



CARDINAL
ENERGY LTD.

FINANCIAL STATEMENTS
2014

MANAGEMENT'S REPORT

Management is responsible for the preparation of the accompanying consolidated financial statements. The consolidated 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 consolidated financial statements are presented fairly in all material respects.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP was appointed by the Company's shareholders to audit the consolidated financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserves Committee in connection with the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The Board of Directors has approved the information contained in the consolidated 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

March 23, 2015



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cardinal Energy Ltd.

We have audited the accompanying consolidated financial statements of Cardinal Energy Ltd., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, the consolidated statements of earnings and comprehensive earnings, 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 Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cardinal Energy Ltd. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 23, 2015
Calgary, Canada

CONSOLIDATED BALANCE SHEETS

As at (thousands)	Note	December 31, 2014	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		\$ 178	\$ -
Trade and other receivables		20,334	6,077
Deposits and prepaid expenses		1,147	1,391
Fair value of financial instruments	14	40,590	-
		62,249	7,468
Non-current assets			
Exploration and evaluation assets	6	7,160	4,921
Property, plant and equipment	7	843,844	390,785
		851,004	395,706
Total Assets		\$ 913,253	\$ 403,174
LIABILITIES			
Current liabilities			
Trade and other payables		\$ 24,012	\$ 7,350
Dividends payable	11	3,977	-
Decommissioning obligation	9	1,788	517
Fair value of financial instruments	14	-	602
		29,777	8,469
Non-current liabilities			
Deferred flow-through share premium		-	85
Bank debt	8	47,735	9,318
Decommissioning obligation	9	77,993	39,867
Deferred taxes	13	9,820	8,572
		135,548	57,842
Total Liabilities		165,325	66,311
SHAREHOLDERS' EQUITY			
Share capital	10	686,288	302,562
Warrants	10	1,308	1,756
Contributed surplus		7,736	1,167
Retained earnings		52,596	31,378
Total Shareholders' Equity		747,928	336,863
Total Liabilities and Shareholders' Equity		\$ 913,253	\$ 403,174
Commitments & contractual obligations	16		
Subsequent events	20		

The accompanying notes are an integral part of these consolidated 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



CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

For the years ended <i>(thousands except per share amounts)</i>	<i>Note</i>	December 31, 2014	December 31, 2013
Revenue			
Petroleum and natural gas revenue		\$ 206,685	\$ 35,750
Royalties		(27,398)	(4,369)
Realized loss on commodity contracts	14	(320)	(1,113)
Unrealized gain (loss) on commodity contracts	14	41,668	(578)
		220,635	29,690
Expenses			
Operating		\$ 68,900	14,004
Unrealized loss on power contracts	14	476	24
General and administrative		11,109	5,108
Share-based compensation	12	7,199	1,841
Finance	17	5,450	1,806
Transaction costs		2,031	203
Depletion and depreciation	7	61,402	11,078
Gain on acquisitions	5	(6,327)	(38,991)
		150,240	(4,927)
Earnings before deferred tax		70,395	34,617
Deferred tax expense (reduction)	13	\$ 16,589	(581)
		53,806	35,198
Earnings and comprehensive earnings for the year			
Earnings per share	10		
Basic		\$ 1.23	\$ 2.90
Diluted		\$ 1.20	\$ 2.70

