



CARDINAL
ENERGY LTD.



Q2 2018

FINANCIAL STATEMENTS

CONDENSED INTERIM BALANCE SHEETS

As at (Unaudited, thousands)	Note	June 30, 2018	December 31, 2017
ASSETS			
Current assets			
Trade and other receivables		\$ 48,811	\$ 46,705
Deposits and prepaid expenses		5,433	3,318
Fair value of financial instruments	14	3,225	9,303
		57,469	59,326
Non-current assets			
Exploration and evaluation assets	5	1,885	1,846
Property, plant and equipment	6	1,006,934	1,028,573
Deferred tax		150,354	138,851
		1,159,173	1,169,270
Total Assets		\$ 1,216,642	\$ 1,228,596
LIABILITIES			
Current liabilities			
Trade and other payables		\$ 62,383	\$ 52,914
Dividends payable	11	4,349	4,171
Decommissioning obligation	9	3,900	2,300
Fair value of financial instruments	14	57,886	21,269
		128,518	80,654
Non-current liabilities			
Deferred flow-through share premium		92	560
Bank debt	7	200,645	218,905
Fair value of financial instruments	14	6,265	3,932
Liability component of convertible debentures	8	47,690	47,245
Decommissioning obligation	9	126,269	127,338
		380,961	397,980
Total Liabilities		509,479	478,634
SHAREHOLDERS' EQUITY			
Share capital	10	1,062,018	1,042,352
Equity component of convertible debentures	8	1,729	1,729
Contributed surplus		9,960	14,501
Deficit		(366,544)	(308,620)
Total Shareholders' Equity		707,163	749,962
Total Liabilities and Shareholders' Equity		\$ 1,216,642	\$ 1,228,596
Subsequent events	16		

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

CONDENSED INTERIM STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

(Unaudited, thousands except per share amounts)		Three months ended June 30,		Six months ended June 30,											
		Note	2018	2017	2018	2017									
Revenue															
Petroleum and natural gas revenue	13	\$	111,847	\$	67,602	\$	206,626	\$	130,176						
Royalties			(18,956)		(9,380)		(35,095)		(18,107)						
Realized loss on commodity contracts	14		(18,582)		(3,918)		(23,605)		(7,118)						
Unrealized gain (loss) on commodity contracts	14		(26,250)		15,338		(45,028)		35,244						
			48,059		69,642		102,898		140,195						
Expenses															
Operating			39,554		32,113		79,578		63,460						
Unrealized gain on power contracts			-		(224)		-		(10)						
General and administrative			4,733		3,504		9,759		6,887						
Share-based compensation	12		1,746		2,257		3,072		4,880						
Finance			5,426		3,830		10,901		7,309						
Transaction costs			-		1,363		359		1,363						
Depletion and depreciation	6		22,285		21,565		44,809		41,259						
Loss (gain) on disposition and other income			554		2,150		(494)		1,754						
			74,298		66,558		147,984		126,902						
Earnings (loss) before deferred tax			(26,239)		3,084		(45,086)		13,293						
Deferred tax expense (reduction)			(6,269)		1,866		(11,802)		4,513						
Earnings (loss) and comprehensive earnings (loss) for the period							\$	(19,970)	\$	1,218	\$	(33,284)	\$	8,780	
Earnings (loss) per share															
Basic and diluted	10	\$	(0.17)	\$	0.02	\$	(0.29)	\$	0.11						

