



# CARDINAL ENERGY LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ADVISORIES

The following management's discussion and analysis ("MD&A") is a review of operations, financial position and outlook for Cardinal Energy Ltd. ("Cardinal" or the "Company") for the year ended December 31, 2013 and should be read in conjunction with the audited financial statements of Cardinal for the year ended December 31, 2013. Cardinal was incorporated on December 21, 2010 and commenced activity on May 30, 2012. This MD&A is dated March 27, 2014.

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

### Non-GAAP Financial Measures

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

The terms "cash flow from operations", "cash flow from operations per share", "netback" "netback per boe", "net debt", "free cash flow", "simple payout ratio" and "total payout ratio" in this MD&A are not recognized measures under GAAP. Management believes that in addition to net earnings and cash flow from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage.

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

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Cash flow from operating activities	584	3,025	1,041	8,913	686
Decommissioning expenditures	200	-	-	262	-
Change in non-cash working capital	427	56	27	639	128
Cash flow from operations	1,211	3,081	1,068	9,814	814

"Cash flow from operations per share" is calculated using the same weighted average number of shares outstanding used in calculating earnings per share. Users are cautioned however, that these measures should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP as an indication of Cardinal's performance.

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

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

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

#### **Forward-Looking Statements**

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

#### **51-101 Advisory**

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

#### **STRATEGY AND HIGHLIGHTS TO DATE**

Cardinal is an oil focused Canadian company built to provide investors with a stable platform for growth plus a sustainable dividend. Management continues to focus on a disciplined growth plan, both financially and operationally, while providing a dividend to Shareholders, through the ownership of operated, low decline, high netback crude oil production in all season access areas. The strategy is based on four main principles:

- achieve prudent growth through balanced capital allocation between acquisitions and organic growth opportunities in order to maintain a low production decline portfolio of assets;
- maintain a flat year over year base production profile with an estimated total payout ratio of approximately 60% so that the remaining free cash flow will enable the Company to fund reserve and production growth;
- maintain a conservative dividend policy with a target simple payout ratio of 30-35% and total payout ratio of less than 100% to capitalize on accretive acquisitions and organic growth opportunities; and
- maintain a conservative leverage profile through a targeted net debt to annualized cash flow from operations multiple of less than one and a commodity hedging program that reduces the risk of price fluctuations.

On September 26, 2013 Cardinal acquired producing properties in a new core area in Bantry, Alberta (the "Bantry acquisition"). The acquisition significantly increased the Company's base of low decline, oil weighted production to approximately 1,500 boe/d and geotechnical review of the properties identified a new tight oil channel play on the lands acquired.

On December 17, 2013 Cardinal completed the strategic acquisition of producing properties in the south east area of Alberta (the “SE Alberta acquisition”). The SE Alberta acquisition fit the Company’s business model of acquiring low decline, oil weighted production that would provide significant cash flows and additional land that overlaid and extended the tight oil play identified in the Bantry acquisition. The assets acquired produced approximately 4,200 Boe/d as of the date of this MD&A (86% liquids) in two main areas (Bantry and Jenner). Total consideration provided was \$210.0 million in cash before closing adjustments.

In conjunction with the SE Alberta acquisition, Cardinal raised \$225 million pursuant to its initial public offering (“IPO”) and on December 23, 2013 the underwriters exercised their over-allotment option for an additional \$25 million for total gross proceeds of \$250 million (the “Financings”). In total, the Financings resulted in the issuance of 23,571,428 common shares at \$10.50 per share (the number of common shares and price per common share indicated here reflect amounts after the Share Consolidation detailed below).

Concurrent with the closing of the SE Alberta acquisition and IPO, the Company’s credit facility was increased to \$125 million. The Company’s credit facilities consist 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.

In September 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.

Cardinal declared its first monthly dividend of \$0.05417 per common share (\$0.65 per year), paid on February 17, 2014 to common shareholders of record on January 31, 2014.

