CARDINAL
ENERGY LTD.

Q3 2021

FINANCIAL STATEMENTS

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

As at *(Unaudited, thousands)*	*Note*	**September 30, 2021**	December 31, 2020
ASSETS			
Current assets			
Trade and other receivables		**$ 51,823**	$ 29,261
Deposits and prepaid expenses		**6,019**	2,876
Fair value of financial instruments	14	**-**	1,506
Assets held for sale	4	**6,009**	-
		63,851	33,643
Non-current assets			
Property, plant and equipment	3,5	**989,311**	715,490
Total Assets		**$ 1,053,162**	$ 749,133
LIABILITIES			
Current liabilities			
Trade and other payables		**$ 75,080**	$ 42,421
Lease liabilities	9	**1,469**	1,687
Decommissioning obligation	10	**4,110**	3,280
Fair value of financial instruments	14	**8,331**	8,415
Warrant liability	11	**-**	3,530
Liabilities associated with assets held for sale	4	**689**	-
		89,679	59,333
Non-current liabilities			
Lease liabilities	9	**1,579**	2,227
Bank debt	6	**170,229**	192,115
Secured notes	7	**30,270**	16,217
Liability component of convertible debentures	8	**-**	26,886
Decommissioning obligation	10	**81,856**	79,507
		283,934	316,952
Total Liabilities		**373,613**	376,285
SHAREHOLDERS' EQUITY			
Share capital	11	**1,102,042**	1,054,169
Treasury shares	11	**(2,956)**	(3,041)
Warrants	11	**16,825**	-
Equity component of convertible debentures	8	**-**	1,582
Contributed surplus		**31,542**	33,502
Deficit		**(467,904)**	(713,364)
Total Shareholders' Equity		**679,549**	372,848
Total Liabilities and Shareholders' Equity		**$ 1,053,162**	$ 749,133
Contractual obligations	15		
Subsequent event	17		

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

(Unaudited, thousands except per share amounts)	*Note*	Three months ended September 30, **2021**	Three months ended September 30, 2020	Nine months ended September 30, **2021**	Nine months ended September 30, 2020
Revenue					
Petroleum and natural gas revenue	13	**$ 120,007**	$ 61,982	**$ 304,660**	$ 157,166
Royalties		**(22,171)**	(8,799)	**(52,358)**	(23,137)
		97,836	53,183	**252,302**	134,029
Realized gain (loss) on commodity contracts	14	**(10,368)**	(5,893)	**(37,884)**	5,636
Unrealized gain (loss) on commodity contracts	14	**8,273**	1,633	**1,673**	(4,175)
Processing and other revenue	13	**908**	1,200	**2,844**	2,200
Other income	10	**367**	-	**3,831**	-
		97,016	50,123	**222,766**	137,690
Expenses					
Operating		**43,057**	28,523	**115,597**	90,730
Transportation		**1,037**	556	**2,028**	1,501
General and administrative		**3,755**	2,657	**10,605**	10,455
Share-based compensation	12	**1,054**	663	**2,799**	2,945
Finance		**5,843**	5,819	**17,897**	15,607
Re-measurement loss on warrant liability	11	**-**	-	**12,923**	-
Depletion and depreciation	5	**19,494**	14,333	**53,761**	51,895
Impairment (reversal)	5	**(218,338)**	-	**(218,338)**	343,000
Loss (gain) on acquisition / disposition	3	**(21,831)**	1,249	**(21,831)**	1,224
Loss on conversion of convertible debentures and other	8	**-**	982	**1,246**	603
Transaction costs	3	**619**	-	**619**	-
		(165,310)	54,782	**(22,694)**	517,960
Earnings (loss) before deferred tax		**262,326**	(4,659)	**245,460**	(380,270)
Deferred tax expense		**-**	-	**-**	102,879
Earnings (loss) and comprehensive earnings (loss) for the period		**$ 262,326**	$ (4,659)	**$ 245,460**	$ (483,149)
Earnings (loss) per share	11				
- Basic		**$ 1.76**	$ (0.04)	**$ 1.74**	$ (4.26)
- Diluted		**$ 1.64**	$ (0.04)	**$ 1.63**	$ (4.26)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, thousands except number of common shares)	Common Shares, net of treasury shares	Share Capital	Treasury Shares	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Shareholders' Equity
		(note 11)	*(note 11)*	*(note 11)*	*(note 8)*	*(note 12)*		
As at January 1, 2020	113,657,247	$ 1,062,194	$ (5,182)	$ -	$ 1,556	$ 26,429	$ (347,095)	$ 737,902
Purchase of common shares for RAs [1] settlements	(303,495)	-	(700)	-	-	-	-	(700)
Settlement of RAs [1]	1,039,406	-	2,895	-	-	(3,707)	-	(812)
Purchase of common shares for cancellation	(897,500)	(8,526)	-	-	-	6,040	-	(2,486)
Purchase of convertible debentures for cancellation	-	-	-	-	(19)	-	402	383
Extinguishment of convertible debentures	-	-	-	-	(975)	975	-	-
Issuance of convertible debentures	-	-	-	-	1,582	-	-	1,582
Share-based compensation	-	-	-	-	-	3,348	-	3,348
Tax adjustment on excess value of RAs [1]	-	-	-	-	-	(698)	-	(698)
Dividends ($0.03 per share)	-	-	-	-	-	-	(3,511)	(3,511)
Loss for the period	-	-	-	-	-	-	(483,149)	(483,149)
As at September 30, 2020	**113,495,658**	**$ 1,053,668**	**$ (2,987)**	**$ -**	**$ 2,144**	**$ 32,387**	**$ (833,353)**	**$ 251,859**
As at January 1, 2021	121,348,705	$ 1,054,169	$ (3,041)	$ -	$ 1,582	$ 33,502	$ (713,364)	$ 372,848
Purchase of common shares for RAs [1] and PAs [2] settlements	(1,095,294)	-	(2,788)	-	-	-	-	(2,788)
Common shares issued in connection with acquisition (note 3)	6,270,229	18,184	-	-	-	-	-	18,184
Reclassification of warrants to equity	-	-	-	16,453	-	-	-	16,453
Issue of warrants	-	-	-	574	-	-	-	574
Exercise of warrants	125,000	271		(202)				69
Settlement of RAs [1] and PAs [2]	1,272,581	-	2,873	-	-	(5,101)	-	(2,228)
Convertible debentures conversion and redemption	22,410,400	29,596	-	-	(1,582)	-	-	28,014
Share-based compensation	-	-	-	-	-	3,141	-	3,141
Share issue costs	-	(178)	-	-	-	-	-	(178)
Earnings for the period	-	-	-	-	-	-	245,460	245,460
As at September 30, 2021	**150,331,621**	**$ 1,102,042**	**$ (2,956)**	**$ 16,825**	**$ -**	**$ 31,542**	**$ (467,904)**	**$ 679,549**

