



**CARDINAL**  
ENERGY LTD.

**MANAGEMENT'S DISCUSSION  
&  
ANALYSIS  
2014**

## ADVISORIES

This management's discussion and analysis ("MD&A") is a review of operations, financial position and outlook for Cardinal Energy Ltd. ("Cardinal" or the "Company") for the year ended December 31, 2014 and is dated March 23, 2015. It should be read in conjunction with Cardinal's audited consolidated financial statements as at and for the years ended December 31, 2014 and 2013. Financial data presented has been prepared in accordance with International Financial Reporting Standards ("IFRS" or, alternatively, "GAAP"), unless otherwise indicated.

*All figures in tables are stated in thousands of Canadian dollars (except operational and per share amounts and as noted).*

### Non-GAAP Financial Measures

Cardinal uses terms within the MD&A that do not have a standardized prescribed meaning under GAAP and these measurements may not be comparable with the calculation of similar measurements of other entities.

The terms "cash flow from operations", "cash flow from operations per share", "netback", "net debt", "free cash flow", "simple payout ratio" and "total payout ratio" in this MD&A are not recognized measures under GAAP. Management believes that in addition to net earnings and cash flow from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance. Users are cautioned however, that these measures should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP as an indication of Cardinal's performance.

Management utilizes "cash flow from operations" as a key measure to assess the ability of the Company to generate the funds necessary to finance operating activities, capital expenditures and dividends. All references to cash flow from operations throughout this MD&A are based on cash from operating activities before the change in non-cash working capital and decommissioning expenditures since Cardinal believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such may not be useful for evaluating Cardinal's operating performance. The following table reconciles cash flow from operating activities to cash flow from operations:

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Cash flow from operating activities	31,166	22,764	584	92,163	8,913
Decommissioning expenditures	479	253	200	997	262
Change in non-cash working capital	(5,075)	2,841	427	2,019	639
<b>Cash flow from operations</b>	<b>26,570</b>	<b>25,858</b>	<b>1,211</b>	<b>95,179</b>	<b>9,814</b>

"Cash flow from operations per share" is calculated using the same weighted average number of shares outstanding used in calculating earnings per share.

"Netback" is calculated on a boe basis and is determined by deducting royalties and operating expenses from petroleum and natural gas revenue. Netback is utilized by Cardinal to better analyze the operating performance of its petroleum and natural gas assets against prior periods.

The term "net debt" is not recognized under GAAP and is calculated as bank debt plus working capital deficiency or minus working capital surplus (adjusted for the fair value of financial instruments and the current portion of the decommissioning obligation). Net debt is used by management to analyze the financial position, liquidity and leverage of Cardinal.



"Free cash flow" represents cash flow from operations less dividends declared and less development capital expenditures necessary to maintain the Company's base production. "Total payout ratio" represents the ratio of the sum of dividends declared plus development capital expenditures necessary to maintain the Company's base production divided by cash flow from operations. "Simple payout ratio" represents the ratio of the amount of dividends declared, divided by cash flow from operations. Free cash flow, total payout ratio and simple payout ratio are other key measures to assess Cardinal's ability to finance operating activities, capital expenditures and dividends.

### Forward-Looking Statements

Please refer to our disclaimer on forward looking statements at the end of this MD&A.

### 51-101 Advisory

In accordance with *Standards for Disclosure of Oil and Gas Activities* ("NI 51-101"), natural gas volumes have been converted to barrels of oil equivalent using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. **The term "boe" may be misleading, particularly if used in isolation.**

## HIGHLIGHTS

In the first quarter of 2014 Cardinal completed two tuck-in acquisitions of petroleum and natural gas properties in its core area at Bantry which were financed with a private placement of approximately 2.2 million common shares for total gross proceeds of \$28.0 million on February 10, 2014.

On July 29, 2014, the Board of Directors approved an increase in the monthly dividend to \$0.07 per share (\$0.84 per share annualized) for the September 2014 dividend. In 2014 Cardinal declared a total of \$32.6 million of dividends (\$0.71336 per common share).

During the third quarter of 2014 Cardinal completed two complementary acquisitions in Wainwright, Alberta establishing a new core area. The acquired assets consisted of an aggregate of approximately 4,400 boe/d (98% crude oil) low decline production at the time of acquisition, were 99% operated and included a high working interest in associated infrastructure. These acquisitions are consistent with our strategy of building a solid production base in areas that can be accessed in all seasons.

Concurrent with the acquisitions, Cardinal issued 8.8 million common shares for total gross proceeds of \$162.8 million on August 15, 2014 and 10.0 million common shares for total gross proceeds of \$197.5 million on September 23, 2014.

Cardinal realized a significant milestone in the fourth quarter with production increasing to 10,888 boe/d compared to 7,587 boe/d in the third quarter.

Cardinal increased total proved reserves and total proved plus probable reserves per fully diluted share by 46% and 27% respectively, compared to 2013.

Cardinal exited 2014 with net debt of \$54 million and a net debt to cash flow from operations ratio of 0.5 while realized crude oil prices decreased by over 20% compared to the third quarter. Cardinal is well positioned for acquisition and other opportunities in 2015.



## OPERATIONS

### PRODUCTION

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Crude Oil (bbl/d)	10,167	6,820	1,958	7,077	1,319
NGL (bbl/d)	30	29	7	25	2
Oil and NGL (bbl/d)	10,197	6,849	1,965	7,102	1,321
Natural Gas (mcf/d)	4,147	4,424	1,139	4,277	317
<b>boe/d</b>	<b>10,888</b>	<b>7,587</b>	<b>2,155</b>	<b>7,815</b>	<b>1,374</b>
<b>% Oil and NGL production</b>	<b>94%</b>	<b>90%</b>	<b>91%</b>	<b>91%</b>	<b>96%</b>

Cardinal's production in the fourth quarter of 2014 increased to 10,888 boe/d compared to 7,587 boe/d in the third quarter, and 2,155 boe/d in the fourth quarter of 2013. The increase compared to the third quarter of 2014 is primarily due to the contributions from the Wainwright acquisitions that closed late in the third quarter and our continued drilling success at Bantry. The increase compared to the fourth quarter of 2013 also reflects production associated with the SE Alberta acquisition that closed late in the fourth quarter of 2013.

Production increased to 7,815 boe/d for the year ended December 31, 2014 compared to 1,374 boe/d in 2013. The increase in production is primarily due to a full year of production from the SE Alberta acquisition properties, our drilling at Bantry and the Wainwright acquisitions that closed late in the third quarter of 2014.

