



CARDINAL
ENERGY LTD.



**MANAGEMENT
DISCUSSION &
ANALYSIS**

2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of operations, financial position and outlook for Cardinal Energy Ltd. ("Cardinal" or the "Company") for the year ended December 31, 2016 and is dated March 13, 2017. The MD&A should be read in conjunction with Cardinal's audited financial statements as at and for the years ended December 31, 2016 and 2015. Financial data presented has been prepared in accordance with International Financial Reporting Standards ("IFRS" or, alternatively, "GAAP"), unless otherwise indicated.

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

Description of the Business

Cardinal is engaged in the acquisition, development, optimization and production of crude oil and natural gas in all season access areas of Alberta. We are focused on providing sustainable monthly dividends and growth through a combination of accretive oil-based acquisitions and organic development.

Non-GAAP Measures

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

Funds flow and Adjusted Funds Flow

Prior to the fourth quarter of 2016, the Company reported a non-GAAP measure labeled cash flow from operations. Beginning in the fourth quarter of 2016, Cardinal changed the label of this non-GAAP measure to "adjusted funds flow". The Company believes that this new label and presentation better distinguishes this measure from the IFRS measurement "cash flow from operating activities".

Management utilizes "adjusted funds flow" as a key measure to assess the ability of the Company to generate the funds necessary to finance operating activities, capital expenditures and dividends. Adjusted funds flow excludes 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. Funds flow excludes the change in non-cash operating working capital. Funds flow and adjusted funds flow are not intended to represent net cash provided by (used in) operating activities calculated in accordance with IFRS. The following table reconciles cash flow from operating activities to funds flow and adjusted funds flow:

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Cash flow from operating activities	9,728	9,121	7	60,962	86,735	(30)
Change in non-cash working capital	4,634	8,425	(45)	(4,585)	6,661	(169)
Funds flow	14,362	17,546	(18)	56,377	93,396	(40)
Decommissioning expenditures	1,885	409	n/m	2,727	1,250	118
Adjusted funds flow	16,247	17,955	(10)	59,104	94,646	(38)

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

"Development capital expenditures" represent expenditures on property, plant and equipment (excluding corporate and other assets and acquisitions) to maintain and grow the Company's base production.

"Free cash flow" represents adjusted funds flow less dividends declared (net of participation in the DRIP and SDP) and less development capital expenditures.

"Netback" is calculated on a boe basis and is determined by deducting royalties and operating expenses from petroleum and natural gas revenue in accordance with the COGE Handbook. 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 the principal amount of convertible unsecured subordinated debentures "convertible debentures" and current liabilities less current assets (adjusted for the fair value of financial instruments and the current portion of the decommissioning obligation). Net debt is used by management to analyze the financial position, liquidity and leverage of Cardinal.

"Net debt to adjusted funds flow" is calculated as net debt divided by adjusted funds flow for the trailing twelve month period. The ratio of net debt to adjusted funds flow is used to measure the Company's overall debt position and to measure the strength of the Company's balance sheet. Cardinal monitors this ratio and uses this as a key measure in making decisions regarding financing, capital expenditures and dividend levels.

"Net bank debt" is calculated as net debt less the principal amount of convertible debentures.

"Simple payout ratio" represents the ratio of the amount of dividends declared (net of participation in the DRIP and SDP), divided by adjusted funds flow. "Total payout ratio" represents the ratio of the sum of dividends declared (net of participation in the DRIP and SDP) plus development capital expenditures divided by adjusted funds flow. Simple payout ratio and total payout ratio are other key measures to assess Cardinal's ability to finance operating activities, capital expenditures and dividends.

51-101 Advisory

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

HIGHLIGHTS

Achieved cash flow from operating activities of \$61.0 million and adjusted funds flow of \$59.1 million for the year. The declines from 2015 were primarily due to a decrease in realized gains on commodity contracts.

Production for the year ended December 31, 2016 increased 23% to 14,611 boe/d from 11,838 boe/d in 2015.

Operating expenses per boe for the year decreased by 5% to \$21.23/boe from \$22.43 in 2015.

Netback for the fourth quarter of 2016 increased by 137% to 14.86/boe compared to the fourth quarter of 2015.

General and administrative expenses per boe for the year ended December 31, 2016 decreased by 21% to \$1.98/boe from \$2.51/boe in 2015.

Closed an acquisition at Wainwright for \$32.5 million, before closing adjustments on December 6, 2016.

OPERATIONS

PRODUCTION

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Crude oil (bbl/d)	12,273	11,958	3	12,464	10,681	17
NGL (bbl/d)	313	218	44	307	111	177
Crude oil and NGL (bbl/d)	12,586	12,176	3	12,771	10,792	18
Natural gas (mcf/d)	12,178	9,696	26	11,042	6,273	76
boe/d	14,616	13,792	6	14,611	11,838	23
% Crude oil and NGL production	86%	88%	(2)	87%	91%	(4)

On October 30, 2015, Cardinal closed the Mitsue acquisition which added approximately 3,300 boe/d of production (78% light crude oil and NGL).

Cardinal's production in the fourth quarter of 2016 increased by 6% to 14,616 boe/d compared to 13,792 boe/d in the fourth quarter of 2015. The increase is primarily due to the Mitsue assets which contributed a full quarter of production in 2016 as compared to only two months in 2015 and our development drilling at Bantry which more than offset the low decline of the Company's base production. Cardinal drilled and/or completed three horizontal wells at Bantry in the fourth quarter of 2016 that were brought on production late in the fourth quarter of 2016 and early in the first quarter of 2017 due to poor weather conditions. None of the wells made a significant contribution to fourth quarter production.

For the year ended December 31, 2016 production increased by 23% to 14,611 boe/d compared to 11,838 boe/d in 2015. The increase is primarily due to the Mitsue acquisition that closed in the fourth quarter of 2015 and our successful development drilling at Bantry in 2016. Cardinal exited the year with production of approximately 15,000 boe/d based on field estimates.

