



**CARDINAL**  
ENERGY LTD.



**FINANCIAL  
STATEMENTS**

**Q3 2016**

## CONDENSED INTERIM BALANCE SHEETS

As at (Unaudited, thousands)	Note	September 30, 2016	December 31, 2015
<b>ASSETS</b>			
Current assets			
Trade and other receivables		\$ 22,259	\$ 25,372
Deposits and prepaid expenses		4,126	1,271
Fair value of financial instruments	11	7,139	23,590
		<b>33,524</b>	50,233
Non-current assets			
Fair value of financial instruments	11	755	4,797
Exploration and evaluation assets	3	4,578	3,680
Property, plant and equipment	4	785,338	819,450
Deferred taxes		106,846	86,173
		<b>897,517</b>	914,100
<b>Total Assets</b>		<b>\$ 931,041</b>	<b>\$ 964,333</b>
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables		\$ 35,868	\$ 26,452
Dividends payable	9	2,573	4,559
Decommissioning obligation	7	950	950
Fair value of financial instruments	11	13,118	481
		<b>52,509</b>	32,442
Non-current liabilities			
Deferred flow-through share premium		1,012	721
Bank debt	5	23,092	91,817
Fair value of financial instruments	11	8,276	304
Liability component of convertible debentures	6	46,141	45,493
Decommissioning obligation	7	118,761	113,110
		<b>197,282</b>	251,445
<b>Total Liabilities</b>		<b>249,791</b>	283,887
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	833,419	756,998
Warrants	8	1,378	1,456
Equity component of convertible debentures	6	1,729	1,729
Contributed surplus		15,101	13,476
Deficit		(170,377)	(93,213)
<b>Total Shareholders' Equity</b>		<b>681,250</b>	680,446
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 931,041</b>	<b>\$ 964,333</b>
Subsequent event	12		

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

## CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

<i>(Unaudited, thousands except per share amounts)</i>	<i>Note</i>	Three months ended September 30,		Nine months ended September 30,	
		<b>2016</b>	2015	<b>2016</b>	2015
<b>Revenue</b>					
Petroleum and natural gas revenue		\$ 53,673	\$ 42,949	\$ 137,221	\$ 134,800
Royalties		(6,856)	(5,622)	(17,151)	(17,110)
Realized gain on commodity contracts	11	2,395	11,907	16,280	36,111
Unrealized gain (loss) on commodity contracts	11	2,886	16,989	(41,331)	(16,016)
		<b>52,098</b>	66,223	<b>95,019</b>	137,785
<b>Expenses</b>					
Operating		27,467	21,266	82,261	66,874
Unrealized loss (gain) on power contracts	11	(1)	1,051	(229)	(184)
General and administrative		2,508	2,610	7,886	8,406
Share-based compensation	10	2,718	2,432	7,691	6,969
Finance		3,399	2,019	10,631	6,146
Transaction costs		-	26	37	26
Depletion and depreciation	4	21,892	22,258	62,768	65,235
Impairment		-	156,913	-	156,913
Gain on acquisition and other		-	(1,308)	(471)	(29,101)
		<b>57,983</b>	207,267	<b>170,574</b>	281,284
Loss before deferred tax		(5,885)	(141,044)	(75,555)	(143,499)
Deferred tax reduction		(1,519)	(35,370)	(20,228)	(46,663)
Loss and comprehensive loss for the period		<b>\$ (4,366)</b>	\$ (105,674)	<b>\$ (55,327)</b>	\$ (96,836)
Loss per share	8				
Basic and diluted		<b>\$ (0.06)</b>	\$ (1.83)	<b>\$ (0.80)</b>	\$ (1.69)