### REVENUE

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Crude Oil	61,516	52,242	11,878	198,932	35,351
NGLs	157	185	48	630	48
Oil and NGL	61,673	52,427	11,926	199,562	35,399
Natural Gas	1,486	1,618	320	7,123	351
<b>Petroleum and natural gas revenue</b>	<b>63,159</b>	<b>54,045</b>	<b>12,246</b>	<b>206,685</b>	<b>35,750</b>
<b>Cardinal average prices</b>					
Crude Oil (\$/bbl)	\$ 65.77	\$ 83.26	\$ 65.95	\$ 77.02	\$ 73.43
Natural Gas (\$/mcf)	3.89	3.98	3.05	4.56	3.03
<b>\$ per boe</b>	<b>\$ 63.05</b>	<b>\$ 77.43</b>	<b>\$ 61.76</b>	<b>\$ 72.46</b>	<b>\$ 71.29</b>
<b>Benchmark pricing</b>					
Crude Oil - WTI (US \$/bbl)	\$ 73.15	\$ 97.17	\$ 97.61	\$ 93.00	\$ 98.05
Crude Oil - WCS (Cdn \$/bbl)	\$ 65.30	\$ 85.68	\$ 65.41	\$ 82.04	\$ 72.85
Natural Gas - AECO Spot (Cdn \$/mcf)	\$ 3.63	\$ 4.03	\$ 3.15	\$ 4.50	\$ 3.15
Exchange Rate - (US/CAD)	0.88	0.92	0.95	0.91	0.97

Petroleum and natural gas revenue increased to \$63.2 million (\$63.05/boe) in the fourth quarter of 2014 compared to \$54.0 million (\$77.43/boe) in the third quarter and \$12.2 million (\$61.76/boe) in the fourth quarter of 2013. The increases are due to increases in production and compared to the third quarter were partially offset by lower crude oil prices. Realized oil prices for the quarters maintained their strong correlation to WCS.

Petroleum and natural gas revenue increased to \$206.7 million (\$72.46/boe) for the year ended December 31, 2014 compared to \$35.8 million (\$71.29/boe) for the corresponding period in 2013 due to increased production and a small increase in commodity prices.



## ROYALTIES

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Royalties	<b>8,846</b>	7,346	1,782	<b>27,398</b>	4,369
As a percentage of oil and gas revenue	<b>14.0%</b>	13.6%	14.5%	<b>13.3%</b>	12.2%
\$/boe	<b>\$ 8.83</b>	\$ 10.52	\$ 8.98	<b>\$ 9.60</b>	\$ 8.71

Royalties are either paid or are taken in kind and are owed to provincial governments and to land and mineral rights owners. Royalty rates associated with royalties to provincial governments are generally dependent on commodity prices and well productivity. Royalties were \$8.8 million (14.0% of revenue) for the fourth quarter of 2014 compared to \$7.3 million (13.6% of revenue) in the third quarter and \$1.8 million (14.5% of revenue) in the fourth quarter of 2013. The increases in royalties are primarily due to increased production. The royalty rate in the fourth quarter of 2014 is consistent with the third quarter as the combined royalty rate associated with the Wainwright acquisitions that closed in the third quarter is approximately 14%.

Royalties for the year ended December 31, 2014 were \$27.4 million (13.3% of revenue) compared to \$4.4 million (12.2% of revenue) in 2013. Royalties increased primarily due to increased production and the slight increase in royalty rates is due to higher freehold and overriding royalties associated with new horizontal well production at Bantry which was offset by lower royalty rates associated with the SE Alberta acquisition.

## FINANCIAL INSTRUMENTS

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Average crude oil volumes hedged (bbls/d)	<b>2,700</b>	2,833	800	<b>2,650</b>	550
Realized (gain)/loss - commodity contracts	<b>(4,763)</b>	853	329	<b>320</b>	1,113
Unrealized (gain)/loss - commodity contracts	<b>(38,993)</b>	(8,549)	604	<b>(41,668)</b>	578

Managing the variability in cash flow from operations is an integral component of Cardinal's business strategy. Changing business conditions are monitored regularly and reviewed with the Board of Directors to establish risk management guidelines used by management in carrying out the Company's risk management program. The risk exposure inherent in movements in the price of crude oil, natural gas and power are all proactively managed by Cardinal through the use of derivatives with investment-grade counterparties. The Company considers these derivative contracts to be an effective means to manage cash flow from operations.

The Company's crude oil and natural gas derivatives are referenced to WTI and AECO, unless otherwise noted. Cardinal utilizes a variety of derivatives, including swaps and collars to protect against downward commodity price movements. For commodities, Cardinal's risk management program allows for hedging a forward profile of 3 years, of up to 60% of gross average forecast production in the current year and up to 40% and 30% of the following 2 years.

Including the derivative financial instruments that were entered into subsequent to December 31, 2014 to the date of this MD&A Cardinal had the following commodity derivatives outstanding:



Remaining Term	Average Volume	Option Traded	Index	Average Strike Price
January 1, 2015 - January 31, 2015	300 bbl/d	Swap	CAD WTI	\$ 98.25
January 1, 2015 - February 28, 2015	500 bbl/d	Swap	CAD WTI	\$ 103.50
January 1, 2015 - June 30, 2015	500 bbl/d	Swap	CAD WTI	\$ 103.00
January 1, 2015 - December 31, 2015	700 bbl/d	Swap	CAD WTI	\$ 100.19
January 1, 2016 - December 31, 2016	500 bbl/d	Swap	CAD WTI	\$ 75.25
January 1, 2015 - June 30, 2015	500 bbl/d	Collar - put	CAD WTI	\$ 95.00
		Collar - call	CAD WTI	\$ 106.28
January 1, 2015 - December 31, 2015	1,750 bbl/d	Collar - put	CAD WTI	\$ 95.36
		Collar - call	CAD WTI	\$ 105.61
July 1, 2015 - June 30, 2016	500 bbl/d	Collar - put	CAD WTI	\$ 70.00
		Collar - call	CAD WTI	\$ 78.00
January 1, 2015 - March 31, 2015	1,000 gj/d	Swap	CAD AECO	\$ 4.42
January 1, 2015 - December 31, 2015	1,000 gj/d	Swap	CAD AECO	\$ 3.65

## OPERATING EXPENSES

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Operating expenses	25,782	16,610	5,694	68,900	14,004
\$/boe	\$ 25.74	\$ 23.80	\$ 28.72	\$ 24.15	\$ 27.93

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat, store and ship production.