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

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, thousands except number of common shares)	Number of			Equity				Total
	Common	Share Capital	Warrants	Component of	Contributed		Shareholders'	Equity
	Shares	(note 10)	(note 10)	Convertible	Surplus	Deficit		
				Debentures	(note 12)			
January 1, 2017	74,151,719	\$ 839,626	\$ 1,420	\$ 1,729	\$ 18,424	\$ (210,119)	\$	651,080
Issue of common shares	30,910,000	170,005	-	-	-	-		170,005
Common shares issued in connection with acquisition	4,033,708	27,631	-	-	-	-		27,631
Exercise of options and warrants	362,374	2,114	(722)	-	(178)	-		1,214
Issued pursuant to SDP and DRIP ⁽¹⁾	89,007	756	-	-	-	-		756
Settlement of RAs ⁽²⁾	637,378	4,238	-	-	(10,726)	-		(6,488)
Share-based compensation	-	-	-	-	5,395	-		5,395
Tax adjustment on excess value of RAs	-	-	-	-	(1,043)	-		(1,043)
Share issue costs, net of deferred tax of \$1,987	-	(5,374)	-	-	-	-		(5,374)
Dividends (\$0.21 per share)	-	-	-	-	-	(17,424)		(17,424)
Earnings for the period	-	-	-	-	-	8,780		8,780
June 30, 2017	110,184,186	\$ 1,038,996	\$ 698	\$ 1,729	\$ 11,872	\$ (218,763)	\$	834,532
January 1, 2018	110,838,321	\$ 1,042,352	\$ -	\$ 1,729	\$ 14,501	\$ (308,620)	\$	749,962
Common shares issued in connection with acquisition (note 4)	2,314,815	11,250	-	-	-	-		11,250
Settlement of RAs ⁽²⁾	1,074,405	8,444	-	-	(8,444)	-		-
Share-based compensation	-	-	-	-	3,744	-		3,744
Tax adjustment on excess value of RAs	-	-	-	-	159	-		159
Share issue costs, net of deferred tax of \$10	-	(28)	-	-	-	-		(28)
Dividends (\$0.21 per share)	-	-	-	-	-	(24,640)		(24,640)
Loss for the period	-	-	-	-	-	(33,284)		(33,284)
June 30, 2018	114,227,541	\$ 1,062,018	-	\$ 1,729	\$ 9,960	\$ (366,544)	\$	707,163

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

(2) Restricted Bonus Awards ("RAs")

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

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

		Three months ended June 30,		Six months ended June 30,	
(Unaudited, thousands)	Note	2018	2017	2018	2017
Cash provided by (used in)					
Operating activities					
Earnings (loss) for the period		\$ (19,970)	\$ 1,218	\$ (33,284)	\$ 8,780
Adjustments for					
Share-based compensation	12	1,746	2,257	3,072	4,880
Depletion and depreciation	6	22,285	21,565	44,809	41,259
Unrealized (gain) loss on commodity contracts	14	26,250	(15,338)	45,028	(35,244)
Unrealized gain on power contracts	14	-	(224)	-	(10)
Deferred tax expense (reduction)		(6,269)	1,866	(11,802)	4,513
Accretion	8,9	2,489	2,287	4,948	4,435
Loss (gain) on disposition	4	554	2,150	(494)	1,754
Decommissioning obligation settled	9	(898)	(452)	(4,115)	(883)
Change in non-cash working capital		(4,264)	(2,343)	5,563	(1,115)
		21,923	12,986	53,725	28,369
Investing activities					
Exploration and evaluation expenditures		(20)	(397)	(39)	(429)
Property, plant and equipment expenditures		(14,563)	(15,493)	(27,853)	(36,994)
Property acquisitions	4	-	(297,114)	(8,021)	(301,115)
Proceeds from property dispositions	4	963	-	25,263	-
Change in non-cash working capital		3,848	(4,660)	(47)	(2,367)
		(9,772)	(317,664)	(10,697)	(340,905)
Financing activities					
Issue of common shares		-	170,005	-	170,005
Share issue costs		-	(7,288)	(38)	(7,361)
Settlement of RAs	12	-	-	-	(6,488)
Options and warrants exercised	10	-	-	-	1,214
Dividends	11	(12,359)	(9,320)	(24,640)	(16,668)
Increase (decrease) in bank debt		(191)	150,251	(18,260)	171,957
Change in non-cash working capital		399	1,030	(90)	(123)
		(12,151)	304,678	(43,028)	312,536
Change in cash and cash equivalents		-	-	-	-
Cash and cash equivalents, beginning of period		-	-	-	-
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 six months ended June 30, 2018 and 2017

(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 – 3rd 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, except as noted below, critical judgments and key estimates which the Company applied in its annual financial statements for the year ended December 31, 2017 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 financial statements for the year ended December 31, 2017.

The financial statements were authorized for issue by the Board of Directors on August 2, 2018.

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 CHANGES IN ACCOUNTING POLICIES

IFRS 15 – Revenue from Contracts with Customers

Cardinal adopted IFRS 15 with a date of initial application of January 1, 2018 as detailed in note 13. The Company used the modified retrospective method to adopt the new standard. Cardinal has performed a review of its revenue streams and sales contracts with customers using the IFRS 15 five step model and concluded that the adoption of IFRS 15 does not have a material impact on the Company's net income. Refer to note 13 for more information including additional disclosure as required under IFRS 15.