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

## CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Unaudited, thousands except number of common shares)</i>	Number of Common Shares	Share Capital <i>(note 8)</i>	Warrants <i>(note 8)</i>	Equity Component of Convertible Debentures <i>(note 6)</i>	Contributed Surplus <i>(note 10)</i>	Retained Earnings (Deficit)	Total Shareholders' Equity
<b>January 1, 2015</b>	56,819,301	\$ 686,288	\$ 1,308	\$ -	\$ 7,736	\$ 52,596	\$ 747,928
Common shares issued in connection with acquisition	669,936	5,821	-	-	-	-	5,821
Issue of flow-through common shares	200,000	3,020	-	-	-	-	3,020
Exercise of options and warrants	118,543	732	(196)	-	(103)	-	433
Settlement of RAs <sup>(1)</sup>	318,610	3,511	-	-	(3,511)	-	-
Dividends (\$0.63 per share)	-	-	-	-	-	(36,248)	(36,248)
Issued pursuant to SDP and DRIP <sup>(2)</sup>	208,056	2,707	-	-	-	-	2,707
Share-based compensation	-	-	255	-	7,558	-	7,813
Share issue costs	-	(26)	-	-	-	-	(26)
Loss for the period	-	-	-	-	-	(96,836)	(96,836)
<b>September 30, 2015</b>	<b>58,334,446</b>	<b>\$ 702,053</b>	<b>\$ 1,367</b>	<b>\$ -</b>	<b>\$ 11,680</b>	<b>\$ (80,488)</b>	<b>\$ 634,612</b>
<b>January 1, 2016</b>	<b>65,124,209</b>	<b>\$ 756,998</b>	<b>\$ 1,456</b>	<b>\$ 1,729</b>	<b>\$ 13,476</b>	<b>\$ (93,213)</b>	<b>\$ 680,446</b>
Issue of common shares	7,150,000	66,853	-	-	-	-	66,853
Issue of flow-through common shares	350,000	3,224	-	-	-	-	3,224
Exercise of options and warrants	100,605	496	(200)	-	(15)	-	281
Settlement of RAs <sup>(1)</sup>	643,887	6,862	-	-	(6,862)	-	-
Dividends (\$0.315 per share)	-	-	-	-	-	(21,837)	(21,837)
Issued pursuant to SDP and DRIP <sup>(2)</sup>	149,001	1,189	-	-	-	-	1,189
Share-based compensation	-	-	122	-	8,502	-	8,624
Share issue costs, net of deferred tax of \$815	-	(2,203)	-	-	-	-	(2,203)
Loss for the period	-	-	-	-	-	(55,327)	(55,327)
<b>September 30, 2016</b>	<b>73,517,702</b>	<b>\$ 833,419</b>	<b>\$ 1,378</b>	<b>\$ 1,729</b>	<b>\$ 15,101</b>	<b>\$ (170,377)</b>	<b>\$ 681,250</b>

*(1) Restricted Bonus Awards ("RAs")*

*(2) Stock Dividend Program ("SDP") and Dividend Reinvestment Plan ("DRIP")*

*The accompanying notes are an integral part of these condensed interim financial statements.*

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

<i>(Unaudited, thousands)</i>	<i>Note</i>	Three months ended September 30,		Nine months ended September 30,	
		<b>2016</b>	2015	<b>2016</b>	2015
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Loss for the period		\$ (4,366)	\$ (105,674)	\$ (55,327)	\$ (96,836)
Adjustments for					
Share-based compensation	10	2,718	2,432	7,691	6,969
Depletion and depreciation	4	21,892	22,258	62,768	65,235
Impairment		-	156,913	-	156,913
Unrealized loss (gain) on commodity contracts	11	(2,886)	(16,989)	41,331	16,016
Unrealized loss (gain) on power contracts	11	(1)	1,051	(229)	(184)
Deferred tax reduction		(1,519)	(35,370)	(20,228)	(46,663)
Accretion	6,7	2,339	1,497	6,851	4,342
Gain on acquisition		-	(1,308)	-	(29,101)
Decommissioning obligation settled	7	(469)	(264)	(842)	(841)
Change in non-cash working capital		4,384	7,951	9,219	1,764
		<b>22,092</b>	32,497	<b>51,234</b>	77,614
<b>Investing activities</b>					
Exploration and evaluation expenditures		(867)	(700)	(898)	(724)
Property, plant and equipment expenditures		(11,992)	(11,193)	(26,427)	(25,372)
Corporate acquisitions		-	(1,999)	-	(25,499)
Deposit on acquisition		-	(8,550)	-	(8,550)
Acquisitions, net		(671)	-	(1,006)	(221)
Change in non-cash working capital		227	2,732	(177)	2,782
		<b>(13,303)</b>	(19,710)	<b>(28,508)</b>	(57,584)
<b>Financing activities</b>					
Issue of common shares	8	-	-	66,853	-
Issue of flow-through shares	8	-	-	3,885	3,800
Share issue costs		(19)	(16)	(3,018)	(26)
Options and warrants exercised	8	1	-	281	433
Dividends	9	(7,400)	(11,271)	(20,648)	(33,541)
Increase (decrease) in bank debt		(1,925)	3,497	(68,725)	8,989
Change in non-cash working capital		554	(4,997)	(1,354)	137
		<b>(8,789)</b>	(12,787)	<b>(22,726)</b>	(20,208)
Change in cash and cash equivalents		-	-	-	(178)
Cash and cash equivalents, beginning of period		-	-	-	178
Cash and cash equivalents, end of period		\$ -	\$ -	\$ -	\$ -