For the fourth quarter of 2014, operating expenses increased to \$25.8 million (\$25.74/boe) compared to \$16.6 million (\$23.80/boe) in the third quarter and \$5.7 million (\$28.72/boe) in the fourth quarter of 2013. The increases in operating expenses are primarily due to increases in production. Unit operating expenses for the fourth quarter of 2014 increased compared to the third quarter due to work overs and other one-time costs associated with the Wainwright acquisitions. It is expected that unit operating expenses will stabilize and gradually decrease in 2015 as the Company continues its integration of the Wainwright properties.

Operating expenses for the year ended December 31, 2014 increased to \$68.9 million (\$24.15/boe) from \$14.0 million (\$27.93/boe) in 2013. The increase in operating expenses is primarily due to increased production from the SE Alberta acquisition that closed late in 2013, our drilling at Bantry and the Wainwright acquisitions that closed in the third quarter.

## NETBACK

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Petroleum and natural gas revenue	\$ 63.05	\$ 77.43	\$ 61.76	\$ 72.46	\$ 71.29
Royalties	8.83	10.52	8.98	9.60	8.71
Operating expenses	25.74	23.80	28.72	24.15	27.93
Netback per boe	\$ 28.48	\$ 43.11	24.06	\$ 38.71	34.65
Realized gain (loss)	4.75	(1.22)	(1.66)	(0.11)	(2.22)
<b>Netback after risk management</b>	<b>\$ 33.23</b>	<b>\$ 41.89</b>	<b>\$ 22.40</b>	<b>\$ 38.60</b>	<b>\$ 32.43</b>



Cardinal's netback decreased by 34% to \$28.48 in the fourth quarter of 2014 compared to \$43.11 in the third quarter and increased compared to \$24.06 in the fourth quarter of 2013. Changes in netbacks are primarily due to changes in commodity prices and compared to the fourth quarter of 2013 includes a decrease in unit operating expenses.

For the year ended December 31, 2014, Cardinal's netback increased 12% to \$38.71 compared to \$34.65 for the corresponding period in 2013. The increase in netback is primarily due to a decrease in unit operating expenses.

Netbacks after risk management reflect a realized gain on commodity contracts in the fourth quarter of 2014 and realized losses on commodity contracts in all other periods.

## GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Gross G&A	5,396	2,297	2,847	12,183	5,457
Capitalized G&A and overhead recoveries	(479)	(156)	(175)	(1,074)	(349)
Net G&A	4,917	2,141	2,672	11,109	5,108
\$/boe	\$ 4.91	\$ 3.07	\$ 13.48	\$ 3.89	\$ 10.19

G&A for the fourth quarter of 2014 was \$4.9 million (\$4.91/boe) compared to \$2.1 million (\$3.07/boe) in the third quarter and \$2.7 million (\$13.48/boe) in the fourth quarter of 2013. The increases in total and unit G&A compared to the third quarter is primarily due to bonuses and corporate costs associated with year-end professional fees.

For the year ended December 31, 2014, G&A was \$11.1 million (\$3.89/boe) compared to \$5.1 million (\$10.19/boe) in 2013. The increase in G&A for 2014 is primarily due to increases in staff to support the Company's growth and increases in associated office costs such as rent and information technology. G&A per boe decreased due to the increase in production.

## SHARE-BASED COMPENSATION

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Share-based compensation	1,827	1,712	496	7,199	1,841
\$/boe	\$ 1.82	\$ 2.45	\$ 2.51	\$ 2.52	\$ 3.67

For the fourth quarter of 2014 Cardinal recorded \$1.8 million (\$1.82/boe) of share-based compensation compared to \$1.7 million (\$2.45/boe) in the third quarter and \$0.5 million (\$2.51/boe) in the fourth quarter of 2013. Share-based compensation increased slightly in the fourth quarter compared to the third quarter due to grants to new staff. The increase compared to the fourth quarter of 2013 is primarily due to restricted bonus awards granted in the first quarter of 2014.

For the year ended December 31, 2014, share-based compensation expense was \$7.2 million (\$2.52/boe) compared to \$1.8 million (\$3.67/boe) for the corresponding period in 2013. Share-based compensation increased primarily due to restricted bonus awards granted to an increased number of staff in 2014.



## FINANCE

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Interest	562	154	370	880	961
Accretion	1,380	800	328	3,702	667
Other finance charges	166	215	51	954	178
Finance income	(2)	(81)	-	(86)	-
Finance expense	2,106	1,088	749	5,450	1,806
Bank debt	47,735	62,277	9,318	47,735	9,318
Interest rate	3.8%	3.8%	4.0%	3.8%	4.0%
\$/boe	\$ 2.10	\$ 1.56	\$ 3.77	\$ 1.91	\$ 3.60

Finance expense for the fourth quarter of 2014 was \$2.1 million (\$2.10/boe) compared to \$1.1 million (\$1.56/boe) in the third quarter and \$0.7 million (\$3.77/boe) in the fourth quarter of 2013. For the year ended December 31, 2014, finance expense was \$5.5 million (\$1.91/boe) compared to \$1.8 million (\$3.60/boe) in the same period in 2013. The increases in finance expense are primarily due to increases in accretion and increases in bank debt to fund the Company's capital expenditure program.

## TRANSACTION COSTS

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Transaction costs	1,082	949	137	2,031	203

Transaction costs relate to expenses incurred in connection with acquisitions. Transaction costs in the fourth quarter of 2014 are primarily due to the payment of severance to employees of the vendor of the Wainwright #3 acquisition that were not offered continued employment by Cardinal.

## DEPLETION AND DEPRECIATION ("D&D")

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Depletion and depreciation	21,777	15,235	4,219	61,402	11,078
\$/boe	\$ 21.74	\$ 21.83	\$ 21.28	\$ 21.53	\$ 22.09

Depletion is calculated based upon capital expenditures incurred since inception of the Company, future development costs associated with proved plus probable reserves, production rates, and proved plus probable reserves. In addition to depletion, Cardinal records depreciation on other capital equipment not directly associated with proved plus probable reserves.

D&D recorded in the fourth quarter of 2014 increased to \$21.8 million (\$21.74/boe) compared to \$15.2 million (\$21.83/boe) in the third quarter and \$4.2 million (\$21.28/boe) in the fourth quarter of 2013. For the year ended December 31, 2014, D&D was \$61.4 million (\$21.53/boe) compared to \$11.1 million (\$22.09/boe) in 2013. The increases in D&D are due to the increases in production and depletion rates are relatively consistent.

## GAINS ON ACQUISITIONS

For the year ended December 31, 2014 the gain on acquisition was due to the deferred tax asset on the corporate acquisition of PrivateCo (see *Capital Expenditures*). In 2013 Cardinal recognized gains as a result of the fair value of petroleum and natural gas assets acquired exceeding the consideration paid.