Revenue Recognition

Under IFRS 15, revenue from the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers and recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

Cardinal evaluates its arrangements with 3rd parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if Cardinal obtains control of the product delivered, which is indicated by Cardinal having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Cardinal acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the entity from the transaction. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Cardinal has reviewed its revenue streams and major sales contracts with customers using the IFRS 15 five step model and concluded there are no material changes to the timing of revenue recognized and does not have an impact on the Company's net income.

IFRS 9 – Financial Instruments

The Corporation adopted IFRS 9, "Financial Instruments" on January 1, 2018. The transition to IFRS 9 had no material effect on the Corporation's financial statements.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IFRS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment of financial assets: IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. There was no impact on the Corporation's financial statements.

Cash and cash equivalents, if any, and trade and other receivables continue to be measured at amortized cost and are now classified as "amortized cost". The Corporation's financial liabilities previously classified as "other financial liabilities" being trade and other payables, dividends payable and bank debt continue to be measured at amortized cost and are now classified as "amortized cost". The Corporation has not designated any financial instruments as FVOCI or FVTPL, nor does the Corporation use hedge accounting.

IFRS 16 – Leases

Cardinal is required to adopt IFRS 16 "Leases" by January 1, 2019 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.

On adoption, non-current assets, current liabilities, and non-current liabilities on Cardinal's balance sheet will increase. Interest expense will be recognized on the lease obligation and lease payments will be applied against the lease obligation. This is expected to result in a decrease to operating expense and general and administration expense and an increase to interest expense and cash flows from operations. Cardinal is currently assessing the standard including identifying, gathering and reviewing contracts to determine whether or not they will have an impact on the financial statements with the adoption of IFRS 16.

4 ACQUISITIONS & DISPOSITIONS

On **January 12, 2018**, the Company closed a consolidating acquisition increasing the Company's working interest in the Midale Unit from 68.8% to 77.2%. After adjusting for a right of first refusal being exercised by a third party, total consideration provided was \$18.5 million, before closing adjustments, consisting of \$7.3 million in cash and 2,314,815 common shares valued at \$4.86 per share with an associated decommissioning obligation of \$1.0 million. This property acquisition has been accounted for as a business combination in accordance with IFRS 3.

The acquisition has contributed petroleum and natural gas revenue of \$2.9 million and operating income (petroleum and natural gas revenue less royalties and operating expenses) of \$1.6 million since January 12, 2018. Had the acquisition closed on January 1, 2018, the Company's estimated petroleum and natural gas revenue would have been \$206.8 million and estimated operating income would have been \$92.1 million for the six months ended June 30, 2018. Pro-forma information is not necessarily representative of future revenue and operations.

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. A gain of \$1.0 million was recorded on this disposition.

On **May 17, 2018**, Cardinal disposed of non-core assets for cash proceeds of \$1.0 million. The assets consisted of petroleum and natural gas properties with a net book value of \$2.7 million and associated decommissioning obligations of \$1.1 million, resulting in a loss of \$0.6 million on closing of the disposition.

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

5 EXPLORATION AND EVALUATION ASSETS

	Exploration and Evaluation Assets
At December 31, 2016	\$ 1,557
Additions	498
Impairment	(209)
At December 31, 2017	1,846
Additions	39
At June 30, 2018	\$ 1,885

Cardinal's E&E assets consist of undeveloped land and exploration projects which are pending technical feasibility and commercial viability. Additions represent costs incurred during the period to acquire additional E&E assets.