REVENUE

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Crude oil	54,418	40,694	34	184,771	171,301	8
NGL	620	491	26	1,798	902	99
Crude oil and NGL	55,038	41,185	34	186,569	172,203	8
Natural gas	3,683	2,115	74	9,373	5,897	59
Petroleum and natural gas revenue	58,721	43,300	36	195,942	178,100	10
Cardinal average prices						
Crude oil (\$/bbl)	48.19	36.99	30	40.50	43.94	(8)
Natural gas (\$/mcf)	3.29	2.37	39	2.32	2.58	(10)
Equivalent (\$/boe)	43.67	34.13	28	36.64	41.22	(11)
Benchmark pricing						
Crude oil - WTI (US \$/bbl)	49.29	42.18	17	43.32	48.80	(11)
Crude oil - WCS (Cdn \$/bbl)	44.31	36.86	20	38.30	44.83	(15)
Natural gas - AECO Spot (Cdn \$/mcf)	3.11	2.48	25	2.18	2.70	(19)
Exchange rate - (US/CAD)	0.75	0.75	-	0.76	0.78	(3)

Petroleum and natural gas revenue increased by 36% to \$58.7 million (\$43.67/boe) in the fourth quarter of 2016 compared to \$43.3 million (\$34.13/boe) in the fourth quarter of 2015. The increase is primarily due to a 30% increase in Cardinal's average realized crude oil price combined with an increase of 3% in crude oil production. Realized oil prices for the quarter increased slightly relative to the WCS benchmark due to the increase in light oil from the Mitsue acquisition and warmer weather.

Petroleum and natural gas revenue increased by 10% to \$195.9 million (\$36.64/boe) for the year ended December 31, 2016 compared to \$178.1 million (\$41.22/boe) for the same period in 2015. The increase is primarily due to a 17% increase in crude oil production which was partially offset by an 8% decrease in Cardinal's average realized crude oil price.

Crude oil and natural gas prices continued to improve in 2016 from the lows in the fourth quarter of 2015 and first quarter of 2016. In November of 2016 OPEC announced that it would reduce its production by approximately 1.2 MMbbl/d, effective January 1, 2017, in order to improve the supply/demand imbalance and ensure stable markets.

To mitigate commodity price risks Cardinal has an active 3 year hedging program for Canadian dollar denominated WTI prices. Cardinal is also exposed to medium crude oil differentials at its properties in Bantry and Wainwright. To mitigate this exposure the Company has entered into WCS differential swaps.

FINANCIAL INSTRUMENTS

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Average crude oil volumes hedged (bbls/d)	6,250	4,950	26	6,375	4,683	36
Realized gain - commodity contracts	125	13,982	(99)	16,405	50,093	(67)
Unrealized gain (loss) - commodity contracts	(19,080)	2,995	n/m	(60,411)	(13,021)	n/m

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

Cardinal utilizes a variety of derivatives including swaps and collars to protect against downward commodity price movements and avoids entering into more complex derivative structures. Contracts settled in the period result in realized gains or losses based on the market price compared to the contract price. Changes in the fair value of the contracts, as measured at the balance sheet date, are reported as unrealized gains or losses in the period as the forward markets for commodities and currencies fluctuate and as new contracts are executed. For commodities, Cardinal's risk management program allows for hedging a forward profile of 3 years, of up to 75% of gross average forward 12 months production and up to 50% and 30% of the following 12 and 24 months respectively.

As of the date of this MD&A Cardinal had the following commodity derivatives, referenced to WTI and AECO (unless otherwise noted) outstanding:

Commodity Derivative Traded	Period	Average Volume	Average Strike Price
Crude Oil			
CAD WTI Swap	Jan - Dec 2017	5,453 bbl/d	\$ 62.69
	Jan - Dec 2018	1,244 bbl/d	\$ 65.90
CAD WTI Collar	Jul 2017 - Jun 2018	1,500 bbl/d	Put \$ 65.67
			Call \$ 77.00
WCS Differential	Jan - Dec 2017	5,329 bbl/d	\$ 18.70
Natural Gas			
CAD AECO Swap	Jan - Dec 2017	4,996 gj/d	\$ 2.43
	Jan - Dec 2018	3,329 gj/d	\$ 2.62
CAD AECO Collar	Jan - Dec 2017	1,000 gj/d	Put \$ 2.80
			Call \$ 3.10

In connection with certain of the contracts summarized above Cardinal has also granted certain counterparties call options on 1,000 bbl/d for fiscal 2018 at \$70 CAD WTI.

ROYALTIES

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Royalties	7,488	5,323	41	24,639	22,433	10
Percent of revenue	12.8%	12.3%	4	12.6%	12.6%	-
\$/boe	5.57	4.20	33	4.61	5.19	(11)

Royalties are either paid or taken in kind and are owed to land and mineral rights owners and to provincial governments. The terms of the land and mineral rights owner agreements and provincial royalty regimes impact Cardinal's overall corporate royalty rate.

Royalties increased by 41% to \$7.5 million (12.8% of revenue) for the fourth quarter of 2016 from \$5.3 million (12.3% of revenue) in the fourth quarter of 2015. Royalties for the year ended December 31, 2016 increased by 10% to \$24.6 million (12.6% of revenue) compared to \$22.4 million (12.6% of revenue) in 2015. The increase in royalties for the fourth quarter of 2016 is due to increased commodity prices and production while the increase in royalties for the year is primarily due to increased production. For all periods royalties as a percentage of revenue were consistent as higher royalty rates on production at Mitsue were offset by lower royalty rates on new wells drilled at Bantry in 2016.

OPERATING EXPENSES

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Operating expenses	31,248	30,024	4	113,509	96,898	17
\$/boe	23.24	23.66	(2)	21.23	22.43	(5)

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat, store and ship production. Cardinal manages the variability in its power costs using financial derivative contracts.

For the fourth quarter of 2016, operating expenses were \$31.2 million (\$23.24/boe) consistent with \$30.0 million (\$23.66/boe) in the fourth quarter of 2015. Management increased its workover budget in 2016 in order to meet its planned exit of 15,000 boe/d when poor weather conditions affected the on-stream date of our fourth quarter wells at Bantry and Mitsue. Operating expenses for the year ended December 31, 2016 increased to \$113.5 million (\$21.23/boe) from \$96.9 million (\$22.43/boe) in the same period in 2015 primarily due to a full year of operating expenses for the Mitsue assets.

Operating expenses per boe decreased by 2% in the fourth quarter compared to the fourth quarter of 2015 and by 5% for the year ended December 31, 2016 compared to 2015. The decrease for the year is due to cost cutting initiatives in 2016 and a reduction in the frequency and per well costs of workovers.

NETBACK

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Petroleum and natural gas revenue	43.67	34.13	28	36.64	41.22	(11)
Royalties	5.57	4.20	33	4.61	5.19	(11)
Operating expenses	23.24	23.66	(2)	21.23	22.43	(5)
Netback ⁽¹⁾	14.86	6.27	137	10.80	13.60	(21)

(1) See non-GAAP measures.