## DEFERRED TAXES

At December 31, 2014 the Company recorded a deferred tax liability of \$9.8 million (2013 - \$8.6 million).

The Company has \$765.9 million of tax pools available to be applied against future income for tax purposes. Based on available pools and current commodity prices, Cardinal does not expect to pay current income taxes in 2015 or 2016. Taxes payable beyond 2016 will be primarily a function of commodity prices, capital expenditures and production volumes.

Tax Pool Balance	Maximum Annual Claim	As at December 31	
		2014	2013
COGPE	10%	506,970	214,086
CEE and non-capital losses	100%	79,990	36,583
CDE	30%	22,731	2,604
Undepreciated capital cost	25%	132,373	54,118
Other	20%	23,808	12,881
<b>Total</b>		<b>765,872</b>	<b>320,272</b>

## NET EARNINGS, CASH FLOW FROM OPERATING ACTIVITIES AND CASH FLOW FROM OPERATIONS

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Net earnings	26,879	22,250	36,433	53,806	35,198
\$/share					
Basic	\$ 0.47	\$ 0.52	\$ 2.47	\$ 1.23	\$ 2.90
Diluted	\$ 0.46	\$ 0.50	\$ 2.33	\$ 1.20	\$ 2.70
Cash flow from operating activities	31,166	22,764	854	92,163	8,913
Cash flow from operations	26,570	25,858	1,211	95,179	9,814
\$/share					
Basic	\$ 0.47	\$ 0.60	\$ 0.08	\$ 2.18	\$ 0.81
Diluted	\$ 0.46	\$ 0.58	\$ 0.08	\$ 2.12	\$ 0.75

For the fourth quarter of 2014 the Company had net earnings of \$26.9 million compared to \$22.3 million in the third quarter and \$36.4 million in the fourth quarter of 2013. Cash flow from operations for the fourth quarter of 2014 increased to \$26.6 million compared to \$25.9 million in the third quarter and \$1.2 million in the fourth quarter of 2013. Net earnings increased in the fourth quarter of 2014 compared to the third quarter primarily due to the change in unrealized gain on commodity contracts offset by the gain on acquisition in the third quarter. The net earnings in the fourth quarter of 2013 were primarily due to gains on acquisitions. The increases in cash flow from operations are due to increased production and compared to the third quarter was offset by lower crude oil prices.

For the year ended December 31, 2014, net earnings and cash flow from operations increased to \$53.8 million and \$95.2 million respectively compared to net earnings of \$35.2 million and cash flow from operations of \$9.8 million in 2013. The increase in net earnings is due to increased production and the unrealized gain on commodity contracts that exceeded the gains on acquisitions in 2013. The increase in cash flow from operations is primarily due to increased production.



## CAPITAL EXPENDITURES

### PP&E Expenditures

#### Property Acquisitions

On January 28, 2014, Cardinal closed two tuck-in acquisitions of petroleum and natural gas properties in its core area at Bantry, Alberta. Total consideration was \$27.0 million in cash, before closing adjustments, with an associated decommissioning obligation of \$0.2 million. These assets were acquired with full tax pools and no working capital items.

On August 22, 2014, Cardinal acquired petroleum and natural gas properties to expand its core area at Wainwright, Alberta (the Wainwright #2 acquisition). Total consideration was \$170 million in cash before closing adjustments with an associated decommissioning obligation of \$10.3 million. These assets were acquired with full tax pools and no working capital items.

On September 30, 2014, Cardinal acquired additional petroleum and natural gas properties to expand its core operating area at Wainwright, Alberta (the Wainwright #3 acquisition). Total consideration was \$241 million in cash before closing adjustments with an associated decommissioning obligation of \$17.4 million. These assets were acquired with full tax pools and no working capital items.

In addition, throughout the year Cardinal acquired several minor working interests that complemented its existing assets in Alberta and completed one minor disposition of non-core properties for proceeds of \$2.1 million. Total consideration for these acquisitions was \$5.1 million in cash.

#### Corporate Acquisition

On August 29, 2014, Cardinal acquired all the issued and outstanding shares of a private oil and gas company, ("PrivateCo") for initial cash consideration of \$7.6 million and assumed net debt.

#### Other PP&E expenditures

In 2014 Cardinal drilled, completed and tied-in 8 (8.0 net) horizontal wells at Bantry and optimized certain wells and facilities.

### PP&E Expenditures

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Land	\$ 16	\$ 1,376	\$ 11	\$ 1,543	\$ 140
Geological and geophysical	936	818	21	2,871	21
Drilling and completion	6,372	3,476	133	22,554	3,453
Equipment, facilities and pipelines	2,556	2,589	206	8,666	2,599
Capitalized overhead	430	125	155	814	257
Total exploration and development	10,310	8,384	526	36,448	6,470
Other assets	1,723	615	118	2,342	412
Acquisitions, net	(2,689)	409,215	206,056	438,263	229,888
Total cash expenditures	9,344	418,214	206,700	477,053	236,770
Non-cash expenditures <sup>(1)</sup>	-	-	52,000	-	52,550
PP&E expenditures <sup>(2)</sup>	\$ 9,344	\$ 418,214	\$ 258,700	\$ 477,053	\$ 289,320



## E&E Expenditures

	Three months ended			Year ended	
	Dec 31, 2014	Sep 30, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Undeveloped land	\$ 162	\$ 884	\$ 1	\$ 2,225	\$ 2,492
Other assets	-	13	44	14	161
Total cash expenditures	162	897	45	2,239	2,653
Non-cash expenditures <sup>(1)</sup>	-	-	-	-	254
E&E expenditures	\$ 162	\$ 897	\$ 45	\$ 2,239	\$ 2,907
<b>TOTAL CAPITAL EXPENDITURES <sup>(2)</sup></b>	<b>\$ 9,506</b>	<b>\$ 419,111</b>	<b>\$ 258,745</b>	<b>\$ 479,292</b>	<b>\$ 292,227</b>

(1) Non-cash expenditures relate to the excess of fair value on acquisitions compared to the consideration paid and the shares issued to the vendor as partial consideration for the Wainwright #1 acquisition

(2) Expenditures exclude non-cash expenditures for the decommissioning obligation and capitalized share-based compensation.

## DECOMMISSIONING OBLIGATION

The decommissioning obligation increased by \$39.4 million during the year ended December 31, 2014 from \$40.4 million at December 31, 2013 to \$79.8 million. The increase relates to \$0.1 million of obligations incurred, \$29.3 million for acquisitions, \$7.4 million for a change in estimates and \$3.7 million of accretion, offset by \$1.0 million for decommissioning obligations settled.