6 PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Corporate assets	Total
Cost			
At January 1, 2017	\$ 1,194,338	\$ 2,979	\$ 1,197,317
Additions	55,148	924	56,072
Acquisitions	349,702	-	349,702
Disposition	(23,291)	-	(23,291)
At December 31, 2017	1,575,897	3,903	1,579,800
Additions	28,745	112	28,857
Acquisitions	20,225	-	20,225
Disposition	(29,768)	-	(29,768)
At June 30, 2018	\$ 1,595,099	\$ 4,015	\$ 1,599,114
Accumulated depletion and depreciation			
At January 1, 2017	\$ (400,849)	\$ (1,003)	\$ (401,852)
Depletion and depreciation	(94,318)	(414)	(94,732)
Disposition	6,148	-	6,148
Impairment	(60,791)	-	(60,791)
At December 31, 2017	(549,810)	(1,417)	(551,227)
Depletion and depreciation	(44,575)	(234)	(44,809)
Disposition	3,856	-	3,856
At June 30, 2018	\$ (590,529)	\$ (1,651)	\$ (592,180)
Net book value			
At December 31, 2017	\$ 1,026,087	\$ 2,486	\$ 1,028,573
At June 30, 2018	\$ 1,004,570	\$ 2,364	\$ 1,006,934

The calculation of depletion for the six months ended June 30, 2018 includes estimated future development costs of \$163.9 million (December 31, 2017 - \$161.8 million) associated with the development of the Company's proved plus probable reserves.

For the six months ended June 30, 2018, Cardinal capitalized \$0.9 million of general and administrative expenses (2017 - \$0.4 million) and \$0.7 million (2017 - \$0.5 million) of share-based compensation.

7 BANK DEBT

The Company's reserves-based revolving credit facility of \$325 million is 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 24, 2019 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 23, 2020.

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.

Advances under the Facilities are available by way of either prime rate loans, which bear interest at the banks' prime lending rate plus 0.5 to 2.5%, and bankers' acceptances and/or LIBOR loans, which are subject to fees and margins ranging from 1.5 to 3.5%. 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. 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.

A letter of credit for \$2.0 million was outstanding at June 30, 2018 (2017 – \$2.0 million) that reduced the amount otherwise available to be drawn on the operating term credit facility.

Cardinal was in compliance with the terms of the Facilities at June 30, 2018. For the six months ended June 30, 2018 the effective interest rate on the Company's bank debt was 3.9% (2017 – 2.8%).

8 CONVERTIBLE DEBENTURES

	Number of Convertible Debentures		Liability Component		Equity Component
Balance at December 31, 2016	50,000	\$	46,361	\$	1,729
Accretion	-		884		-
Balance at December 31, 2017	50,000	\$	47,245	\$	1,729
Accretion	-		445		-
Balance at June 30, 2018	50,000	\$	47,690	\$	1,729

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 included in shareholders' equity and the liability component will be reclassified to shareholders' equity along with the conversion price.

For the six months ended June 30, 2018 Cardinal recognized \$1.4 million of interest (2017 - \$1.4 million) and \$0.4 million of accretion (2017 - \$0.4 million) related to the convertible debentures. At June 30, 2018, the fair value of the convertible debentures was \$50.0 million (December 31, 2017 - \$49.5 million).

9 DECOMMISSIONING OBLIGATION

	Six months ended June 30, 2018	Year ended December 31, 2017
Balance, beginning of period	\$ 129,638	\$ 111,867
Liabilities incurred	332	222
Liabilities acquired	954	25,626
Liabilities disposed	(1,143)	(643)
Change in estimates	-	(12,491)
Decommissioning expenditures	(4,115)	(3,933)
Accretion	4,503	8,990
Balance, end of period	\$ 130,169	\$ 129,638

The Company's decommissioning obligation results from its ownership interest in crude oil and natural gas assets including well sites, and facilities. At June 30, 2018, the total estimated amount to settle Cardinal's decommissioning obligation was \$360 million (2017 - \$359 million) on an uninflated and undiscounted basis and \$669 million (2017 - \$665 million) on an inflated and undiscounted basis.

The decommissioning obligation was determined by applying an inflation factor of 2.0% (2017 – 2.0%) and discounting the inflated amount using Cardinal's credit-adjusted rate of 7.0% (2017 – 7.0%) over the expected average useful life of the underlying assets of 20 to 50 years (2017 – 20 to 50 years).

10 SHARE CAPITAL AND WARRANTS

At June 30, 2018, 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.

