



CARDINAL
ENERGY LTD.



2017

MANAGEMENT DISCUSSION & ANALYSIS

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, 2017 and is dated March 20, 2018. The MD&A should be read in conjunction with Cardinal's audited financial statements as at and for the year ended December 31, 2017 and 2016. 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 and Saskatchewan. 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", "net bank debt to annualized adjusted funds flow", "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.

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, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Cash flow from operating activities	24,442	9,728	151	76,530	60,962	26
Change in non-cash working capital	2,912	4,634	(37)	1,525	(4,585)	(133)
Funds flow	27,354	14,362	90	78,055	56,377	38
Decommissioning expenditures	1,067	1,885	(43)	3,933	2,727	44
Adjusted funds flow	28,421	16,247	75	81,988	59,104	39

"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 Dividend Reinvestment Program ("DRIP") and Stock Dividend Program ("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 Canadian Oil and Gas Evaluation ("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. "Net bank debt to annualized adjusted funds flow" is calculated as net bank debt divided by adjusted funds flow for the most recent quarter, annualized.

"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

On March 17, 2017, Cardinal closed an acquisition in our North Alberta core area at Grande Prairie which added approximately 1,600 boe/d of production and light oil development opportunities ("Grande Prairie Acquisition").

On June 30, 2017, Cardinal closed an acquisition in House Mountain/Midale which added approximately 5,600 boe/d of low decline light oil production and development drilling inventory ("House Mountain/Midale Acquisition").

Increased annual production by 28% and fourth quarter production by 43% which included a 39% increase in crude oil production compared to 2016.

Achieved a 151% increase in cash flow from operating activities and a 75% increase in adjusted funds flow during the fourth quarter compared to the same period in 2016. For 2017, cash flow from operating activities and adjusted funds flow increased 26% and 39%, respectively, compared to 2016.

Fourth quarter 2017 operating costs per boe decreased 12% over the same period in 2016 to average \$20.34 per boe.

Netbacks improved 52% in the fourth quarter and 70% for 2017, to average \$22.64/boe and \$18.36/boe, respectively over the same periods in 2016.

During the fourth quarter, Cardinal closed the sale of a royalty package at Wainwright for gross proceeds of \$14.5 million.

OPERATIONS

PRODUCTION

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Crude oil (bbl/d)	17,057	12,273	39	15,150	12,464	22
NGL (bbl/d)	886	313	183	652	307	112
Crude oil and NGL (bbl/d)	17,943	12,586	43	15,802	12,771	24
Natural gas (mcf/d)	18,032	12,178	48	17,431	11,042	58
boe/d	20,948	14,616	43	18,707	14,611	28
% Crude oil and NGL production	86%	86%	(1)	84%	87%	(3)

Fourth quarter production increased 43% over the fourth quarter of 2016 due to the Grande Prairie and House Mountain/Midale Acquisitions which closed in the first half of 2017. In addition, successful 2017 drilling results at Bantry, Mitsue, and Grande Prairie added oil production during the fourth quarter. The increase in natural gas production is primarily due to the Grande Prairie Acquisition. Cardinal drilled three light oil wells in Grande Prairie that were brought on production late in the fourth quarter.

For the year ended December 31, 2017, production increased by 28% over 2016 due to the Grande Prairie and House Mountain/Midale Acquisitions and drilling at Bantry, Mitsue, and Grande Prairie which more than offset the low decline of the Company's base production. Through these acquisitions, the Company's current crude oil/NGL weighting increased to approximately 86% of total production.

REVENUE

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Crude oil	92,323	54,418	70	293,508	184,771	59
NGL	3,093	620	n/m	7,531	1,798	n/m
Crude oil and NGL	95,416	55,038	73	301,039	186,569	61
Natural gas	2,230	3,683	(39)	12,805	9,373	37
Petroleum and natural gas revenue	97,646	58,721	66	313,844	195,942	60
Cardinal average prices						
Crude oil (\$/bbl)	58.83	48.19	22	53.08	40.50	31
Natural gas (\$/mcf)	1.34	3.29	(59)	2.01	2.32	(13)
Equivalent (\$/boe)	50.66	43.67	16	45.96	36.64	25
Benchmark prices						
Crude oil - WTI (US \$/bbl)	55.40	49.29	12	50.95	43.32	18
Crude oil - WCS (Cdn \$/bbl)	48.44	44.31	9	48.78	38.30	27
Natural gas - AECO Spot (Cdn \$/gj)	1.72	3.11	(45)	2.20	2.18	1
Exchange rate - (US/Cdn)	0.79	0.75	5	0.77	0.76	1

During the fourth quarter, petroleum and natural gas revenue increased by 66% over the fourth quarter of 2016 primarily due to a 22% increase in Cardinal's average realized crude oil price combined with a 39% increase in oil production. Cardinal's crude oil price increased 22% as compared to a 7% increase in the Company's CAD\$ WTI benchmark due to incremental light oil volumes added through the Grande Prairie and House Mountain/Midale Acquisitions.