## LIQUIDITY AND CAPITAL RESOURCES

Capitalization table	As at	
	Dec 31, 2014	Dec 31, 2013
Net debt	54,065	9,200
Shares outstanding	56,819,301	34,875,532
Market price at end of year (\$ per share)	\$ 13.51	\$ 11.53
Market capitalization	767,629	402,115
Total capitalization	821,694	411,315

The Company's net debt is calculated as bank debt plus working capital deficiency or minus working capital surplus (adjusted for the fair value of commodity contracts and the current portion of the decommissioning obligation).

## CAPITAL FUNDING

As at December 31, 2014 Cardinal had a \$105 million syndicated revolving term credit facility and a \$20 million non-syndicated revolving operating term credit facility (the "Facilities"). The Facilities are available on a revolving basis until May 29, 2015 and may be extended for a further 364 day period, subject to approval by the syndicate. As at December 31, 2014 Cardinal had a working capital deficiency of \$6.3 million (excluding the fair value of commodity contracts and the current portion of the decommissioning obligation) and unused capacity of \$77.3 million on its Facilities.

The next scheduled review of the borrowing base is to be completed on or before May 29, 2015. As the available lending limit of the Facilities is based on the syndicate's interpretation of the Company's reserves and future commodity prices and costs, there can be no assurance that the amount of the Facilities will not decrease at the next scheduled review. At the previous review the syndicate determined that the borrowing base had increased to \$220 million but the total commitment was unchanged at \$125 million. Pursuant to an amending agreement Cardinal may request an increase in the Facilities up to the borrowing base.



Advances under the Facilities are available by way of prime rate loans which bear interest at the banks' prime lending rate plus 1.0 to 2.5% (depending on certain financial ratios) and standby fees are charged on the undrawn amounts of the Facilities. The Facilities are secured by a general security agreement over all of the Company's assets and Cardinal must maintain a working capital ratio of not less than 1 to 1 at all times. The working capital ratio is defined as current assets (including the undrawn amount under the Facilities) divided by current liabilities (excluding the current portion of bank debt) and excluding the fair value of commodity contracts. Cardinal was in compliance with the terms of the Facilities at December 31, 2014.

During the first quarter of 2014, the Company raised new equity pursuant to a private placement for gross proceeds of \$28 million at \$12.80 per common share.

On August 15, 2014, Cardinal raised new equity (including the exercise of the over-allotment option) for gross proceeds of \$162.8 million at \$18.50 per common share.

On September 23, 2014, Cardinal raised new equity for gross proceeds of \$197.5 million at \$19.75 per common share.

## **GUIDANCE**

The Board of Directors has approved a base capital expenditures budget (the "budget") that is anticipated to result in average and exit production for 2015 of approximately 11,200 boe/d. The budget deploys total development capital of \$30 million and is expected to generate \$95 million in cash flow from operations based on a forecast WTI price of USD \$55/barrel, an exchange rate of 0.80 \$USD/CAD, a differential to WCS of \$15.75 and the effect of our existing 2015 hedges. The budget achieves a total payout ratio of 82% in this forecast lower commodity price environment.

Management believes that with the Company's high quality low decline reserve base and development inventory, excellent balance sheet and hedging program, Cardinal is well positioned to meet its planned growth and development activities and generate strong operating and financial results through 2015 and beyond.

## **CAPITAL STRUCTURE**

Cardinal manages its capital to provide a flexible structure to support production maintenance, capital programs, stability of dividends and other operational strategies. Maintaining a strong financial position enables the capture of business opportunities and supports Cardinal's strategy of providing shareholder return through growth of the business and dividend payments.

The key measures that the Company utilizes in evaluating its capital structure are the credit available from the syndicate in relation to the Company's budgeted capital expenditure program and the ratio of net debt to cash flow from operations. The ratio of net debt to cash flow from operations is calculated as net debt, defined as bank debt plus working capital deficiency or minus working capital surplus (excluding the fair value of commodity contracts and the current portion of the decommissioning obligation), divided by cash flow from operating activities before changes in non-cash working capital and decommissioning obligation expenditures for the most recent quarter, annualized.

To manage its capital structure, Cardinal considers its net debt to cash flow from operations ratio, its capital expenditures program, the current level of credit available from the syndicate, the level of credit that may be attainable due to increases in petroleum and natural gas reserves and new equity if available on favorable terms. The Company prepares an annual capital expenditure budget, which is monitored quarterly and updated as necessary.



	Three months ended	
	Dec 31, 2014	Dec 31, 2013
Bank debt	\$ 47,735	\$ 9,318
Working capital deficiency (surplus)	6,330	(118)
Net debt	\$ 54,065	\$ 9,200
Cash provided from operating activities	\$ 31,166	\$ 584
Decommissioning obligation expenditures	479	200
Change in non-cash working capital	(5,075)	427
Cash flow from operations	\$ 26,570	\$ 1,211
Cash flow from operations, annualized	\$ 106,280	\$ 4,844
Net debt to cash flow from operations	0.5	1.9

Had the SE Alberta acquisition closed on October 1, 2013 cash flow from operations would have increased so that the ratio of net debt to annualized cash flow from operations would have been 0.2 to 1 for the three months ended December 31, 2013.

There were no changes in the Company's approach to capital management during the year ended December 31, 2014.

## SHARE CAPITAL

On September 9, 2013 Cardinal consolidated its common shares on the basis of three pre-consolidation common shares for one post-consolidation share. All common shares, per share amounts, stock options and warrants have been restated retrospectively to give effect to the consolidation.

On January 7, 2014, Cardinal granted 980,940 notional share awards to certain officers, directors and employees pursuant to the Company's restricted bonus award plan. During the remainder of 2014 Cardinal granted an additional 108,172 notional share awards to new employees.

On February 10, 2014, Cardinal closed a private placement of 2,187,500 common shares for total gross proceeds of \$28 million.

On August 15, 2014, Cardinal issued 8.8 million shares pursuant to a bought deal financing at \$18.50 per common share for gross proceeds of \$162.8 million (including the exercise of the over-allotment option by the underwriters).

On September 23, 2014, Cardinal issued 10 million shares pursuant to a bought deal financing at \$19.75 per common share for gross proceeds of \$197.5 million.

As at December 31, 2014, the Company had a total of 56,819,301 common shares, 225,836 stock options, 834,690 warrants (adjusted for dividends during the period), 965,593 Restricted Bonus Awards ("RAs"), and 61,004 Stock Appreciation Rights ("SARs") outstanding. The warrants have an exercise price of \$2.87 and the stock options have an average exercise price of \$7.54. As of the date of this MD&A, the Company has a total of 57,318,019 common shares, 208,060 stock options, 708,462 warrants (before the adjustment for dividends), 1,476,646 RAs, and 61,004 SARs outstanding.