Cardinal's netback increased to \$14.86 in the fourth quarter of 2016 compared to \$6.27 in the fourth quarter of 2015. The increase in netback in the fourth quarter of 2016 is primarily due to the increase in the average crude oil prices. For the year ended December 31, 2016, Cardinal's netback decreased to \$10.80 compared to \$13.60 in the same period in 2015. The decrease in netback is primarily due to lower commodity prices in the first half of 2016.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Gross G&A	3,056	2,707	13	11,914	11,758	1
Capitalized G&A and overhead recoveries	(354)	(276)	28	(1,326)	(921)	44
Net G&A	2,702	2,431	11	10,588	10,837	(2)
\$/boe	2.01	1.92	5	1.98	2.51	(21)

G&A for the fourth quarter of 2016 was \$2.7 million (\$2.01/boe) compared to \$2.4 million (\$1.92/boe) in the fourth quarter of 2015. G&A and G&A per boe are relatively consistent.

For the year ended December 31, 2016, G&A was \$10.6 million (\$1.98/boe) compared to \$10.8 million (\$2.51/boe) for the same period in 2015. The decrease in G&A is primarily due to an increase in overhead recoveries and the decrease in G&A per boe is due to the increase in production volumes from the successful drilling at Bantry and the Mitsue acquisition.

SHARE-BASED COMPENSATION ("SBC")

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Gross SBC	3,022	2,564	18	11,646	10,376	12
Capitalized SBC	(325)	(284)	14	(1,258)	(1,127)	12
Net SBC	2,697	2,280	18	10,388	9,249	12
\$/boe	2.01	1.80	12	1.94	2.14	(9)

For the fourth quarter of 2016 Cardinal recorded \$2.7 million (\$2.01/boe) of share-based compensation compared to \$2.3 million (\$1.80/boe) in the fourth quarter of 2015. For the year ended December 31, 2016, share-based compensation was \$10.4 million (\$1.94/boe) compared to \$9.2 million (\$2.14/boe) in the same period in 2015.

The increase for both periods is due to additional restricted bonus awards ("RAs") granted to staff and executives in the first quarter of 2016. For the year ended December 31 2016 the decrease in share-based compensation per boe is due to increases in production from drilling at Bantry and the Mitsue acquisition.

As at December 31, 2016, Cardinal had 2.7 million RAs outstanding.

FINANCE

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Interest - bank debt	271	483	(44)	1,587	1,897	(16)
Other finance charges, net	163	125	30	567	515	10
Interest - convertible debentures	689	648	6	2,750	648	n/m
Accretion	2,295	2,060	11	9,145	6,402	43
Finance expense	3,418	3,316	3	14,049	9,462	48
\$/boe	2.54	2.62	(3)	2.63	2.19	20
Average bank debt	39,903	72,068	(45)	56,931	57,733	(1)
Interest rate - bank debt	2.7%	2.7%	(0)	2.8%	3.3%	(16)

Finance expense for the fourth quarter of 2016 was \$3.4 million (\$2.54/boe) compared to \$3.3 million (\$2.62/boe) in the same period in 2015. For the year ended December 31, 2016, finance expense was \$14.0 million (\$2.63/boe) compared to \$9.5 million (\$2.19/boe) in 2015.

Finance expense for the fourth quarter of 2016 was consistent with the fourth quarter of 2015 as a slight increase in accretion was offset by a decrease in interest on bank debt. The increase in finance expense for the year ended December 31, 2016 is primarily due to the Mitsue acquisition, comprised of increases in the accretion of the decommissioning obligation and interest and accretion on the convertible debentures. The average bank debt outstanding was lower in 2016 and combined with the lower average interest rate on bank debt resulted in a lower interest on bank debt which partially offset the other increases in the year.

DEPLETION AND DEPRECIATION ("D&D")

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Depletion and depreciation	20,273	20,758	(2)	83,041	85,993	(3)
\$/boe	15.08	16.36	(8)	15.53	19.90	(22)

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

D&D recorded in the fourth quarter of 2016 decreased to \$20.3 million (\$15.08/boe) compared to \$20.8 million (\$16.36/boe) in the fourth quarter of 2015. For the year ended December 31, 2016, D&D was \$83.0 million (\$15.53/boe) compared to \$86.0 million (\$19.90/boe) in the same period in 2015. The decreases in D&D were due to the impairment recognized in 2015 and the lower depletion rates associated with the Mitsue acquisition that more than offset the increases in production.

IMPAIRMENT

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Impairment	12,839	0	n/m	12,839	156,913	-92%

PP&E

As at December 31, 2016 Cardinal determined that the carrying value of the Company's Jenner CGU exceeded the recoverable amount and recorded an impairment of \$7.0 million. The impairment recognized was the result of negative technical reserve revisions based on recent production performance and reinforced by market transactions. The recoverable amount for the Jenner CGU as at December 31, 2016 is \$20.8 million (2015 - \$34.1 million). The Company did not identify any further indicators of impairment or impairment reversals for its other CGU's.

The recoverable amount is based on fair value less costs to sell ("FVLCS") using estimated discounted cash flows based on crude oil and natural gas proved plus probable reserves estimated by Cardinal's third party reserve evaluator discounted at 12% (Level 3). The recoverable amount is sensitive to commodity price, discount rate, production volumes, royalty rates, operating costs and future capital expenditures. The discount rate for FVLCS represents the rate a market participant would apply to the cash flows in a market transaction.

The external reserve evaluators also assess many other financial assumptions regarding royalty rates, operating costs and future development costs along with several other non-financial assumptions that affect reserve volumes. Management considered these assumptions for the impairment test at December 31, 2016, however, it should be noted that all estimates are subject to uncertainty.

During the year ended December 31, 2015 Cardinal determined that the carrying value of its Alberta Central, Alberta South and Jenner CGU's exceeded their recoverable amount and recorded an impairment of \$152.0 million. The impairment recognized was the result of sustained declines in forecast forward commodity prices.

E&E

An impairment of \$5.8 million (2015 – \$4.9 million), principally comprised of drilling, completion and land acquisition costs, was recorded for the year ended December 31, 2016 related to two uneconomic wells at Jenner West. The impairment in 2015 was due to decreases in forward commodity prices and no planned activities in a non-core area.

DEFERRED TAXES

At December 31, 2016 the Company recorded a deferred tax asset of \$115.1 million (2015 – \$86.2 million). The deferred tax asset was recognized as management considered it probable that there will be sufficient future taxable income to utilize the benefits.

The Company has approximately \$1.2 billion of tax pools (\$1.1 billion are unrestricted) 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 until approximately 2020. Taxes payable beyond 2020 will be primarily a function of commodity prices, capital expenditures and production.