## RESULTS OF OPERATIONS

### Production

Production by Product	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Crude oil (bbl/d)	1,958	1,099	642	1,319	279
NGL (bbl/d)	7	-	-	2	-
Oil and NGL (bbl/d)	1,965	1,099	642	1,321	279
Natural gas (mcf/d)	1,139	71	-	317	-
Total (boe/d)	2,155	1,111	642	1,374	279
% liquids	91%	99%	100%	96%	100%

Cardinal’s production increased in the fourth quarter of 2013 to 2,155 boe/d compared to 1,111 boe/d in the third quarter of 2013 due to the Bantry and SE Alberta acquisitions. Since the SE Alberta acquisition closed on December 17, 2013 the contribution from these properties was limited to 1,858 boe/d for the month of December or 626 boe/d for the quarter. Based on field estimates production as of the date of this MD&A for the SE Alberta properties is approximately 4,200 boe/d.

For the year ended December 31, 2013 production increased to 1,374 boe/d compared to 279 boe/d in 2012 primarily due to production from the Chauvin properties for the entire period and the property acquisitions in 2013.

In the first quarter of 2014 Cardinal completed two tuck-in acquisitions in the Bantry area of Alberta and successfully drilled and completed two (2 net) horizontal wells in the new tight oil play identified at Bantry. The wells have been tied into the Company's existing facilities.

## Revenue

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Crude oil	<b>11,878</b>	9,335	3,916	<b>35,351</b>	3,985
NGL	<b>48</b>	-	-	<b>48</b>	-
Oil and NGL	<b>11,926</b>	9,335	3,916	<b>35,399</b>	3,985
Natural gas	<b>320</b>	18	-	<b>351</b>	-
Petroleum and natural gas revenue	<b>12,246</b>	9,353	3,916	<b>35,750</b>	3,985
Crude oil \$/bbl	<b>65.95</b>	92.32	66.30	<b>73.43</b>	66.49
Natural gas \$/mcf	<b>3.05</b>	2.72	-	<b>3.03</b>	-
Total equivalent \$/boe	<b>61.76</b>	91.51	79.68	<b>71.29</b>	66.49
Market Prices					
Crude oil WTI (US\$/bbl)	<b>97.61</b>	105.81	88.23	<b>98.05</b>	94.15
Crude oil WCS (CAD\$/bbl)	<b>65.41</b>	88.33	70.12	<b>72.85</b>	73.12
Natural gas AECO (CAD\$/gj)	<b>3.15</b>	2.67	2.90	<b>3.15</b>	2.41
Exchange Rate (US\$/CAD\$)	<b>0.95</b>	0.96	1.01	<b>0.97</b>	1.00

Petroleum and natural gas revenue for the fourth quarter of 2013 increased to \$12.2 million (\$61.76 per boe) from \$9.4 million (\$91.51 per boe) for the third quarter of 2013 and \$3.9 million (\$79.68 per boe) for the fourth quarter of 2012 primarily due to increased production from the acquisitions in 2013 which offset lower commodity prices that resulted from wider differentials in December of 2013 when the SE Alberta acquisition closed and an increase of natural gas in the production mix.

Petroleum and natural gas revenue for the year ended December 31, 2013 increased compared to 2012 primarily due to production from the Chauvin properties for the entire period and the property acquisitions in 2013.

## Royalties

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Royalties	<b>1,782</b>	1,042	601	<b>4,369</b>	604
As a % of oil and gas revenue	<b>14.5</b>	11.1	15.4	<b>12.2</b>	15.2
\$/boe	<b>8.98</b>	10.19	10.18	<b>8.71</b>	10.08

Royalties consist of royalties paid to the provincial government, freehold land owners and overriding royalty owners. Royalties were \$1.8 million (14.5% of revenue) for the fourth quarter of 2013 compared to \$1.0 million (11.1% of revenue) for the third quarter of 2013 and \$0.6 million (15.4% of revenue) for the fourth quarter of 2012. Royalties increased compared to the third quarter of 2013 primarily due to increased production from the Bantry and SE Alberta acquisitions that had a higher royalty rate.

Royalties for the year ended December 31, 2013 increased compared to 2012 primarily due to production from the Chauvin properties for the entire period and the property acquisitions in 2013.

## Financial Instruments

The following is a summary of the realized and unrealized derivative loss on crude oil derivative contracts:

	Year ended	
	Dec 31 2013	Dec 31 2012
Average crude oil volumes hedged (bbls/d)	550	-
Realized loss - commodity contracts	1,113	-
Unrealized loss - commodity contracts	578	-

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

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

Subsequent to December 31, 2013 Cardinal entered into additional financial derivative contracts to manage commodity price risk (see *Subsequent Events*).