Annual revenues increased by 60% over 2016, primarily due to a 31% increase in Cardinal's average realized crude oil price combined with a 28% increase in production. In addition, the Company's NGL revenue increased due to additional volumes from the Grande Prairie Acquisition combined with increased propane and butane market pricing over the same period in 2016.

FINANCIAL INSTRUMENTS

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Average crude oil volumes hedged (bbl/d)	7,000	6,250	12	6,458	6,375	1
Realized gain (loss) - commodity contracts	(5,433)	125	n/m	(15,182)	16,405	(193)
Unrealized gain (loss) - commodity contracts	(14,845)	(19,080)	(22)	16,444	(60,411)	(127)

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, WCS and AECO outstanding:

Commodity Derivative Traded	Period	Average Volume	Average Strike Price
Crude Oil			
CDN WTI Swap	Jan - Dec 2018	7,911 bbl/d	\$ 69.15
CDN WTI Swap	Jan - Jun 2019	671 bbl/d	\$ 75.88
CDN WTI Collar	Jan - Dec 2018	2,992 bbl/d	Put \$ 64.75 Call \$ 74.92
CDN WTI Collar	Jan - Jun 2019	500 bbl/d	Put \$ 70.00 Call \$ 80.00
WCS Differential	Jan - Dec 2018	2,570 bbl/d	\$ 18.94
Natural Gas			
AECO Swap	Jan - Dec 2018	7,086 gj/d	\$ 2.20
	Jan - Mar 2019	2,000 gj/d	\$ 1.74
AECO Collar	Jan - Dec 2018	2,000 gj/d	Put \$ 2.00 Call \$ 3.00

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 Cdn WTI and 2,000 bbl/d for fiscal 2019 at an weighted average price of \$68.50 Cdn WTI.

ROYALTIES

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Royalties	14,810	7,488	98	45,514	24,639	85
Percent of revenue	15.2%	12.8%	19	14.5%	12.6%	15
\$/boe	7.68	5.57	38	6.67	4.61	45

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 and royalties as a percentage of revenue increased during the fourth quarter and year ended 2017 as compared to the same periods in 2016 due to increased commodity prices and the incremental production added through the Grande Prairie and House Mountain/Midale Acquisitions. The acquired properties have a higher royalty rate as compared to Cardinal's previous corporate royalty rate due to the higher price received on the lighter oil properties. In addition, the Company's royalty rate increased in 2017 due to the royalty interest sold on its Wainwright properties as described in Capital Expenditures.

OPERATING EXPENSES

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Operating expenses	39,196	31,248	25	142,895	113,509	26
\$/boe	20.34	23.24	(12)	20.93	21.23	(1)

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 2017, operating expenses per boe decreased 12% over the fourth quarter of 2016 due to the Grande Prairie and House Mountain/Midale Acquisitions which have lower operating costs per boe compared to Cardinal's previous corporate average. In addition, reduced workovers and increased operating efficiencies in the fourth quarter of 2017 further reduced the Company's costs per boe.

Operating expenses per boe for the year ended December 31, 2017 slightly decreased in comparison to 2016 due to the addition of lower cost production from the Grande Prairie and House Mountain/Midale Acquisitions partially offset by increased electricity costs experienced in 2017.

NETBACK

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Petroleum and natural gas revenue	50.66	43.67	16	45.96	36.64	25
Royalties	7.68	5.57	38	6.67	4.61	45
Operating expenses	20.34	23.24	(12)	20.93	21.23	(1)
Netback ⁽¹⁾	22.64	14.86	52	18.36	10.80	70

(1) See non-GAAP measures.

Cardinal's netback increased by 52% to \$22.64 in the fourth quarter of 2017 compared to \$14.86 in the fourth quarter of 2016 and netback for the year increased by 70% to \$18.36 in 2017 from \$10.80 in 2016. The increases in netback are primarily due to a decrease in operating expenses, increases in average realized crude oil prices, and increase of light oil weighting of our production mix.