Tax Pool Balance	Maximum Annual Claim	As at December 31		
		2016	2015	Change %
COGPE	10%	558,585	592,793	(6)
CEE and non-capital losses	100%	334,956	267,604	25
CDE	30%	125,717	122,203	3
Undepreciated capital cost	25%	123,679	134,198	(8)
Other	20%	20,240	26,136	(23)
Total		1,163,177	1,142,934	2

LOSS, CASH FLOW FROM OPERATING ACTIVITIES, ADJUSTED FUNDS FLOW AND PAYOUT RATIOS

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Earnings (loss)	(31,995)	938	n/m	(87,322)	(95,898)	(9)
\$/share						
Basic	(0.43)	0.01	n/m	(1.25)	(1.63)	(23)
Diluted	(0.43)	0.01	n/m	(1.25)	(1.63)	(23)
Cash flow from operating activities	9,728	9,121	7	60,962	86,735	(30)
Adjusted funds flow	16,247	17,955	(10)	59,104	94,646	(38)
\$/share						
Basic	0.22	0.29	(24)	0.84	1.61	(48)
Diluted	0.22	0.28	(21)	0.84	1.61	(48)
Total payout ratio	116%	136%	(15)	111%	87%	27
Simple payout ratio	44%	70%	(37)	47%	49%	(4)

For the fourth quarter of 2016, the Company had a loss of \$32.0 million compared to earnings of \$0.9 million in the fourth quarter of 2015. Cash flow from operating activities for the period was \$9.7 million compared to \$9.1 million in 2015 and adjusted funds flow for the fourth quarter of 2016 was \$16.2 million compared to \$18.0 million in 2015. The net loss for the fourth quarter of 2016 is due to the \$19.1 million unrealized loss on commodity contracts and \$12.1 million of impairments recorded for E&E and PP&E. The decrease in adjusted funds flow is primarily due to a reduction in realized gains on commodity contracts.

For the year ended December 31, 2016 the Company reported a loss of \$87.3 million compared to a loss of \$95.9 million in 2015. The loss decreased mainly due to the \$156.9 million before tax impairment and a \$32.8 million gain recorded in 2015 compared to an unrealized loss on commodity contracts of \$60.4 million and a reduction in realized gains on commodity contracts of \$33.7 million in 2016.

Cash flow from operating activities for the year was \$61.0 million compared to \$86.7 million in 2015 and adjusted funds flow for 2016 decreased to \$59.1 million from \$94.6 million. Cash flow from operating activities and adjusted funds flow decreased primarily due to a reduction in realized gains on commodity contracts partially offset by an increase in production.

Cardinal's total payout ratio for the year increased to 111% from 87% in 2015 primarily due to an increase in development capital expenditures. Excluding the wells that were drilled and or completed late in the fourth quarter that did not contribute to adjusted funds flow Cardinal's total payout ratio would have been approximately 100%.

CAPITAL EXPENDITURES

Property Acquisitions

In the third quarter of 2016 Cardinal closed two minor acquisitions in Slave Lake for aggregate consideration of \$0.8 million before closing adjustments with an associated decommissioning obligation of \$0.2 million.

On **December 6, 2016**, Cardinal acquired petroleum and natural gas properties to expand its core area at Wainwright, Alberta. Total consideration provided was \$32.5 million, before closing adjustments, consisting of \$27.7 million in cash and 500,000 common shares valued at \$9.68 per share with an associated decommissioning obligation of \$3.6 million. These assets were acquired with full tax pools and no working capital items.

Other Capital Expenditures

In the year ended December 31, 2016 Cardinal drilled, completed and tied-in 9 (9.0 net) horizontal wells and completed 1 (1.0 net) well that was drilled in the fourth quarter of 2015 at Bantry and optimized certain wells and facilities at Bantry and Mitsue. The Company spud its first horizontal well at Mitsue in the fourth quarter (0.6 net) which was not completed due to weather and finished drilling and completing the well in 2017. Cardinal also drilled and completed two exploratory (2.0 net) horizontal wells at Jenner West that were uneconomic.

During the year ended December 31, 2016 Cardinal entered into a farm-out agreement. The Farmee committed to drill and complete 3 vertical test wells in one of Cardinal's non-core operating area with a rolling option to earn additional lands. The three commitment wells were completed prior to the end of the year. In this non-monetary exchange the value of the royalties that Cardinal expects to receive of \$0.7 million was recorded as an acquisition of petroleum and natural gas properties with an after tax gain on the farm-out of \$0.5 million.

Capital Expenditures

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Land	91	5,397	(98)	278	6,158	(95)
Geological and geophysical	-	(16)	(100)	8	1,373	(99)
Drilling and completion	5,774	2,419	139	21,542	14,412	49
Equipment, facilities and pipelines	8,645	3,255	166	19,533	14,628	34
Total exploration and development ⁽¹⁾	14,510	11,055	31	41,361	36,571	13
Capitalized overhead	164	158	4	624	657	(5)
Other assets	24	31	(23)	38	111	(66)
Acquisitions, net	27,732	125,001	(78)	28,738	156,543	(82)
Total cash capital expenditures	42,430	136,245	(69)	70,761	193,882	(64)
Non-cash expenditures ⁽²⁾	5,497	5,821	(6)	5,497	5,821	(6)
Total capital expenditures ⁽³⁾	47,927	142,066	(66)	76,258	199,703	(62)

(1) Represents the total of exploration and evaluation and property, plant and equipment expenditures from the statements of cash flows less amounts recorded for capitalized overhead and other assets (included in the table of expenditures above).

(2) Share consideration associated with acquisitions and the value of the farm-out recognized in 2016.

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

DECOMMISSIONING OBLIGATION

The decommissioning obligation decreased by \$2.2 million from \$114.1 million at December 31, 2015 to \$111.9 million at December 31, 2016. The decrease primarily relates to \$3.8 million for acquisitions and \$8.3 million of accretion, offset by \$11.7 million for changes in estimates and \$2.7 million for decommissioning obligations settled.

LIQUIDITY AND CAPITAL RESOURCES

Capitalization table	As at		
	Dec 31, 2016	Dec 31, 2015	Change %
Net bank debt ⁽¹⁾	70,300	96,185	(27)
Convertible debentures	50,000	50,000	-
Shares outstanding	74,151,719	65,124,209	14
Market price at end of year (\$ per share)	\$ 10.59	\$ 8.77	21
Market capitalization	785,267	571,139	37
Total capitalization	905,567	717,324	26

(1) See non-GAAP measures.

CAPITAL FUNDING

As at December 31, 2016 Cardinal had a \$130 million syndicated revolving term credit facility and a \$20 million non-syndicated revolving operating term credit facility (the "Facilities") with a borrowing base of \$250 million. The Facilities are available on a revolving basis until May 26, 2017 and may be extended for a further 364 day period, subject to approval by the syndicate. There are no financial or other restrictive covenants related to the Facilities provided that Cardinal is not in default of the terms of the Facilities. Cardinal was in compliance with the terms of the Facilities at December 31, 2016.