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



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(thousands except number of common shares)</i>	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Retained Earnings (Deficit)	Total Shareholders' Equity
		<i>(note 10)</i>	<i>(note 10)</i>	<i>(note 12)</i>		
January 1, 2013	11,091,671	\$ 64,179	\$ 819	\$ 131	\$ (3,820)	\$ 61,309
Issue of common shares	23,571,428	247,500	-	-	-	247,500
Issue of flow-through common shares	113,333	935	-	-	-	935
Common shares issued in connection with acquisitions	66,667	550	-	-	-	550
Common shares issued for undeveloped land	30,833	254	-	-	-	254
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
December 31, 2013	34,875,532	\$ 302,562	\$ 1,756	\$ 1,167	\$ 31,378	\$ 336,863
January 1, 2014	34,875,532	\$ 302,562	\$ 1,756	\$ 1,167	\$ 31,378	\$ 336,863
Issue of common shares	20,987,500	388,300	-	-	-	388,300
Exercise of options and warrants	713,010	4,445	(935)	(694)	-	2,816
Dividends (\$0.71336 per share)	-	-	-	-	(32,588)	(32,588)
Issued pursuant to SDP and DRIP ⁽¹⁾	212,763	3,412	-	-	-	3,412
Issued pursuant to SARs ⁽²⁾	30,496	320	-	(320)	-	-
Share based compensation	-	-	487	7,583	-	8,070
Share issue costs, net of deferred tax of \$4,250	-	(12,751)	-	-	-	(12,751)
Earnings for the year	-	-	-	-	53,806	53,806
December 31, 2014	56,819,301	\$ 686,288	\$ 1,308	\$ 7,736	\$ 52,596	\$ 747,928

(1) Stock Dividend Program ("SDP") and Dividend Reinvestment Plan ("DRIP")

(2) Stock Appreciation Rights ("SARs")

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



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended (thousands)	Note	December 31, 2014	December 31, 2013
Cash provided by (used in)			
Operating activities			
Earnings for the year		\$ 53,806	\$ 35,198
Adjustments for			
Gain on acquisitions	5	(6,327)	(38,991)
Share-based compensation	12	7,199	1,841
Depletion and depreciation	7	61,402	11,078
Unrealized loss (gain) on commodity contracts	14	(41,668)	578
Unrealized loss on power contracts	14	476	24
Deferred tax expense (reduction)	13	16,589	(581)
Accretion	9	3,702	667
Decommissioning obligation settled	9	(997)	(262)
Change in non-cash working capital	18	(2,019)	(639)
		92,163	8,913
Investing activities			
Exploration and evaluation expenditures		(2,239)	(2,653)
Property, plant and equipment expenditures		(38,790)	(6,882)
Property acquisitions	5	(433,057)	(229,888)
Corporate acquisition	5	(7,306)	-
Proceeds of disposition	5	2,100	-
Change in non-cash working capital	18	4,604	(2,266)
		(474,688)	(241,689)
Financing activities			
Issue of common shares	10	388,300	247,500
Issue of flow-through common shares	10	-	1,020
Share issue costs	10	(17,001)	(14,484)
Options and warrants exercised	10	2,816	5
Dividends	11	(29,176)	-
Increase (decrease) in bank debt		38,417	(1,949)
Repayment of bank debt assumed in acquisition	5	(3,815)	-
Change in non-cash working capital	18	3,162	684
		382,703	232,776
Change in cash and cash equivalents		178	-
Cash and cash equivalents, beginning of year		-	-
Cash and cash equivalents, end of year		\$ 178	\$ -

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013
(Thousands of dollars, except per share amounts or unless otherwise stated)

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. The consolidated financial statements are comprised of the Company and its wholly owned subsidiary. Cardinal’s principal place of business is located at 600, 400 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 4H2.

2 BASIS OF PREPARATION

These consolidated financial statements (“financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. A summary of the significant accounting policies and method of computation is presented in note 3.

The financial statements have been prepared on the historical cost basis. The methods used to measure fair values are discussed in note 4.

The financial statements are presented in Canadian dollars, which is the Company’s and its subsidiary’s functional currency.

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 share-based compensation are presented by their nature in the notes to the financial statements.

The financial statements were authorized for issue by the Board of Directors on March 23, 2015.

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. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.



The cost of an acquisition is measured as the fair value of the assets acquired, 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.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions with subsidiaries, are eliminated in preparing the financial statements.

(b) Jointly owned assets

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

(c) Exploration and evaluation assets "E&E" and Property, plant and equipment "PP&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, trade and other payables and dividends payable. 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, trade and other payables and dividends payable 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, power costs, 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.

