



CARDINAL
ENERGY LTD.



Q2 2018

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 three and six months ended June 30, 2018 and is dated August 2, 2018. The MD&A should be read in conjunction with Cardinal's unaudited interim condensed financial statements as at and for the three and six months ended June 30, 2018 and the audited financial statements for the years 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 the provinces 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", "adjusted funds flow per diluted 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, decommissioning expenditures, and transaction costs since Cardinal believes the timing of collection, payment or incurrance 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			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Cash flow from operating activities	21,923	12,986	69	53,725	28,369	89
Change in non-cash working capital	4,264	2,343	82	(5,563)	1,115	n/m
Funds flow	26,187	15,329	71	48,162	29,484	63
Decommissioning expenditures	898	452	99	4,115	883	n/m
Transaction costs	-	1,363	(100)	359	1,363	(74)
Adjusted funds flow	27,085	17,144	58	52,636	31,730	66

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

"Adjusted funds flow per diluted share" is calculated using adjusted funds flow divided by the number of weighted average diluted shares outstanding.

"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.

"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

Increased second quarter 2018 production by 22% over the same period in 2017 which included a 187% increase in light oil production to 8,898 bbl/d.

Second quarter 2018 cash flow from operating activities of \$21.9 million and adjusted funds flow of \$27.1 million increased by 69% and 58%, respectively, over the same period in 2017 while adjusted funds flow per diluted share increased by 14% over the same period.

Revenue increased 65% in the second quarter of 2018 compared to the second quarter of 2017 which included 29% and 25% increases in light oil and medium/heavy oil realized pricing, respectively.

Despite an increasing power and regulatory cost environment, Cardinal maintained its operating costs below first quarter 2018 levels to average \$20.81/boe in the second quarter.

Total payout ratio was 98% for both the three and six months ended June 30, 2018 as compared to 144% and 168% for the same periods in 2017, respectively.

Reduced the second quarter 2018 net debt to adjusted funds flow ratio by 44% over the same period in 2017 and by 11% over the first quarter of 2018.

Drilled and completed two horizontal multistage fractured Glauconitic channel wells and one horizontal multilateral Eilersie well in our Bantry, Southern Alberta area with initial rates well above expectations.

OPERATIONS

PRODUCTION

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Light oil (bbl/d)	8,898	3,100	187	8,964	2,954	203
Medium / heavy oil (bbl/d)	8,510	10,014	(15)	8,655	9,958	(13)
Crude oil (bbl/d)	17,408	13,114	33	17,619	12,912	36
Natural gas (mcf/d)	16,632	20,021	(17)	16,569	16,506	-
NGL (bbl/d)	702	703	-	681	503	35
boe/d	20,882	17,154	22	21,062	16,166	30
% Crude oil and NGL production	87%	81%	7	87%	83%	5

Production in the second quarter of 2018 increased 22% over the same period in 2017 due to incremental production from an acquisition that closed in June 2017. In June 2017, Cardinal added approximately 5,600 boe/d of low decline light oil production at House Mountain, Alberta and Midale in Saskatchewan ("House Mountain/Midale Acquisition"). The impact of this acquisition was partially offset by normal declines in southern Alberta medium oil and natural gas production as the Company's capital expenditures have been focused on the acquisition of light oil production over the past year. During the second quarter, light oil production was negatively impacted by weather related production outages as significant storms occurred within the Company's northern Alberta areas causing power outages and flooding events which decreased production by approximately 200 boe/d.

Production for the first six months of 2018 increased 30% over the same period in 2017 due to the House Mountain/Midale Acquisition combined with an acquisition of approximately 1,600 boe/d of light oil and natural gas production in the North Alberta core area at Grande Prairie ("Grande Prairie Acquisition") which closed in March 2017. The effect of these acquisitions was partially offset by the previously mentioned declines in medium oil production in southern Alberta and the northern Alberta storms occurring in the second quarter of 2018.