GENERAL AND ADMINISTRATIVE ("G&A")

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Gross G&A	7,937	3,056	160	20,621	11,914	73
Capitalized G&A and overhead recoveries	(1,162)	(354)	228	(2,818)	(1,326)	113
G&A	6,775	2,702	151	17,803	10,588	68
\$/boe	3.50	2.01	74	2.60	1.98	31

In the fourth quarter and full year of 2017, G&A and G&A costs per boe increased over the same periods in 2016 due to additional staff and related compensation to manage the Grande Prairie and House Mountain/Midale Acquisitions.

In the fourth quarter of 2017, the Company incurred additional severance and one-time transitional costs which impacted G&A costs per boe by approximately \$0.43 per boe due to the Company's reorganization. In addition, the Company incurred incremental costs related to its corporate cash incentive program which inflated its costs per boe over the prior nine months of 2017 and its forecasted 2018 levels.

In 2017, corporate insurance costs and office rent costs also increased over 2016 due to the Company's growth through the Grande Prairie and House Mountain/Midale Acquisitions.

SHARE-BASED COMPENSATION ("SBC")

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Gross SBC	436	3,022	(86)	8,557	11,646	(27)
Capitalized SBC	526	(325)	(262)	(274)	(1,258)	(78)
SBC	962	2,697	(64)	8,283	10,388	(20)
\$/boe	0.50	2.01	(75)	1.21	1.94	(38)

SBC expense for the fourth quarter of 2017 was \$1.0 million (\$0.50/boe) compared to \$2.7 million (\$2.01/boe) in the fourth quarter of 2016. For the year ended December 31, 2017, SBC was \$8.3 million (\$1.21/boe) compared to \$10.4 million (\$1.94/boe) in the same period of 2016.

SBC expense fluctuates depending on the number of unvested share awards outstanding and the fair value assigned to the awards on the grant date. The decreases in SBC expense are due to warrants and options that have fully vested in 2016, combined with the reversal of previously recognized SBC expense due to the forfeiture of restricted awards in connection with the corporate reorganization in 2017.

As at December 31, 2017, Cardinal had 3.1 million Restricted Bonus Awards (“RAs”) outstanding.

FINANCE

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Interest - bank debt	2,142	271	n/m	5,455	1,587	244
Other finance charges, net	184	163	13	573	567	1
Interest - convertible debentures	685	689	(1)	2,750	2,750	-
Accretion	2,742	2,295	19	9,874	9,145	8
Finance	5,753	3,418	68	18,652	14,049	33
\$/boe	2.98	2.54	17	2.73	2.63	4
Average bank debt	235,418	39,903	n/m	165,429	57,614	187
Interest rate - bank debt	3.6%	2.7%	34	3.3%	2.8%	18

Finance expense for the fourth quarter of 2017 and year ended December 31, 2017 increased due to additional interest on bank debt resulting from increased average bank debt outstanding and increased interest rates.

TRANSACTION COSTS

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Transaction costs	-	37	-100%	1,684	74	n/m

Transaction costs primarily relate to expenses incurred in connection with the House Mountain/Midale Acquisition.

DEPLETION AND DEPRECIATION ("D&D")

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Depletion and depreciation	24,515	20,273	21	94,732	83,041	14
\$/boe	12.72	15.08	(16)	13.87	15.53	(11)

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 for the fourth quarter of 2017 was \$24.5 million (\$12.72/boe), a 16% decrease on a per boe basis compared to the same period in 2016 while full year D&D per boe decreased 11% over the same period in 2016. Increased 2017 year-end proved plus probable reserve bookings combined with the acquisition of lower depletion rate properties from the Grande Prairie and House Mountain/Midale Acquisitions have decreased the Company's D&D costs per boe in the fourth quarter of 2017 and year ended December 31, 2017 over the same periods in 2016.

IMPAIRMENT

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Impairment	61,000	12,839	n/m	61,000	12,839	375%

PP&E

As at December 31, 2017 Cardinal determined that the carrying value of certain Cost Generating Units ("CGUs") exceeded the recoverable amount and recorded an impairment of \$60.8 million. The impairment recognized was the result of recent well performance and higher future costs within the Company's Alberta South (\$52.0 million) and Jenner (\$8.8 million) CGUs. The recoverable amount of Cardinal's impaired CGUs at December 31, 2017 was Alberta South (\$143.6 million) and Jenner (\$18.3 million). The Company did not identify any further indicators of impairment or impairment reversals for its other CGU's.

The recoverable value of the Company's CGUs was estimated as the value in use based on the net present value of before tax cash flows from crude oil and natural gas proved plus probable reserves estimated by Cardinal's third party reserve evaluators discounted between 10% to 20% depending on the reserves composition. The recoverable amount is sensitive to commodity price, discount rate, production volumes, royalty rates, operating costs and future capital expenditures. In determining the appropriate discount rate for each CGU, Cardinal considered various characteristics and risks of the assets.