## DIVIDENDS

On January 10, 2014 the Company adopted a dividend reinvestment plan ("DRIP") and a stock dividend program ("SDP") which enable shareholders to receive dividends in common shares rather than cash.



During the year ended December 31, 2014, \$32.6 million of dividends (\$0.71336 per common share) were declared of which \$25.2 million was paid in cash, \$4.0 million was recognized as a liability at December 31, 2014 and 212,763 common shares were issued pursuant to the Company's DRIP and SDP valued at \$3.4 million. The dividend payable was settled on January 15, 2015 with cash of \$3.6 million and the issue of 29,124 Cardinal common shares pursuant to the DRIP and SDP valued at \$0.4 million.

For the year ended December 31, 2014 the simple payout ratio was 34% compared to the Company's target of 30-35% in a normalized price environment.

## OFF BALANCE SHEET ARRANGEMENTS

Cardinal does not have any special purpose entities nor is it a party to any arrangements that would be excluded from the balance-sheet, other than the operating lease summarized in *Commitments and Contractual Obligations*.

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

At December 31, 2014, the Company had contractual obligations and commitments as follows:

	2015	2016	2017	2018	2019	Thereafter
Head office lease	1,070	1,070	1,070	1,070	1,070	4,280
Field office lease	130	130	130	130	22	-
Bank debt	-	47,735	-	-	-	-
	\$ 1,200	\$ 48,935	\$ 1,200	\$ 1,200	\$ 1,092	\$ 4,280

## SUBSEQUENT EVENTS

On **January 7, 2015**, a total of 813,449 RAs were issued to Cardinal's officers, directors and employees. The market value of Cardinal's common shares at the grant date was \$12.62.

On **January 13, 2015**, the Company confirmed that a dividend of \$0.07 per common share will be paid on February 16, 2015 to shareholders of record on January 30, 2015. The total amount of dividends declared at January 30, 2014 was \$4.0 million, of which \$3.6 million was paid in cash and the remaining balance participated in the Company's DRIP and SDP programs.

On **February 10, 2015**, the Company confirmed that a dividend of \$0.07 per common share will be paid on March 16, 2015 to shareholders of record on February 27, 2015. The total amount of dividends declared at February 27, 2014 was \$4.0 million, of which \$3.6 million was paid in cash and the remaining balance participated in the Company's DRIP and SDP programs.

On **February 17, 2015**, the Company announced that it had entered into an Arrangement Agreement (the "Arrangement") to acquire all of the issued and outstanding common shares of Pinecrest Energy Inc. ("Pinecrest") after Pinecrest transfers certain assets and liabilities into a newly formed publicly listed company ("Pubco"). Pursuant to the Arrangement, following the transfer of assets and liabilities to Pubco, Cardinal will acquire the remaining assets in Pinecrest for cash consideration of \$23.5 million. The Arrangement is expected to close on April 1, 2015 and at closing Pinecrest will have no debt or outstanding liabilities to be assumed by Cardinal.

Cardinal has agreed to pay Pubco an additional \$5 million of cash consideration if Cardinal can enter into a derivative commodity contract for 12 months at a price equal to or greater than USD \$65 per bbl WTI prior to April 26, 2016.

On **March 11, 2015**, the Company confirmed that a dividend of \$0.07 per common share will be paid on April 15, 2015 to shareholders of record on March 31, 2015. The total amount of dividends declared was \$4.0 million



## ADDITIONAL INFORMATION

### CRITICAL ACCOUNTING ESTIMATES

Cardinal's significant accounting policies are disclosed in note 3 to the December 31, 2014 consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Cardinal continuously refines its management and reporting systems to ensure that accurate, timely and useful information is gathered and disseminated. Cardinal's financial and operating results incorporate certain estimates including the following:

- Estimated accruals for revenues, royalties and operating expenses where actual revenues and costs have not been received;
- Estimated capital expenditures where actual costs have not been received or for projects that are in progress;
- Estimated depletion is based on estimates of oil and gas reserves that Cardinal expects to recover in the future. As a key component in the D&D calculation, the reserve estimates have a significant impact on net earnings and the Company's financial results could differ if there is a revision in our estimate of reserve quantities;
- Estimated future recoverable value of property, plant and equipment and any related impairment charges or recoveries are assessed for impairment when circumstances suggest the carrying amount may exceed its recoverable amount. The recoverable amount calculation requires the use of estimates which are subject to change as new information becomes available. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets;
- Estimated fair values of derivative contracts which are used to manage commodity price and power costs are determined using valuation models which require assumptions regarding the amount and timing of future cash flows and discount rates. As the Company's assumptions rely on external market data, the resulting fair value estimates may not be indicative of the amounts realized or settled and are therefore subject to market uncertainty;
- The decommissioning obligation is based on assumptions which take into consideration current economic factors and experience to date which we believe are reasonable. The actual cost of the Company's decommissioning obligation may change in response to numerous factors; and
- Estimated deferred income tax assets and liabilities are based on current tax interpretations, regulations and legislation which are subject to change. As a result, there are usually a number of tax matters under review and therefore income taxes are subject to measurement uncertainty.

Cardinal hires employees and engages consultants who have the expertise to ensure these estimates are accurate and ensures departments with the most knowledge of the activity are responsible for the estimates. Past estimates are reviewed and analyzed regularly to ensure future estimates continue to track actuals. New information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.

### FINANCIAL RISKS

A summary of certain financial risks for Cardinal is contained in Note 14 to the audited consolidated financial statements as at and for the year ended December 31, 2014.



## NEW ACCOUNTING PRONOUNCEMENTS

Certain standards and amendments were issued effective for accounting periods beginning on or after January 1, 2014. Many of these updates are not applicable or not consequential to the Company and have been excluded from the discussion below. As of January 1, 2014, the Company adopted the following IFRS standards and amendments in accordance with the transitional provisions of each standard.

### *Financial Instruments (Presentation)*

IAS 32 "Financial Instruments: Presentation" is effective January 1, 2014, and has been amended to clarify certain requirements for offsetting financial assets and liabilities. IAS 32 relates to presentation and disclosure of financial instruments and the retrospective adoption of this standard did not have a material impact on the Company's financial statements.

### *Levies*

IFRS Interpretations Committee ("IFRIC") 21 "Levies" is effective January 1, 2014, and clarifies the recognition requirements concerning a liability to pay a levy imposed by a government, other than an income tax. The interpretation clarifies that the obligating event which gives rise to a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. The retrospective adoption of this standard did not have a material impact on the Company's financial statements.

