CARDINAL
ENERGY LTD.

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Cardinal Energy Ltd. is responsible for the preparation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to determine that the financial statements are presented fairly in all material respects.

KPMG LLP, an independent firm of chartered accountants, was appointed by a resolution of the Board of Directors to audit the financial statements of the Company and to provide an independent professional opinion. KPMG LLP was appointed to hold such office until the next annual meeting of the shareholders of the Company.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and KPMG LLP. The members of the Audit Committee are composed of independent directors who are not employees of the Company. The Board of Directors has approved the information contained in the financial statements based on the recommendation of the Audit Committee.

signed *"M. Scott Ratushny"*
M. Scott Ratushny
Chief Executive Officer

signed *"Douglas Smith"*
Douglas Smith
Chief Financial Officer

KPMG LLP
205-5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cardinal Energy Ltd.

We have audited the accompanying financial statements of Cardinal Energy Ltd., which comprise the balance sheets as at December 31, 2013 and December 31, 2012, the statements of earnings (loss) and comprehensive earnings (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cardinal Energy Ltd. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 27, 2014
Calgary, Canada

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CARDINAL ENERGY LTD.

BALANCE SHEETS

As at December 31, 2013 and 2012

(thousands)

	Note	**2013**	2012
Assets			
Current assets			
Trade and other receivables		**$ 6,077**	$ 2,236
Deposits and prepaid expenses		**1,391**	217
		7,468	2,453
Non-current assets			
Exploration and evaluation assets	6	**4,921**	2,014
Property, plant and equipment	7	**390,785**	77,031
Deferred taxes	12	**-**	435
		395,706	79,480
Total assets		**$ 403,174**	$ 81,933
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables		**$ 7,350**	$ 4,556
Fair value of financial instruments	13	**602**	-
Bank debt	8	**-**	11,267
		7,952	15,823
Non-current liabilities			
Deferred flow-through share premium	10	**85**	200
Bank debt	8	**9,318**	-
Decommissioning obligation	9	**40,384**	4,601
Deferred taxes	12	**8,572**	-
		58,359	4,801
Total liabilities		**66,311**	20,624
Shareholders' Equity			
Share capital	10	**302,562**	64,179
Warrants	10,11	**1,756**	819
Contributed surplus	11	**1,167**	131
Retained earnings (deficit)		**31,378**	(3,820)
		336,863	61,309
Total liabilities and shareholders' equity		**$ 403,174**	$ 81,933
Commitments	15		
Subsequent events	19		

See accompanying notes to the financial statements.

Approved on behalf of the Board of Directors,

signed *"M. Scott Ratushny"*
M. Scott Ratushny
Director

signed *"James C. Smith"*
James C. Smith
Director

CARDINAL ENERGY LTD.

STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

For the year ended December 31, 2013 and 2012

(thousands, except per share amounts)

	Note	**2013**	2012
Revenue			
Petroleum and natural gas revenue		**$ 35,750**	$ 3,985
Royalties		**(4,369)**	(604)
Realized loss on commodity contracts	13	**(1,113)**	-
Unrealized loss on commodity contracts	13	**(578)**	-
		29,690	3,381
Expenses			
Operating		**14,004**	1,190
Unrealized loss on power contracts	13	**24**	-
General and administrative		**5,108**	1,129
Share-based compensation	11	**1,841**	3,328
Finance	16	**1,806**	267
Transaction costs	5	**203**	45
Depletion and depreciation	7	**11,078**	1,338
Gain on acquisitions	5	**(38,991)**	-
		(4,927)	7,297
Earnings (loss) before deferred tax		**34,617**	(3,916)
Deferred tax reduction	12	**581**	96
Earnings (loss) and comprehensive earnings (loss) for the year		**$ 35,198**	$ (3,820)
Earnings (loss) per share			
Basic	10	**$ 2.90**	$ (0.82)
Diluted	10	**$ 2.70**	$ (0.82)

See accompanying notes to the financial statements.

CARDINAL ENERGY LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands, except number of common shares)

	Number of common shares	Share capital *(note 10)*	Warrants *(note 10,11)*	Contributed surplus *(note 11)*	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2011	3	$ -	$ -	$ -	$ -	$ -
Issue of flow-through common shares	666,667	2,354	-	-	-	2,354
Issue of units	2,833,333	10,185	-	-	-	10,185
Issue of common shares	7,591,668	53,256	-	-	-	53,256
Share issue costs, net of deferred tax of $539	-	(1,616)	-	-	-	(1,616)
Share-based compensation	-	-	819	131	-	950
Loss for the year	-	-	-	-	(3,820)	(3,820)
Balance at December 31, 2012	11,091,671	$ 64,179	$ 819	$ 131	$ (3,820)	$ 61,309
Balance at December 31, 2012	11,091,671	$ 64,179	$ 819	$ 131	$ (3,820)	$ 61,309
Issue of flow-through common shares	113,333	935	-	-	-	935
Common shares issued in connection with acquisition	66,667	550	-	-	-	550
Common shares issued for undeveloped land	30,833	254	-	-	-	254
Issue of common shares	23,571,428	247,500	-	-	-	247,500
Exercise of warrants	1,600	7	(2)	-	-	5
Share issue costs, net of deferred tax of $3,621	-	(10,863)	-	-	-	(10,863)
Share-based compensation	-	-	939	1,036	-	1,975
Earnings for the year	-	-	-	-	35,198	35,198
Balance at December 31, 2013	**34,875,532**	**$ 302,562**	**$ 1,756**	**$ 1,167**	**$ 31,378**	**$ 336,863**

See accompanying notes to the financial statements.