## Operating Expenses

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Operating Expenses	5,694	3,316	1,161	14,004	1,190
\$/boe	28.72	32.45	19.66	27.93	19.86

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

For the fourth quarter of 2013, operating expenses increased to \$5.7 million (\$28.72 per boe) from \$3.3 million (\$32.45 per boe) for the third quarter of 2013 and \$1.2 million (\$19.66 per boe) for the fourth quarter of 2012. Total operating expenses increased compared to the third quarter of 2013 primarily due to the Bantry and SE Alberta acquisitions.

Operating expenses for the year ended December 31, 2013 increased compared to 2012 primarily due to production from the Chauvin properties for the entire period and the property acquisitions in 2013. During the third quarter of 2013 Cardinal entered into financial derivative power contracts to fix a portion of the Company's power costs and for the year ended December 31, 2013 operating expenses include a realized loss on power contracts of \$1,408 (2012 – nil).

Subsequent to December 31, 2013 Cardinal entered into additional financial derivative contracts to manage power costs (see *Subsequent Events*).

## Netback per Boe

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Petroleum and natural gas revenue	61.76	91.51	66.30	71.29	66.49
Royalties	8.98	10.19	10.18	8.71	10.08
Operating expenses	28.72	32.45	19.66	27.93	19.86
Netback per boe	24.06	48.87	36.46	34.65	36.55
Realized loss	(1.66)	(7.47)	-	(2.22)	-
Netback after risk management	22.40	41.40	36.46	32.43	36.55

Cardinal's netback per boe was \$24.06 per boe for the fourth quarter of 2013 compared to \$48.87 per boe for the third quarter of 2013 and \$36.46 for the fourth quarter of 2012. Netbacks after risk management were decreased in the third and fourth quarters of 2013 due to realized losses on commodity contracts. Netbacks decreased primarily due to lower commodity prices that resulted from wider differentials and an increase of natural gas in the production mix.

The netback for the year ended December 31, 2013 was relatively consistent compared to the corresponding period in 2012 as increased commodity prices offset an increase in unit operating costs.

## General and Administrative Expenses ("G&A")

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Gross G&A Expenses	2,847	916	859	5,457	1,165
Capitalized G&A Expenses and Overhead Recovery	(175)	(55)	(28)	(349)	(36)
Net G&A Expenses	2,672	861	831	5,108	1,129
\$/boe	13.48	8.43	14.06	10.19	18.83

G&A for the fourth quarter of 2013 was \$2.7 million (\$13.48 per boe) compared to \$0.9 million (\$8.43 per boe) for the third quarter of 2013 and \$0.8 million (\$14.06 per boe) for the fourth quarter of 2012. G&A increased primarily due to bonuses totaling \$1.2 million paid in the fourth quarter of 2013 and additional staff to integrate the SE Alberta acquisition.

G&A for the year ended December 31, 2013 increased compared to 2012 primarily due to G&A associated with the Company's operational startup in September 2012 in connection with Cardinal's first acquisition at Chauvin.

## Share-based Compensation

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Share-based compensation	496	476	579	1,841	3,328
\$/boe	2.51	4.60	9.80	3.67	n/m

For the fourth quarter of 2013, Cardinal recorded \$496,000 of share-based compensation compared to \$476,000 for the third quarter of 2013 and \$579,000 for the fourth quarter of 2012. Share-based compensation for the quarters was relatively consistent as there were no significant grants of new dilutive equity instruments. The decrease for the year ended December 31, 2013 compared to 2012 is due to a one-time charge of \$2.4 million for share-based compensation in the third quarter of 2012 to recognize the implied benefit of equity issued to officers, directors and employees.

## Finance

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Interest	370	207	115	961	115
Accretion	328	115	60	667	64
Other finance charges	51	52	99	178	99
Finance income	-	-	(4)	-	(11)
Finance expense, net	749	375	270	1,806	267
Interest rate	4.0%	4.0%	4.0%	4.0%	4.0%
\$/boe	3.77	3.67	4.57	3.60	4.46

The Company recorded net finance expense of \$749,000 for the fourth quarter of 2013 compared to \$375,000 for the third quarter of 2013 and \$270,000 for the fourth quarter of 2012. The increase is primarily due to increased accretion due to the Bantry acquisition and higher interest costs associated with increased average bank debt outstanding prior to the successful completion of the Company's IPO.