New standards and interpretations not yet adopted

### *Revenue Recognition*

On May 28, 2014, the IASB issued IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

This new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the financial statements.

### *Financial Instruments*

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than net earnings, unless this creates an accounting mismatch.

In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Cardinal does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the financial statements.





## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures (“DC&P”), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings* (NI 52-109), are designed to provide reasonable assurance that information required to be disclosed in the Company’s annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure.

The CEO and the CFO have evaluated the effectiveness of Cardinal disclosure controls and procedures as at December 31, 2014 and have concluded that such disclosure controls and procedures are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO 2013”).

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Internal control over financial reporting (“ICOFR”), as defined in NI 52-109, includes those policies and procedures that: a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Cardinal; b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of Cardinal; and c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in NI 52-109, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and the CFO have evaluated the effectiveness of Cardinal’s internal controls over financial reporting as at December 31, 2014 and have concluded that such internal controls over financial reporting are effective. The control framework Cardinal’s officers used to design the Company’s ICOFR is COSO 2013.

Due to its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation relating to the effectiveness in future periods are subject to the risk that controls may become inadequate as a result of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. It should also be noted that a control system, including the Company’s DC&P and ICOFR, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met and it should not be expected that the DC&P and ICOFR will prevent all errors or fraud.

## **ENVIRONMENTAL RISKS**

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

Operations are continuously monitored to minimize the environmental impact and capital is allocated to reclamation and other activities to mitigate the impact on the areas in which we operate.



## OUTLOOK

Cardinal has had significant growth in 2013 and 2014 by completing seven major acquisitions since the Company commenced operations in May of 2012. The Company closed two acquisitions at Wainwright in the third quarter of 2014 adding 4,400 boe/d of production (98% crude oil) at the time of acquisition. Combined with the Company's existing production base, these transactions will further enable Cardinal to realize its business plan. Cardinal is well positioned to sustain and/or increase dividends to its shareholders.

Cardinal has had continued success drilling in its core area of Bantry which allows the Company to maintain or grow production organically with high capital efficiencies. Cardinal sees further development drilling opportunities in a bypass pay zone on the properties acquired at Wainwright which will give it a multi-year year development drilling program which is expected to offset normal production decline on the properties. Development drilling in all core areas will be balanced with acquisitions to maintain a low production decline portfolio of assets and provide organic growth while maintaining its dividend.

Crude oil prices experienced a significant and volatile decline commencing in the fourth quarter of 2014. Through the first nine months of the year, WTI prices were strong and averaged approximately US \$100 per barrel. During the fourth quarter, the market experienced an over-supply of oil and by December had fallen to average US \$59 per barrel. Concurrent with the significant decline in WTI, the WCS heavy oil discount to WTI narrowed to \$16.22 per barrel, maintaining a 20% discount to WTI. Increased refinery demand, ongoing increases in crude-by-rail shipments, as well as pipeline and infrastructure expansion projects continue to be positive catalysts for the WCS differential to WTI.

Cardinal exited 2014 with net debt of \$54 million and a net debt to cash flow from operations ratio of 0.5. The Company is well positioned to execute its development capital budget and grow production to 11,200 boe/d while maintaining a total payout ratio of less than 100% in this low price environment. Management will continue to evaluate and pursue other accretive acquisition opportunities to manage its decline rate, maintain its dividend and provide additional production growth.



## QUARTERLY DATA

	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
<b>Production</b>				
Oil and NGL (bbl/d)	10,167	6,849	5,800	5,513
Natural gas (mcf/d)	4,147	4,424	4,208	4,333
Oil equivalent (boe/d)	10,888	7,587	6,501	6,235
<b>Financial</b>				
Revenue	63,159	54,045	48,194	41,287
Net earnings	26,879	22,250	3,780	897
Basic per share (\$)	\$ 0.47	\$ 0.52	\$ 0.10	\$ 0.02
Diluted per share (\$)	\$ 0.46	\$ 0.50	\$ 0.10	\$ 0.02
Cash flow from operating activities	31,166	22,764	25,703	12,530
Cash flow from operations	26,570	25,858	23,522	19,229
Basic per share (\$)	\$ 0.47	\$ 0.60	\$ 0.62	\$ 0.53
Diluted per share (\$)	\$ 0.46	\$ 0.58	\$ 0.60	\$ 0.51
Working capital surplus (deficiency) <sup>(1)</sup>	(8,118)	2,075	518	135
Total assets	913,253	895,475	447,980	439,391
Bank debt	47,735	62,277	-	4,002
Total long-term liabilities	135,548	140,955	53,111	53,886
Shareholders' Equity	747,928	729,317	363,943	362,866
Weighted average shares - basic (000's)	56,745	42,997	37,734	36,502
Weighted average shares - diluted (000's)	58,010	44,425	38,962	37,524
Common shares outstanding	56,819,301	56,654,104	37,804,824	37,675,910
Diluted shares outstanding	58,906,424	58,768,972	39,949,851	39,901,401
	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
<b>Production</b>				
Oil and NGL (bbl/d)	1,965	1,099	1,083	1,129
Natural gas (mcf/d)	1,139	71	23	27
Oil equivalent (boe/d)	2,155	1,111	1,087	1,133
<b>Financial</b>				
Revenue	12,246	9,353	7,658	6,493
Net earnings (loss)	36,433	(654)	(92)	(489)
Basic per share (\$)	\$ 2.47	\$ (0.06)	\$ (0.01)	\$ (0.04)
Diluted per share (\$)	\$ 2.33	\$ (0.06)	\$ (0.01)	\$ (0.04)
Cash flow from operating activities	584	3,025	4,061	1,243
Cash flow from operations	1,211	3,081	2,871	2,651
Basic per share (\$)	\$ 0.08	\$ 0.27	\$ 0.25	\$ 0.24
Diluted per share (\$)	\$ 0.08	\$ 0.27	\$ 0.25	\$ 0.24
Working capital surplus (deficiency) <sup>(1)</sup>	118	342	132	(698)
Total assets	403,174	112,670	91,813	93,939
Bank debt	9,318	36,274	19,233	19,971
Total long-term liabilities	58,359	8,263	5,921	5,861
Shareholders' Equity	336,863	63,268	63,410	62,757
Weighted average shares - basic (000's)	14,751	11,304	11,284	11,143
Weighted average shares - diluted (000's)	15,646	11,304	11,284	11,143
Common shares outstanding	34,875,532	11,304,104	11,304,104	11,273,271
Diluted shares outstanding	36,828,679	13,142,751	13,142,751	13,093,603

(1) – Excluding the fair value of financial instruments and the current portion of decommissioning obligation



Quarterly petroleum and natural gas revenue has fluctuated with commodity prices and production. Production increased in the fourth quarter of 2013 due to the Bantry and SE Alberta acquisitions. The increases in production in 2014 are due production associated with the SE AB acquisition properties included for the entire period and successful drilling at Bantry. The third and fourth quarters of 2014 also include production from the Wainwright acquisitions.