REVENUE

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Light oil	60,846	16,492	269	114,011	31,439	263
Medium / heavy oil	47,135	44,418	6	84,000	87,915	(4)
Crude oil	107,981	60,910	77	198,011	119,354	66
NGL	2,713	1,692	60	4,914	2,571	91
Natural gas	1,153	5,000	(77)	3,701	8,251	(55)
Petroleum and natural gas revenue	111,847	67,602	65	206,626	130,176	59
Cardinal average prices						
Light oil (\$/bbl)	75.14	58.45	29	70.27	58.81	19
Medium / heavy oil (\$/bbl)	60.86	48.74	25	53.62	48.77	10
Natural gas (\$/mcf)	0.76	2.74	(72)	1.23	2.76	(55)
Equivalent (\$/boe)	58.86	43.31	36	54.20	44.49	22
Benchmark prices						
Crude oil - WTI (US \$/bbl)	67.88	48.27	41	65.38	50.09	31
Crude oil - Edmonton light (Cdn \$/bbl)	77.82	59.74	30	73.95	62.28	19
Crude oil - WCS (Cdn \$/bbl)	62.81	49.96	26	55.78	49.68	12
Natural gas - AECO Spot (Cdn \$/gj)	1.20	2.78	(57)	1.63	2.74	(41)
Exchange rate - (US/Cdn)	0.77	0.74	4	0.78	0.75	4

Revenue increased 65% in the second quarter of 2018 as compared to the same period in 2017 due to the 22% increase in production combined with a 36% increase in average commodity prices. During the second quarter of 2018, the Company's average light oil price increased by 29% which was comparable with the 30% increase in the Edmonton sweet light benchmark while the Company's average price for its medium and heavy oil production, which is priced off the Western Canadian Select ("WCS") benchmark, increased 25% over the same period in 2017 comparable to the 26% increase in the benchmark. During the second quarter of 2018, the WCS price differential to WTI decreased over the previous quarter due to increased refinery demand combined with increased crude by rail volumes which alleviated some of the existing pipeline bottlenecks.

For the first six months of 2018, revenue increased 59% due to the 30% increase in production combined with a 22% increase in commodity pricing. The Company's light and medium/heavy oil prices increased proportionately with their respective Edmonton light and WCS benchmarks. While the WCS price differential to WTI has decreased throughout the first six months of 2018, it remains significantly wider than the differential experienced in the same period in 2017 which is reflective of the continuing pipeline bottlenecks and increased supply of Canadian medium and heavy oil.

FINANCIAL INSTRUMENTS

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Average crude oil volumes hedged (bbl/d)	13,167	6,250	111	12,667	6,250	103
Realized loss - commodity contracts	(18,582)	(3,918)	n/m	(23,605)	(7,118)	232
Unrealized gain (loss) - commodity	(26,250)	15,338	(271)	(45,028)	35,244	(228)

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 and natural gas are 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 three 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	Jul - Dec 2018	8,500 bbl/d	\$ 71.20
CDN WTI Swap	Jan - Jun 2019	1,334 bbl/d	\$ 77.94
CDN WTI Collar	Jul - Dec 2018	3,000 bbl/d	Put \$ 67.86 Call \$ 78.86
CDN WTI Collar	Jan - Jun 2019	1,500 bbl/d	Put \$ 70.00 Call \$ 83.33
US WCS Differential	Jul - Sep 2018	1,000 bbl/d	\$ 19.58
CDN WCS Differential	Jul - Dec 2018	1,000 bbl/d	\$ 18.48
Natural Gas			
AECO Swap	Jul - Dec 2018	8,587 gj/d	\$ 2.03
	Jan - Mar 2019	2,000 gj/d	\$ 1.74
AECO Collar	Jul - 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 each month of fiscal 2018 at \$70 Cdn WTI and 2,000 bbl/d for fiscal 2019 at a weighted average price of \$68.50 Cdn WTI.

ROYALTIES

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Royalties	18,956	9,380	102	35,095	18,107	94
Percent of revenue	16.9%	13.9%	22	17.0%	13.9%	22
\$/boe	9.98	6.01	66	9.21	6.19	49

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 second quarter as compared to the same period in 2017 due to increased commodity prices and the incremental production added through the House Mountain/Midale Acquisition. 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 light oil properties. In addition, the Company's royalty rate increased in the second quarter of 2018 from an overriding royalty sold on its Wainwright properties in the fourth quarter of 2017 and an overriding royalty sold on its Mitsue property in the first quarter of 2018 as described in the Capital Expenditures section.

For the first six months of 2018, royalties and royalties as a percentage of revenue increased over the same period in 2017 due to the Grande Prairie and House Mountain/Midale Acquisitions as the acquired properties have a higher royalty rate on light oil properties combined with the sale of the Wainwright and Mitsue overriding royalties.