The increase for the year ended December 31, 2013 compared to 2012 is due to increased accretion and higher interest costs associated with increased average bank debt outstanding prior to the successful completion of the Company's IPO.

## Depletion and Depreciation ("D&D")

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Depletion and depreciation	4,219	2,325	1,302	11,078	1,338
\$/boe	21.28	22.75	22.04	22.09	22.33

Depletion is calculated based upon capital expenditures incurred since inception of the Company, production rates and proved plus probable reserves. As at December 31, 2013, future development costs were \$38.3 million (2012 - \$5.9 million). In addition to depletion, Cardinal records depreciation on other capital equipment not directly associated with proved plus probable reserves.

Cardinal recorded \$4.2 million (\$21.28 per boe) of D&D for the fourth quarter of 2013 compared to \$2.3 million (\$22.75 per boe) for the third quarter of 2013 and \$1.3 million (\$22.04 per boe) for the fourth quarter of 2012. The increases in D&D are due to the increase in production and D&D per boe is relatively consistent.

## Transaction Costs

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Transaction costs	137	30	46	203	46

Transaction costs relate to costs incurred related to acquisitions.

## Deferred Taxes

The Company had a deferred tax liability of \$8.6 million at December 31, 2013 compared to a deferred tax asset of \$434,999 in 2012.

The Company has \$320.3 million of tax pools available to be applied against future income for tax purposes. Based on available pools and current commodity prices, Cardinal does not expect to pay current income taxes in 2014.

Taxes payable beyond 2014 will be primarily a function of commodity prices, capital expenditures and production volumes.

Tax Pool Balance	Maximum Annual Claim	As at December 31	
		2013	2012
COGPE	10%	<b>214,086</b>	51,837
Share issue costs	20%	<b>12,881</b>	1,724
Undepreciated Capital Cost	25%	<b>54,118</b>	14,799
CDE	30%	<b>2,604</b>	1,192
CEE and Non-capital Losses	100%	<b>36,583</b>	6,569
		<b>320,272</b>	76,121

#### Gain on acquisitions

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Gain on acquisitions	<b>38,991</b>	-	-	<b>38,991</b>	-

Gains on acquisitions are due to the fair value of the petroleum and natural gas assets acquired exceeding the consideration paid by Cardinal.

#### Net Earnings (Loss), Cash Flow from Operating Activities and Cash Flow from Operations

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Net earnings (loss)	<b>36,433</b>	(655)	(850)	<b>35,198</b>	(3,820)
\$/share					
Basic	<b>2.47</b>	(0.06)	(0.10)	<b>2.90</b>	(1.36)
Diluted	<b>2.33</b>	(0.06)	(0.10)	<b>2.70</b>	(1.36)
Cash flow from operating activities	<b>854</b>	3,025	1,041	<b>8,913</b>	686
Cash flow from operations	<b>1,211</b>	3,080	1,068	<b>9,814</b>	814
\$/share					
Basic	<b>0.08</b>	0.27	0.13	<b>0.81</b>	0.29
Diluted	<b>0.08</b>	0.27	0.13	<b>0.75</b>	0.29

For the fourth quarter of 2013 the Company had net earnings of \$36.4 million compared to net losses of \$0.7 million for the third quarter of 2013 and \$0.9 million for the fourth quarter of 2012. Cash flow from operations for the fourth quarter of 2013 decreased to \$1.2 million compared to \$3.1 million for the third quarter of 2013 and increased compared to the \$1.1 million in the fourth quarter of 2012. Net earnings and losses have fluctuated due to changes in production and commodity prices. In the fourth quarter of 2013 the Company recorded gains on acquisitions of \$39.0 million and in the third quarter of 2013 a combined \$1.6 million realized and unrealized loss on commodity contracts. The decrease in cash flow from operations in the fourth quarter of 2013 compared to the third quarter is primarily due to lower commodity prices.

The net earnings for the year ended December 31, 2013 was due to the gain on acquisitions while the loss in 2012 included a one-time charge of \$2.4 million for share-based compensation in the third quarter of 2012. Cash flow from operations for the year ended December 31, 2013 increased compared to the corresponding period in 2012 primarily due to increased production from acquisitions.



## Capital Expenditures

### Property, plant and equipment ("PP&E") expenditures

#### Property acquisitions

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 (see *Share Capital*) and the balance in cash with an associated decommissioning obligation of \$1.5 million. These assets were acquired with full tax pools and no working capital items.