The next scheduled review of the borrowing base is to be completed on or before May 26, 2017. 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 (see Liquidity). In accordance with the agreements governing the Facilities, Cardinal may request an increase in the Facilities up to the borrowing base.

Advances under the Facilities are available by way of either prime rate loans which bear interest at the banks' prime lending rate plus 0.7 to 2.0% and bankers' acceptances and/or LIBOR loans, which are subject to fees and margins ranging from 1.7 to 3.0%. Interest and standby fees on the undrawn amounts of the Facilities depend upon certain ratios. The Facilities are secured by a general security agreement over all of the Company's assets.

Cardinal has \$50 million of convertible debentures which have a maturity date of December 31, 2020. The convertible debentures have a conversion price of \$10.50 per common share and bear interest at 5.5% per annum, payable semi-annually on June 30 and December 31 each year. The convertible debentures are redeemable by the Company after January 1, 2019 subject to certain conditions.

On June 15, 2016, Cardinal closed a bought deal financing with a syndicate of underwriters and issued 7.15 million common shares at \$9.35 per common share for gross proceeds of \$66.9 million that were initially used to pay down bank debt.

CAPITAL STRUCTURE

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

The key measures that the Company utilizes in evaluating its capital structure are the credit available from the syndicate in relation to the Company's budgeted capital expenditure program and the ratio of net debt to adjusted funds flow (see non-GAAP measures).

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

	Twelve months ended	
	Dec 31, 2016	Dec 31, 2015
Bank debt	\$ 61,272	\$ 91,817
Principal amount of Convertible Debentures	50,000	50,000
Working capital deficiency ⁽¹⁾	9,028	4,368
Net debt	\$ 120,300	\$ 146,185
Cash provided from operating activities	\$ 60,962	\$ 86,735
Change in non-cash working capital	(4,585)	6,661
Funds flow	\$ 56,377	\$ 93,396
Decommissioning obligation expenditures	2,727	1,250
Adjusted funds flow	59,104	94,646
Net debt to adjusted funds flow	2.0	1.5

(1) excludes the fair value of commodity contracts and the current portion of the decommissioning obligation

Cardinal's ratio of net debt to adjusted funds flow at December 31, 2016 was 2.0 : 1, at the top end of the Company's target of less than 2 : 1. It is expected that the ratio will decrease in 2017 with improvements in commodity prices and increases in production. Excluding the convertible debentures the ratio at December 31, 2015 would have been 1.2 : 1 (2015 – 1.0 : 1)

The only change in Cardinal's approach to capital management during the year ended December 31, 2016 was to use the prior twelve months adjusted funds flow rather than the last quarter annualized adjusted funds flow to calculate the net debt to adjusted funds flow ratio. This change was made to reduce the volatility in the calculation from intra-period changes in commodity prices and differentials.

LIQUIDITY

The Company relies on adjusted funds flow, the unused portion of its facilities and equity issuances to fund its capital requirements and provide liquidity. As at December 31, 2016 Cardinal had a working capital deficiency of \$9.0 million (excluding the fair value of commodity contracts and the current portion of the decommissioning obligation) and unused capacity (total credit capacity less net debt excluding the principal amount of convertible unsecured subordinated debentures) of \$79.7 million on its Facilities.

Since Cardinal's total Facilities are set at 60% of the borrowing base, management believes that there will not be a reduction in the amount of the Facilities available to the Company at the next scheduled review.

The Company believes that it is well positioned to take advantage of its internally developed opportunities funded through its available Facilities combined with anticipated adjusted funds flow. Present sources of capital are currently anticipated to be sufficient to satisfy the Company's capital program and dividend payments for the 2017 fiscal year.

GUIDANCE

Cardinal met its 2016 guidance for adjusted funds flow of \$60 million and annual average production of 14,600 boe/d. The Company exceeded its \$35 million exploration and development capital budget by \$6.4 million, drilling and or completing three additional Bantry horizontal wells in the fourth quarter. This also resulted in an increase in the Company's total payout ratio to 111%. Net bank debt exceeded guidance by approximately \$35 million primarily due to the closing of the acquisition in Wainwright prior to the end of the year.

Cardinal's Board of Directors approved a 2017 base capital expenditure budget of \$100 million, including a proposed acquisition that is expected to close on March 17, 2017 (see Subsequent Events). Our guidance for 2017 (assuming the successful closing of the proposed acquisition) is summarized as follows:

Production

Oil and NGLs (bbl/d)	13,900 - 14,300
Natural Gas (mcf/d)	17,400 - 18,000
Total (boe/d)	16,800 - 17,300

Expenses (\$/boe)

Operating	\$19.75 - \$20.25
G&A	\$2.10 - \$2.30

Financial

Adjusted funds flow ⁽¹⁾	\$92,000
Development capital expenditures	\$58,000
Acquisitions ⁽²⁾	\$41,000
Weighted average shares basic	78,293
Weighted average shares diluted ⁽³⁾	82,493

1. Adjusted funds flow of \$92 million based on an average oil price of \$55/bbl WTI, a differential to WCS of \$19 CAD, a natural gas price of \$3/mcf AECO and a US/CAD exchange rate of 0.74.
2. The value of the share consideration was estimated based on the three-day volume weighted average closing price of the common shares of Cardinal prior to entering into of the acquisition agreement.
3. Excluding convertible debentures.

DIVIDENDS

	Three months ended			Year ended		
	Dec 31, 2016	Dec 31, 2015	Change %	Dec 31, 2016	Dec 31, 2015	Change %
Dividends declared	7,747	13,664	(43)	29,584	49,911	(41)
Reinvested dividends (DRIP and SDP)	(636)	(1,006)	(37)	(1,825)	(3,713)	(51)
Net cash dividends	7,111	12,658	(44)	27,759	46,198	(40)
Dividends declared per share	\$ 0.105	\$ 0.21	(50)	\$ 0.42	\$ 0.84	(50)

During the year ended December 31, 2016, \$29.6 million of dividends (\$0.42 per common share) were declared of which \$25.5 million was paid in cash, \$2.6 million was recognized as a liability at December 31, 2016 and \$1.5 million was settled on the issuance of 168,231 common shares pursuant to the Company's no discount DRIP and SDP. The dividend payable was settled on January 15, 2017 with cash of \$2.3 million and \$0.3 million was recognized on the issuance of 29,448 Cardinal common shares pursuant to the DRIP and SDP.