Quarterly cash flow from operations has increased primarily due to increased production. Cardinal's quarterly net earnings (loss) has varied significantly due to changes in operations including an unrealized gain on commodity contracts of \$39.0 million in the fourth quarter of 2014, gains on acquisitions of \$9.4 million and an \$8.5 million unrealized gain on commodity contracts in the third quarter of 2014 and a \$39.0 million gain on acquisitions in the fourth quarter of 2013.

## ANNUAL DATA

	2014	2013	2012
<b>Production</b>			
Oil and NGL (bbl/d)	7,102	1,321	279
Natural gas (mcf/d)	4,277	317	-
Oil equivalent (boe/d)	7,815	1,374	279
<b>Financial</b>			
Revenue	206,685	35,750	3,985
Net earnings	53,806	35,198	(3,820)
Basic per share (\$)	\$ 1.23	\$ 2.90	\$ (0.47)
Diluted per share (\$)	\$ 1.20	\$ 2.70	\$ (0.47)
Cash flow from operating activities	92,163	8,913	686
Cash flow from operations	95,179	9,814	814
Basic per share (\$)	\$ 2.18	\$ 0.81	\$ 0.10
Diluted per share (\$)	\$ 2.12	\$ 0.75	\$ 0.10
Dividends per share (\$)	\$ 0.71	\$ -	\$ -
Working capital surplus (deficiency) <sup>(1)</sup>	(6,330)	118	(2,103)
Total assets	913,253	403,174	81,933
Bank debt	47,735	9,318	11,267
Total long-term liabilities	135,548	58,359	4,801
Shareholders' Equity	747,928	336,863	61,309
Weighted average shares - basic (000's)	43,604	12,128	8,126
Weighted average shares - diluted (000's)	44,906	13,023	8,126
Common shares outstanding	56,819,301	34,875,532	11,091,671
Diluted shares outstanding	58,906,424	36,828,679	12,883,318

(1) – Excluding the fair value of financial instruments and the current portion of decommissioning obligation

Annual petroleum and natural gas revenue has fluctuated with commodity prices and production. Production increased significantly in 2014 due to the SE Alberta acquisition that closed late in 2013, the Company's successful drilling program at Bantry and the Wainwright acquisitions that closed late in the third quarter of 2014. Net earnings (loss) has varied significantly due to changes in operations including an unrealized gain on commodity contracts of \$41.7 million in 2014 and gains on acquisitions<sup>(1)</sup> of \$39.0 million 2013.

## FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is



often, but not always, identified by the use of words such as "anticipate", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating, but not limited to:

- drilling and development budget, plans and the timing thereof;
- anticipated production, including expectations for 2015 and growth in our production base;
- expectations regarding the successful integration of acquisitions;
- Cardinal's development drilling inventory;
- Cardinal's acquisition and growth plans and the source of funding;
- anticipated future production and unit operating expenses;
- maintaining a conservative leverage profile through a targeted net debt to annualized cash flow from operations multiple of less than one in a normalized price environment;
- anticipated decline rates;
- expectations with respect to simple payout ratio, total payout ratio and other financial results;
- Cardinal's business strategy, goals and management focus;
- Cardinal's dividend plans, the amount and timing of the payment of future dividends and the consistency of our dividend policy;
- Cardinal's risk management strategy and the benefits to be obtained therefrom;
- sources of funds for the Company's operations, capital expenditures and decommissioning obligations;
- future liquidity and the Company's access to sufficient debt and equity capital;
- Cardinal's asset base including the assets acquired in Wainwright and future prospects for development and growth therefrom;
- expectations regarding the business environment, industry conditions and future commodity prices;
- expectations regarding the timing and results of the review of the borrowing base of the Facilities;
- expectations regarding the timing of closing the Arrangement with Pinecrest;
- Cardinal's tax pools and expectations regarding the Company's tax horizon;
- Cardinal's capital management strategies;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws; and
- Cardinal's ICOFR and DC&P plans.

In addition, information and statements relating to reserves are deemed to be forward-looking statements, as they involve implied assessment, based on certain estimates and assumptions, that the reserves described exist in quantities predicted or estimated, and that the reserves can be profitably produced in the future.

Forward-looking statements regarding Cardinal are based on certain key expectations and assumptions of Cardinal concerning anticipated financial performance, business prospects, strategies, regulatory developments, current commodity prices and exchange rates, applicable royalty rates, tax laws, future well production rates and reserve volumes, future operating costs, the performance of existing and future wells, the success of its exploration and development activities, the sufficiency and timing of budgeted capital expenditures in carrying out planned activities, the availability and cost of labor and services, the impact of increasing competition, conditions in general economic and financial markets, availability of drilling and related equipment, effects of regulation by governmental agencies, the ability to obtain financing on acceptable terms which are subject to change based on commodity prices, market conditions, drilling success and potential timing delays.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Cardinal's control. Such risks and uncertainties include, without limitation: the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; currency fluctuations; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel, drilling rigs or other services; changes in income tax laws or changes in royalty rates and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, and spills, each of which could result in substantial damage to wells, production facilities, other



property and the environment or in personal injury; and ability to access sufficient capital from internal and external sources.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about our prospective results of operations, cash flows, and components thereof, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A were made as of the date of this MD&A and is provided for the purpose of describing the anticipated effects of the acquisition and the offering on our business operations. We disclaim any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

Management has included the forward-looking statements above and a summary of assumptions and risks related to forward-looking statements provided in this MD&A in order to provide readers with a more complete perspective on Cardinal's future operations and such information may not be appropriate for other purposes. Cardinal's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Cardinal will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and Cardinal disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

#### Frequently Used Terms

##### *Term or abbreviation*

"bbl"	Barrel(s)
"bbl/d"	Barrel(s) per day
"boe"	Barrel(s) of oil equivalent
"boe/d"	Barrel(s) of oil equivalent per day
"GJ"	Gigajoule
"m" preceding a volumetric measure	1,000 units of the volumetric measure
"mcf"	Thousand cubic feet
"mcf/d"	Thousand cubic feet per day
"MW"	Megawatt
"NGLs"	Natural gas liquids
"n/m"	Not meaningful (certain per unit or per share calculations)
"US"	United States
"USD"	United States dollars
"WCS"	Western Canadian Select
"WTI"	West Texas Intermediate