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) 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, 2014 and 2013. 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.

(o) Adoption of new accounting policies

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

(i) Financial Instruments (Presentation)

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

(ii) Levies

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

(p) New standards and interpretations not yet adopted

(i) Revenue Recognition

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



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

(ii) Financial Instruments

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

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

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

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, trade and other payables and dividends payable

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables and dividends payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2014 and 2013, 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, 2014 outlined below had closed on January 1, 2014, Cardinal's pro forma petroleum and natural gas revenue and operating income (petroleum and natural gas revenue less royalties and operating expenses) for the year ended December 31, 2014 would have been as follows:

	As stated	Acquisition prior to closing			Pro Forma
		Bantry	Wainwright #2	Wainwright #3	
Petroleum and natural gas revenue	206,685	663	37,859	79,232	324,439
Operating income	110,387	538	22,269	35,510	168,704

Pro forma information is not necessarily representative of future revenue and operations.

Petroleum and natural gas revenue and operating income for the year ended December 31, 2014 attributable to these acquisitions were as follows:

	Bantry	Wainwright #2	Wainwright #3	Total
Petroleum and natural gas revenue	5,331	19,604	13,948	38,883
Operating income	3,979	11,632	6,097	21,708

On, **September 30, 2014**, Cardinal acquired additional petroleum and natural gas properties to expand its core operating area at Wainwright, Alberta (the Wainwright #3 acquisition). Total consideration provided was \$241 million in cash before closing adjustments with an associated decommissioning obligation of \$17.4 million.



On **August 29, 2014**, Cardinal acquired all the issued and outstanding shares of a private oil and gas company ("PrivateCo"), for total cash consideration of \$7.3 million and assumed debt of \$3.8 million. In connection with the acquisition \$1.2 million of the initial cash consideration was paid to an Escrow Agent and subsequent to December 31, 2014 \$0.3 million was repaid. The Company recorded a \$6.3 million gain on this acquisition due to the deferred tax asset recognized which related to temporary differences in the carrying amount of the acquired properties and their tax bases.

Net assets acquired

Working capital deficit	(879)
Petroleum and natural gas properties	8,387
Bank debt	(3,815)
Decommissioning liability	(1,236)
Deferred tax asset	11,176
Gain on acquisition	(6,327)
	<u>7,306</u>

Consideration

Cash consideration	7,600
Less: receivable from Escrow Agent	(294)
	<u>7,306</u>

On **August 22, 2014**, Cardinal acquired petroleum and natural gas properties to expand its core area at Wainwright, Alberta (the Wainwright #2 acquisition). Total consideration provided was \$170 million in cash before closing adjustments with an associated decommissioning obligation of \$10.3 million.

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 \$0.2 million.

During 2014 Cardinal acquired several minor working interests that complemented its existing assets in Alberta and completed one minor disposition of non-core properties for proceeds of \$2.1 million. Total consideration for these acquisitions was \$5.1 million in cash with an associated decommissioning obligation of \$0.09 million.

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

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. Total consideration provided was \$4.6 million, before closing adjustments, consisting of 66,667 common shares at \$8.25 per share and cash of \$4.1 million with an associated decommissioning obligation of \$1.5 million.



6 EXPLORATION AND EVALUATION ASSETS

	Exploration & Evaluation Assets
At December 31, 2012	\$ 2,014
Additions	2,907
At December 31, 2013	4,921
Additions	2,239
At December 31, 2014	\$ 7,160

7 PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Corporate assets	Total
Cost			
At January 1, 2013	\$ 78,293	\$ 76	\$ 78,369
Additions	8,270	412	8,682
Acquisitions	316,150	-	316,150
At December 31, 2013	402,713	488	403,201
Additions	44,812	2,342	47,154
Acquisitions, net	467,307	-	467,307
At December 31, 2014	\$ 914,832	\$ 2,830	\$ 917,662
Accumulated depletion and depreciation			
At January 1, 2013	\$ (1,323)	\$ (15)	\$ (1,338)
Depletion and depreciation	(10,966)	(112)	(11,078)
At December 31, 2013	(12,289)	(127)	(12,416)
Depletion and depreciation	(61,235)	(167)	(61,402)
At December 31, 2014	\$ (73,524)	\$ (294)	\$ (73,818)
Net book value			
At December 31, 2013	\$ 390,424	\$ 361	\$ 390,785
At December 31, 2014	\$ 841,308	\$ 2,536	\$ 843,844