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2016 and 2015  
(Unaudited, thousands of dollars, except per share amounts or unless otherwise stated)

### 1 REPORTING ENTITY

Cardinal Energy Ltd. ("Cardinal" or the "Company") was incorporated pursuant to the Business Corporations Act (Alberta) on December 21, 2010 and commenced activity on May 30, 2012. The Company's principal business activity is the acquisition, exploration and production of petroleum and natural gas in the provinces of Alberta and Saskatchewan. Cardinal's principal place of business is located at 600, 400 – 3<sup>rd</sup> Avenue SW, Calgary, Alberta, Canada, T2P 4H2.

### 2 BASIS OF PREPARATION

#### Statement of Compliance

These condensed interim financial statements ("financial statements") have been prepared in accordance with statement IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The financial statements were prepared using the same accounting policies, critical judgments and key estimates which the Company applied in its annual financial statements for the year ended December 31, 2015 and do not include certain disclosures that are normally required to be included in annual financial statements which have been condensed or omitted. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015.

The financial statements were authorized for issue by the Board of Directors on November 7, 2016.

#### Use of Estimates and Judgements

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. As such, actual results may differ from these estimates as future confirming events occur. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### 3 EXPLORATION AND EVALUATION ASSETS

	<b>Exploration &amp; Evaluation Assets</b>
At December 31, 2014	\$ 7,160
Additions	1,459
Transferred to PP&E	(26)
Impairment	(4,913)
At December 31, 2015	3,680
Additions	898
<b>At September 30, 2016</b>	<b>\$ 4,578</b>

## 4 PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Corporate assets	Total
<b>Cost</b>			
At January 1, 2015	\$ 914,832	\$ 2,830	\$ 917,662
Additions	36,980	111	37,091
Acquisitions, net	176,482	-	176,482
Transfer from E&E	26	-	26
At December 31, 2015	1,128,320	2,941	1,131,261
Additions	27,452	14	27,466
Acquisitions, net	1,190	-	1,190
<b>At September 30, 2016</b>	<b>\$ 1,156,962</b>	<b>\$ 2,955</b>	<b>\$ 1,159,917</b>
<b>Accumulated depletion and depreciation</b>			
At January 1, 2015	\$ (73,524)	\$ (294)	\$ (73,818)
Depletion and depreciation	(85,621)	(372)	(85,993)
Impairment	(152,000)	-	(152,000)
At December 31, 2015	(311,145)	(666)	(311,811)
Depletion and depreciation	(62,513)	(255)	(62,768)
<b>At September 30, 2016</b>	<b>\$ (373,658)</b>	<b>\$ (921)</b>	<b>\$ (374,579)</b>
<b>Net book value</b>			
At December 31, 2015	\$ 817,175	\$ 2,275	\$ 819,450
<b>At September 30, 2016</b>	<b>\$ 783,304</b>	<b>\$ 2,034</b>	<b>\$ 785,338</b>

The calculation of depletion for the nine months ended September 30, 2016 includes estimated future development costs of \$31.4 million (2015 - \$44.0 million) associated with the development of the Company's proved plus probable reserves. For the nine months ended September 30, 2016, Cardinal capitalized \$0.5 million (2015 - \$0.5 million) of general and administrative expenses and \$0.9 million (2015 - \$0.8 million) of share-based compensation.

For the nine months ended September 30, 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.

## 5 BANK DEBT

The Company's credit facilities consist of 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. If not extended, the Facilities will cease to revolve, the applicable margins will increase by 0.5% and all outstanding advances will be repayable on May 25, 2018.