(1) Restricted Bonus Awards ("RAs")

(2) Performance Awards ("PAs")

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, thousands)	*Note*	Three months ended September 30, **2021**	2020	Nine months ended September 30, **2021**	2020
Cash provided by (used in)					
Operating activities					
Earnings (loss) for the period		**$ 262,326**	$ (4,659)	**$ 245,460**	$ (483,149)
Adjustments for					
Share-based compensation	12	**1,054**	663	**2,799**	2,945
Depletion and depreciation	5	**19,494**	14,333	**53,761**	51,895
Impairment (reversal)	5	**(218,338)**	-	**(218,338)**	343,000
Re-measurement loss of warrant liability	11	**-**	-	**12,923**	-
Unrealized (gain) loss on commodity contracts	14	**(8,273)**	(1,633)	**(1,673)**	4,175
Unrealized foreign exchange gain		**-**	-	**-**	(23)
Other income	10	**(367)**	-	**(3,831)**	-
Deferred tax expense		**-**	-	**-**	102,879
Accretion	8, 10	**1,939**	2,271	**5,725**	6,670
Interest on secured notes	7	**940**	-	**2,152**	-
Loss (gain) on acquisition / disposition	3	**(21,831)**	1,249	**(21,831)**	1,224
Loss on conversion of convertible debentures and other	8	**-**	982	**1,246**	603
Decommissioning obligation settled	10	**(1,334)**	(238)	**(4,042)**	(2,253)
Change in non-cash working capital	16	**1,800**	5,982	**(1,203)**	2,749
		37,410	18,950	**73,148**	30,715
Investing activities					
Exploration and evaluation expenditures		**-**	-	**-**	(11)
Property, plant and equipment expenditures	5	**(16,833)**	(4,742)	**(33,339)**	(27,928)
Property acquisitions	5	**(694)**	-	**(4,028)**	-
Corporate acquisition	3	**(15,811)**	-	**(15,811)**	-
Change in non-cash working capital	16	**6,846**	199	**10,146**	(19,086)
		(26,492)	(4,543)	**(43,032)**	(47,025)
Financing activities					
Dividends		**-**	-	**-**	(3,511)
Issuance of secured note and warrants, net of issue costs	7	**12,476**	-	**12,476**	-
Share issue costs	11	**(53)**	-	**(178)**	-
Repayment of lease liabilities	9	**(430)**	(505)	**(1,382)**	(1,483)
Convertible debentures issue costs		**-**	(375)	**-**	(375)
Purchase of common shares for cancellation		**-**	-	**-**	(2,486)
Purchase of common shares for RA and PA settlements and withholding tax	11	**(884)**	(44)	**(5,016)**	(1,512)
Purchase of convertible debentures for cancellation		**-**	-	**-**	(170)
Convertible debentures redeemed	8	**-**	-	**(194)**	-
Warrants exercised		**69**	-	**69**	-
Increase (decrease) in bank debt		**(8,010)**	(13,188)	**(21,886)**	27,903
Repayment of acquired debt	3	**(14,172)**	-	**(14,172)**	-
Change in non-cash working capital	16	**86**	(295)	**167**	(2,056)
		(10,918)	(14,407)	**(30,116)**	16,310
Change in cash and cash equivalents		**-**	-	**-**	-
Cash and cash equivalents, beginning of period		**-**	-	**-**	-
Cash and cash equivalents, end of period		**$ -**	$ -	**$ -**	$ -