OPERATING EXPENSES

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Operating expenses	39,554	32,113	23	79,578	63,460	25
\$/boe	20.81	20.57	1	20.87	21.69	(4)

For the second quarter of 2018, operating expenses and operating expenses per boe increased over the second quarter of 2017 due to increased regulatory and power costs experienced within the Company's Alberta properties combined with additional environmental and remediation costs incurred from the major storm which occurred across Cardinal's northern Alberta properties in June 2018. During the second quarter of 2018, due to reduced power supply and the effect of the Alberta carbon tax increase, electricity costs per boe increased by over 50% as compared to the same period in 2017. Despite these significant uncontrollable cost increases, the Company's total operating costs per boe slightly increased 1% due to operating efficiencies and the House Mountain/Midale Acquisition in which the properties have lower operating costs per boe compared to Cardinal's previous corporate average.

For the first six months of 2018, operating costs per boe decreased 4% due to the Grande Prairie and House Mountain/Midale Acquisitions which have lower operating costs per boe compared to Cardinal's previous corporate average.

NETBACK

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Petroleum and natural gas revenue	58.86	43.31	36	54.20	44.49	22
Royalties	9.98	6.01	66	9.21	6.19	49
Operating expenses	20.81	20.57	1	20.87	21.69	(4)
Netback ⁽¹⁾	28.07	16.73	68	24.12	16.61	45

(1) See non-GAAP measures.

Cardinal's netback increased by 68% to average \$28.07/boe in the second quarter of 2018 compared to \$16.73/boe in the second quarter of 2017 primarily due to significantly increased oil prices partially offset by increased royalties and a small increase in operating costs.

For the first six months of 2018, increased oil prices combined with lower operating costs partially offset by higher royalties strengthened the Company's netback by 45%, over the same period in 2017, to average \$24.12/boe.

GENERAL AND ADMINISTRATIVE ("G&A")

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Gross G&A	6,051	3,738	62	12,374	7,482	65
Capitalized G&A and overhead recoveries	(1,318)	(234)	n/m	(2,615)	(595)	n/m
G&A	4,733	3,504	35	9,759	6,887	42
\$/boe	2.49	2.24	11	2.56	2.35	9

In the second quarter and first six months of 2018, G&A and G&A costs per boe increased over the same periods in 2017 due to additional staff and related compensation to manage the operations of the Grande Prairie Acquisition and the House Mountain/Midale Acquisition. In addition, corporate insurance, office rent costs and information technology costs have increased the Company's G&A costs and costs per boe during the second quarter and first six months of 2018 as compared to the same periods in 2017.

SHARE-BASED COMPENSATION ("SBC")

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Gross SBC	2,110	2,524	(16)	3,744	5,395	(31)
Capitalized SBC	(364)	(267)	36	(672)	(515)	30
SBC	1,746	2,257	(23)	3,072	4,880	(37)
\$/boe	0.92	1.45	(37)	0.81	1.67	(51)

SBC expense decreased in the second quarter and first six months of 2018 compared to the same periods in 2017 due to a decline in the fair value of 2018 issued restricted bonus awards ("RAs") resulting from a lower share price. In addition, all previously outstanding warrants and stock options were fully expensed in 2017.

As at June 30, 2018, Cardinal had 3.5 million RAs outstanding.

FINANCE

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Interest - bank debt	2,059	752	174	4,212	1,262	234
Other finance charges, net	193	106	82	366	237	54
Interest - convertible debentures	685	685	-	1,375	1,375	-
Accretion	2,489	2,287	9	4,948	4,435	12
Finance	5,426	3,830	42	10,901	7,309	49
\$/boe	2.86	2.45	17	2.86	2.50	14
Average bank debt	209,940	107,397	95	219,086	91,131	140
Interest rate - bank debt	3.9%	2.8%	39	3.9%	2.8%	39

Finance expense for the second quarter and first six months of 2018 increased over the same periods in 2017 due to additional interest on bank debt resulting from increased average bank debt outstanding and higher interest rates.

DEPLETION AND DEPRECIATION ("D&D")

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Depletion and depreciation	22,285	21,565	3	44,809	41,259	9
\$/boe	11.73	13.82	(15)	11.75	14.10	(17)

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 costs per boe decreased in the second quarter and first six months of 2018 as compared to the same periods in 2017 due to increased 2017 year-end proved plus probable reserve bookings combined with the acquisition of lower depletion rate properties from the House Mountain/Midale Acquisition. In addition, the Company recorded an impairment of certain cash generating units ("CGU") in the fourth quarter of 2017 which reduced the depletable base and future depletion costs of the Alberta South and Jenner CGUs.