The available lending limits of the Facilities are reviewed semi-annually based on the syndicate's interpretation of the Company's reserves, future commodity prices and costs. As the available lending limit of the Facilities is based on the syndicate's interpretation of the Company's reserves and future commodity prices and costs, there can be no assurance that the amount of the Facilities will not decrease at the next scheduled review on or before May 26, 2017. 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 the Company's debt to EBITDA ratio. The Facilities are secured by a general security agreement over all of the Company's assets. 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 September 30, 2016. For the nine months ended September 30, 2016 the effective interest rate on the Company's bank debt was 2.8% (2015 – 3.6%).

## 6 CONVERTIBLE DEBENTURES

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2014	-	\$ -	\$ -
Issued	50,000	47,515	2,485
Issue costs	-	(2,224)	(116)
Deferred taxes	-	-	(640)
Accretion	-	202	-
Balance at December 31, 2015	50,000	45,493	1,729
Accretion	-	648	-
<b>Balance at September 30, 2016</b>	<b>50,000</b>	<b>\$ 46,141</b>	<b>\$ 1,729</b>

The Company has subordinated unsecured convertible debentures (the "convertible debentures") that bear interest at 5.5% payable semi-annually and have a maturity date of December 31, 2020. The convertible debentures are convertible into common shares of the Company at the option of the holder at a conversion price of \$10.50 per common share at any time prior to the maturity date. The convertible debentures are redeemable by the Company after January 1, 2019 subject to certain conditions.

The convertible debentures have been classified as a liability, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as shareholders' equity. The liability component will accrete up to the principal balance at maturity. The accretion of the liability component and interest payable are expensed on the statements of earnings and comprehensive earnings. If the convertible debentures are converted to common shares, a portion of the value of the conversion feature under shareholders' equity and the liability component will be reclassified to shareholders' equity along with the conversion price.

For the nine months ended September 30, 2016 Cardinal recognized \$2.1 million (2015 - nil) of interest and \$0.6 million (2015 - nil) of accretion related to the convertible debentures. At September 30, 2016, the fair value of the convertible debentures was \$55.0 million (2015 – \$51.5 million).



## 7 DECOMMISSIONING OBLIGATION

	Nine months ended September 30, 2016		Year ended December 31, 2015	
Balance, beginning of period	\$	114,060	\$	79,781
Liabilities incurred		106		84
Liabilities acquired		184		29,367
Liabilities divested		-		(122)
Decommissioning expenditures		(842)		(1,250)
Accretion		6,203		6,200
Balance, end of period		119,711		114,060
Less current portion		(950)		(950)
	\$	118,761	\$	113,110

The Company's decommissioning obligation results from its ownership interest in crude oil and natural gas assets including well sites, facilities and gathering systems. At September 30, 2016, the total estimated amount to settle Cardinal's decommissioning obligation was \$315.2 million (2015 - \$315.0 million) on an uninflated and undiscounted basis and \$555.9 million (2015 - \$554.8 million) on an inflated and undiscounted basis. The decommissioning obligation was determined by applying an inflation factor of 2% (2015 - 2%) and discounting the inflated amount using Cardinal's credit-adjusted rate of 7.0% (2015 - 7.0%) over the expected useful life of the underlying assets of 20 to 35 years.

## 8 SHARE CAPITAL AND WARRANTS

At September 30, 2016, the Company was authorized to issue an unlimited number of common voting shares without nominal or par value. Holders of common shares are entitled to one vote per share.

	Nine months ended September 30, 2016		Year ended December 31, 2015	
	Number of shares	Amount	Number of shares	Amount
Common shares, beginning of period	65,124,209	\$ 784,059	56,819,301	\$ 711,518
Issue of common shares	7,150,000	66,853	6,627,500	55,008
Common shares issued in connection with acquisition	-	-	669,936	5,821
Issue of flow-through common shares	350,000	3,224	200,000	3,020
Issued pursuant to SDP and DRIP	149,001	1,189	307,575	3,713
Settlement of RAs	643,887	6,862	337,946	3,837
Exercise of options and warrants	100,605	496	126,877	827
Settlement of stock appreciation rights ("SARs")	-	-	35,074	315
Common shares, end of period	73,517,702	\$ 862,683	65,124,209	\$ 784,059
Cummulative share issue costs, net of tax	-	(29,264)	-	(27,061)
Total shareholders' capital, end of period	73,517,702	\$ 833,419	65,124,209	\$ 756,998

## Warrants

In 2012 Cardinal issued 2,833,333 units consisting of one common share and one half warrant (1,416,654 warrants) at \$3.00 per unit. The warrants vest equally over five years, with the first vesting date on December 31, 2012 and on December 31 of each year thereafter. The warrants are exercisable at \$3.00 per warrant subject to an adjustment for dividends declared which reduced the exercise price at September 30, 2016 to \$2.59 and increased the number of warrants then outstanding (see note 10).