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1 REPORTING ENTITY

Cardinal Energy Ltd. ("Cardinal" or the "Company") was incorporated pursuant to the Business Corporations Act (Alberta) on December 21, 2010 and commenced activity on May 30, 2012. The Company's principal business activity is the acquisition, exploration and production of petroleum and natural gas in the provinces of Alberta, British Columbia, and Saskatchewan. Cardinal's principal place of business is located at 600, 400 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 4H2.

2 BASIS OF PREPARATION

Statement of Compliance
These condensed interim consolidated financial statements ("financial statements") have been prepared in accordance with statement IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The financial statements were prepared using the same accounting policies, critical judgments and key estimates which the Company applied in its annual financial statements for the year ended December 31, 2020 except as noted below and do not include certain disclosures that are normally required to be included in annual financial statements which have been condensed or omitted. Accordingly, these financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2020. Certain prior period amounts have been reclassified to conform to current period presentation.

The financial statements were authorized for issue by the Board of Directors on November 4, 2021.

Significant Accounting Policies

Assets Held for Sale
Non-current assets and their associated liabilities are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset and an active program to locate a buyer has been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the statement of comprehensive earnings (loss) in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortized.

Use of Estimates and Judgements
The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. As such, actual results may differ from these estimates as future confirming events occur. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3 ACQUISITION

On July 15, 2021, Cardinal acquired all of the issued and outstanding common shares of Venturion Oil Corp. (the "Venturion Acquisition") for cash consideration of $15.8 million and the issuance of 6.3 million common shares valued on the day of closing at $2.90 per share. The Venturion Acquisition increased the Company's production in central Alberta and other minor Alberta and British Columbia properties. The acquisition has been accounted for as a business combination in accordance with IFRS 3. There were $0.6 million of transaction costs incurred by the Company and expensed through earnings.

Net assets acquired		
Petroleum and natural gas properties	$	76,353
Working capital		2,156
Bank debt		(14,172)
Risk management contracts		(3,095)
Decommissioning obligations		(5,416)
Gain on acquisition		(21,831)
	$	33,995

Consideration		
Cash consideration	$	15,811
Share consideration (6,270,229 common shares)		18,184
	$	33,995

The gain on acquisition represents the excess of the $55.8 million total identifiable net assets acquired over the $34.0 million consideration paid, and was primarily the result of an increase in commodity prices between initial negotiations and the closing date.

Since the closing date of July 15, 2021, the Venturion Acquisition contributed petroleum and natural gas revenue of $12.8 million and operating income of $5.0 million. Had the Venturion Acquisition closed on January 1, 2021, the Company's estimated petroleum and natural gas revenue would have been $336.0 million and the estimated operating income would have been $149.5 million for the period ended September 30, 2021. Pro forma information is not necessarily representative of future revenue and operations.

The preceding estimates of fair value were made by management at the time of preparation of these condensed interim consolidated financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

4 ASSETS HELD FOR SALE

Assets held for sale		
As at January 1, 2021	$	-
Transferred from property, plant, and equipment - cost		10,310
Transferred from property, plant, and equipment - accumulated depletion and depreciation		(4,301)
As at September 30, 2021	$	6,009

Liabilities associated with assets held for sale		
As at January 1, 2021	$	-
Transfer from decommissioning obligations		689
As at September 30, 2021	$	689

During the third quarter, Cardinal entered into a purchase and sale agreement for the disposition of non-core assets.

As at September 30, 2021, the closing was considered highly probable of occurring and the assets were available for immediate sale in their present condition and, as such, were classified as held for sale. Immediately prior to classifying the assets as held for sale, the Company conducted a review of the assets' recoverable amounts based on expected consideration to be received and transferred these assets at their carrying amount, with no impairment or reversal of impairment recognized.

On October 6, 2021, the Company successfully closed the disposition.