CARDINAL ENERGY LTD.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013 and 2012

(thousands)

	Note	**2013**	2012
Cash provided by (used in)			
Operating activities			
Earnings (loss) for the year		**$ 35,198**	$ (3,820)
Adjustments for			
Gain on acquisitions	5	**(38,991)**	-
Share-based compensation	11	**1,841**	3,328
Depletion and depreciation	7	**11,078**	1,338
Unrealized loss on commodity contracts	13	**578**	-
Unrealized loss on power contracts	13	**24**	-
Deferred tax reduction	12	**(581)**	(96)
Accretion	9	**667**	64
Decommissioning obligation settled	9	**(262)**	-
Change in non-cash working capital	17	**(639)**	(128)
		8,913	686
Investing activities			
Exploration and evaluation expenditures		**(2,653)**	(4,686)
Property, plant and equipment expenditures		**(6,882)**	(623)
Acquisitions	5	**(229,888)**	(70,475)
Change in non-cash working capital	17	**(2,266)**	2,231
		(241,689)	(73,553)
Financing activities			
Issue of flow-through common shares	10	**1,020**	2,000
Issue of units		**-**	8,500
Issue of common shares	10	**247,500**	53,256
Proceeds from exercise of warrants	10	**5**	-
Share issue costs	10	**(14,484)**	(2,156)
Increase (decrease) in bank debt		**(1,949)**	11,267
Change in non-cash working capital	17	**684**	-
		232,776	72,867
Change in cash and cash equivalents		**-**	-
Cash and cash equivalents, beginning of year		**-**	-
Cash and cash equivalents, end of year		**$ -**	$ -

See accompanying notes to the 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 as 1577088 Alberta Ltd 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 and Saskatchewan. Cardinal's principal place of business is located at 1400, 440 – 2nd Avenue SW, Calgary, Alberta, Canada, T2P 5E9.

2. BASIS OF PREPARATION

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.

Operating expenses in the statement of earnings are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a separate line by their nature, while operating expenses and general and administrative expenses are presented on a functional basis. Significant expenses such as salaries and wages and share-based compensation are presented by their nature in the notes to the financial statements.

(a) Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and were authorized for issue by the Board of Directors on March 27, 2014.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis. The methods used to measure fair values are discussed in note 4.

(c) Functional and presentation currency
The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of judgments and key sources of estimation uncertainty
The timely preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period. These estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. 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.

Critical Judgments

i) Identification of cash generating units
Cardinal's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate largely independent cash inflows. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

ii) Impairment of property, plant and equipment "PP&E"
Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of PP&E, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future petroleum and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

iii) Exploration and evaluation assets "E&E"
The application of the Company's accounting policy for E&E requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

iv) Deferred income taxes
Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable income. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in earnings or loss in the period in which the change occurs.

Key Sources of Estimation Uncertainty

i) Reserve estimates
Commercial petroleum reserves are determined based on estimates of petroleum-in-place, recovery factors and future petroleum and natural gas prices and costs. Cardinal engaged independent qualified reserve evaluators to evaluate the Company's petroleum and natural gas ("P&NG") reserves at December 31, 2013 and 2012. Reserve adjustments are made annually based on actual volumes produced, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions made during the year.

Proved reserves are those estimated quantities of petroleum and natural gas determined to be economically recoverable under existing economic and operating conditions with a high degree of certainty, of at least 90 percent, that those quantities will be equaled or exceeded. Proved plus probable reserves are those estimated quantities of petroleum and natural gas determined to be economically recoverable under existing economic and operating conditions with a moderate degree of certainty, of at least 50 percent, that those quantities will be equaled or exceeded. Cardinal reports production and reserve quantities in accordance with Canadian practices and specifically in accordance with Standards of Disclosures for Oil and Gas Activities ("NI 51-101").

Cardinal cautions users of this information that the process of estimating petroleum and natural gas reserves is subject to a level of uncertainty. The reserves are based on current and forecast economic and operating conditions; therefore, changes can be made to future assessments as a result of a number of factors, which can include commodity prices, new technology, changing economic conditions, future reservoir performance and development activity.

ii) PP&E
Development and production assets within PP&E are depleted using the unit of production method based on estimated proved plus probable reserves determined using estimated future prices and costs. The estimate of proved plus probable reserves is an essential part of the depletion calculation and the impairment test.

iii) Business combinations
In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

iv) Decommissioning obligation
Cardinal recognizes a provision for future abandonment activities in the financial statements equal to the net present value of the estimated future expenditures required to settle the estimated future obligation at the balance sheet date. The measurement of the decommissioning obligation involves the use of estimates and assumptions including the discount rate, the expected timing of future expenditures and the amount of future abandonment costs. The estimates were made by management and external consultants considering current costs, technology and enacted legislation.

v) Fair value calculation of share-based payments
The fair value of share-based payments for options and warrants is calculated using a Black Scholes or other option pricing model. There are a number of estimates used in the calculation such as the future forfeiture rate, expected option life and the future price volatility of the underlying security which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts.

vi) Taxation
The calculation of deferred income taxes is based on a number of assumptions including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse, the use of substantively enacted tax rates at the balance sheet date and the likelihood of deferred tax assets being realized.

(vii) Derivatives
The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and the volatility in those prices.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to all periods presented in these financial statements.

(a) Business combinations
The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the acquisition date, except for deferred income taxes. The excess of the cost of an acquisition over the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in earnings or loss. Acquisition costs incurred by the Company are expensed in earnings or loss in the period incurred.