DEFERRED TAXES

At June 30, 2018, the Company recorded a deferred tax asset of \$150.4 million (2017 – \$114.8 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 2022 or beyond. Any potential taxes payable beyond 2022 would be affected by commodity prices, capital expenditures and production.

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

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Earnings (loss) \$/share	(19,970)	1,218	n/m	(33,284)	8,780	n/m
Basic and diluted	(0.17)	0.02	n/m	(0.29)	0.11	n/m
Cash flow from operating activities	21,923	12,986	69	53,725	28,369	89
Adjusted funds flow \$/share	27,085	17,144	58	52,636	31,730	66
Basic	0.24	0.22	9	0.46	0.41	12
Diluted	0.24	0.21	14	0.46	0.40	15
Total payout ratio	98%	144%	(32)	98%	168%	(42)
Simple payout ratio	46%	54%	(15)	47%	53%	(11)

For the second quarter of 2018, the Company had a loss of \$20.0 million compared to earnings of \$1.2 million in the second quarter of 2017 due to realized and unrealized losses on commodity contracts totaling \$44.8 million in the second quarter of 2018 compared to a net gain of \$11.4 million for the same period in 2017. The increases in cash flow from operating activities and adjusted funds flow during the second quarter of 2018 predominantly related to increased oil production and pricing.

The decrease in Cardinal's total payout ratio for the second quarter of 2018 over the second quarter of 2017 is mainly due to the increase in adjusted funds flow.

For the first six months of 2018, the Company had a \$33.3 million loss compared to an \$8.8 million gain in the same period in 2017 due to increased realized and unrealized losses on commodity contracts in 2018. The increase in cash flow from operating activities and adjusted funds flow is the result of increased oil production and pricing. The decrease in the Company's total payout ratio and simple payout ratio is the result of increased adjusted funds flow combined with a decrease in exploration and development expenditures.

CAPITAL EXPENDITURES

Property Acquisitions/Dispositions

On January 12, 2018, Cardinal closed a 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 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.

In May 2018, the Company disposed of non-core properties in the Wainwright area which included approximately 50 boe/d of production and \$1.1 million of future asset retirement obligations for \$1.0 million.

Capital Expenditures

In the second quarter of 2018, Cardinal drilled, completed and tied-in three (3.0 net) wells in the Company's Bantry area. The wells were tied-in and brought on production late in the second quarter of 2018. In addition, during the second quarter of 2018, Cardinal continued to invest in infrastructure and upgrade its pipelines and facilities spending \$7.5 million predominantly in its North and Central core areas.

	Three months ended			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Land	112	247	(55)	135	520	(74)
Geological and geophysical	(34)	286	(112)	(5)	389	(101)
Drilling and completion	6,448	7,609	(15)	12,460	22,394	(44)
Equipment, facilities and pipelines	7,533	7,143	5	14,269	13,201	8
Total exploration and development ⁽¹⁾	14,059	15,285	(8)	26,859	36,504	(26)
Capitalized G&A	450	234	92	921	409	125
Other assets	74	371	(80)	112	510	(78)
Acquisitions, net	(963)	297,114	(100)	(17,242)	301,115	(106)
Total cash capital expenditures	13,620	313,004	(96)	10,650	338,538	(97)
Non-cash expenditures ⁽²⁾	-	-	-	11,250	28,174	(60)
Total capital expenditures ⁽³⁾	13,620	313,004	(96)	21,900	366,712	(94)

(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 2018 Midale consolidating working interest acquisition and the Grande Prairie Acquisition in 2017.

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

DECOMMISSIONING OBLIGATION

The decommissioning obligation slightly increased in the second quarter of 2018 as the Company settled \$0.9 million of liabilities, incurred \$0.1 million of future liabilities and added \$2.3 million of accretion. In addition, Cardinal disposed of \$1.1 million of asset retirement obligations in the May 2018 disposition as mentioned in the Capital Expenditures section.

LIQUIDITY AND CAPITAL RESOURCES

Capitalization table	As at		
	Jun 30, 2018	Dec 31, 2017	Change %
Net bank debt ⁽¹⁾	213,133	225,967	(6)
Convertible debentures	50,000	50,000	-
Shares outstanding	114,227,541	110,838,321	3
Market price at end of period (\$ per share)	\$ 5.53	\$ 5.09	9
Market capitalization	631,678	564,167	12
Total capitalization	894,811	840,134	7

(1) See non-GAAP measures.