5 PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Right-of-use assets	Corporate assets	Total
Cost				
As at January 1, 2020	$ 1,664,876	$ 6,178	$ 4,233	$ 1,675,287
Additions	31,886	469	128	32,483
Changes in decommissioning obligation	(31,473)	-	-	(31,473)
Disposition	(1,980)	(33)	-	(2,013)
As at December 31, 2020	1,663,309	6,614	4,361	1,674,284
Additions	33,639	516	100	34,255
Acquisition	81,080	-	-	81,080
Dispositions	(117)	(1,538)	-	(1,655)
Transfer to assets held for sale (note 4)	(10,310)	-	-	(10,310)
At September 30, 2021	**$ 1,767,601**	**$ 5,592**	**$ 4,461**	**$ 1,777,654**
Accumulated depletion and depreciation				
As at January 1, 2020	$ (668,044)	$ (1,708)	$ (2,335)	$ (672,087)
Depletion and depreciation	(64,775)	(1,871)	(434)	(67,080)
Disposition	688	33	-	721
Impairment	(220,348)	-	-	(220,348)
As at December 31, 2020	(952,479)	(3,546)	(2,769)	(958,794)
Depletion and depreciation	(52,241)	(1,210)	(310)	(53,761)
Disposition	35	1,538	-	1,573
Impairment reversal	218,338	-	-	218,338
Transfer to assets held for sale (note 4)	4,301	-	-	4,301
At September 30, 2021	**$ (782,046)**	**$ (3,218)**	**$ (3,079)**	**$ (788,343)**
Net book value				
At December 31, 2020	$ 710,830	$ 3,068	$ 1,592	$ 715,490
At September 30, 2021	**$ 985,555**	**$ 2,374**	**$ 1,382**	**$ 989,311**

The calculation of depletion for the nine months ended September 30, 2021 includes estimated future development costs of $222.7 million (December 31, 2020 - $219.3 million) associated with the development of the Company's proved and probable oil and gas reserves.

For the nine months ended September 30, 2021, Cardinal capitalized $0.8 million of general and administrative expenses (2020 - $0.8 million) and $0.3 million (2020 - $0.4 million) of share-based compensation.

Impairment and impairment reversal

As a result of assessments of internal and external indicators of impairment or impairment reversal, the Company performed an impairment test for its CGUs at September 30, 2021.

The Company identified indicators of reversal at September 30, 2021 for certain CGUs with past impairment. At September 30, 2021, Cardinal determined that the estimated recoverable amounts of the Alberta Central and Alberta South CGUs exceeded the carrying amounts of $148.1 million and $131.1 million, respectively. Accordingly, an aggregate non-cash impairment reversal of $218.3 million was recorded. The impairment reversal was the result of a recovery of the forecasted oil and gas commodity prices, increased economic stability, corporate market capitalization, and greater certainty in the sustainability of the commodity price increases.

The estimated recoverable value of the Company's CGUs was estimated as the value in use based on the net present value of before tax cash flows from proved and probable oil and gas reserves estimated by Cardinal's third party reserve evaluator internally updated to September 30, 2021 for production and forward prices at September 30, 2021 and discounted between 12% and 20% depending on the reserve composition. The estimated recoverable amount of each CGU involves significant estimates including the estimate of proved and probable oil and gas reserves and the discount rates. The estimate of proved and probable oil and gas reserves includes significant assumptions related to forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. In determining the appropriate discount rate, Cardinal considered various characteristics and risks of the assets.

Impairment reversal is recognized to the extent that impairment had been previously recorded, but are limited to the net book value that would exist had the original impairment never been recorded, including estimates for depletion.

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the Company's impairment test at September 30, 2021. The forecasted oil and gas commodity prices are based on the average used by three independent third party reserve evaluators at September 30, 2021 and are a significant assumption in assessing the estimated recoverable amount.

	WTI (USD $/bbl)[1]	WCS (CAD $/bbl)[1]	AECO (CAD $/mmbtu)[1]	Exchange rate (US/CAD)
2021	$ 75.17	$ 79.06	$ 4.57	0.80
2022	$ 71.00	$ 73.00	$ 3.83	0.80
2023	$ 67.77	$ 67.92	$ 3.25	0.80
2024	$ 65.57	$ 65.11	$ 2.99	0.80
2025	$ 66.88	$ 66.41	$ 3.05	0.80
Thereafter (inflation percentage and exchange rate)	2.0%	2.0%	2.0%	0.80

(1) *Three Consultants' average, GLJ Ltd., McDaniel & Associates Consultants, and Sproule Associates price forecasts, effective September 30, 2021.*

2020:

At December 31, 2020, Cardinal determined that the estimated recoverable amounts of the Alberta Central, Alberta South, and Alberta North CGUs exceeded the carrying amounts of $116.7 million, $90.7 million, and $222.9 million, respectively. Accordingly, an aggregate non-cash impairment reversal of $122.7 million was recorded. The impairment reversal was the result of a partial recovery of the forecasted oil and gas commodity prices, increased economic stability, and certainty in the oil and gas industry. The estimated recoverable amounts were based on proved and probable oil and gas reserves as evaluated by the Company's independent third party reserve evaluators as at December 31, 2020.

At March 31, 2020, Cardinal determined that the carrying amounts of the Alberta Central, Alberta South, and Alberta North CGUs exceeded the estimated recoverable amounts of $130.6 million, $103.4 million, and $250.4 million, respectively. Accordingly, an aggregate non-cash impairment loss of $343.0 million was recorded. The impairment recognized was the result of a significant decline in forecasted oil and gas commodity prices due to oil demand issues caused by coronavirus pandemic ("COVID-19").