The calculation of depletion for the year ended December 31, 2014 includes estimated future development costs of \$44.7 million (2013 - \$38.3 million) associated with the development of the Company's proved plus probable reserves. For the year ended December 31, 2014, Cardinal capitalized \$0.8 million of general and administrative (2013 - \$0.3 million) and \$0.9 million (2013 - \$0.1 million) of share-based compensation.

At December 31, 2014 a significant decrease in crude oil prices indicated a potential impairment. Cardinal tested its CGUs using the following prices and determined there was no impairment to be recognized.

	2015	2016	2017	2018	2019
Crude Oil - WTI (US \$/bbl)	\$ 65.00	\$ 80.00	\$ 90.00	\$ 91.35	\$ 92.72
Crude Oil - WCS (Cdn \$/bbl)	\$ 60.50	\$ 75.13	\$ 84.52	\$ 85.79	\$ 87.07
Natural Gas - AECO Spot (Cdn \$/mcf)	\$ 3.32	\$ 3.71	\$ 3.90	\$ 4.47	\$ 5.05
Exchange Rate - (US/CAD)	0.85	0.87	0.87	0.87	0.87



8 BANK DEBT

At December 31, 2014 the Company's credit facilities consisted of a \$105 million syndicated revolving term credit facility and a \$20 million non-syndicated revolving operating term credit facility (the "Facilities"). The Facilities are available on a revolving basis until May 29, 2015 and may be extended for a further 364 day period, subject to approval by the syndicate. 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 29, 2016. The syndicate amended the Facilities whereby Cardinal may request an increase in the Facilities up to the borrowing base.

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. In connection with their most recent review of the Facilities, the syndicate determined the Company's borrowing base to be \$220 million. 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 banks' 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 (plus the undrawn amount under the Facilities) divided by current liabilities (less any current portion of bank debt) and excluding the fair value of commodity contracts. Cardinal was in compliance with the terms of the Facilities at December 31, 2014. For the year ended December 31, 2014 the effective interest rate on the Company's bank debt was 3.8% (2013 – 4.0%).

9 DECOMMISSIONING OBLIGATION

	December 31, 2014	December 31, 2013
Balance, beginning of year	\$ 40,384	\$ 4,601
Liabilities incurred	106	200
Liabilities acquired	29,260	33,712
Liabilities divested	(61)	-
Change in estimates	7,387	1,466
Decommissioning expenditures	(997)	(262)
Accretion	3,702	667
Balance, end of year	79,781	40,384
Less current portion	(1,788)	(517)
	\$ 77,993	\$ 39,867

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, 2014, the total estimated amount to settle Cardinal's decommissioning obligation was \$245.9 million (2013 - \$114.8 million) on an uninflated and undiscounted basis and \$431.8 million (2013 - \$192.9 million) on an inflated and undiscounted basis. The decommissioning obligation was determined by applying an inflation factor of 2% (2013 - 2%) and discounting the inflated amount using Cardinal's credit-adjusted rate of 7.0% (2013 – 7.5%) over the expected useful life of the underlying assets of 20 to 35 years. The change in estimates consists of a change in the credit adjusted rate of \$6.8 million (2013 - \$1.5 million) and a change in expected useful life \$0.6 million (2013 - nil).



10 SHARE CAPITAL AND WARRANTS

At December 31, 2014, 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.