## Flow-through Shares

On May 25, 2015, Cardinal issued 200,000 flow-through common shares pursuant to a private placement at \$19.00 per common share for gross proceeds of \$3.8 million. The Company recorded a deferred liability for the related premium in the amount of \$0.8 million. The Company is committed to incur qualifying Canadian Exploration Expenditures prior to December 31, 2016 (see note 11).

On May 25, 2016 and May 27, 2016, Cardinal issued an aggregate of 350,000 flow-through common shares pursuant to a private placement at \$11.10 per common share for gross proceeds of \$3.9 million. The Company recorded a deferred liability for the related premium in the amount of \$0.7 million. Insiders subscribed for 103,594 of the common shares issued. The Company is committed to incur qualifying Canadian Exploration Expenditures prior to December 31, 2017 (see note 11).

## Loss per Share

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Loss for the period	\$ (4,366)	\$ (105,674)	\$ (55,327)	\$ (96,836)
Weighted average number of common shares				
- Basic and diluted	73,501,130	57,760,325	68,877,709	57,468,551

For the three and nine months ended September 30, 2016, 2,665,541 RAs (2015 – 1,475,593), 4,761,905 (\$50.0 million at \$10.50) convertible debentures (2015 – nil), 719,354 warrants (2015 – 774,783), 190,837 options (2015 – 203,061), and 30,329 SARs (2015 – 61,004) were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

## 9 DIVIDENDS

During the nine months ended September 30, 2016, \$21.8 million of dividends (\$0.315 per common share) were declared of which \$18.4 million was paid in cash, \$2.6 million was recognized as a liability at September 30, 2016 and \$0.8 million was settled on the issuance of 100,433 common shares pursuant to the Company's DRIP and SDP. The dividend payable was settled on October 17, 2016 with cash of \$2.4 million and \$0.2 million was recognized on the issuance of 14,577 Cardinal common shares pursuant to the DRIP and SDP.

The Company has a DRIP and SDP which enable shareholders to receive dividends in common shares rather than cash.

## 10 SHARE-BASED COMPENSATION

The maximum number of common shares issuable under the Company's stock option plan and restricted bonus award plan, in aggregate, cannot exceed five percent of the outstanding common shares. For the nine months ended September 30, 2016, the Company's common shares traded at a weighted average share price of \$8.44 (2015 – \$12.96).

### Stock Options

The Company has a stock option plan that entitles officers, directors and employees to purchase common shares in the Company. Stock options are granted at the market price of the common shares at the date of grant and vest equally over three years with each tranche expiring three years following the vesting date. The following tables summarize information about stock options outstanding at September 30, 2016:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2014	225,836	\$ 7.54
Exercised	(31,109)	\$ 6.99
Balance at December 31, 2015	194,727	\$ 7.62
Exercised	(3,334)	\$ 6.75
Forfeited	(556)	\$ 8.25
<b>Balance at September 30, 2016</b>	<b>190,837</b>	<b>\$ 7.64</b>

Stock Options Outstanding				Stock Options Exercisable			
Exercise price per share	Number of stock options	Weighted average exercise price	Weighted average remaining life (years)	Number of stock options	Weighted average exercise price	Weighted average remaining life (years)	
\$ 6.75	134,447	\$ 6.75	1.7	134,447	\$ 6.75	1.7	
\$ 8.25	18,890	\$ 8.25	2.1	18,890	\$ 8.25	2.1	
\$ 10.50	37,500	\$ 10.50	2.0	25,001	\$ 10.50	1.5	
	<b>190,837</b>	<b>\$ 7.64</b>	<b>1.8</b>	<b>178,338</b>	<b>\$ 7.43</b>	<b>1.7</b>	

### Warrants

	Number of Warrants
Balance at December 31, 2014	834,690
Exercised	(90,888)
Adjustment for dividends declared	48,318
Balance at December 31, 2015	792,120
Exercised	(97,271)
Adjustment for dividends declared	24,505
<b>Balance at September 30, 2016</b>	<b>719,354</b>

At September 30, 2016, 421,990 warrants (adjusted for dividends) were exercisable at a price of \$2.59 per warrant and the weighted average remaining life of the warrants was 0.8 years.