6 BANK DEBT

The Company’s reserves-based revolving credit facility of $225.0 million is comprised of a $205.0 million syndicated term credit facility and a $20.0 million non-syndicated operating line credit facility (the "Facilities"). The Facilities are available on a revolving basis until May 31, 2022 and may be extended for a further 364 day period, subject to approval by the syndicate. If not extended, the Facilities will cease to revolve, the applicable margins will increase by 0.5% and all outstanding advances will be repayable on May 31, 2023. On a redetermination date, lenders could reduce the borrowing base to below amounts drawn, in which case, any short fall would have to be repaid within 30 days.

The available lending limits of the Facilities are reviewed semi-annually based on the syndicate's interpretation of the Company's reserves, future commodity prices and costs. 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. The next scheduled review date will be on or before November 30, 2021.

Advances under the Facilities are available by way of either prime rate loans, which bear interest at the banks' prime lending rate plus 1.75% to 5.25%, and bankers' acceptances, which are subject to fees and margins ranging from 2.75% to 6.25%. Interest and standby fees on the undrawn amounts of the Facilities depend upon certain ratios. The Facilities are secured by a general security agreement over all of the Company's assets. There are no financial covenants related to the Facilities, provided that Cardinal is not in default of the terms of the Facilities.

Letters of credit for $1.6 million were outstanding at September 30, 2021 (2020 – $1.6 million) that reduced the amount otherwise available to be drawn on the operating line credit facility.

Cardinal was in compliance with the terms of the Facilities at September 30, 2021. For the nine months ended September 30, 2021 the effective interest rate on the Company's bank debt was 6.0% (2020 – 3.9%).

7 SECURED NOTES

		Secured notes
As at January 1, 2020	$	-
Issued		16,204
Interest		13
As at December 31, 2020	$	16,217
Issued		11,901
Interest		2,152
As at September 30, 2021	**$**	**30,270**

Issue date	Maturity Date	Coupon Rate		Principal		Carrying value
December 30, 2020	June 30, 2022	12.0%	$	16,900	$	18,080
July 14, 2021	July 14, 2024	10.0%		12,500		12,190
As at September 30, 2021			**$**	**29,400**	**$**	**30,270**

The fair value of the 2020 Secured Notes and the 2021 Secured Notes approximate their face value at September 30, 2021.

On July 14, 2021, Cardinal entered into subscription agreements for a non-brokered private placement (“2021 Private Placement”) of $12.5 million principal amount of second lien secured notes ("2021 Secured Notes").

The 2021 Secured Notes bears interest at 10% per annum with an effective interest rate of 11.5%, with interest compounded and accrued semi-annually and added to the principal amount outstanding, payable on maturity. The 2021 Secured Notes mature on July 14, 2024. As part of the 2021 Private Placement, Cardinal issued one common share purchase warrant ("2021 Warrant") for each $5.00 principal amount of 2021 Secured Notes. Each 2021 Warrant entitles the holder to acquire one common share of Cardinal at an exercise price of $3.16 per common share for a period of 36 months commencing six months from issue date. The 2021 Secured Notes were recognized at fair value, net of directly related issue cost ($0.03 million), of $11.9 million with the residual of $0.6 million allocated to the 2021 Warrant.

On December 30, 2020, Cardinal entered into a subscription agreements for a non-brokered private placement ("2020 Private Placement") of $16.9 million principal amount of second lien secured notes ("2020 Secured Notes") issued at a 4% discount for net proceeds of $16.2 million.

The 2020 Secured Notes bears interest at 12% per annum with an effective interest rate of 14.6%, with interest compounded and accrued semi-annually and added to the principal amount outstanding, payable on maturity. The 2020 Secured Notes mature on June 30, 2022, and contains an extension provision, exercisable by either Cardinal or the holders on 30 days' prior written notice, to extend the maturity date to November 30, 2022.

8 CONVERTIBLE DEBENTURES

8.0% Convertible debentures	**Number of convertible debentures**		**Liability component**		**Equity component**
As at January 1, 2020	-	$	-	$	-
Issuance	28,207		26,625		1,582
Accretion	-		261		-
Balance at December 31, 2020	**28,207**	**$**	**26,886**	**$**	**1,582**
Accretion	-		100		-
Loss on conversion	-		1,221		-
Converted	(28,013)		(28,013)		(1,582)
Redeemed	(194)		(194)		-
Balance at September 30, 2021	**-**	**$**	**-**	**$**	**-**

On February 4, 2021, Cardinal issued a notice of redemption for all of the outstanding convertible debentures with a principal amount of $28.2 million, effective March 11, 2021. Prior to the redemption date, the majority of the holders of the convertible debentures exercised their conversion option whereby Cardinal issued 22,410,000 common shares upon the conversion of $28.0 million of principal amount of the convertible debentures, with a conversion price of $1.25 per share, representing approximately 99.3% of the outstanding debentures. The redemption of the remaining $0.2 million principal amount of the convertible debentures was funded through the Company's credit facility.