The Company has a dividend reinvestment plan ("DRIP") and a stock dividend program ("SDP") which enable shareholders to receive dividends in common shares rather than cash. Cardinal intends to suspend both of its DRIP and SDP for our May, 2017 dividend payment. The suspension of these plans will eliminate the dilution that these programs have had on Cardinal's per share performance.

SHARE CAPITAL

On January 18, 2016, Cardinal granted 1,806,568 Restricted Bonus Awards ("RAs") to officers, directors and employees pursuant to the Company's restricted bonus award plan.

On June 15, 2016, Cardinal closed a bought deal financing with a syndicate of underwriters and issued 7.15 million common shares at \$9.35 per common share.

On December 6, 2016 Cardinal issued 500,000 common shares valued at \$4.8 million as partial consideration for the acquisition in Wainwright.

Equity Instruments as at	Mar 13, 2017	Dec 31, 2016
Common shares	75,180,296	74,151,719
Convertible debentures (\$50.0 million convertible at \$10.50)	4,761,905	4,761,905
RAs	2,545,770	2,688,723
Warrants (adjusted for dividends)	366,865	727,800
Stock options	144,726	184,726

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 leases summarized in *Commitments and Contractual Obligations*.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

At December 31, 2016, the contractual maturities of Cardinal's obligations were as follows:

	2017	2018	2019	2020	2021	Thereafter
Head office lease	1,101	1,870	1,870	1,870	1,909	3,819
Field office lease	130	130	130	22	-	-
Trade and other payables	35,267	-	-	-	-	-
Dividends payable	2,595	-	-	-	-	-
Bank debt	-	61,272	-	-	-	-
Convertible debentures	2,750	2,750	2,750	52,750	-	-
	\$ 41,843	\$ 66,022	\$ 4,750	\$ 54,642	\$ 1,909	\$ 3,819

Cardinal is also committed to incur qualifying Canadian Exploration Expense of \$0.8 million prior to December 31, 2017.

SUBSEQUENT EVENTS

On **January 9, 2017**, a total of 980,178 RAs were issued to Cardinal's officers, directors and employees. The market value of Cardinal's common shares at the grant date was \$10.50. During the period from January 1, 2017 to March 13, 2017 1,109,451 RA's (before the dividend adjustment) were settled.

On **January 13, 2017**, the Company confirmed that a dividend of \$0.035 per common share would be paid on February 15, 2017 to shareholders of record on January 31, 2017. The total amount of dividends declared at January 31, 2017 was \$2.6 million, of which \$2.4 million was paid in cash and the remaining balance participated in the Company's DRIP and SDP programs.

On **January 23, 2017**, the Company entered into a definitive agreement to acquire certain petroleum and natural gas properties (the "Acquisition") adjacent to Cardinal's Mitsue properties that is expected to close on March 17, 2017. Total consideration to be provided consists of approximately 4 million of the Company's common shares and \$4 million cash, before closing adjustments.

On **February 14, 2017**, the Company confirmed that a dividend of \$0.035 per common share would be paid on March 15, 2017 to shareholders of record on February 28, 2017. The total amount of dividends declared at February 28, 2017 was \$2.6 million, of which \$2.5 million was paid in cash and the remaining balance participated in the Company's DRIP and SDP programs.

On **March 13, 2017**, the Company confirmed that a dividend of \$0.035 per common share will be paid on April 17, 2017 to shareholders of record on March 31, 2017.

ADDITIONAL INFORMATION

CRITICAL ACCOUNTING ESTIMATES

Cardinal's significant accounting policies including the use of judgments and key sources of estimation uncertainty are disclosed in note 3 to the December 31, 2016 financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Cardinal continuously refines its management and reporting systems to ensure that accurate, timely and useful information is gathered and disseminated. Cardinal's financial and operating results incorporate certain estimates including the following:

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

Past estimates are reviewed and analyzed regularly to improve the accuracy of future estimates. New information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.

RISKS

Financial Risk

Financial risk is the risk of loss or lost opportunity resulting from financial management and market conditions that could have a positive or negative impact on Cardinal's business. Financial risks the Company is exposed to include: marketing production at an acceptable price given market conditions; finding and producing reserves at a reasonable cost; volatility in market prices for oil and natural gas; fluctuations in foreign exchange and interest rates; stock market volatility; debt service which may limit timing or amount of dividends as well as market price of shares; the continued availability of adequate debt and equity financing and funds flow to fund planned expenditures; sufficient liquidity for future operations; lost revenue or increased expenditures as a result of delayed or denied environmental, safety or regulatory approvals; cost of capital risk to carry out the Company's operations; and uncertainties associated with credit facilities and counterparty credit risk.

Operational Risk

Operational risk is the risk of loss or lost opportunity resulting from operating and capital activities that, by their nature, could have an impact on the Company's ability to achieve objectives. Operational risks that Cardinal is exposed to include: uncertainties associated with estimating oil and natural gas reserves; incorrect assessments of the value of acquisitions and exploration and development programs; failure to realize the anticipated benefits of acquisitions; uncertainties associated with partner plans and approvals; operational matters related to non-operated properties; inability to secure adequate product transportation; delays in business operations, pipeline restrictions, blowouts; unforeseen title defects; increased competition for, among other things, capital, acquisitions of reserves and undeveloped lands; competition for and availability of qualified personnel or management; loss of key personnel; unexpected geological, technical, drilling, construction and processing problems; availability of insurance; competitive action by other companies; the ability of suppliers to meet commitments and risks; and uncertainties related to oil and gas interests and operations on tribal lands.

Safety, Environmental and Regulatory Risks

Safety, environmental and regulatory risks are the risks of loss or lost opportunity resulting from changes to laws governing safety, the environment, royalties and taxation. Safety, environmental and regulatory risks that Cardinal is exposed to include: aboriginal land claims; uncertainties associated with regulatory approvals; uncertainty of government policy changes; the risk of carrying out operations with minimal environmental impact; changes in or adoption of new laws and regulations or changes in how they are interpreted or enforced; obtaining required approvals of regulatory authorities and stakeholder support for activities and growth plans.

On June 13, 2016, the province of Alberta received royal assent for its Climate Leadership Plan which will impact businesses that contribute to carbon emissions in Alberta. The plan's four key areas include imposing a carbon pricing levy that is applied across all sectors, starting at \$20 per tonne on January 1, 2017 and moving to \$30 per tonne on January 1, 2018, and a 45 percent reduction in methane emissions by the oil and gas sector by 2025. The Company has evaluated the impact of the plan on its operations and expects that there will be minimal immediate impact as the majority of the Company's operations will qualify for an exemption from the levy until 2023.