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, 2017, however, it should be noted that all estimates are subject to uncertainty.

As at December 31, 2016 Cardinal determined that the carrying value of its Jenner CGU's exceeded its 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.

E&E

An expense of \$0.2 million was recorded for the year ended December 31, 2017 related to no future development plans on associated undeveloped land with pending expiries in a non-core area. The impairment in 2016 of \$5.8 million was drilling, completion and land acquisition costs related to two uneconomic wells at Jenner West.

DEFERRED TAXES

At December 31, 2017 the Company recorded a deferred tax asset of \$138.9 million (2016 – \$115.1 million). The deferred tax asset was recognized as management considers it probable that there will be sufficient future taxable income to utilize the benefits.

The Company has approximately \$1.5 billion of tax pools (\$1.4 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 2021 or beyond. Any potential taxes payable beyond 2021 would be affected by commodity prices, capital expenditures and production.

Tax Pool Balance	Maximum Annual Claim	As at December 31		
		2017	2016	Change %
COGPE	10%	731,801	558,585	31
CEE and non-capital losses	100%	423,428	334,956	26
CDE	30%	140,058	125,717	11
Undepreciated capital cost	25%	181,054	123,679	46
Other	20%	18,017	20,240	(11)
Total		1,494,358	1,163,177	28

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

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Loss for the period	(54,307)	(31,995)	70	(57,597)	(87,322)	(34)
\$/share						
Basic and diluted	(0.49)	(0.43)	14	(0.61)	(1.25)	(51)
Cash flow from operating activities	24,442	9,728	151	76,530	60,962	26
Adjusted funds flow	28,421	16,247	75	81,988	59,104	39
\$/share						
Basic and diluted	0.26	0.22	18	0.86	0.84	2
Total payout ratio	98%	116%	(16)	130%	111%	17
Simple payout ratio	42%	44%	(5)	49%	47%	4

For the fourth quarter of 2017, the Company had a loss of \$54.3 million compared to a loss of \$32.0 million in the fourth quarter of 2016 due to increased impairment charges in the fourth quarter of 2017. The increases in cash flow from operating activities and adjusted funds flow during the fourth quarter of 2017 predominantly related to increased production and commodity prices.

For the year ended December 31, 2017, the Company's loss decreased 34% due to reduced losses on risk management commodity contracts recorded in 2016 compared to 2017.

Cash flow from operating activities and adjusted funds flow increased in 2017 due to the increase in production and recovery of oil and NGL prices partially offset by a \$15.2 million realized loss on risk management commodity contracts while the same period in 2016 included a \$16.4 million realized gain on risk management commodity contracts.

The decrease in Cardinal's total payout ratio for the fourth quarter of 2017 from 116% to 98% is primarily due to the increase in adjusted funds flow. The total payout ratio for the year ended December 31, 2017 increased from 111% to 130% primarily due to the increase in development capital expenditures.

CAPITAL EXPENDITURES

Property Acquisitions

On March 17, 2017, Cardinal closed the Grande Prairie Acquisition in which the Company acquired petroleum and natural gas properties to expand its North Alberta core area and to increase its light oil development opportunities. Total consideration provided was \$31.2 million, before closing adjustments, consisting of approximately 4.0 million common shares valued at \$6.85 per share and \$3.6 million in cash with an associated decommissioning obligation of \$5.6 million. The Company recorded a deferred tax asset related to temporary differences in the carrying amount of the acquired properties and their tax bases which resulted from a decrease in the value of share consideration that was provided and an adjustment to the fair value of the properties acquired.

On June 30, 2017, Cardinal closed the House Mountain/Midale Acquisition consisting of light oil and natural gas properties which expanded its North Alberta core area, established a new core area in Southeast Saskatchewan and significantly increased the light oil weighting of our production mix. Total consideration provided was \$296 million in cash, before closing adjustments, with an associated decommissioning obligation of \$20.0 million.

Other Capital Expenditures

In 2017 Cardinal drilled, completed and tied-in 18 (15.8 net) horizontal wells including the well at Mitsue that was spud in the fourth quarter of 2016. In the fourth quarter, the Company drilled four (3.6 net) light oil wells and completed three (2.6 net) wells at Grande Prairie. Cardinal continued its planned expenditures to optimize certain wells and facilities in its core areas to enhance production and lower operating costs per boe.