For the nine months ended September 30, 2021 Cardinal recognized $0.3 million of interest (2020 - $2.0 million), $0.1 million of accretion (2020 - $0.7 million), and a loss on conversion of $1.2 million related to the convertible debentures (2020 – nil).

9 LEASE LIABILITIES

	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	**$ 3,914**	$ 5,431
Additions	**516**	469
Finance cost	**162**	306
Lease payments	**(1,544)**	(2,292)
Balance, end of period	**$ 3,048**	$ 3,914

At September 30, 2021, the Company had future commitments relating to lease liabilities as follows:

	As at September 30, 2021	As at December 31, 2020
Less than 1 year	**$ 1,608**	$ 1,877
1 - 3 years	**1,639**	2,351
4 - 5 years	**5**	9
Total undiscounted future lease payments	**3,252**	4,237
Amounts representing interest	**(204)**	(323)
Present value of net lease payments	**3,048**	3,914
Less current portion of lease liabilitles	**(1,469)**	(1,687)
Non-current portion of lease liabilities	**$ 1,579**	$ 2,227

The Company has lease liabilities for contracts related to office space, vehicles, and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rates during the nine months ended September 30, 2021 were between 6% and 8% (2020 – between 6% and 8%), depending on the duration of the lease term.

10 DECOMMISSIONING OBLIGATION

	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	**$ 82,787**	$ 113,812
Liabilities incurred	**58**	131
Liabilities acquired	**6,115**	-
Liabilities disposed	**(57)**	(67)
Change in estimates	**-**	(31,604)
Government subsidy for decommissioning expenditures	**(3,831)**	(4,563)
Decommissioning expenditures	**(4,042)**	(2,849)
Accretion	**5,625**	7,927
Transferred to liabilities associated with assets held for sale	**(689)**	-
Balance, end of period	**$ 85,966**	$ 82,787

The Company's decommissioning obligation results from its ownership interest in crude oil and natural gas assets including well sites, and facilities. At September 30, 2021, the total estimated amount to settle Cardinal's decommissioning obligation was $349 million (December 31, 2020 - $331 million) on an uninflated and undiscounted basis and $465 million (December 31, 2020 - $440 million) on an inflated and undiscounted basis.

The decommissioning obligation was determined by applying an inflation factor of 1.0% (2020 – 1.0%) and discounting the inflated amount using Cardinal's credit-adjusted rate of 9.0% (2020 – 9.0%) over the expected useful life of the underlying assets of 20 to 50 years (2020 – 20 to 50 years).

11 SHARE CAPITAL

At September 30, 2021, the Company was authorized to issue an unlimited number of common voting shares without nominal or par value. Holders of common shares are entitled to one vote per share.

Treasury Shares

RAs and PAs may be settled in cash, common shares issued from treasury or common shares acquired by an independent trustee in the open market for such purposes. During the nine months ended September 30, 2021, the trustee purchased 1,095,294 common shares (2020 – 303,495) for $2.8 million (2020 - $0.7 million) for the potential settlement of future vesting RAs and PAs.

During the nine months ended September 30, 2021, the Company utilized 1,272,581 (2020 – 1,039,406) treasury shares to settle vesting RAs and PAs. As at September 30, 2021, 1,171,837 (December 31, 2020 – 1,349,124) common shares remained classified as treasury shares to be potentially used for future settlements.

Warrants

	Number of warrants
As at January 1, 2020	-
Issued	8,122,000
As at December 31, 2020	8,122,000
Issued	2,500,000
Exercised	(125,000)
As at September 30, 2021	**10,497,000**

On July 14, 2021, as part of the 2021 Private Placement, Cardinal issued 2,500,000 2021 Warrants with an exercise price of $3.16 per warrant for one common share. The 2021 Warrants vest six months subsequent to the issuance date and expire on July 14, 2024. The warrants were ascribed a value of $0.6 million (see Note 7).

On December 30, 2020, as part of the 2020 Private Placement, Cardinal issued 8,122,000 Units consisting of one common share and one warrant ("2020 Warrants") at $0.50 per unit for net proceeds of $4.0 million. The 2020 Warrants are exercisable at $0.55 per warrant for one common share. The 2020 Warrants expire on December 30, 2023.

The fair value of the 2020 Warrants was determined using the Black-Scholes pricing model with the following inputs:

As at	March 18 - 31, 2021	December 31, 2020
Share Price	$2.04 - $2.68	$ 0.83
Risk-free interest rate	0.25%	0.25%
Expected life (years)	2.75	3
Expected volatility	60%	60%

The 2020 Warrants issued as part of the 2020 Private Placement were classified as a financial liability as a result of a cashless exercise provision. All of the warrant holders waived their right to cashless exercise the 2020 Warrants in the first quarter of 2021. As a result, on the date when the warrant holders relinquished their right to cashless exercise, the Company fair valued the warrant liability and recorded the resulting re-measurement expense of $12.9 million and reclassified the warrant liability to shareholders equity.