	2014		2013	
	Number of shares	Amount	Number of shares	Amount
Common shares, beginning of year	34,875,532	\$ 315,041	11,091,671	\$ 65,795
Issue of common shares	20,987,500	388,300	23,571,428	247,500
Issued pursuant to SDP and DRIP	212,763	3,412	-	-
Issued pursuant to SARs	30,496	320	-	-
Flow-through common shares				
issued for cash	-	-	113,333	935
Issued for acquisitions	-	-	66,667	550
Issued for E&E	-	-	30,833	254
Exercise of options and warrants	713,010	4,445	1,600	7
Common shares, end of year	56,819,301	\$ 711,518	34,875,532	\$ 315,041
Cummulative share issue costs, net of tax	-	(25,230)	-	(12,479)
Total shareholders' capital, end of year	56,819,301	\$ 686,288	34,875,532	\$ 302,562

Warrants

In 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. The warrants vest equally over five years, and are only exercisable if the market value of Cardinal's common shares is in excess of \$6.00 per common share, with the first vesting date on December 31, 2012 and on December 31 of each year thereafter. The warrants are exercisable at \$3.00 per warrant subject to an adjustment for dividends declared which reduced the exercise price at December 31, 2014 to \$2.87 and increased the number of warrants then outstanding (note 12).

Earnings per share

	2014	2013
Net earnings for the year	\$ 53,806	\$ 35,198
Weighted average number of common shares		
- Basic	43,603,896	12,128,158
- Diluted	44,906,020	13,022,617

11 DIVIDENDS

The Company has adopted a dividend reinvestment plan ("DRIP") and a stock dividend program ("SDP") which enable shareholders to receive dividends in common shares rather than cash.

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



12 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 following tables summarize information about stock options outstanding at December 31, 2014:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2012	374,993	\$ 6.75
Granted	99,165	\$ 9.10
Forfeited	(31,666)	\$ 7.93
Balance at December 31, 2013	442,492	\$ 7.19
Exercised	(176,656)	\$ 6.85
Forfeited	(40,000)	\$ 6.75
Balance at December 31, 2014	225,836	\$ 7.54

Options Outstanding				Options Exercisable			
Exercise price per share	Number of options	Weighted average exercise price	Weighted average remaining life (years)	Number of options	Weighted average exercise price	Weighted average remaining life (years)	
\$ 6.75	163,891	\$ 6.75	3.4	61,107	\$ 6.75	2.8	
\$ 8.25	24,445	\$ 8.25	3.7	-	\$ -	-	
\$ 10.50	37,500	\$ 10.50	3.8	12,501	\$ 10.50	2.8	
	225,836	\$ 7.54	3.5	73,608	\$ 7.39	2.8	

Warrants

	Number of Warrants
Balance at December 31, 2012	1,416,654
Exercised	(1,600)
Forfeited	(6,399)
Balance at December 31, 2013	1,408,655
Exercised	(535,140)
Forfeited	(74,998)
Adjustment for dividends declared	36,173
Balance at December 31, 2014	834,690

At December 31, 2014, 297,981 warrants were exercisable at a price of \$2.87 per warrant and the weighted average remaining life of the warrants was 2.6 years.



Restricted Bonus Awards (“RAs”)

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.

	Number of RAs
Balance at December 31, 2012 and 2013	-
Granted	1,089,112
Forfeited	(123,519)
Balance at December 31, 2014	965,593

The fair value of the RAs 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 \$12.02.

Stock Appreciation Rights (“SARs”)

On November 1, 2013, the Company granted an aggregate of 102,000 SARs to certain directors, officers and employees of the Company. The SARs 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. SARs granted vest equally over three years from the grant date. The fair value of the SARs was determined based on the value of the Company’s common shares of \$10.50 per share at the grant date. During the year ended December 31, 2014, 10,500 of SARs were forfeited and 30,496 (excluding the adjustment for dividends declared) were settled for a total of 61,004 SARs outstanding at December 31, 2014.

Share-based Compensation

Share-based compensation for the year ended December 31, 2014 of \$7.2 million was expensed (2013 - \$1.8 million) and \$0.9 million (2013 - \$0.1 million) was capitalized.