In connection with a 2016 farm-out agreement the farmee drilled, completed and brought on production two vertical wells in 2017. In this non-monetary exchange, the value of the royalties that Cardinal expects to receive of \$0.5 million was recorded as an acquisition of petroleum and natural gas properties with an after tax gain on the farm-out of \$0.4 million.

Disposition

During 2017, the Company quit claimed non-core assets with a carrying value of \$2.8 million and an associated decommissioning obligation of \$0.6 million and recognized a loss of \$2.2 million.

On November 1, 2017, the Company sold a royalty interest on its Wainwright properties for gross proceeds of \$14.5 million.

Capital Expenditures

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Land	32	91	(65)	3,287	278	n/m
Geological and geophysical	292	-	-	731	8	n/m
Drilling and completion	6,890	5,774	19	33,605	21,542	56
Equipment, facilities and pipelines	8,687	8,645	0	28,830	19,533	48
Total exploration and development ⁽¹⁾	15,901	14,510	10	66,453	41,361	61
Capitalized overhead	477	164	191	1,188	624	90
Other assets	42	24	75	924	38	n/m
Acquisitions, net	(15,661)	27,732	(156)	285,017	28,738	n/m
Total cash capital expenditures	759	42,430	(98)	353,582	70,761	n/m
Non-cash expenditures ⁽²⁾	-	5,497	-	28,174	5,497	n/m
Total capital expenditures ⁽³⁾	759	47,927	(98)	381,756	76,258	n/m

(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) Represents share consideration associated with the Grande Prairie acquisition and the value of the farm-out recognized in 2017.

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

DECOMMISSIONING OBLIGATION

The decommissioning obligation increased by \$17.7 million from \$111.9 million at December 31, 2016 to \$129.6 million at December 31, 2017. The increase primarily relates to \$25.6 million for acquisitions and \$9.0 million of accretion partially offset by \$12.5 million change in estimates, \$0.6 million on the non-core asset disposition and \$3.9 million for decommissioning obligations settled. The change in estimates in 2017 is primarily related to a change in the timing and estimated amounts of future obligations.

LIQUIDITY AND CAPITAL RESOURCES

Capitalization table	As at		
	Dec 31, 2017	Dec 31, 2016	Change %
Net bank debt ⁽¹⁾	225,967	70,300	221
Convertible debentures	50,000	50,000	-
Shares outstanding	110,838,321	74,151,719	49
Market price at end of period (\$ per share)	\$ 5.09	\$ 10.59	(52)
Market capitalization	564,167	785,267	(28)
Total capitalization	840,134	905,567	(7)

(1) See non-GAAP measures.

CAPITAL FUNDING

As at December 31, 2017 Cardinal had a reserves-based revolving credit facility of \$325 million comprised of a \$295 million syndicated term credit facility and a \$30 million non-syndicated operating term credit facility (the "Facilities"). The Facilities are available on a revolving basis until May 25, 2018 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, 2017.

The borrowing base of the Facilities is primarily based on reserves and commodity prices estimated by the syndicate and is subject to review and redetermination on a semi-annual basis. The next scheduled review of the borrowing base is to be completed on or before May 25, 2018. 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).

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 21, 2017, Cardinal closed an offering with a syndicate of underwriters (the "Offering") to issue 30,910,000 subscription receipts (the "Receipts") at \$5.50 per Receipt for gross proceeds of approximately \$170 million. The Receipts were converted to common shares following the closing of the House Mountain/Midale Acquisition (see Share Capital).

In order to reduce bank debt, on November 1, 2017, the Company sold a royalty interest on its Wainwright properties for gross proceeds of \$14.5 million. In addition, subsequent to year-end, on March 7, 2018, the Company disposed of fee title lands in the Weyburn area of Saskatchewan and a new gross overriding royalty on the Mitsue Gilwood Unit for net proceeds of \$24 million plus additional working interests in certain producing wells in the Wainwright area.

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, 2017	Dec 31, 2016
Bank debt	\$ 218,905	\$ 61,272
Principal amount of Convertible Debentures	50,000	50,000
Working capital deficiency ⁽¹⁾	7,062	9,028
Net debt	\$ 275,967	\$ 120,300
Cash provided from operating activities	\$ 76,530	\$ 60,962
Change in non-cash working capital	1,525	(4,585)
Funds flow	\$ 78,055	\$ 56,377
Decommissioning obligation expenditures	3,933	2,727
Adjusted funds flow	81,988	59,104
Net debt to adjusted funds flow	3.4	2.0

(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, 2017 was 3.4 to 1, above the Company's target of less than 2 to 1 due to the House Mountain/Midale Acquisition. The ratio is expected to decrease after four consecutive quarters of adjusted funds flow with these properties and when proceeds from the sale of royalty interests are received. The Company will continue to evaluate further non-core asset dispositions or may consider other forms of financing to reduce its debt to within its targeted range.