On September 26, 2013, Cardinal acquired petroleum and natural gas properties in a new core operating area in Bantry, Alberta. Total consideration provided was \$21.75 million in cash before closing adjustments with an associated decommissioning obligation of \$2.2 million. The acquisition did not have full tax basis since the fair value of the petroleum and natural gas assets acquired exceeded the consideration paid and as a result Cardinal recognized a \$7.3 million deferred tax liability.

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) that are expected to provide significant cash flows. Total consideration provided was \$210 million in cash before closing adjustments with an associated decommissioning obligation of \$30.0 million. The acquisition did not have full tax basis since the fair value of the petroleum and natural gas assets acquired exceeded the consideration paid and as a result Cardinal recognized a \$5.8 million deferred tax liability.

#### Other PP&E expenditures

In 2013 Cardinal drilled, completed and tied-in 3 (2.5 net) horizontal wells and consolidated certain facilities in Chauvin.

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Land	11	-	-	140	32
Drilling and completion	133	364	-	3,453	-
Equipment, facilities and pipelines	206	345	458	2,599	466
Capitalized overhead and other	176	46	41	278	49
Total exploration and development	526	756	499	6,470	547
Other assets	118	14	46	412	76
Acquisitions	206,056	19,139	68,983	229,888	69,918
Total cash expenditures	206,700	19,908	69,528	236,770	70,541
Non-cash expenditures <sup>(1)</sup>	52,000	-	-	52,550	-
PP&E expenditures <sup>(2)</sup>	258,700	19,908	69,528	289,320	70,541

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

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

### Exploration and Evaluation (“E&E”) Expenditures

E&E expenditures in 2013 primarily consisted of additional undeveloped land.

	Three months ended			Year ended	
	Dec 31 2013	Sept 30 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Undeveloped land	1	-	-	2,492	1,982
Other	44	3	2,699	161	2,704
Acquisitions	-	-	-	-	557
Total cash expenditures	45	3	2,699	2,653	5,243
Non-cash expenditures <sup>(1)</sup>	-	-	-	254	-
E&E expenditures <sup>(2)</sup>	45	3	2,699	2,907	5,243
Total Capital Expenditures <sup>(2)</sup>	258,745	19,911	72,227	292,227	75,784

(1) Non-cash expenditures relate to the shares issued as consideration for undeveloped land.

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

### Decommissioning Obligation

The decommissioning liability increased by \$35.8 million during 2013 from \$4.6 million in 2012 to \$40.4 million at December 31, 2013. The increase relates to \$33.7 million as a result of net capital acquisitions, \$0.2 million in respect of drilling and \$0.7 million of accretion expense, partially offset by \$0.3 million for obligations settled and \$1.5 million due to a change in estimates.

### LIQUIDITY AND CAPITAL RESOURCES

Capitalization table (\$000s, except share and per share amounts)	As at December 31	
	2013	2012
Net debt	9,200	13,370
Shares outstanding	34,875,532	11,091,671
Market price at end of year (per share)	11.53	8.25
Market capitalization	402,115	91,506
Total capitalization	411,315	104,876

The Company’s net debt is calculated as current liabilities (excluding the current portion of bank debt and fair value of commodity contracts) plus bank debt less current assets.

### Capital Funding

As at December 31, 2013 Cardinal had 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. As at December 31, 2013 Cardinal had a working capital surplus of \$118,000 (excluding the fair value of commodity contracts) and unused capacity of \$114.9 million on its Facilities.

The next scheduled review of the borrowing base is to be completed on or before May 31, 2014. As the available lending limit of the Facilities is based on the lender’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 prime rate loans which bear interest at the lender's prime lending rate plus 0.5 or 1.0% (depending on certain financial ratios) and standby fees are charged on the undrawn amounts of the Facilities. The Facilities are secured by a general security agreement over all of the Company's assets and Cardinal must maintain a working capital ratio of not less than 1 to 1 at all times. The working capital ratio is defined as current assets (including the undrawn amount under the Facilities) to current liabilities (excluding the current portion of bank debt and the fair value of commodity contracts). Cardinal was in compliance with the terms of the Facilities at December 31, 2013.