13 DEFERRED TAXES

Reconciliation of effective tax expense (reduction):

Years ended December 31	2014	2013
Earnings before tax	\$ 70,395	\$ 34,617
Expected tax rate	25.00%	25.02%
Expected deferred taxes	17,599	8,661
Non-taxable gains on acquisitions	(1,582)	(9,755)
Share-based compensation	390	461
Flow-through shares, net	170	50
Change in statutory tax rates and other	12	2
Deferred tax expense (reduction)	\$ 16,589	\$ (581)



Deferred tax assets and liabilities are attributable to the following:

As at December 31	2014	2013
Deferred tax liabilities		
PP&E and E&E	\$ (44,612)	\$ (31,096)
Unrealized gain on commodity and power contracts	(10,149)	-
Deferred tax assets		
Non-capital losses	17,630	9,048
Decommissioning obligation	19,948	10,103
Share issue costs	5,953	3,223
Deductible restricted bonus awards	1,410	-
Unrealized loss on commodity and power contracts	-	150
Deferred tax liability	\$ (9,820)	\$ (8,572)

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

	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)

	Balance January 1, 2014	Recognized in earnings or loss	Equity	Other ⁽¹⁾	Balance December 31, 2014
PP&E and E&E	\$ (31,096)	\$ (15,601)	\$ -	\$ 2,085	\$ (44,612)
Non-capital losses	9,048	49	-	8,533	17,630
Decommissioning obligation	10,103	9,536	-	309	19,948
Share issue costs	3,223	(1,684)	4,250	164	5,953
Deductible restricted bonus awards	-	1,410	-	-	1,410
Unrealized loss (gain) on power and commodity contracts	150	(10,299)	-	-	(10,149)
Total	\$ (8,572)	\$ (16,589)	\$ 4,250	\$ 11,091	\$ (9,820)

1) Includes the deferred tax asset on the acquisition of PrivateCo (note5), the deferred income tax liability on acquisitions in 2013 (note 5) and the premium reversal on flow-through shares.

The Company has accumulated non-capital losses for income tax purposes of approximately \$70.5 million (2013 - \$36.2 million) that can be used to offset income in future periods and expire from 2030 to 2034.



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, dividends payable and bank debt. Risk management assets and liabilities arise from the use of derivative financial instruments.

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, 2014 and 2013, the only asset or liability measured at fair value was risk management, which was 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, dividends payable 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, trade and other payables and dividends payable 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.

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, 2014 there were no physical sale contracts and the Company had the following commodity and power financial derivative contracts outstanding:

Remaining Term	Average Volume	Option Traded	Index	Average Strike Price	Fair Value
January 1, 2015 - January 31, 2015	300 bbl/d	Swap	CAD WTI	\$ 98.25	336
January 1, 2015 - February 28, 2015	500 bbl/d	Swap	CAD WTI	\$ 103.50	1,211
January 1, 2015 - June 30, 2015	500 bbl/d	Swap	CAD WTI	\$ 103.00	3,528
January 1, 2015 - December 31, 2015	700 bbl/d	Swap	CAD WTI	\$ 100.19	8,620
January 1, 2015 - June 30, 2015	500 bbl/d	Collar - put	CAD WTI	\$ 95.00	2,830
		Collar - call	CAD WTI	\$ 106.28	(10)
January 1, 2015 - December 31, 2015	1,750 bbl/d	Collar - put	CAD WTI	\$ 95.36	24,495
		Collar - call	CAD WTI	\$ 105.61	(445)
January 1, 2015 - March 31, 2015	1,000 gj/d	Swap	CAD AECO	\$ 4.42	161
January 1, 2015 - December 31, 2015	1,000 gj/d	Swap	CAD AECO	\$ 3.65	364
					41,090

Remaining Term	Quantity	Option Traded	Average Strike Price	Fair Value
January 1, 2015 - December 31, 2015	6.55 MW/hr	Swap	\$ 51.67	(500)

Operating costs for the year ended December 31, 2014 include a realized loss on power contracts of \$229 (2013 – \$1).