LIQUIDITY

The Company relies on cash flow from operating activities, the unused portion of the Facilities and equity issuances to fund its capital requirements and provide liquidity. As at December 31, 2017 Cardinal had a working capital deficiency of \$7.1 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 and a letter of credit of \$2.0 million) of \$104.0 million on its Facilities.

The Company believes that it is well positioned to take advantage of its internally developed opportunities funded through its available Facilities combined with anticipated cash flow from operating activities. Present sources of capital are anticipated to be sufficient to satisfy the Company's capital program and dividend payments for the 2018 fiscal year.

DIVIDENDS

	Three months ended			Year ended		
	Dec 31, 2017	Dec 31, 2016	Change %	Dec 31, 2017	Dec 31, 2016	Change %
Dividends declared	11,896	7,747	54	40,904	29,584	38
Reinvested dividends (DRIP and SDP)	-	(636)	(100)	(756)	(1,825)	(59)
Cash dividends	11,896	7,111	67	40,148	27,759	45
Dividends declared per share	\$ 0.105	\$ 0.105	-	\$ 0.420	\$ 0.420	-

During the year ended December 31, 2017, \$40.9 million (2016 – \$29.6 million) of dividends (\$0.42 per common share) (2016 - \$0.42 per common share) were declared of which \$36.3 million (2016 - \$25.5 million) was paid in cash, \$4.2 million (2016 - \$2.6 million) was recognized as a liability at December 31, 2017, and \$0.4 million (2016 - \$1.5 million) was settled on the issuance of 59,559 (2016 – 168,231) common shares pursuant to the Company's DRIP and SDP. The dividend payable was settled on January 15, 2018. On March 13, 2017, Cardinal announced the suspension of the DRIP and SDP, effective for the April 2017 dividend paid on May 15, 2017.

SHARE CAPITAL

On January 9, 2017, Cardinal granted 980,178 RAs to officers, directors and employees pursuant to the Company's restricted bonus award plan. The market value of Cardinal's common shares at the grant date was \$10.50.

On March 17, 2017 Cardinal issued 4.0 million common shares valued at \$6.85 as partial consideration for the Grande Prairie Acquisition.

On June 30, 2017, Cardinal issued 30,910,000 common shares pursuant to the Offering at \$5.50 per common share for gross proceeds of approximately \$170 million.

On August 15, 2017, Cardinal granted 614,319 RAs pursuant to the Company's restricted bonus award plan to new staff added with the acquisition of the House Mountain/Midale properties. The market value of Cardinal's common shares at the grant date was \$3.98.

On December 14, 2017, Cardinal issued 475,000 flow-through common shares pursuant to a private placement at \$6.00 per common share for gross proceeds of \$2.9 million. The Company recorded a deferred liability for the related premium in the amount of \$0.6 million. The Company is committed to incur qualifying Canadian Exploration Expenditures prior to December 31, 2018.

Equity Instruments as at	March 20, 2018	December 31, 2017
Common shares	113,693,179	110,838,321
Convertible debentures (\$50.0 million convertible at \$10.50)	4,761,905	4,761,905
RAs	3,069,448	3,008,987
Stock options	79,449	108,337

The increase in common shares from December 31, 2017 primarily relates to the issuance of shares for the January 11, 2018 acquisition as noted below in Subsequent Events.

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, 2017, the Company had contractual obligations and commitments as follows:

	2018	2019	2020	2021	2022	Thereafter
Head office lease	1,436	1,436	1,436	1,475	1,475	1,475
Field office lease	33	130	22	-	-	-
Trade and other payables	52,914	-	-	-	-	-
Dividends payable	4,171	-	-	-	-	-
Bank debt	-	218,905	-	-	-	-
Capital commitments	4,351	-	-	-	-	-
Convertible debentures	2,750	2,750	52,750	-	-	-
	\$ 65,655	\$ 223,221	\$ 54,208	\$ 1,475	\$ 1,475	\$ 1,475

SUBSEQUENT EVENTS

On **January 9, 2018**, the Company confirmed that a dividend of \$0.035 per common share would be paid on February 15, 2018 to shareholders of record on January 31, 2018. The total amount of dividends declared at January 31, 2018 was \$4.0 million.