In June 2016 the Alberta Energy Regulator "AER" released Bulletin 2016-16 which, among other things, implements important changes to the AER's procedures relating to liability management ratings, licence eligibility and transfers. These changes may impact Cardinal's ability to transfer its licences, approvals or permits, and may result in increased costs and delays or require changes to or abandonment of projects and transactions. To date the change in these procedures has not impacted the Company's ability to acquire new properties.

The Extractive Sector Transparency Measures Act "ESTMA" was brought into force on June 1, 2015. ESTMA delivers on Canada's international commitments to contribute to global efforts to increase transparency and deter corruption in the extractive sector. ESTMA requires extractive entities to publicly disclose, on an annual basis, specific payments made to all Governments in Canada and abroad. The Company expects that its first report will be filed with the Government of Canada and will be made available on its website prior to May 30, 2017.

Information Systems

Our operations rely heavily on information technology, such as computer hardware and software systems, to properly operate our business. These systems could be damaged, corrupted or interrupted by natural disasters, telecommunications failures, power loss, malicious acts or code, computer viruses, physical or electronic security breaches, user misuse or user error. A system disruption or breach could adversely impact our reputation, financial condition, results of operations and cash flows.

Risk Management

Cardinal is committed to identifying and managing its risks in the near term, as well as on a strategic and longer term basis at all levels in the organization. Issues affecting, or with the potential to affect, our assets, operations and/or reputation, are generally of a strategic nature or are emerging issues that can be identified early and then managed, but occasionally include unforeseen issues that arise unexpectedly and must be managed on an urgent basis.

Cardinal takes a proactive approach to the identification and management of issues that can affect the Company's assets, operations and/or reputation. Specific actions to ensure effective risk management include: employing qualified professional and technical staff; concentrating in a limited number of areas with low cost exploitation and development objectives; utilizing the latest technology for finding and developing reserves; constructing quality, environmentally sensitive and safe production facilities; adopting and communicating sound policies governing all areas of our business; maximizing operational control of drilling and production operations; strategic hedging of commodity prices; adhering to conservative borrowing guidelines; and monitoring counterparty creditworthiness.

NEW ACCOUNTING PRONOUNCEMENTS

Certain standards and amendments were issued effective for accounting periods beginning on or after January 1, 2017. Many of these updates are not applicable or not consequential to the Company and have been excluded from the discussion below.

In the year ended December 31, 2016, no new IFRS standards and amendments have been adopted by the Company.

New standards and interpretations not yet adopted.

Leases

On January 13, 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded.

IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 "Revenue From Contracts With Customers" has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. It is anticipated that the adoption of IFRS 16 will not have a material impact on the Company's Balance Sheets as there are no material operating lease commitments as disclosed in Note 17. The Company plans to apply IFRS 16 initially on January 1, 2019; however, the transition approach on adoption has not yet been determined.

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, 2018, 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 and plans to adopt the standard for its year ended December 31, 2018.

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. The Company does not expect the change in the impairment model will have a material impact on the financial statements.

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 plans to adopt the standard for its year ended December 31, 2018.

DISCLOSURE CONTROLS AND PROCEDURES

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

The CEO and the CFO have evaluated the effectiveness of Cardinal's disclosure controls and procedures as at December 31, 2016 and have concluded that such disclosure controls and procedures are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013").

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in NI 52-109, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and the CFO have evaluated the design and operating effectiveness of Cardinal's ICOFR as at December 31, 2016 and have concluded that such internal controls over financial reporting are designed and operating effectively. The control framework Cardinal's officers used to design the Company's ICOFR is COSO 2013.

There were no changes in Cardinal's ICOFR during the year ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, the Company's ICOFR.

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

OUTLOOK

Cardinal intends to continue to maintain a prudent approach to capital management while focusing on balance sheet strength and maintaining a significant and sustainable dividend all within adjusted funds flow. Cardinal remains constructive on a crude oil price recovery through-out 2017 and has started executing a budget that focuses on development of all three of our core areas and expects an average annual production increase between 15% and 18% over 2016. We expect this approach to deliver strong returns to shareholders in 2017 and beyond.

The low decline nature of our base production requires a limited number of wells each year to replace production. Our 2017 capital program is broader than in previous years and has drilling in all three of our core areas. The major components of the 2017 development capital budget are \$16 million for facilities and pipelines, \$32.7 million for the drilling of 18 wells as well as to spend \$4 million on environmental and reclamation initiatives. We will continue to evaluate acquisition opportunities through the year with the goal of increasing our light oil weighting and drilling inventory.

Cardinal maintains a conservative borrowing policy. At year end we had approximately \$70 million drawn on our \$150 million credit facility. Our borrowing base is currently set by our lenders at \$250 million and Cardinal chooses to maintain a smaller credit facility.

QUARTERLY DATA

	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Production				
Oil and NGL (bbl/d)	12,586	13,027	12,870	12,597
Natural gas (mcf/d)	12,178	11,578	10,506	9,886
Oil equivalent (boe/d)	14,616	14,957	14,621	14,245
Financial				
Revenue	58,721	53,673	50,124	33,424
Loss	(31,995)	(4,366)	(35,317)	(15,644)
Basic per share (\$)	(0.43)	(0.06)	(0.52)	(0.24)
Diluted per share (\$)	(0.43)	(0.06)	(0.52)	(0.24)
Cash flow from operating activities	9,728	22,092	11,167	17,975
Adjusted funds flow	16,247	18,177	16,922	7,758
Basic per share (\$)	0.22	0.25	0.25	0.12
Diluted per share (\$)	0.22	0.25	0.25	0.12
Working capital deficiency ⁽¹⁾	(9,028)	(12,056)	(6,891)	(10,225)
Total assets	946,237	931,041	941,999	945,998
Bank debt	61,272	23,092	25,017	86,797
Principal amount of convertible debentures	50,000	50,000	50,000	50,000
Total long-term liabilities ⁽²⁾	228,437	197,282	200,381	249,318
Shareholders' equity	651,080	681,250	689,987	661,463
Weighted average shares - basic (000's)	73,728	73,501	67,356	65,725
Weighted average shares - diluted (000's)	73,728	73,501	67,356	65,725
Common shares outstanding (000's)	74,152	73,518	73,482	65,936
Diluted shares outstanding (000's)	82,515	81,886	81,845	74,309
	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Production				
Oil and NGL (bbl/d)	12,176	10,321	10,430	10,225
Natural gas (mcf/d)	9,696	5,390	5,179	4,785
Oil equivalent (boe/d)	13,792	11,220	11,294	11,023
Financial				
Revenue	43,300	42,949	53,442	38,409
Earnings (loss)	938	(105,674)	21,685	(12,847)
Basic per share (\$)	0.01	(1.83)	0.38	(0.22)
Diluted per share (\$)	0.01	(1.83)	0.37	(0.22)
Cash flow from operating activities	9,121	32,497	21,469	23,648
Adjusted funds flow	17,955	24,810	29,937	21,944
Basic per share (\$)	0.29	0.43	0.52	0.38
Diluted per share (\$)	0.28	0.43	0.51	0.38
Working capital deficiency ⁽¹⁾	(4,368)	(14,673)	(9,205)	(5,840)
Total assets	964,333	812,378	920,025	883,738
Bank debt	91,817	56,724	53,227	40,095
Principal amount of convertible debentures	50,000	-	-	-
Total long-term liabilities	251,445	140,347	136,509	124,624
Shareholders' equity	680,446	634,612	743,034	727,091
Weighted average shares - basic (000's)	62,957	57,760	57,438	57,197
Weighted average shares - diluted (000's)	64,280	57,760	58,814	57,197
Common shares outstanding (000's)	65,124	58,334	57,586	57,334
Diluted shares outstanding (000's)	72,357	60,849	60,084	59,834