During 2013, the Company raised new equity pursuant to its IPO (including the exercise of the over-allotment option) for \$250 million of gross proceeds at \$10.50 per common share and a private placement of flow-through common shares for total gross proceeds of \$1.02 million.

Cardinal's development capital budget for 2014 is set at \$17.5 million and we expect cash flow from operations to be substantially in excess of the capital budget and dividends.

Management believes that with the Company's high quality reserve base and development inventory, excellent balance sheet and hedging program, Cardinal is well positioned to meet its planned growth and development activities and generate strong operating and financial results through 2014 and beyond.

### Capital Structure

Cardinal manages its capital to provide a flexible structure to support capital programs, stability of dividends, 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 and dividend payments.

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.

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

Three months ended	December 31, 2013
Bank debt	\$ 9,318
Working capital surplus	\$ (118)
Net debt	\$ 9,200
Fourth quarter cash flow from operations	\$ 1,211
Annualized	\$ 4,844
Net debt to annualized cash flow from operations	1.9

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

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 IPO which resulted in greater access to capital.

### **Share Capital**

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

On January 23, 2013, in connection with the acquisition at Wainwright, Cardinal issued 66,667 common shares to the vendor valued at \$8.25 per common share.

On March 31, 2013, Cardinal issued 113,333 flow-through common shares pursuant to a private placement at \$9.00 per common share for gross proceeds of \$1,020,000. Insiders subscribed for 61,667 of the common shares issued.

On May 29, 2013 Cardinal issued 30,833 common shares valued at \$8.25 per common share as consideration for the purchase of additional undeveloped land.

On November 1, 2013, the Company granted an aggregate of 102,000 stock appreciation rights ("SARS") 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.

On December 17, 2013 Cardinal issued 21,428,571 common shares at \$10.50 per common share pursuant to its IPO for gross proceeds of \$225 million. On December 23, 2013 the underwriters exercised the over-allotment option and Cardinal issued an additional 2,142,857 common shares at \$10.50 per common share for gross proceeds of \$25 million.

As at December 31, 2013, Cardinal had 34,875,532 common shares outstanding and 1,408,655 warrants, 442,492 stock options and 102,000 stock appreciation rights, each of which is exercisable into one common share. The warrants have an exercise price of \$3.00 per share, subject to the condition that the warrants are exercisable only if the share price of the Company exceeds \$6.00 per share, and the stock options have an average exercise price of \$7.19 per share. As of the date of this MD&A Cardinal had 37,675,910 common shares, 856,617 warrants, 337,497 stock options, 96,500 stock appreciation rights and 934,626 notional share awards outstanding.

### **Off Balance Sheet Arrangements**

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

### **Commitments and Contractual Obligations**

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.

At December 31, 2013 Cardinal was committed to incur \$1,020,000 of qualifying expenditures pursuant to its issue of flow-through common shares on March 31, 2013 prior to December 31, 2014.

## 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.

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 Aeeco	\$4.43	Swap
500 gj/day	March 1, 2014 – March 31, 2015	CAD Aeeco	\$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.

These dividends are designated as an "eligible dividend" for Canadian income tax purposes.

## **ADDITIONAL INFORMATION**

### **Critical Accounting Estimates**

The 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, liabilities, earnings and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

#### *Reserves*

The estimation of reserves is critical to various accounting estimates. It requires judgments based on available geophysical, geological, engineering and economic data. These estimates can change materially as information from ongoing exploratory, development and production activities becomes available. These estimates can also change as economic conditions impacting crude oil and natural gas prices, royalties and operating costs change. Reserve estimates can change net income through depletion expense, accretion expense from decommissioning obligations and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income.

#### *Decommissioning obligation*

The calculation of the decommissioning obligation is based on estimated costs to abandon and reclaim its net ownership in all wells and facilities, the estimated timing of the costs to be incurred and economic inflation and discount rates. These estimates can change due to technological advances, governmental and regulatory laws and regulations or economic conditions and can impact the amount of the decommissioning obligation and net earnings.

#### *Share-based compensation*

The Company's estimate of share-based compensation is dependent upon estimates of historic volatility, forfeiture rates and an assessment of achieving performance conditions. These estimates can impact net earnings and contributed surplus.

#### *Financial derivatives*

By their nature, the estimated fair value of financial derivative contracts resulting in financial derivative contract assets and liabilities are subject to measurement uncertainty.