(b) Jointly controlled assets

Many of the Company's crude oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(c) Property, plant and equipment "PP&E" and exploration and evaluation assets "E&E"

i) Recognition and measurement

E&E

Pre-license costs are expensed in the statement of earnings or loss as incurred. E&E costs including the costs of acquiring licenses are capitalized as E&E. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E are allocated to their related CGU.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, E&E attributable to those reserves are first tested for impairment and then reclassified from E&E to PP&E or expensed in earnings or loss to the extent of any impairment.

PP&E

Items of PP&E, including development or production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses and are grouped into CGU's for impairment testing. When significant parts of an item of PP&E, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of PP&E, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in earnings or loss.

ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as petroleum and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings or loss as incurred. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

iii) Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves. Natural gas volumes are converted to equivalent crude oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of crude oil. In determining its depletion base, Cardinal includes the estimated future development costs necessary to develop proved plus probable reserves. These estimates are reviewed by independent reserve engineers at least annually.

Depreciation of other assets is recognized in earnings or loss on a straight-line basis or declining balance over their estimated useful life.

Depreciation methods, useful life and residual values are reviewed at each reporting date.

iv) Derecognition
The carrying amount of an item of PP&E is derecognized when no future economic benefits are expected from its use or upon sale to a third party. The gain or loss arising from derecognition is included in earnings or loss and is measured as the difference between the net proceeds, if any, and the carrying amount of the asset.

v) Major maintenance and repairs
Ongoing costs to maintain properties are generally expensed as incurred. The costs of material replacement parts, turnarounds and major inspections are capitalized provided it is probable that future economic benefits in excess of cost will be realized and such benefits are expected to extend beyond the current operating period. The carrying amount of a replaced part is derecognized in accordance with our derecognition policy.

(d) Financial instruments

i) Non-derivative financial instruments
Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through earnings or loss, any directly attributable transaction costs.

Cash and cash equivalents comprise cash on hand and term deposits held with banks with original maturities of three months or less and are measured at amortized cost.

Other non-derivative financial instruments, such as trade and other receivables and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets and liabilities are offset and the net amount presented on the balance sheet if, and only if, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Derivative financial instruments
The Company enters into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices, interest rates and the exchange rate between Canadian and United States dollars. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all financial derivative contracts to be economic hedges.

As a result, all financial derivative contracts are classified at fair value through earnings or loss and are recorded on the balance sheet at fair value. Transaction costs are recognized in earnings or loss when incurred.

iii) Share capital
Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares, net of any tax effects, are recognized as a deduction from shareholders' equity.

(e) Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in earnings or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings or loss.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E, as petroleum and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to the CGU's that are expected to benefit from the synergies of the combination. E&E are allocated to the related CGU when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as the reclassification to producing assets (petroleum and natural gas interests in PP&E).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of PP&E and E&E recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

(f) Leased assets
Operating leases are not recognized on the Company's balance sheet.
Payments made under operating leases are recognized in earnings or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Share-based compensation
The grant date fair value of options and other dilutive equity instruments granted to employees is recognized as compensation expense, with a corresponding increase in contributed surplus or warrants, over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of instruments that vest.

(h) Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized in the relevant asset category.

The decommissioning obligation recognized is the present value of management's best estimate of future expenditures required to settle the obligation using a credit-adjusted rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense in earnings or loss whereas increases or decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was established.

(i) Revenue
Revenue from the sale of petroleum and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party and when collection is reasonably assured. This is generally at the time product enters the pipeline.

(j) Finance income and expenses
Finance expense comprises interest expense on borrowings, accretion of the discount on decommissioning obligation, other finance expenses and impairment losses recognized on financial assets.

Borrowing costs and interest income are recognized in earnings or loss using the effective interest method.

(k) Income tax
Income tax expense consists of current and deferred tax. Income tax expense is recognized in earnings or loss except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that does not affect either accounting or taxable income or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance, the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes, is recognized on the balance sheet. As expenditures are incurred, the deferred tax liability associated with the renounced tax deductions is recognized through earnings and loss along with a pro-rata portion of the deferred premium.

(m) Earnings per share

Basic earnings per share is calculated by dividing the earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options, warrants and other dilutive instruments granted to employees.

(n) Adoption of new accounting policies

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods with certain additional disclosures provided.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing the financial statements for the year ended December 31, 2013. The standards and interpretations applicable to the Company are as follows and will be adopted on their respective effective date:

i) Financial Instruments

The IASB intends to replace International Accounting Standard 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”) with IFRS 9, “Financial Instruments” (“IFRS 9”). IFRS 9 will be published in three phases, of which two phases have been published. Phases one and two address accounting for financial assets and financial liabilities, and hedge accounting, respectively. The third phase will address impairment of financial instruments.

For financial assets, IFRS 9 uses 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 in IFRS 9 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.

IFRS 9 introduces a simplified hedge accounting model, aligning hedge accounting more closely with risk management. In addition, improvements have been made to hedge accounting and risk management disclosure requirements. Cardinal does not currently apply hedge accounting.

A mandatory effective date for IFRS 9 in its entirety will be announced when the project is closer to completion. Early adoption of the two completed phases is permitted only if adopted in their entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on its financial statements.

ii) Offsetting Financial Assets and Financial Liabilities

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation", to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event.