At September 30, 2021, 7,997,000 warrants were exercisable at a price of $0.55 per warrant and the weighted average remaining life of the warrants was 2.4 years.

Earnings (loss) per share

	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Earnings (loss) for the period	**$ 262,326**	$ (4,659)	**$ 245,460**	$ (483,149)
Earnings (loss) per share				
- Basic	**$ 1.76**	$ (0.04)	**$ 1.74**	$ (4.26)
- Diluted	**$ 1.64**	$ (0.04)	**$ 1.63**	$ (4.26)
Weighted average number of common shares				
- Basic	**149,413,769**	113,450,267	**141,378,467**	113,329,324
- Diluted	**159,947,198**	113,450,267	**151,029,683**	113,329,324

The weighted average number of common shares is adjusted for shares purchased and cancelled and treasury shares purchased and held by the trustee.

For the three months ended September 30, 2021, nil RAs (2020 – 4,147,648), nil PAs (2020 – 846,369), nil convertible debentures (2020 – 24,112,648) and nil warrants (2020 – nil) were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

For the nine months ended September 30, 2021, 9,031 RAs (2020 – 4,147,648), nil PAs (2020 – 846,369), nil convertible debentures (2020 – 24,112,648) and 2,500,000 warrants (2020 – nil) were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

12 SHARE-BASED COMPENSATION

The maximum number of common shares issuable under the Company's bonus award plan, in aggregate, cannot exceed five percent of the outstanding common shares. The Company's common shares traded at a weighted average share price of $2.62 (2020 - $1.00) during the nine months ended September 30, 2021.

Bonus Awards

The Company has a bonus award plan whereby RAs and PAs may be granted to directors, officers, employees and other service providers. Awards granted according to the plan vest equally over three years from the date of grant and expire on December 15th of the third year following the year in which the award was granted. In the case of PAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period. Awards are adjusted for dividends declared, either with a cash payment or incremental common shares, and are to be settled with either cash, common shares or a combination thereof at the Company's discretion.

	Number of PAs	Number of RAs
As at January 1, 2020	-	4,613,495
Granted	846,369	1,732,385
Settled	-	(2,089,340)
Adjustment for dividends declared	-	45,610
Forfeited	-	(307,777)
Expired	-	(1,714)
As at December 31, 2020	846,369	3,992,659
Granted	972,000	1,807,264
Settled	(282,123)	(1,948,872)
Forfeited	-	(119,381)
As at September 30, 2021	**1,536,246**	**3,731,670**

For the nine months ended September 30, 2021, upon the vesting of 1,948,872 (2020 – 1,889,544) RAs and 282,123 (2020 – nil) PAs, when taking into account the performance multiplier for PAs, the Company issued 1,272,581 (2020 – 1,039,406) treasury shares and a payment of $2.2 million (2020 - $0.8 million) for withholding taxes.

The fair value of the granted awards was determined based on the value of the Company's common shares at the grant date. The weighted average market price of the Company's common shares used to value the RAs granted was $2.18 (2020 – $0.46) and PAs granted was $2.12 (2020 – $0.43).

Share-based Compensation

For the three and nine months ended September 30, 2021 of $1.1 million (2020 - $0.7 million) and $2.8 million (2020 - $2.9 million), respectively, of share-based compensation was expensed and $0.1 million (2020 - $0.1 million) and $0.3 million (2020 - $0.4 million), respectively, was capitalized.

13 REVENUE

Cardinal sells its production pursuant to variable-priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Under its contracts, the Company is required to deliver fixed or variable volumes of crude oil, natural gas and natural gas liquids to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable consideration is considered constrained.

Crude oil, natural gas, and natural gas liquids are sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company's petroleum and natural gas sales by product, and processing and other revenue generated by processing third party volume at facilities where the Company has an ownership interest:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Crude oil	**$ 112,243**	$ 58,687	**$ 282,856**	$ 148,048
NGL	**2,277**	1,340	**8,148**	3,805
Natural gas	**5,487**	1,955	**13,656**	5,313
Petroleum and natural gas revenue	**$ 120,007**	$ 61,982	**$ 304,660**	$ 157,166
Processing and other revenue	**$ 908**	$ 1,200	**$ 2,844**	$ 2,200

Included in accounts receivable at September 30, 2021 is $41.3 million (2020 - $18.6 million) of accrued petroleum and natural gas revenue.

14 FINANCIAL RISK MANAGEMENT

Cardinal's financial assets and liabilities consist of trade and other receivables, trade and other payables, risk management assets and liabilities, bank debt, and secured notes. Risk management assets and liabilities arise from the use of derivative financial instruments.