CAPITAL FUNDING

During the second quarter of 2018, Cardinal's reserves-based revolving credit facility was renewed. The 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. 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 June 30, 2018.

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 24, 2019. 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.

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.

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	
	Jun 30, 2018	Dec 31, 2017
Bank debt	\$ 200,645	\$ 218,905
Principal amount of Convertible Debentures	50,000	50,000
Working capital deficiency ⁽¹⁾	12,488	7,062
Net debt	\$ 263,133	\$ 275,967
Cash flow from operating activities	\$ 101,886	\$ 76,530
Change in non-cash working capital	(5,153)	1,525
Funds flow	\$ 96,733	\$ 78,055
Decommissioning obligation expenditures	7,165	3,933
Transaction costs	680	1,684
Adjusted funds flow	104,578	83,672
Net debt to adjusted funds flow	2.5	3.3

(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 for the preceding 12 month period at June 30, 2018 was 2.5 to 1, above the Company's target of less than 2 to 1 due to additional debt incurred for the House Mountain/Midale Acquisition. Although the ratio is above Cardinal's target, the Company has reduced this ratio over the past four quarters from a high of 4.5 to 1 in the second quarter of 2017 and forecasts that it will continue to decrease with the continuing recovery and stabilization of oil prices in 2018. 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 June 30, 2018, Cardinal had a working capital deficiency of \$12.5 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 \$111.9 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			Six months ended		
	Jun 30, 2018	Jun 30, 2017	Change %	Jun 30, 2018	Jun 30, 2017	Change %
Dividends declared	12,359	9,406	31	24,640	17,424	41
Reinvested dividends (DRIP and SDP)	-	(86)	(100)	-	(756)	(100)
Cash dividends	12,359	9,320	33	24,640	16,668	48
Dividends declared per share	\$ 0.105	\$ 0.105	-	\$ 0.21	\$ 0.21	-

During the three months ended June 30, 2018, \$12.4 million (2017 – \$9.4 million) of dividends were declared of which \$8.1 million (2017 - \$5.5 million) was paid in cash and \$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. In 2017, Cardinal announced the suspension of the DRIP and SDP therefore all dividends were settled in cash in 2018.

SHARE CAPITAL

On January 12, 2018, the Company issued 2,314,815 common shares valued at \$4.86 per share as partial consideration for the consolidating acquisition increasing the Company's working interest in the Midale Unit from 68.8% to 77.2%.

During the first six months of 2018, Cardinal granted 1.8 million RAs to officers, directors and employees pursuant to the Company's restricted bonus award plan.

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.

Equity Instruments as at	August 2, 2018	June 30, 2018	Dec 31, 2017
Common shares	114,227,541	114,227,541	110,838,321
Convertible debentures (\$50.0 million convertible at \$10.50)	4,761,905	4,761,905	4,761,905
RAs	3,734,016	3,479,238	3,008,987
Stock options	67,782	67,782	108,337

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 June 30, 2018, the Company had contractual obligations and commitments 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

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.

ADDITIONAL INFORMATION

CRITICAL ACCOUNTING ESTIMATES

There have been no changes in Cardinal's critical accounting estimates in the six months ended June 30, 2018. Further information on the Company's critical accounting policies and estimates can be found in the notes to the annual financial statements and MD&A for the year ended December 31, 2017.

INTERNAL CONTROLS UPDATE

Cardinal is required to comply with National Instrument 52-109 "Certification of Disclosure on Issuers' Annual and Interim Filings". The certificate requires that Cardinal disclose in the interim MD&A any change in the Company's internal control over financial reporting ("ICOFR") that occurred during the period that have materially affected, or are reasonably likely to materially affect Cardinal's ICOFR. As of the date of this MD&A Cardinal confirms that there have been no such changes in Cardinal's ICOFR during the second quarter of 2018.

ENVIRONMENTAL RISKS

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

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

CHANGE 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 of the June 30, 2018 interim unaudited financial statements. 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 of the June 30, 2018 interim unaudited financial statements 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 expenses and general and administration expenses and an increase to interest expense and fund flows from operations. Cardinal is currently assessing the standard including identifying, gathering and reviewing contracts to determine which contracts will have an impact on the financial statements with the adoption of IFRS 16.