The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. It is anticipated that IAS 32 will not have a significant impact on the financial statements.

iii) IAS 36 Impairment of Assets

In May 2013 IAS 36, "Impairment of Assets" was amended to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments require retrospective application and will be adopted by the Company on January 1, 2014. The adoption will only impact Cardinal's disclosures in the notes to the financial statements in periods when an impairment loss or impairment recovery is recognized.

4. DETERMINATION OF FAIR VALUE

A number of the Company's accounting policies and disclosures require the determination of fair value. Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

The Company classifies the fair value of risk management assets and liabilities 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.

(a) PP&E and E&E

The fair value of PP&E and E&E recognized in a business combination is based on market value. The market value of PP&E and E&E is the estimated amount for which PP&E and E&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of petroleum and natural gas interests (included in PP&E and E&E) is estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(b) Cash and cash equivalents, trade and other receivables and trade and other payables

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2013 and 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

(c) Bank debt

The fair value of bank debt approximates its carrying value as it bears a floating rate of interest and the margin charged by the lenders is indicative of current credit spreads.

(d) Derivatives

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 earnings or 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.

(e) Share-based compensation

The fair value of warrants and stock options is measured using a Black Scholes or other option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on publicly available information for similar companies), weighted average expected life of the instrument (based on expected general option or holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). The fair value of restricted bonus awards and stock appreciation rights are valued on the date of grant based on the value of the Company's common shares.

5. ACQUISITIONS

If the acquisitions during the year ended December 31, 2013 outlined below had closed on January 1, 2013, Cardinal's pro forma petroleum and natural gas sales and operating income (petroleum and natural gas sales less royalties and operating expenses) for the year ended December 31, 2013 would have been as follows:

		Acquisitions prior to closing			
	As stated	Wainwright	Bantry	SE Alberta	Pro Forma
Petroleum and natural gas revenue	$ 35,750	$ 161	$ 9,073	$ 103,398	$ 148,382
Operating income	$ 17,377	$ 46	$ 4,648	$ 53,040	$ 75,111

This pro forma information is not necessarily indicative of the results had the acquisitions actually occurred on January 1, 2013.

Petroleum and natural gas sales and operating income for the year ended December 31, 2013 attributable to these acquisitions were as follows:

	Acquisitions			
	Wainwright	Bantry	SE Alberta	Total
Petroleum and natural gas revenue	$ 3,337	$ 2,676	$ 3,087	$ 9,100
Operating income	$ 1,422	$ 1,233	$ 756	$ 3,411

On **December 17, 2013**, Cardinal acquired petroleum and natural gas properties to expand its core operating area at Bantry in southeast Alberta (the SE Alberta acquisition). Total consideration provided was $210 million in cash before closing adjustments with an associated decommissioning obligation of $30.0 million. The Company recorded a $17.2 million gain and $5.8 million deferred tax liability on this acquisition because the fair value of the petroleum and natural gas assets acquired of $259.2 million exceeded the consideration paid.

On **September 26, 2013**, Cardinal acquired petroleum and natural gas properties in a new core operating area at Bantry, Alberta. Total consideration provided was $21.75 million in cash before closing adjustments with an associated decommissioning obligation of $2.2 million. The Company recorded a $21.8 million gain and $7.3 million deferred tax liability on this acquisition because the fair value of the petroleum and natural gas assets acquired of $51.4 million exceeded the consideration paid.

On **January 23, 2013**, Cardinal acquired petroleum and natural gas properties in Wainwright, Alberta to expand its core operating area. Total consideration provided was $4.6 million, before closing adjustments, consisting of 66,667 common shares at $8.25 per share and cash of $4,050,000 with an associated decommissioning obligation of $1.5 million.

On **December 14, 2012**, Cardinal acquired petroleum and natural gas properties to expand its core operating area at Chauvin, Alberta. Total consideration provided was $22 million in cash before closing adjustments with an associated decommissioning obligation of $1.3 million. If the acquisition had closed on January 1, 2012 the associated revenue and operating income would have been approximately $8.2 million and $4.7 million respectively. The revenue and operating income associated with the acquired assets were $324,197 and $188,663 respectively.

On **October 17, 2012**, Cardinal acquired petroleum and natural gas properties in a new core operating area at Chauvin, Alberta. Total consideration provided was $51 million in cash before closing adjustments with an associated decommissioning obligation of $3.0 million. If the acquisition occurred on January 1, 2012 the associated revenue and operating income would have been approximately $20.0 million and $11.7 million respectively. The revenue and operating income associated with the acquired assets were $3.6 million and $0.8 million respectively.

On **July 5, 2012**, Cardinal acquired exploration and evaluation assets and petroleum and natural gas properties at Hudson/Loverna that straddle the Alberta and Saskatchewan border to provide the Company with development opportunities. Total consideration provided was $1.45 million before closing adjustments with an associated decommissioning obligation of $0.3 million.

For the year ended December 31, 2013, the Company incurred $202,786 (2012 - $45,521) of transaction costs related to acquisitions.