	Six months ended June 30, 2018		Year ended December 31, 2017	
	Number of shares	Amount	Number of shares	Amount
Common shares, beginning of period	110,838,321	\$ 1,077,019	74,151,719	\$ 868,901
Issue of common shares	-	-	30,910,000	170,005
Common shares issued in connection with acquisition	2,314,815	11,250	4,033,708	27,631
Issue of flow-through common shares	-	-	475,000	2,290
Settlement of RAs	1,074,405	8,444	690,417	4,813
Issued pursuant to SDP and DRIP	-	-	89,007	756
Exercise of options and warrants	-	-	488,470	2,623
Common shares, end of period	114,227,541	\$ 1,096,713	110,838,321	\$ 1,077,019
Cumulative share issue costs, net of tax	-	(34,695)	-	(34,667)
Total shareholders' capital, end of period	114,227,541	\$ 1,062,018	110,838,321	\$ 1,042,352

In the six months ended June 30, 2018, the Company issued 2.3 million common shares for the consolidating acquisition in Midale (see note 4).

Flow-through shares

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. As of June 30, 2018 Cardinal has incurred \$2.4 million of eligible expenditures.

Earnings (loss) per share

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Earnings (loss) for the period	\$ (19,970)	\$ 1,218	\$ (33,284)	\$ 8,780
Earnings (loss) per share				
- Basic and diluted	\$ (0.17)	\$ 0.02	\$ (0.29)	\$ 0.11
Weighted average number of common shares				
- Basic	114,189,730	79,612,011	113,795,719	77,595,733
- Diluted	114,189,730	80,510,932	113,795,719	78,782,372

For the six months ended June 30, 2018, 3,479,238 RAs (2017 – 1,031,857), 4,761,905 (\$50.0 million at \$10.50) convertible debentures (2017 – 4,761,905), and 67,782 stock options (2017 – 56,390) were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

11 DIVIDENDS

During the six months ended June 30, 2018, \$24.6 million (2017 – \$17.4 million) of dividends (\$0.21 per common share) (2017 - \$0.21 per common share) were declared of which \$20.3 million (2017 - \$13.1 million) was paid in cash, \$4.3 million (2017 - \$3.9 million) was recognized as a liability at June 30, 2018. The dividend payable was settled on July 16, 2018. As the Company suspended its dividend reinvestment plan (“DRIP”) and stock dividend program (“SDP”) in 2017, there were no shares issued in 2018 (2017 – 59,559) under these plans.

12 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. The Company's common shares traded at a weighted average share price of \$4.86 (2017 - \$6.65) during the six months ended June 30, 2018.

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 June 30, 2018:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2016	184,726	\$ 7.66
Exercised	(40,000)	\$ 6.75
Forfeited	(8,334)	\$ 6.75
Expired	(28,055)	\$ 8.42
Balance at December 31, 2017	108,337	\$ 7.88
Forfeited	(33,333)	\$ 9.37
Expired	(7,222)	\$ 8.25
Balance at June 30, 2018	67,782	\$ 7.10

Exercise price	Outstanding and Exercisable	
	Number of	Weighted average
	Stock Options	remaining life
		(years)
\$ 6.75	54,448	0.4
\$ 8.25	11,668	0.7
\$ 10.50	1,666	0.8
\$ 7.10	67,782	0.4

Restricted Bonus Awards ("RAs")

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

	Number of RAs
Balance at December 31, 2016	2,688,723
Granted	2,069,410
Settled	(1,308,189)
Adjustment for dividends declared	121,372
Forfeited	(562,329)
Balance at December 31, 2017	3,008,987
Granted	1,764,081
Settled	(1,074,405)
Adjustment for dividends declared	144,880
Forfeited	(364,305)
Balance at June 30, 2018	3,479,238

For the six months ended June 30, 2018 the Company settled 1,074,405 RAs (2017 – 637,378) with the issuance of common shares. In 2018, the Company did not settle any RAs in cash (2017 – 617,772 RAs for \$6.5 million in cash).

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 \$4.65 (2017 - \$10.26).

Share-based Compensation

Share-based compensation for the six months ended June 30, 2018 of \$3.1 million was expensed (2017 - \$4.9 million) and \$0.7 million (2017 - \$0.5 million) was capitalized.

