hereof (net of royalties) split by commodity in year 3;*

14.4(o). Hedge Monetizations. The Borrower will not, and will not permit any other Loan Party to, perform, realize or otherwise effect any Hedge Monetization where the aggregate amount received by the Borrower and the other Loan Parties from all Hedge Monetizations performed, realized or otherwise effected by the Borrower and the other Loan Parties since the last determination of the Borrowing Base, together with the aggregate fair market value of all sales or dispositions of assets by the Borrower and - the other Loan Parties made in the ordinary course of business to third parties during such period, exceeds (i) until the first redetermination of the Borrowing Base after the Closing Date by the Lenders in accordance with Section 3.10 (for certainty, such redetermination of the Borrowing Base shall occur by no later than November 30, 2020), two-fifths of the Threshold Amount, without the prior written consent of all of the Lenders, and (ii) thereafter, the Threshold Amount, without the prior written consent of the Majority Lenders

The RMC will be responsible for ensuring that TVE's hedging activities do not violate the above covenants.

D. Hedging Authority Limits

The Authority Limits under this Policy are set out in in **Appendix "A;** those of the RMC are more fully detailed below.

The RMC will set TVE's hedging targets, including price, term and structure type, and will provide this information. Such a directive must be confirmed by back-up in the form of a memo or e-mail.

From time to time, specific Board approval to increase the specific limits set out in Appendix “A” may be sought and confirmed by back-up in the form of a memo or email.

E. Take or Pay Contracts

“**Take-or-Pay Contract**” is defined as a form of contract in which the payor is obligated to pay regardless of whether or not the payor uses the services, volume or capacity under the contract. Board approval is required prior to TVE executing any Take-or-Pay Contract pursuant to which TVE’s obligations thereunder: (i) exceed 2 years and is greater than $10mm in annual value; and/or (ii) is greater than $20mm of aggregate value over the term of the contract.

F. Counterparties and Security

TVE is authorized to enter into Gas and Swap Agreements (ISDAs, Gas EDIs, and GISBYs) pursuant to the terms of a resolution passed by the Board of Directors on November 10, 2011. **Appendix "B"** to this policy sets out a list of TVE's current eligible counterparties.

TVE will only execute a transaction under a permissible structure outlined in this Policy with a counterparty that is (a) investment grade as rated by both S&P and Moody's (BBB or higher per S&P, Baa or higher per Moody's); (b) investment grade as rated by either S&P or Moody's in the event that only one of those agencies has rated the counterparty; or (c) in the event that neither S&P nor Moody's has rated the counterparty, investment grade as determined in accordance with **Appendix "C".** The Monitors (see Monitoring and Reporting section below) are responsible for assigning an internal credit rating in accordance with **Appendix "C"** with the exception of those ratings assigned by the RMC thereunder.

The RMC must approve all new counterparties before any transactions can be executed. In the event that a counterparty loses its investment grade rating prior to completion to term of a hedging transaction, TVE will make every effort to obtain security or collateral, adequate in the sole judgment of the RMC to cover any unrealized gains for the remaining term of the transaction as calculated by a mark-to-market using industry standard practices. TVE will include language in all risk management contracts and agreements to facilitate appropriate credit support for all transactions.

Whenever possible the Corporation will endeavor to transact only with counterparties with whom it has an executed master agreement in the form of an International Swap Dealers Association ("ISDA"), Gas Electronic Data Interchange ("Gas EDI"), Gas Industry Standards Board ("G1SBY") or other commonly accepted industry standard confirmation prior to execution of the transaction.

E. Monitoring and Reporting

Monitoring of TVE's compliance with this Policy and reporting of TVE's hedging position is the responsibility of the Chief Financial Officer and the Controller and the Analyst (collectively "the Monitors"). The Monitors will do a monthly mark-to-market calculation on all of TVE's hedges to determine the unrealized gain or loss until expiry of each transaction, using forward prices in effect as of the day the calculations are prepared. A report of all outstanding hedges and related mark-to-market values, as well as updates regarding eligible counterparties, will be distributed to the RMC on a monthly basis. On a quarterly basis, TVE's hedging position must be reported to the Board of Directors.

The Monitors will update **Appendix "B"** of this policy with respect to eligible counterparties on a quarterly basis. The Monitors will perform an updated credit review of all existing counterparties on a quarterly basis. The Monitors will advise the RMC of updates to **Appendix "B"** and of the results of the quarterly credit reviews. The RMC will in turn provide a certificate to the board at each quarterly or yearend meeting reflecting the status of the counterparties.

The Monitors shall receive copies of all correspondence among the RMC confirming approved hedging strategies and/or targets, and shall retain such correspondence on file for control and audit purposes.

APPENDIX "A"

AUTHORITY LIMITS

The following Appendix, as may be amended from time to time by the Board of Directors, defines the authority for entering into risk management transactions, including volume hedged and term of transaction. For greater specificity as to authority limits, refer to sections "C" and "D" of the Hedging and Risk Management Policy.

Authority levels ascribed to the Board of Directors represent the maximum hedging levels in aggregate that may be entered into by the Corporation. Authority levels ascribed to the Risk Management Committee represent the maximum level that the RMC may enter into without prior Board of Directors' approval.

Forecast annual production shall be determined from the Corporation's most current cash flow forecast provided to the Board of Directors. Production forecast should be derived from producing wells and will not include forecasted production from future undrilled wells.

COMMODITIES		
Authority Level	**Amount**	**Term**
Board of Directors	Up to 50% of forecast	Up to 24 months
Risk Management Committee	Up to 40% of forecast	Up to 12 months

Notes:

(1) Notwithstanding this, the Corporation's actual limits on volumes available for risk management may be lower due to other restrictions, including, but not limited to, the Corporation's bank credit agreement

APPENDIX "B"

ELIGIBLE COUNTERPARTIES

Financial Counterparties

(ISDA):

National Bank of Canada

Macquarie Oil Services Canada

CIBC

Bank of Nova Scotia

HSBC

ATB

BMO

APPENDIX "C"

TVE INTERNAL CREDIT RATING CRITERIA GUIDELINES

LIQUIDITY		
Current Assets/Current Liabilities	>0.75	Investment grade
	<0.75	Non-investment grade
Total Debt to Cash Flow	<2.3	Investment grade
	>2.3	Non-investment grade
PROFITABILITY		
Net Income / Common Equity	>5%	Investment grade
	<5%	Non-investment grade
CAPITAL STRUCTURE		
Total Debt to Total Assets	<30%	Investment grade
	>30%	Non-investment grade
Total Debt to Debt Plus Equity	<40%	Investment grade
	>40%	Non-investment grade

Counterparties rated as investment grade on four or five of the above measures will be considered investment grade. Counterparties rated as investment grade on three of the above measures will be discussed and the rating determined by the RMC. Counterparties rated as investment grade on two or fewer of the above measures will not be considered investment grade.

APPENDIX "D"

TVE APPROVED HEDGING STRUCTURES / INSTRUMENTS

Fixed Commodity Price Swaps

Enhanced Fixed Commodity Price Swaps

Range Costless Commodity Collars

Natural Gas Basis Differentials: AECO / NYMEX

Crude Oil Differentials: WTI / Edm Par
WTI / WCS

Foreign Exchange: CAD / US

Fixed Interest Rate