6. EXPLORATION AND EVALUATION ASSETS

Cost		Total
Balance at December 31, 2011	$	-
Additions		4,711
Acquisitions *(note 5)*		557
Transfers to PP&E		(3,254)
Balance at December 31, 2012	$	2,014
Additions		2,907
Balance at December 31, 2013	**$**	**4,921**

7. PROPERTY, PLANT AND EQUIPMENT

Cost		Petroleum and natural gas interests		Office and other equipment		Total
Balance at December 31, 2011	$	-	$	-	$	-
Additions		618		76		694
Acquisitions (note 5)		74,421		-		74,421
Transfers from E&E		3,254		-		3,254
Balance at December 31, 2012	$	78,293	$	76	$	78,369
Additions		8,270		412		8,682
Acquisitions (note 5)		316,150		-		316,150
Balance at December 31, 2013	**$**	**402,713**	**$**	**488**	**$**	**403,201**

Accumulated depletion and depreciation		Petroleum and natural gas interests		Office and other equipment		Total
Balance at December 31, 2011	$	-	$	-	$	-
Depletion and depreciation		1,323		15		1,338
Balance at December 31, 2012	$	1,323	$	15	$	1,338
Depletion and depreciation		10,966		112		11,078
Balance at December 31, 2013	**$**	**12,289**	**$**	**127**	**$**	**12,416**

Carrying amount		Petroleum and natural gas interests		Office and other equipment		Total
At December 31, 2011	$	-	$	-	$	-
At December 31, 2012	$	76,970	$	61	$	77,031
At December 31, 2013	**$**	**390,424**	**$**	**361**	**$**	**390,785**

The calculation of depletion for the year ended December 31, 2013 includes estimated future development costs of $38.3 million (2012 - $5.9 million) associated with the development of the Company's proved plus probable reserves. For the year ended December 31, 2013, the Company capitalized $257,601 of general and administrative costs (2012 - $34,000) and $133,848 (2012 - $61,978) of share-based compensation.

8. BANK DEBT

The Company's credit facilities at December 31, 2013 consisted of a $115 million syndicated revolving term credit facility and a $10 million non-syndicated revolving operating term credit facility (the "Facilities"). The Facilities are available on a revolving basis until the term out date of May 31, 2014 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 become repayable on May 31, 2015. As at December 31, 2013 the Company had a $30 million revolving demand credit facility and the then outstanding bank debt was included in current liabilities on the balance sheet.

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.

Advances under the Facilities are available by way of either prime rate loans which bear interest at the bank's prime lending rate plus 1.0 to 2.5% and bankers' acceptances and/or LIBOR loans, which are subject to fees and margins ranging from 2.0 to 3.5%. Interest and standby fees on the undrawn amounts of the Facilities depend upon the Company's debt to EBITDA ratio. 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) to current liabilities (excluding any current portion of bank debt and fair value of commodity contracts). Cardinal was in compliance with the terms of the Facilities at December 31, 2013.

Letters of credit in the amount of $765,400 were issued under the Facilities and for the year ended December 31, 2013 the effective interest rate on the Company's bank debt was 4.0% (2012 – 4.0%).

9. DECOMMISSIONING OBLIGATION

As at December 31	**2013**	2012
Balance, beginning of year	**$ 4,601**	$ -
Assumed in acquisitions (note 5)	**33,712**	4,503
Incurred	**200**	34
Change in estimates	**1,466**	-
Settled	**(262)**	-
Accretion	**667**	64
Balance, end of year	**$ 40,384**	$ 4,601

The Company's decommissioning obligation results from its ownership interest in crude oil and natural gas assets including well sites, facilities and gathering systems. At December 31, 2013, the total estimated amount to settle Cardinal's decommissioning obligation was $114.8 million (2012 - $14.8 million) on an uninflated and undiscounted basis and $192.9 million (2012 - $21.8 million) on an inflated and undiscounted basis. The decommissioning obligation was determined by applying an inflation factor of 2% (2012 – 2%) and discounting the inflated amount using Cardinal's credit-adjusted rate of 7.5% (2012 – 10%) over the expected useful life of the underlying assets, currently expected to be 20 to 35 years. During the year ended December 31, 2013 the Company recast certain 2012 amounts associated with the decommissioning obligation.

10. SHARE CAPITAL AND WARRANTS

At December 31, 2013, 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.

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.

	2013			2012		
	Number of shares		**Total**	Number of shares		Total
Common shares, beginning of year	**11,091,671**	**$**	**65,795**	3	$	-
Issue of flow-through common shares	**113,333**		**935**	666,667		2,354
Issue of units	**-**		**-**	2,833,333		10,185
Issue of common shares	**23,571,428**		**247,500**	7,591,668		53,256
Issue of common shares for acquisitions	**66,667**		**550**	-		-
Issue of common shares for E&E	**30,833**		**254**	-		-
Exercise of warrants	**1,600**		**7**	-		-
Common shares, end of year	**34,875,532**		**315,041**	11,091,671		65,795
Cumulative share issue costs, net of tax	**-**		**(12,479)**	-		(1,616)
Total shareholders' capital, end of year	**34,875,532**	**$**	**302,562**	11,091,671	$	64,179

For the flow-through common shares issued the Company recorded a deferred liability for the related premium of $85,000 (2012 - $400,000) and for the year ended December 31, 2012 $354,060 of share based compensation related to the implied benefit compared to common shares issued on August 2, 2012. Officers, directors and employees subscribed for 389,181 common shares and 61,667 of the flow through common shares issued in 2013 (2012 – 3,117,167 and 590,100 respectively).

Insiders and employees that subscribed to the flow-through common share offering and unit offering in 2012 entered into an undertaking agreement with the Company that restricts the disposition of their common shares until December 31, 2014.

Warrants

On July 30, 2012, Cardinal issued 2,833,333 units consisting of one common share and one half warrant (1,416,654 warrants) at $3.00 per unit pursuant to a private placement for gross proceeds of $8.5 million. The warrants vest equally over five years, and are only exercisable if the market value of Cardinal's common shares are in excess of $6.00 per common share, with the first vesting date on December 31, 2012 and on or after December 31 of each year thereafter. The Company recorded share-based compensation of $1.7 million related to the implied benefit compared to common shares issued on August 2, 2012 and share-based compensation for the fair value of the warrants.