#### *Deferred income tax*

The calculation of deferred income taxes includes estimates of reversal of temporary differences, tax rates substantively enacted and likelihood of assets being realized. These estimates can impact net earnings and deferred tax liabilities.

#### *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.

#### *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” (“IAS 32”), 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.

**Disclosure Controls and Internal Controls Over Financial Reporting**

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

Internal control over financial reporting (“ICOFR”), as defined in National Instrument 52-109, includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Cardinal;
2. are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of Cardinal; and

3. are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

The December 31, 2013 financial statements are the first financial statements issued since Cardinal became a reporting issuer and therefore the CEO and CFO are not required to make any certifications regarding the Company's DC&P and ICOFR. The CEO and CFO have concluded that the annual filings for the year ended December 31, 2013 do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

#### **Environmental Risks**

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

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

#### **Outlook**

Cardinal has completed four major acquisitions (including the SE Alberta acquisition) since it commenced operations in May of 2012, which resulted in production growth from zero to 5,800 boe/d of oil focused production. The Company believes its management team is one of its core competitive strengths relative to industry peers due to the team's track record of identifying, sourcing and executing accretive transactions. Cardinal's current production decline rate is estimated to be less than 15% per year. This low decline rate allows the Company to spend a relatively smaller portion of its budget replacing production decline, allowing more capital in its budget to be allocated to maintaining its dividend and enabling the Company to pursue production and growth opportunities.

Cardinal's drilling strategy is to engage in low risk development drilling with low capital exposure per well to maintain its base production. Management believes that it has a significant multi-year drilling inventory at Bantry with industry leading capital efficiencies consisting of approximately 40 development drilling locations as well as 40 contingent development drilling locations. Development drilling will be balanced with acquisitions in order to maintain a low production decline portfolio of assets while paying a dividend. Over the next twelve to 24 months it is management's intention to continue to grow through acquisitions to 10,000 – 12,000 boe/d of low decline, oil focused production.

Cardinal's development capital budget for 2014 is set at \$17.5 million and we expect production for the fourth quarter of 2014 will average 6,300 boe/d.

Management believes that with the Company's high quality reserve base and development inventory, excellent balance sheet and hedging program, Cardinal is well positioned to meet its planned growth and development activities and generate strong operating and financial results through 2014 and beyond.



### Selected Quarterly Data

Three months ended	Dec 31 2013	Sept 30 2013	June 30 2013	March 31 2013
<b>Production:</b>				
Oil and NGL (bbl/d)	1,965	1,099	1,083	1,129
Natural gas (mcf/d)	1,139	71	23	27
Oil equivalent (boe/d)	2,155	1,111	1,087	1,133
<b>Financial:</b>				
Revenue	12,246	9,353	7,658	6,493
Net earnings (loss)	36,433	(654)	(92)	(489)
Basic per share (\$)	2.47	(0.06)	(0.01)	(0.04)
Diluted per share (\$)	2.33	(0.06)	(0.01)	(0.04)
Cash flow from operating activities	584	3,025	4,061	1,243
Cash flow from operations	1,211	3,081	2,871	2,651
Basic and diluted per share (\$)	0.08	0.27	0.25	0.24
Working capital (deficiency) <sup>(1)</sup>	118	342	132	(698)
Total assets	403,174	112,670	91,813	93,939
Bank debt	9,318	36,274	19,233	19,971
Total long-term liabilities	58,359	8,263	5,921	5,861
Shareholders' equity	336,863	63,268	63,410	62,757
Common shares outstanding	34,875,532	11,304,104	11,304,104	11,273,271
Diluted shares outstanding	36,828,679	13,142,751	13,142,751	13,093,603
Weighted average shares (basic)	14,751,309	11,304,104	11,284,112	11,142,503
<b>Per Unit:(\$/boe)</b>				
Revenue	61.76	91.51	77.39	63.65
Netback	24.06	48.87	41.48	34.37

  