### Restricted Bonus Awards ("RAs")

The Company has a restricted bonus award plan whereby awards may be granted to officers, directors and employees. Awards granted according to the plan vest equally over three years from the date of grant and expire on December 15<sup>th</sup> of the third year following the year in which the award was granted. Awards are adjusted for dividends declared and are to be settled with either cash, common shares or a combination thereof at the Company's discretion.

	<b>Number of RAs</b>
Balance at December 31, 2014	965,593
Granted	850,507
Settled	(337,946)
Adjustment for dividends declared	17,883
Forfeited	(42,841)
Balance at December 31, 2015	1,453,196
Granted	1,832,962
Settled	(643,887)
Adjustment for dividends declared	78,437
Forfeited	(55,167)
<b>Balance at September 30, 2016</b>	<b>2,665,541</b>

The fair value of the RAs was determined based on the value of the Company's common shares at the grant date. The weighted average market price of the Company's common shares used to value the RAs granted was \$6.83 (2015 - \$12.71).

### Stock Appreciation Rights ("SARs")

On November 1, 2013, the Company granted an aggregate of 102,000 SARs to certain directors, officers and employees of the Company. The SARs were standalone grants and were not issued under a formal stock appreciation rights plan. Each SAR entitles the holder to receive one common share for each SAR granted including an adjustment for dividends declared. SARs granted vest equally over three years from the grant date. The fair value of the SARs was determined based on the value of the Company's common shares of \$10.50 per share at the grant date. During the nine months ended September 30, 2016, no SARs were settled and 667 (2015 – nil) SARs were forfeited for a total of 30,329 (2015 – 61,004) SARs outstanding at September 30, 2016.

### Share-based Compensation

Share-based compensation for the nine months ended September 30, 2016 of \$7.7 million (2015 - \$7.0 million) was expensed and \$0.9 million (2015 - \$0.8 million) was capitalized.

## 11 FINANCIAL RISK MANAGEMENT

Cardinal's financial assets and liabilities consist of trade and other receivables, trade and other payables, risk management assets and liabilities, dividends payable, bank debt and convertible debentures. Risk management assets and liabilities arise from the use of derivative financial instruments.

The Company classifies fair value according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

**Level 1** - Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.

**Level 2** - Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

**Level 3** - Fair value is based on inputs for the asset or liability that are not based on observable market data.

As at September 30, 2016 and 2015, the only assets or liabilities measured at fair value were the fair value of financial instruments which are classified as level 2 and the convertible debentures which are classified as Level 1.

#### *Carrying amount and fair value of financial assets and liabilities*

Trade and other receivables are classified as financial assets at amortized cost and are reported at amortized cost. Trade and other payables, dividends payable, liability component of the convertible debentures and bank debt are classified as financial liabilities at amortized cost and are reported at amortized cost. The fair values of trade and other receivables, trade and other payables and dividends payable approximate their carrying amount due to the short-term maturity of these instruments. The fair value of bank debt approximates the carrying amount due to the floating rate of interest and the margin charged by the syndicate is indicative of current credit spreads. The fair value of convertible debentures was determined based on the trading value on the Toronto Stock Exchange at the reporting date.

#### *Commodity price risk*

The Company is exposed to commodity price risk on petroleum and natural gas sales as well as power on electricity consumption. Commodity prices for crude oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand.

At September 30, 2016 Cardinal had the following commodity and power financial derivative contracts outstanding:

Type of Instrument	Remaining Term	Average Quantity	Average Strike Price	Fair Value
CAD WTI Swap	October 1, 2016 - December 31, 2016 <sup>(1)</sup>	1,500 bbl/d	\$ 76.67	1,617
CAD WTI Swap	October 1, 2016 - December 31, 2016	1,000 bbl/d	\$ 54.00	(942)
CAD WTI Swap	October 1, 2016 - June 30, 2017	1,250 bbl/d	\$ 71.80	1,992
CAD WTI Swap	October 1, 2016 - June 30, 2017	1,000 bbl/d	\$ 56.50	(2,567)
CAD WTI Swap	October 1, 2016 - July 31, 2017	500 bbl/d	\$ 54.00	(1,837)
CAD WTI Swap	October 1, 2016 - December 31, 2017	500 bbl/d	\$ 78.60	2,646
CAD WTI Swap	October 1, 2016 - June 30, 2018	500 bbl/d	\$ 57.50	(3,200)
CAD WTI Swap	January 1, 2017 - December 31, 2017	2,500 bbl/d	\$ 59.94	(6,910)
CAD WTI Swap	July 1, 2017 - June 30, 2018	1,000 bbl/d	\$ 66.25	(979)
CAD WTI Swap	January 1, 2018 - December 31, 2018	500 bbl/d	\$ 69.75	(19)
CAD WTI Call	January 1, 2018 - December 31, 2018 <sup>(2)</sup>	1,000 bbl/d	\$ 70.00	(3,786)
WCS Differential Swap	October 1, 2016 - December 31, 2016	4,000 bbl/d	\$ 18.44	60
WCS Differential Swap	October 1, 2016 - September 30, 2017	2,000 bbl/d	\$ 18.25	645
WCS Differential Swap	January 1, 2017 - December 31, 2017	3,000 bbl/d	\$ 18.67	727
AECO Swap	October 1, 2016 - June 30, 2017	1,000 gj/d	\$ 2.00	(180)
AECO Swap	October 1, 2016 - December 31, 2017	1,000 gj/d	\$ 2.10	(261)
AECO Swap	October 1, 2016 - April 30, 2018	1,000 gj/d	\$ 2.25	(272)
AECO Swap	January 1, 2017 - December 31, 2018	2,000 gj/d	\$ 2.65	16
AECO Collar	October 1, 2016 - December 31, 2016	3,000 gj/d	\$ 2.00	(12)
			\$ 2.93	(13,262)
Power Swap	October 1, 2016 - December 31, 2016	9.00 MW/hr	\$ 39.98	(208)
Power Swap	October 1, 2016 - December 31, 2017	1.00 MW/hr	\$ 33.50	(30)
				(238)

(1) Cardinal granted an option to the counterparty to put Cardinal into a swap on December 31, 2016 for 500 bbl/d at \$80 CAD WTI for the period January 1, 2017 to December 31, 2017. The option had a fair value liability of \$0.1 million (included above).

(2) The CAD WTI call option is determined by the counterparty referencing the floating rate in CAD on each month and will be settled monthly.

Operating expenses for the nine months ended September 30, 2016 include a realized loss on power contracts of \$1.5 million (2015 – \$0.4 million).

Cardinal limits its credit risk by executing counterparty risk procedures which include transacting only with members of the syndicate for our credit facilities or institutions with high credit ratings and by obtaining financial security in certain circumstances. Based on September 30, 2016 commodity prices, a \$1 per barrel change in the price of crude oil would have changed the unrealized loss by \$3.0 million (2015 – \$1.3 million) and a \$0.10 per gigajoule change in the price of natural gas would have changed the unrealized loss by \$0.3 million (2015 – \$0.2 million).

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The financial liabilities on the balance sheet consist of trade and other payables, bank debt, and convertible debentures. Trade and other payables are considered due within one year. Bank debt is considered due between one and two years (see note 5) and the convertible debentures are due in 2020 (see note 6). The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities. The Company has had no defaults or breaches on its financial liabilities.

At September 30, 2016, the Company had contractual obligations and commitments as follows:

	2016	2017	2018	2019	2020	Thereafter
Head office lease	268	1,070	1,070	1,070	1,070	3,210
Field office lease	33	130	130	22	-	-
Trade and other payables	35,868	-	-	-	-	-
Dividends payable	2,573	-	-	-	-	-
Bank debt	-	-	23,092	-	-	-
Convertible debentures	688	2,750	2,750	2,750	52,750	-
	<b>\$ 39,430</b>	<b>\$ 3,950</b>	<b>\$ 27,042</b>	<b>\$ 3,842</b>	<b>\$ 53,820</b>	<b>\$ 3,210</b>

Cardinal is also committed to incur qualifying Canadian Exploration Expense of \$1.7 million prior to December 31, 2016 and \$3.9 million prior to December 31, 2017.

## 12 SUBSEQUENT EVENT

On **October 12, 2016**, the Company confirmed that a dividend of \$0.035 per common share would be paid on November 15, 2016 to shareholders of record on October 31, 2016. The total amount of dividends declared at October 31, 2016 was \$2.6 million.