Earnings (Loss) per share

Per share amounts have been calculated based on the weighted average number of shares outstanding. The weighted average number of shares outstanding for the year ended December 31, 2013 was 12,128,158 (2012 - 4,677,475).

The weighted average number of dilutive shares outstanding for the year ended December 31, 2013 was 13,022,617 (2012 – nil).

11. SHARE-BASED COMPENSATION

The maximum number of common shares issuable under the Company's stock option plan, restricted bonus award plan and standalone grant of stock appreciation rights, in aggregate, cannot exceed five percent of the outstanding common shares.

Stock options

The Company has a stock option plan that entitles officers, directors and employees to purchase common shares in the Company. Stock options are granted at the market price of the common shares at the date of grant and vest equally over three years with each tranche expiring three years following the vesting date. The number and weighted average exercise price of stock options are as follows:

	Number of stock options	Weighted average exercise price
Granted and outstanding, December 31, 2012	374,993	$ 6.75
Granted	99,165	$ 9.10
Forfeited	(31,666)	$ 7.93
Outstanding, December 31, 2013	**442,492**	**$ 7.19**
Exercisable, December 31, 2013	122,770	$ 6.75

The following table summarizes information about stock options outstanding at December 31, 2013:

Exercise price	Outstanding at December 31, 2013	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at December 31, 2013	Weighted average exercise price
$ 6.75	368,327	3.9	$ 6.75	122,770	$ 6.75
$ 8.25	36,665	4.2	$ 8.25	-	$ -
$10.50	37,500	4.8	$ 10.50	-	$ -
	442,492	4.0	$ 7.19	122,770	$ 6.75

Warrants

	Number of warrants
Issued and outstanding, December 31, 2012	1,416,654
Exercised	(1,600)
Forfeited	(6,399)
Outstanding, December 31, 2013	**1,408,655**
Exercisable, December 31, 2013	563,476

As at December 31, 2013, the weighted average remaining life of the warrants was 3.6 years.

Restricted bonus awards
The Company has a restricted bonus award plan whereby awards may be granted to officers, directors and employees. 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. Awards are adjusted for dividends declared and are to be settled with either cash, common shares or a combination thereof at the Company's discretion. As at December 31, 2013 no awards had been granted pursuant to the restricted bonus award plan, however subsequent to December 31, 2013 the Company granted awards to certain officers, directors and employees (see note 19).

Stock appreciation rights ("SAR's")
On November 1, 2013, the Company granted an aggregate of 102,000 SARS's to certain directors, officers and employees of the Company. The SAR's were standalone grants and were not issued under a formal stock appreciation rights plan. Each SAR entitles the holder to receive one common share for each SAR granted including an adjustment for dividends declared. SAR's granted vest equally over three years from the grant date and expire on November 1, 2016. The fair value of the SAR's was determined based on the value of the Company's common shares of $10.50 per share at the grant date.

Share-based compensation
Share-based compensation cost in connection with the stock options, warrants and SAR's of $1,975,116 was expensed (2012 - $888,651) and $133,848 (2012 - $61,978) was capitalized. For the year ended December 31, 2012 Cardinal also expensed share-based compensation totalling $2,039,060 for the implied benefit on the issuance of flow-through common shares and units and $400,000 for the deferred premium on the flow-through shares.

The fair value of the stock options was estimated using a Black Scholes model and the fair value of the warrants was estimated using a Trinomial model with the following weighted average inputs:

Year ended December 31		**2013**		2012
Risk free interest rate (%)		**1.5%**		1.3%
Expected volatility (%)		**74%**		78%
Forfeiture rate (%)		**5%**		5%
Weighted average fair value of options	**$**	**5.48**	$	4.23
Weighted average fair value of warrants	**$**	**-**	$	2.07

12. DEFERRED TAXES

Reconciliation of effective tax expense (reduction):

Year ended December 31		**2013**		2012
Earnings (loss) before tax	**$**	**34,617**	$	(3,916)
Expected tax rate		**25.02%**		25.01%
Expected deferred taxes		**8,661**		(979)
Non-taxable gains on acquisitions		**(9,755)**		-
Share-based compensation		**461**		832
Flow-through shares, net		**50**		50
Change in statutory tax rates and other		**2**		1
Deferred tax reduction	**$**	**(581)**	$	(96)

Deferred tax assets and liabilities are attributable to the following:

As at December 31	**2013**	2012
Deferred tax liabilities		
PP&E and E&E	**$ (31,096)**	$ (2,777)
Deferred tax assets		
Non-capital losses	**9,048**	1,631
Decommissioning obligation	**10,103**	1,150
Share issue costs	**3,223**	431
Unrealized loss on commodity and power contracts	**150**	-
Deferred tax asset (liability)	**$ (8,572)**	$ 435

The following tables provide a continuity of the deferred tax asset (liability):

	Balance January 1, 2012	Recognized in earnings or loss	Equity	Other	Balance December 31, 2012
PP&E and E&E	$ -	$ (2,577)	$ -	$ (200)	$ (2,777)
Non-capital losses	-	1,631	-	-	1,631
Decommissioning obligation	-	1,150	-	-	1,150
Share issue costs	-	(108)	539	-	431
Total	$ -	$ 96	$ 539	$ (200)	$ 435

	Balance January 1, 2013	Recognized in earnings or loss	Equity	Other[(1)]	**Balance December 31, 2013**
PP&E and E&E	$ (2,777)	$ (15,110)	$ -	$ (13,209)	**$ (31,096)**
Non-capital losses	1,631	7,417	-	-	**9,048**
Decommissioning obligation	1,150	8,953	-	-	**10,103**
Share issue costs	431	(829)	3,621	-	**3,223**
Unrealized loss on power and commodity contracts	-	150	-	-	**150**
Total	$ 435	$ 581	$ 3,621	$ (13,209)	**$ (8,572)**

1) Includes the deferred income tax liability on acquisitions (note 5)

The Company has accumulated non-capital losses for income tax purposes of approximately $36.2 million (2012 - $6.5 million) that can be used to offset income in future periods and expire in 2032 and 2033.