13 REVENUE

Cardinal sells its production pursuant to variable-priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

Crude oil, natural gas, and natural gas liquids are sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company's petroleum and natural gas sales by product:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Crude oil	107,981	60,910	198,011	119,354
Natural gas liquids	2,713	1,692	4,914	2,571
Natural gas	1,153	5,000	3,701	8,251
Petroleum and natural gas revenue	111,847	67,602	206,626	130,176

14 FINANCIAL RISK MANAGEMENT

Cardinal's financial assets and liabilities consist of trade and other receivables, trade and other payables, risk management assets and liabilities, dividends payable, 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 June 30, 2018 and 2017, 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 June 30, 2018 Cardinal had the following commodity and power financial derivative contracts outstanding:

Type of Instrument	Remaining Term	Average Quantity	Average Strike Price	Fair Value
CDN WTI Swap	July 1, 2018 - December 31, 2018	6,000 bbl/d	\$ 68.62	(26,469)
CDN WTI Swap	July 1, 2018 - January 31, 2019	1,000 bbl/d	\$ 75.50	(3,564)
CDN WTI Swap	July 1, 2018 - April 30, 2019	1,000 bbl/d	\$ 80.00	(3,269)
CDN WTI Swap	July 1, 2018 - June 30, 2019	500 bbl/d	\$ 76.00	(2,531)
CDN WTI Call	July 1, 2018 - December 31, 2018 ⁽¹⁾	1,000 bbl/d	\$ 70.00	(4,192)
CDN WTI Call	January 1, 2019 - December 31, 2019 ⁽²⁾	2,000 bbl/d	\$ 68.50	(12,531)
CDN WTI Collar	July 1, 2018 - December 31, 2018	1,500 bbl/d	\$ 63.33	(5,654)
			\$ 72.33	
CDN WTI Collar	July 1, 2018 - December 31, 2018	500 bbl/d	\$ 75.00	(815)
			\$ 85.00	
CDN WTI Collar	July 1, 2018 - June 30, 2019	1,500 bbl/d	\$ 70.00	(4,906)
			\$ 83.33	
US WCS Differential Swap	July 1, 2018 - September 30, 2018	1,000 bbl/d	\$ 19.58	134
CDN WCS Differential Swap	July 1, 2018 - December 31, 2018	1,000 bbl/d	\$ 18.48	2,054
AECO Swap	July 1, 2018 - September 30, 2018	500 gj/d	\$ 1.10	(16)
AECO Swap	July 1, 2018 - October 31, 2018	2,000 gj/d	\$ 1.48	2
AECO Swap	July 1, 2018 - December 31, 2018	5,000 gj/d	\$ 2.34	669
AECO Swap	July 1, 2018 - March 31, 2019	2,000 gj/d	\$ 1.74	9
AECO Collar	July 1, 2018 - December 31, 2018	2,000 gj/d	\$ 2.00	153
			\$ 3.00	
				(60,926)

(1) The Cdn WTI call option is determined monthly by the counterparty referencing the floating Cdn rate each month.

(2) The Cdn WTI call option for fiscal 2019 is to be determined by the counterparty on December 31, 2018.

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 June 30, 2018 commodity prices, a \$1 per barrel change in the price of crude oil would have changed the unrealized loss by \$2.7 million (2017 – unrealized gain of \$2.4 million) and a \$0.10 per gigajoule change in the price of natural gas would have changed the unrealized gain by \$0.2 million (2017 – unrealized gain of \$0.4 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, fair value of financial instruments, bank debt, and convertible debentures. Trade and other payables are considered due within one year. Bank debt (see note 7) and the fair value of financial instruments are considered due between one and two years and the convertible debentures are due in 2020 (see note 8). The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities. The Company has had no defaults or breaches on its financial liabilities.

15 CONTRACTUAL OBLIGATIONS

At June 30, 2018, the Company had contractual obligations as follows:

	2018	2019	2020	2021	2022	Thereafter
Head office lease	718	1,436	1,436	1,475	1,475	1,475
Field office lease	65	130	22	-	-	-
Trade and other payables	62,383	-	-	-	-	-
Dividends payable	4,349	-	-	-	-	-
Bank debt	-	-	200,645	-	-	-
Capital commitments	470	-	-	-	-	-
Convertible debentures	1,375	2,750	52,750	-	-	-
	\$ 69,360	\$ 4,316	\$ 254,853	\$ 1,475	\$ 1,475	\$ 1,475

16 SUBSEQUENT EVENTS

On **July 13, 2018**, the Company confirmed that a dividend of \$0.035 per common share would be paid on August 15, 2018 to shareholders of record on July 31, 2018.