OUTLOOK

With confidence in the low decline of our asset base and with oil prices remaining in an attractive range, the Company expects to drill seven additional wells in the back half of 2018. Cardinal's mandate for 2018/2019 will be to focus on three areas: maintaining the dividend and total payout ratio below 100%, reducing debt levels to 1x run rate adjusted funds flow and reducing operating costs through larger long lead time capital projects. In addition, the Company will proactively upgrade infrastructure to minimize the future environmental impact and continue to accelerate future abandonment obligation expenditures.

QUARTERLY DATA

	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Production				
Oil and NGL (bbl/d)	18,110	18,492	17,943	18,355
Natural gas (mcf/d)	16,632	16,505	18,032	18,650
Oil equivalent (boe/d)	20,882	21,243	20,949	21,463
Financial				
Revenue	111,847	94,779	97,646	86,022
Earnings (loss)	(19,970)	(13,314)	(54,308)	(12,070)
Basic per share (\$)	(0.17)	(0.12)	(0.49)	(0.11)
Diluted per share (\$)	(0.17)	(0.12)	(0.49)	(0.11)
Cash flow from operating activities	21,923	31,802	24,442	23,719
Adjusted funds flow	27,085	25,551	28,421	23,521
Basic per share (\$)	0.24	0.23	0.26	0.21
Diluted per share (\$)	0.24	0.23	0.26	0.21
Working capital deficiency ⁽¹⁾	(12,488)	(12,505)	(7,062)	(4,098)
Total assets	1,216,642	1,216,075	1,228,596	1,301,832
Bank debt	200,645	200,836	218,905	239,418
Principal amount of convertible debentures	50,000	50,000	50,000	50,000
Total long-term liabilities ⁽²⁾	380,961	380,859	397,980	428,774
Shareholders' equity	707,163	737,201	749,962	813,407
Weighted average shares - basic (000's)	114,190	113,397	110,446	110,278
Weighted average shares - diluted (000's)	114,190	113,397	110,446	111,046
Common shares outstanding (000's)	114,228	113,985	110,838	110,324
Diluted shares outstanding (000's)	122,536	122,758	118,718	118,287
	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016
Production				
Oil and NGL (bbl/d)	13,817	13,009	12,586	13,027
Natural gas (mcf/d)	20,021	12,952	12,178	11,578
Oil equivalent (boe/d)	17,154	15,168	14,616	14,957
Financial				
Revenue	67,602	62,574	58,721	53,673
Earnings (loss)	1,218	7,562	(31,995)	(4,366)
Basic per share (\$)	0.02	0.10	(0.43)	(0.06)
Diluted per share (\$)	0.02	0.10	(0.43)	(0.06)
Cash flow from operating activities	12,986	15,383	9,728	22,092
Adjusted funds flow	17,144	14,586	16,284	18,177
Basic per share (\$)	0.22	0.19	0.22	0.25
Diluted per share (\$)	0.21	0.19	0.22	0.25
Working capital deficiency ⁽¹⁾	(5,423)	(11,396)	(9,028)	(12,056)
Total assets	1,310,125	982,602	946,237	931,041
Bank debt	233,229	82,978	61,272	23,092
Principal amount of convertible debentures	50,000	50,000	50,000	50,000
Total long-term liabilities ⁽²⁾	420,227	249,806	228,437	197,282
Shareholders' equity	834,532	675,505	651,080	681,250
Weighted average shares - basic (000's)	79,612	75,557	73,728	73,501
Weighted average shares - diluted (000's)	80,511	76,919	73,728	73,501
Common shares outstanding (000's)	110,184	79,262	74,152	73,518
Diluted shares outstanding (000's)	117,984	87,123	82,515	81,886

(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 increases in the first half of 2017 were due to the Grande Prairie Acquisition 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. Increases in production and commodity prices have resulted in increased revenue since 2016.

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. Since the third quarter of 2017, adjusted funds flow and cash flow from operating activities have significantly increased 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 gain on risk management contracts of \$19.9 million in the first quarter of 2017 and an unrealized gain of \$15.3 million in the second quarter of 2017 compared to an unrealized loss on commodity contracts of \$18.8 million and \$26.3 million in the first and second quarters of 2018, respectively. 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.

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;
- expectations with respect to payout ratios, adjusted funds flow, net debt to adjusted funds flow ratio and other financial results;
- 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;
- plans to evaluate non-core asset dispositions or other forms of financing to reduce debt;
- plans to maintain a conservative leverage profile through a targeted net debt to adjusted funds flow ratio of less than 2.0 with proceeds of non-core asset dispositions;
- 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, decommissioning obligations and dividend payments;
- 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