13. FINANCIAL INSTRUMENTS

Cardinal's financial assets and liabilities consist of trade and other receivables, trade and other payables, risk management assets and liabilities and bank debt. Risk management assets and liabilities arise from the use of derivative financial instruments and are transacted in active markets.

The Company classifies the fair value of risk management assets and liabilities 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 earnings or 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. The Company, however, 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 December 31, 2013, the only asset or liability measured at fair value was risk management, which was classified as Level 2. There were no assets or liabilities measured at fair value as at December 31, 2012.

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 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 lenders is indicative of current credit spreads.

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 as well as power on electricity consumption. Commodity prices for petroleum 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 December 31, 2013 there were no physical sale contracts and Company had the following crude oil financial derivative contracts outstanding:

Volume	Remaining term	Index	Swap Price	Option Traded		Fair Value
100 bbls/d	January 1, 2014 – January 31, 2014	CAD WTI	$95.00 - $100.00	Collar	$	(15)
200 bbls/d	January 1, 2014 – March 31, 2014	US WTI	$95.25	Swap	$	(61)
100 bbls/d	January 1, 2014 – May 31, 2014	CAD WTI	$95.50	Swap	$	(135)
200 bbls/d	January 1, 2014 – August 31, 2014	CAD WTI	$99.00	Swap	$	(218)
100 bbls/d	January 1, 2014 - December 31, 2014	CAD WTI	$95.50	Swap	$	(238)
500 bbls/d	January 1, 2014 - December 31, 2014	CAD WTI	$102.65	Swap	$	89
Total					**$**	**(578)**

At December 31, 2013 Cardinal had the following power financial derivative contracts outstanding:

Quantity	Remaining term	Swap Price	Option Traded		Fair Value
0.55 MW/hr	January 1, 2014 – December 31, 2014	$55.18	Swap	$	(11)
0.55 MW/hr	January 1, 2015 – December 31, 2015	$50.26	Swap	$	(2)
0.30 MW/hr	January 1, 2014 - December 31, 2014	$57.26	Swap	$	(11)
Total				**$**	**(24)**

Operating costs for the year ended December 31, 2013 include a realized loss on power contracts of $1,408 (2012 – nil).

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 December 31, 2013 commodity prices, a $1 per barrel change in the price of crude oil would have changed income before tax by $304,000 (2012 – nil).

Currency risk

Prices for oil are determined in global markets and are generally denominated in United States dollars. Natural gas prices obtained by the Company are influenced by North American supply and demand, and, recently, by imports of liquefied natural gas. The exchange rate effect is not quantified but generally an increase in the value of the $CDN as compared to the $US will reduce the prices received by the Company for its petroleum and natural gas revenue.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Cardinal's receivables from petroleum and natural gas marketers, who comprised approximately 45% of the balance at December 31, 2013, and joint venture partners. As at December 31, 2013, the Company's trade and other receivables balance was $6,077,139 and $5,713 was outstanding for greater than 90 days.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production and Cardinal has not experienced any collection issues with its petroleum and natural gas marketers. The Company does not have an allowance for doubtful accounts. One of Cardinal's marketers comprised 70% of the revenue received for the year ended December 31, 2013.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The carrying amount of cash and cash equivalents, when outstanding, and trade receivables represent the maximum credit exposure.

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 and bank debt. Trade and other payables are considered due within one year. Bank debt is considered due between one and two years (see note 8). 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.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on outstanding bank debt fluctuates with the interest rates posted by the lender. Had the interest rate been 25 basis points higher (or lower) throughout the year ended December 31, 2013, the net loss before tax would have been affected by approximately $60,000 (2012 - $6,800) based on the average bank debt outstanding.

14. CAPITAL MANAGEMENT

The Company's capital structure includes shareholders' equity, working capital (excluding the fair value of commodity contracts), bank debt and the unused portion of the credit facilities.

As at December 31		**2013**		2012
Shareholders' equity	**$**	**336,863**	$	61,309
Working capital (deficiency)	**$**	**118**	$	(2,103)
Bank debt	**$**	**9,318**	$	11,267
Unused portion of the credit facilities (1)	**$**	**114,917**	$	18,733

(1) Reduced by letters of credit totalling $765,400 (2012 – nil)

Cardinal manages its capital to provide a flexible structure to support capital programs, production maintenance 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.

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

In order 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 common equity if available on favorable terms. The Company prepares an annual capital expenditure budget, which is monitored quarterly and updated as necessary.

Management's strategy is to maintain a net debt to cash flow from operations ratio that is considered reasonable and prudent in the circumstances. Cardinal monitors this ratio and endeavors to maintain it at or below 1 to 1 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, as at December 31, 2013, the Company's ratio of net debt to cash flow from operations was 1.9 to 1 (2012 – 3.1 to 1).