On **January 12, 2018**, the Company closed the consolidating acquisition increasing the Company's working interest in the Midale Unit from 68.8% to 77.2%. Subsequent to a right of first refusal being exercised by a third party, total consideration provided was \$18.5 million consisting of \$7.3 million in cash and the issuance of 2,314,815 common shares valued at \$4.86 per share.

On **February 12, 2018**, the Company confirmed that a dividend of \$0.035 per common share would be paid on March 15, 2018 to shareholders of record on February 28, 2018. The total amount of dividends declared at February 28, 2018 was \$4.0 million.

On **March 7, 2018**, the Company closed a disposition of fee title lands in the Weyburn area of Saskatchewan and a new gross overriding royalty on the Mitsue Gilwood Unit for net proceeds of \$24 million plus additional working interests in certain producing wells in the Wainwright area.

On **March 15, 2018**, the Company confirmed that a dividend of \$0.035 per common share would be paid on April 16, 2018 to shareholders of record on March 29, 2018.

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, 2017 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.

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 filed its first report with the Government of Canada on 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, 2018. Many of these updates are not applicable or not consequential to the Company and have been excluded from the discussion below.

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.

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. The Company is progressing and scoping the impact this standard has on the Company's financial statements.

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. Cardinal has performed a review of its revenue streams and sales contracts with customers and concluded that the adoption of IFRS 15 is not expected to have a material impact on the Company's net income. The Company plans to adopt the standard using the modified retrospective application on January 1, 2018 for its year ended December 31, 2018 and will expand its notes to the financial statements including revenue related disclosures.

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 will adopt the standard for its year ended December 31, 2018. The Company has determined the IFRS 9 will not have material impact on the Company's financial statements.

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, 2017 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, 2017 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 quarter ended December 31, 2017 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

2017 was a transformational year for Cardinal as we closed two large light oil acquisitions delivering on our goal of transitioning our asset base to focus on light oil production while continuing to build a high quality sustainable asset base with an approximate 10% annual decline rate. Cardinal has created a depth of light oil drilling inventory prospects with future production growth capabilities which will be utilized to maximize value. In 2018, we expect to continue with this transition by focusing our \$56 million base capital budget on light oil development opportunities.

We delivered on our operational metrics while also achieving a very strong health, safety and environmental reclamation record. In addition to our 2018 capital budget, Cardinal is committed to spending a percentage of its operating budget every year on well abandonments and surface reclamation.

Our focus for 2018 and beyond will be the continued de-risking of the Company by keeping our total payout ratio under 100% with the free cash flow used to reduce our debt exposure while continuing our light oil transformation and operating cost initiatives to increasing our corporate netbacks and paying our monthly dividend.

QUARTERLY DATA

	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Production				
Oil and NGL (bbl/d)	17,943	18,355	13,114	13,009
Natural gas (mcf/d)	18,032	18,650	20,021	12,952
Oil equivalent (boe/d)	20,949	21,463	17,154	15,168
Financial				
Revenue	97,646	86,022	67,602	62,574
Earnings (loss)	(54,308)	(12,070)	1,218	7,562
Basic per share (\$)	(0.49)	(0.11)	0.02	0.10
Diluted per share (\$)	(0.49)	(0.11)	0.02	0.10
Cash flow from operating activities	24,442	23,719	12,986	15,383
Adjusted funds flow	28,421	23,200	15,781	14,586
Basic per share (\$)	0.26	0.21	0.20	0.19
Diluted per share (\$)	0.26	0.21	0.20	0.19
Working capital deficiency ⁽¹⁾	(7,062)	(4,098)	(5,423)	(11,396)
Total assets	1,228,596	1,301,832	1,310,125	982,602
Bank debt	218,905	239,418	233,229	82,978
Principal amount of convertible debentures	50,000	50,000	50,000	50,000
Total long-term liabilities ⁽²⁾	397,980	428,774	420,227	249,806
Shareholders' equity	749,962	813,407	834,532	675,505
Weighted average shares - basic (000's)	110,446	110,278	79,612	75,557
Weighted average shares - diluted (000's)	110,446	111,046	80,511	76,919
Common shares outstanding (000's)	110,838	110,324	110,184	79,262
Diluted shares outstanding (000's)	118,718	118,287	117,984	87,123
	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

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

(2) – Includes bank debt and the liability component of convertible debentures

Production steadily increased in 2016 due to the successfully drilling at Bantry. Production increases in the first half of 2017 were due to the Wainwright and Grande Prairie acquisitions and drilling at Bantry and Mitsue and this was further increased and sustained in the third and fourth quarter of 2017 with the House Mountain/Midale Acquisition. Revenue and commodity prices decreased in the first quarter of 2016 but have steadily improved which, combined with increases in production, has resulted in increases in revenue.