The Company classifies fair value according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 - Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
Level 2 - Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 - Fair value is based on inputs for the asset or liability that are not based on observable market data.

Derivatives are recorded on the balance sheet at fair value at each reporting period with the change in fair value being recognized as an unrealized gain or loss in the statement of loss. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted volumes and a credit adjusted interest rate. The fair value of options and collars is based on option models that use published information with respect to volatility, prices and interest rates.

The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. However, the Company may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet the Company's expected sale requirements.

As at September 30, 2021 and December 31, 2020, the only assets or liabilities measured at fair value were the fair value of financial instruments which are classified as level 2, bank debt which is classified as level 2, and secured notes which are classified as level 2.

Carrying amount and fair value of financial assets and liabilities
Trade and other receivables are classified as financial assets at amortized cost and are reported at amortized cost. Trade and other payables, secured notes, and bank debt are classified as financial liabilities at amortized cost and are reported at amortized cost. The fair values of trade and other receivables, and trade and other payables approximate their carrying amount due to the short-term maturity of these instruments. The fair value of bank debt approximates the carrying amount due to the floating rate of interest and the margin charged by the syndicate is indicative of current credit spreads. The fair values of secured notes fluctuates in response to changes in the market rates of interest payable on similar instruments and credit changes.

Risk management
Cardinal is exposed to normal market risks inherent in the oil and natural gas business, including, but not limited to, commodity price risk, foreign currency rate risk, credit risk, liquidity risk and interest rate risk. The Company seeks to mitigate these risks through various business processes and management controls and from time to time by using various derivative financial instruments and physical delivery sales contracts.

Commodity price risk
The Company is exposed to commodity price risk on petroleum and natural gas sales. Commodity prices for crude oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand.

At September 30, 2021 Cardinal had the following commodity financial derivative contracts outstanding:

Type of instrument	Remaining term	Average quantity		Average strike price	Fair value
CDN WTI Swap	October 1, 2021 - December 31, 2021	1,500	bbl/d	$ 55.83	$ (5,318)
AECO Swap	October 1, 2021 - December 31, 2021	11,000	gj/d	$ 2.64	(1,962)
USD WTI Collar	October 1, 2021 - December 31, 2021	750	bbl/d	$ 50.00 $ 63.20	(1,051)
					$ (8,331)

Cardinal limits its credit risk by executing counterparty risk procedures which include transacting only with members of the syndicate for our credit facilities or institutions with high credit ratings and by obtaining financial security in certain circumstances. Based on September 30, 2021 commodity prices, a $1 per barrel change in the price of crude oil would have changed the unrealized loss by $0.2 million (2020 – $2.5 million) and a $0.10 per gigajoule change in the price of natural gas would have changed the unrealized loss by $0.1 million (2020 – $0.4 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The financial liabilities on the balance sheet consist of trade and other payables, fair value of financial instruments, bank debt, and secured notes. Trade and other payables are considered due within one year. The fair value of financial instruments, bank debt (see note 6), and secured notes (see note 7) are considered due between one and three years. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities. The Company has had no defaults or breaches on its financial liabilities as at September 30, 2021 or during the period ended.

15 CONTRACTUAL OBLIGATIONS

As at September 30, 2021, the Company had contractual obligations as follows:

	2021	2022	2023	2024	2025	Thereafter
Trade and other payables	$ 75,080	-	-	-	-	-
Lease liabilities	460	1,489	1,228	73	2	-
Bank debt [(1)]	-	-	170,229	-	-	-
Secured notes	-	20,156	-	16,755	-	-
Total contractual obligations	**$ 75,540**	**$ 21,645**	**$ 171,457**	**$ 16,828**	**$ 2**	**$ -**

(1) Amount excludes interest

16 SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Source (use) of cash				
Trade and other receivables	**$ (9,147)**	$ 1,535	**$ (22,562)**	$ 14,420
Deposits and prepaid expenses	**(3,855)**	(1,893)	**(3,143)**	(1,243)
Trade and other payables	**19,578**	6,244	**32,659**	(29,632)
Dividends payable	**-**	-	**-**	(1,938)
Acquired working capital	**2,156**	-	**2,156**	-
Change in non-cash working capital	**$ 8,732**	$ 5,886	**$ 9,110**	$ (18,393)
Allocated to operating activities	**$ (356)**	$ 5,982	**$ (3,359)**	$ 2,749
Allocated to investing activities	**6,846**	199	**10,146**	(19,086)
Allocated to financing activities	**86**	(295)	**167**	(2,056)
Acquired working capital	**2,156**	-	**2,156**	-
	$ 8,732	$ 5,886	**$ 9,110**	$ (18,393)

17 SUBSEQUENT EVENT

On October 6, 2021, the Company successfully closed the disposition of non-core assets in the Grande Prairie area, which were classified as held for sale as at September 30, 2021.