Three months ended	Dec 31 2012	Sept 30 2012	June 30 2012	March 31 2012
<b>Production:</b>				
Oil (bbl/d)	642	7	-	-
Natural gas (mcf/d)	-	-	-	-
Oil equivalent (boe/d)	642	7	-	-
<b>Financial:</b>				
Revenue	3,916	69	-	-
Net loss	850	2,905	65	-
Per share (\$)	0.10	1.04	21,533	-
Cash flow from (used in) operating activities	1,041	(311)	(44)	-
Cash flow from (used in) operations	1,068	(189)	(65)	-
Per share (\$)	0.13	(0.07)	(21,533)	-
Working capital (deficiency) <sup>(1)</sup>	(2,103)	5,690	1,821	-
Total assets	81,933	14,630	3,827	-
Bank debt	11,267	-	-	-
Total long-term liabilities	4,801	624	-	-
Shareholders' equity	61,309	13,899	-	-
Common shares outstanding	11,091,671	4,333,335	3	3
Diluted shares outstanding	12,883,318	5,749,989	3	3
Weighted average shares (basic)	8,126,199	2,804,856	3	3
<b>Per Unit:(\$/boe)</b>				
Revenue	66.30	79.68	n/m	n/m
Netback	36.46	42.82	n/m	n/m

1. Excludes the current portion of bank debt and fair value of commodity contracts.

## Selected Annual Data

	Year ended	
	Dec 31 2013	Dec 31 2012
<b>Production:</b>		
Oil and NGL (bbl/d)	1,321	279
Natural gas (mcf/d)	317	-
Oil equivalent (boe/d)	1,374	279
<b>Financial:</b>		
Revenue	35,750	3,985
Net earnings (loss)	35,198	(3,820)
Basic per share (\$)	2.90	(0.47)
Diluted per share (\$)	2.70	(0.47)
Cash flow from operating activities	8,913	686
Cash flow from operations	9,814	814
Basic per share (\$)	0.81	0.10
Diluted per share (\$)	0.75	0.10
Working capital (deficiency) <sup>(1)</sup>	118	(2,103)
Total assets	403,174	81,933
Bank debt	9,318	11,267
Total long-term liabilities	58,359	4,801
Shareholders' equity	336,863	61,309
Common shares outstanding	34,875,532	11,091,671
Diluted shares outstanding	36,828,679	12,883,318
Weighted average shares (basic)	12,128,158	8,126,199
<b>Per Unit:(\$/boe)</b>		
Revenue	71.29	66.49
Netback	34.65	36.55

1. Excludes the current portion of bank debt and fair value of commodity contracts.

The Company commenced activity in the second quarter of 2012 but did not have producing properties until the third quarter. Quarterly petroleum and natural gas revenue has fluctuated with commodity prices and production. Quarterly cash flow from operations has increased compared to 2012 primarily due to increased acquisitions. Cardinal's quarterly net earnings (loss) has varied significantly due to changes in operations including gains on acquisitions of \$39.0 million in the fourth quarter of 2013, a combined \$1.6 million realized and unrealized loss on commodity contracts in the third quarter of 2013 and a one-time charge of \$2.4 million for share-based compensation in the third quarter of 2012.

The net earnings for the year ended December 31, 2013 was due to the gain on acquisitions while the loss in 2012 included a one-time charge of \$2.4 million for share-based compensation in the third quarter of 2012. Cash flow from operations for the year ended December 31, 2013 increased compared to the corresponding period in 2012 primarily due to increased production from acquisitions.

### Forward-Looking Statements

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating, but not limited to:

- drilling and development plans and the timing thereof;

- expectations regarding a balanced capital allocation between acquisitions and organic growth opportunities in order to maintain a low production decline;
- maintaining a flat year over year base production profile and estimated total payout ratio of approximately 60%;
- Cardinal's development drilling inventory;
- Cardinal's acquisition and growth plans;
- plans to maintain a conservative leverage profile through a targeted net debt to annualized cash flow from operations multiple of less than one;
- expectations to maintain a corporate decline of approximately 15%;
- expectations regarding drilling prospects on the Bantry lands;
- Cardinal's business strategy, goals and management focus;
- Cardinal's dividend plans;
- Cardinal's risk management strategy;
- sources of funds for the Company's operations, capital expenditures and decommissioning obligations;
- future liquidity and the Company's access to sufficient debt and equity capital;
- Cardinal's asset base and future prospects for development and growth;
- expectations regarding the business environment, industry conditions and future commodity prices;
- expectations regarding Cardinal's tax horizon;
- expectations regarding Cardinal's Facilities and capital management strategies; and
- treatment under governmental and other regulatory regimes and tax, environmental and other laws.

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

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

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

## Frequently Used Terms

*Term or abbreviation*

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