Adjusted funds flow increased in the second and third quarters of 2016 compared to the first quarter of 2016 due to a significant recovery in commodity prices and a gradual increase in production. Adjusted funds flow in the first two quarters of 2017 was consistent with the fourth quarter of 2016 as increases in production and commodity prices were offset by realized losses on commodity contracts. Adjusted funds flow for the third and fourth quarter of 2017 increased primarily due to increased production from the House Mountain/Midale acquisition.

Cardinal's quarterly earnings and losses have varied significantly due to non-cash unrealized risk management contracts which include an unrealized loss on risk management contracts of \$39.9 million in the second quarter of 2016 versus an unrealized gain of \$19.9 million in the first quarter of 2017 and an unrealized gain of \$15.3 million in the second quarter of 2017. The Company's earnings can also fluctuate with non-cash impairment charges on its assets as shown with a fourth quarter 2016 impairment charge of \$12.8 million and an impairment charge of \$61.0 million in the fourth quarter of 2017.

ANNUAL DATA

	2017	2016	2015
Production			
Oil and NGL (bbl/d)	15,802	12,771	10,792
Natural gas (mcf/d)	17,431	11,042	6,273
Oil equivalent (boe/d)	18,707	14,611	11,838
Financial			
Revenue	313,844	195,942	178,100
Loss	(57,597)	(87,322)	(95,898)
Basic per share (\$)	0.61	(1.25)	(1.63)
Diluted per share (\$)	0.61	(1.25)	(1.63)
Cash flow from operating activities	76,530	60,962	86,735
Adjusted funds flow	81,988	59,104	94,646
Basic per share (\$)	0.86	0.84	1.61
Diluted per share (\$)	0.86	0.84	1.61
Dividends per share (\$)	0.42	0.42	0.84
Working capital deficiency ⁽¹⁾	(7,062)	(9,028)	(4,368)
Total assets	1,228,596	946,237	964,333
Bank debt	218,905	61,272	91,817
Principal amount of convertible debentures	50,000	50,000	50,000
Total long-term liabilities	397,980	228,437	251,445
Shareholders' equity	749,962	651,080	678,088
Weighted average shares - basic (000's)	94,113	70,097	58,852
Weighted average shares - diluted (000's)	94,113	70,097	58,852
Common shares outstanding (000's)	110,324	74,152	65,124
Diluted shares outstanding (000's)	118,203	82,515	72,357

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

Annual production has increased from 2015 primarily due to the Mitsue acquisitions that closed in 2015, Grande Prairie Acquisition, House Mountain/Midale Acquisition that closed in the first half of 2017 and successful drilling at Bantry and Grande Prairie. Revenue has varied primarily due to increases in production and volatility in commodity prices.

Adjusted funds flow decreased significantly in 2016 primarily due to a decrease in realized gains on commodity contracts but recovered in 2017 due to increased production and oil prices. Cardinal's earnings (loss) varied significantly due to changes in realized gains and unrealized losses on commodity contracts, an impairment of \$61.0 million in 2017, 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:

- Cardinal's acquisition, royalty disposition and growth plans and the source of funding;
- anticipated future production;
- the impact of the light oil, legacy asset acquisitions on us, including our operations and drilling inventory;
- estimated tax pools, future taxability and future taxable income;
- expectations to maintain the Facilities at \$325 million at the next scheduled review and the timing of this review;
- Cardinal's business strategy, goals and management focus;
- Cardinal's dividend plans, the amount, timing and sources of funding of the payment of future dividends and the consistency of our dividend policy;
- expectations with respect to the future sale of royalty interests to reduce bank debt;
- plans to maintain a conservative leverage profile through a targeted net debt to adjusted funds flow ratio of less than 2.0 once the proceeds of the royalty interest sales are realized;
- Cardinal's risk management strategy including the mitigation of our exposure to commodity price risk, medium crude oil differentials and power costs 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;
- 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 and future 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.

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
"gj/d"	Gigajoule(s) per day
"m" preceding a volumetric measure	1,000 units of the volumetric measure
"mcf"	Thousand cubic feet
"mcf/d"	Thousand cubic feet per day
"NGL"	Natural gas liquids
"n/m"	Not meaningful ie absolute value greater than 300 %
"SDP"	Stock dividend program
"US"	United States
"USD"	United States dollars
"WCS"	Western Canadian Select
"WTI"	West Texas Intermediate