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, 2014 commodity prices, a \$1 per barrel change in the price of crude oil would have changed earnings before tax by \$1,297 (2013 – \$304) and a \$0.10 per gigajoule change in the price of natural gas would have changed earnings before tax by \$46 (2013 – 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 76% of the balance at December 31, 2014 (2013 – 45%), and joint venture partners. As at December 31, 2014, the Company's trade and other receivables balance was \$20.3 million and \$0.8 million 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 33% of the revenue received for the year ended December 31, 2014 (2013 – 70%).



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 and other 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, 2014, net earnings before tax would have been affected by approximately \$71 (2013 - \$60) based on the average bank debt outstanding.

15 CAPITAL MANAGEMENT

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

	December 31, 2014	December 31, 2013
Shareholders' equity	747,928	336,863
Bank debt	47,735	9,318
Undrawn component of bank credit facility ⁽¹⁾	77,265	114,917
Working capital surplus (deficiency)	(6,330)	118

(1) Reduced in 2013 by letters of credit totalling \$765

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

The key measures that the Company utilizes in evaluating its capital structure are the credit available from the syndicate in relation to the Company's budgeted capital expenditures program and the ratio of net debt to cash flow from operations. This ratio is calculated as net debt, defined as bank debt plus or minus working capital (excluding the fair value of commodity contracts and the current portion of the decommissioning obligation), divided by cash flow from operating activities before changes in non-cash working capital and decommissioning obligation expenditures for the most recent quarter, annualized. 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, 2014, the Company's ratio of net debt to cash flow from operations was 0.5 to 1 (2013 – 1.9 to 1).

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

At December 31, 2013 the ratio was higher than Cardinal's target due to the timing of the acquisition that closed on December 17, 2013. There were no changes in the Company's approach to capital management during the year ended December 31, 2014.

16 COMMITMENTS & CONTRACTUAL OBLIGATIONS

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

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

17 FINANCE

Years ended December 31	2014	2013
Interest income	\$ (86)	\$ -
Finance expenses		
Interest	880	961
Accretion of decommissioning obligation	3,702	667
Other finance expenses	954	178
Finance expense	\$ 5,450	\$ 1,806



18 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

Years ended December 31	2014	2013
Source (use) of cash		
Trade and other receivables	\$ (13,616)	\$ (3,841)
Deposits and prepaid expenses	244	(1,174)
Trade and other payables	15,142	2,794
Dividends payable	3,977	-
	5,747	(2,221)
Allocated to operating activities	\$ (2,019)	\$ (639)
Allocated to investing activities	4,604	(2,266)
Allocated to financing activities	3,162	684
	\$ 5,747	\$ (2,221)
Interest paid	\$ 880	\$ 961
Interest received	\$ 86	\$ -

19 PERSONNEL EXPENSES

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

Years ended December 31	2014	2013
Salary, bonus and short-term benefits	\$ 2,387	\$ 1,234
Share-based payments ⁽¹⁾	5,047	1,162
	\$ 7,434	\$ 2,396

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

20 SUBSEQUENT EVENTS

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

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

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



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

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

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

Subsequent to December 31, 2014, Cardinal entered into the following derivative commodity contracts:

<u>Term</u>	<u>Volume</u>	<u>Option Traded</u>	<u>Index</u>	<u>Strike Price</u>
January 1, 2016 - December 31, 2016	500 bbl/d	Swap ⁽¹⁾	CAD WTI	\$ 75.25
July 1, 2015 - June 30, 2016	500 bbl/d	Collar - put	CAD WTI	\$ 70.00
		Collar - call	CAD WTI	\$ 78.00

(1) Cardinal granted an option to the counterparty to put Cardinal into swap on December 31, 2016 for 500 bbl/d at \$80 CAD (indexed to WTI) for January 1, 2017 to December 31, 2017.