Three months ended December 31		**2013**		2012
Bank debt	**$**	**9,318**	$	11,267
Working capital deficiency (surplus)		**(118)**		2,103
Net debt	**$**	**9,200**	$	13,370
Cash provided from operating activities	**$**	**584**	$	1,041
Decommissioning obligation expenditures		**200**		-
Change in non-cash working capital		**427**		27
Cash flow from operations	**$**	**1,211**	$	1,068
Cash flow from operations, annualized	**$**	**4,844**	$	4,272
Net debt to cash flow from operations		**1.9**		3.1

The ratio was higher than Cardinal's target due to the timing of the acquisition that closed on December 17, 2013. The only change in the Company's approach to capital management during the year ended December 31, 2013 was the change in the targeted cash flow from operations ratio from at or below 2 to 1 to at or below 1 to 1. Management considered this change to be appropriate following the Company's successful completion of its initial public offering which resulted in greater access to capital.

15. COMMITMENTS

The Company has an operating lease commitment for its office premises expiring December 31, 2014 of approximately $1.0 million per annum.

The Company has operating lease commitments for its field vehicles ranging from 24 to 30 months of approximately $480,000 per annum.

On March 31, 2013 Cardinal issued 113,333 flow-through common shares pursuant to a private placement for gross proceeds of $1,020,000. The Company is committed to incur the qualifying expenditures prior to December 31, 2014.

16. FINANCE

Year ended December 31		**2013**		2012
Interest income	**$**	**-**	$	(11)
Finance expenses				
Interest		**961**		115
Accretion of decommissioning obligation		**667**		64
Other finance expenses		**178**		99
		1,806		278
Finance, net	**$**	**1,806**	$	267

17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

Year ended December 31		**2013**		2012
Source (use) of cash				
Trade and other receivables	**$**	**(3,841)**	$	(2,236)
Deposits and prepaid expenses		**(1,174)**		(217)
Trade and other payables		**2,794**		4,556
	$	**(2,221)**	$	2,103
Allocated to operating activities	**$**	**(639)**	$	(128)
Allocated to investing activities	**$**	**(2,266)**	$	2,231
Allocated to financing activities	**$**	**684**	$	-

Interest paid and received:

Year ended December 31		**2013**		2012
Interest paid	**$**	**961**	$	115
Interest received	**$**	**-**	$	11

18. PERSONNEL EXPENSES

Cardinal's executive officers include the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Vice President Exploration, Vice President Corporate Development and Vice President Land. Key management personnel compensation, including the Company's directors, consists of the following:

Year ended December 31		**2013**		2012
Salary and short-term benefits	**$**	**1,386**	$	125
Share-based payments (1)		**1,286**		813
	$	**2,672**	$	938

(1) Represents the amortization of share-based based compensation associated with stock options, warrants and SAR's granted to executive officers and directors as recorded in the financial statements.

19. SUBSEQUENT EVENTS

On **January 7, 2014**, Cardinal granted 981,121 notional share awards to certain officers, directors and employees pursuant to the Company's restricted bonus award plan. On **February 28, 2014**, Cardinal granted 36,903 notional share awards to new employees.

On **January 28, 2014**, Cardinal acquired petroleum and natural gas properties in its core area at Bantry, Alberta. Total consideration provided was $27.0 million in cash, before closing adjustments, with an associated decommissioning obligation of $603,582.

On **February 10, 2014**, Cardinal issued 2,187,500 common shares pursuant to a private placement at $12.80 per common share for gross proceeds of $28 million.

Subsequent to December 31, 2013 Cardinal entered into the following financial derivative contracts to manage commodity price risk and power costs.

Commodity contracts

Volume	Term	Index	Swap Price	Option Traded
300 bbls/day	February 1, 2014 – January 31, 2015	CAD WTI	$98.25	Swap
500 bbls/day	February 1, 2014 – June 30, 2014	CAD WTI	$105.35	Swap
300 bbls/day	March 1, 2014 – December 31, 2014	CAD WTI	$104.00	Swap
500 bbls/day	March 1, 2014 – February 28, 2015	CAD WTI	$103.50	Swap
500 bbls/day	March 1, 2014 – June 30, 2015	CAD WTI	$103.00	Swap
500 gj/day	March 1, 2014 – March 31, 2015	CAD AECO	$4.43	Swap
500 gj/day	March 1, 2014 – March 31, 2015	CAD AECO	$4.41	Swap

Power contracts

Volume	Term	Swap Price	Option Traded
1.5 MW/hour	February 1, 2014 – December 31, 2014	$53.42	Swap
1.0 MW/hour	January 1, 2015 to December 31, 2015	$51.00	Swap

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

For the period between January 1, 2014 and March 27, 2014, $6.0 million of dividends (or $0.16251 per common share) were declared, as follows:

On **January 15, 2014**, the Company confirmed that a dividend of $0.05417 per common share will be paid on February 17, 2014 to shareholders of record on January 31, 2014. The total amount declared was $1,912,254, of which $1,722,913 was paid in cash and the remaining balance participated in the Company's DRIP and SDP programs.

On **February 10, 2014**, the Company confirmed that a dividend of $0.05417 per common share will be paid on March 17, 2014 to shareholders of record on February 28, 2014. The total amount declared was $2,039,163, of which $1,720,567 was paid in cash and the remaining balance participated in the Company's DRIP and SDP programs.

On **March 12, 2014**, the Company confirmed that a dividend of $0.05417 per common share will be paid on April 15, 2014 to shareholders of record on March 31, 2014. The total amount declared was $2,040,904.