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

Quarterly production in 2015 was consistent at approximately 11,000 boe/d until the fourth quarter of 2015 when the Company closed the Mitsue acquisition. Production increased in 2016 due to a full quarter of results from the Mitsue acquisition and our successful drilling program at Bantry. Revenue has varied primarily due to changes in commodity prices.

Adjusted funds flow for the first quarter of 2016 decreased significantly compared to prior quarters primarily due to a decrease in commodity prices and continued to be lower in 2016 compared to 2015 due to a decrease in realized gains on commodity contracts. Cardinal's quarterly earnings (loss) has varied significantly due changes in realized gains and unrealized losses on commodity contracts, an impairment of \$156.9 million in the third quarter of 2015 and a gain on acquisition in the second quarter of 2015 of \$27.8 million.

ANNUAL DATA

	2016	2015	2014
Production			
Oil and NGL (bbl/d)	12,771	10,792	7,102
Natural gas (mcf/d)	11,042	6,273	4,277
Oil equivalent (boe/d)	14,611	11,838	7,815
Financial			
Revenue	195,942	178,100	206,685
Earnings (loss)	(87,322)	(95,898)	53,806
Basic per share (\$)	(1.25)	(1.63)	1.23
Diluted per share (\$)	(1.25)	(1.63)	1.20
Cash flow from operating activities	60,962	86,735	92,163
Adjusted funds flow	59,104	94,646	95,179
Basic per share (\$)	0.84	1.61	2.18
Diluted per share (\$)	0.84	1.61	2.12
Dividends per share (\$)	0.42	0.84	0.71
Working capital deficiency ⁽¹⁾	(9,028)	(4,368)	(6,330)
Total assets	946,237	964,333	913,253
Bank debt	61,272	91,817	47,735
Principal amount of convertible debentures	50,000	50,000	-
Total long-term liabilities	228,437	251,445	135,548
Shareholders' equity	651,080	678,088	747,928
Weighted average shares - basic (000's)	70,097	58,852	43,604
Weighted average shares - diluted (000's)	70,097	58,852	44,906
Common shares outstanding (000's)	74,152	65,124	56,819
Diluted shares outstanding (000's)	82,515	72,357	58,906

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

Annual production has increased from 2014 primarily due to the Wainwright acquisitions that closed in 2014, the Mitsue acquisition that closed in the fourth quarter of 2015 and successful drilling at Bantry. Revenue has varied primarily due to changes in commodity prices.

Adjusted funds flow decreased significantly in 2016 primarily due to a decrease in realized gains on commodity contracts. Adjusted funds flow in 2015 was consistent with 2014 as realized gains on commodity contracts and an increase in production partially offset a decrease in crude oil prices. Cardinal's earnings (loss) varied significantly due to changes in realized gains and unrealized losses on commodity contracts and an impairment of \$156.9 million and gain on acquisition of \$32.8 million in 2015.

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:

- capital expenditure budget and development capital plans;
- anticipated production and production mix, including expectations for 2017;
- Cardinal's acquisition and growth plans and the source of funding;
- anticipated future production;
- estimated tax pools, future taxability and future taxable income;
- expectations to maintain the total Facilities at \$150 million at the next scheduled review and the timing of this review;
- plans to maintain a conservative leverage profile through a targeted net debt to adjusted funds flow ratio of less than 2.0;
- anticipated decline rates;
- expectations with respect to payout ratios, funds flow, adjusted funds flow and other financial results;
- anticipated operating and G&A expenses;
- Cardinal's business strategy, goals and management focus;
- closing of the proposed acquisition as anticipated, realizing the expected benefits therefrom and the value of the consideration to be provided;
- achieving the Company's guidance for 2017;
- Cardinal's dividend plans, the amount, timing and sources of funding of the payment of future dividends and the consistency of our dividend policy;
- the timing of the suspension of the DRIP and SDP and the benefits to be obtained therefrom;
- Cardinal's risk management strategy and the benefits to be obtained therefrom;
- sources of funds for the Company's operations, capital expenditures and decommissioning obligations;
- future liquidity and the Company's access to sufficient debt and equity capital;
- Cardinal's asset base and future prospects for development and growth therefrom;
- expectations regarding the business environment, industry conditions, future commodity prices and differentials;
- future acquisition plans;
- Cardinal's 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 and future wells, the success of its exploration and development activities, the sufficiency and timing of budgeted capital expenditures in carrying out planned activities, the availability and cost of labor and services, the impact of increasing competition, conditions in general economic and financial markets, availability of drilling and related equipment, effects of regulation by governmental agencies, the ability to obtain financing on acceptable terms which are subject to change based on commodity prices, market conditions, drilling success and potential timing delays.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Cardinal's control. Such risks and uncertainties include, without limitation: the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; currency fluctuations; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel, drilling rigs or other services; changes in income tax

laws or changes in royalty rates and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; and ability to access sufficient capital from internal and external sources.

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

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

Frequently Used Terms

Term or abbreviation

"bbl"	Barrel(s)
"bbl/d"	Barrel(s) per day
"boe"	Barrel(s) of oil equivalent
"boe/d"	Barrel(s) of oil equivalent per day
"COGE Handbook"	Canadian Oil and Gas Evaluation Handbook
"Drip"	Dividend reinvestment plan
"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
"NGL"	Natural gas liquids
"n/m"	Not meaningful ie absolute value greater than 300 %
"OPEC"	Organization of the Petroleum Exporting Countries
"SDP"	Stock dividend program
"US"	United States
"USD"	United States dollars
"WCS"	Western Canadian Select
"WTI"	West Texas Intermediate