



**CARDINAL**  
ENERGY LTD.

# **Q2 2021**

## **FINANCIAL STATEMENTS**

## CONDENSED INTERIM BALANCE SHEET

As at (Unaudited, thousands)	Note	June 30, 2021	December 31, 2020
<b>ASSETS</b>			
Current assets			
Trade and other receivables		\$ 42,677	\$ 29,261
Deposits and prepaid expenses		2,163	2,876
Fair value of financial instruments	12	-	1,506
		<b>44,840</b>	<b>33,643</b>
Non-current assets			
Property, plant and equipment	3	<b>702,408</b>	715,490
<b>Total Assets</b>		<b>\$ 747,248</b>	<b>\$ 749,133</b>
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables		\$ 55,502	\$ 42,421
Lease liabilities	7	1,585	1,687
Decommissioning obligation	8	3,352	3,280
Fair value of financial instruments	12	13,509	8,415
Warrant liability	9	-	3,530
		<b>73,948</b>	<b>59,333</b>
Non-current liabilities			
Lease liabilities	7	1,893	2,227
Bank debt	4	178,239	192,115
Secured notes	5	17,429	16,217
Liability component of convertible debentures	6	-	26,886
Decommissioning obligation	8	77,592	79,507
		<b>275,153</b>	<b>316,952</b>
<b>Total Liabilities</b>		<b>349,101</b>	<b>376,285</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	1,083,640	1,054,169
Treasury shares	9	(2,258)	(3,041)
Warrants	9	16,453	-
Equity component of convertible debentures	6	-	1,582
Contributed surplus		30,542	33,502
Deficit		(730,230)	(713,364)
<b>Total Shareholders' Equity</b>		<b>398,147</b>	<b>372,848</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 747,248</b>	<b>\$ 749,133</b>
Contractual obligations	13		
Subsequent event	14		

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

## CONDENSED INTERIM STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

<i>(Unaudited, thousands except per share amounts)</i>	<i>Note</i>	Three months ended June 30,		Six months ended June 30,	
		<b>2021</b>	2020	<b>2021</b>	2020
<b>Revenue</b>					
Petroleum and natural gas revenue	11	\$ 99,106	\$ 31,711	\$ 184,653	\$ 95,184
Royalties		<b>(17,220)</b>	(4,054)	<b>(30,187)</b>	(14,338)
		<b>81,886</b>	27,657	<b>154,466</b>	80,846
Realized gain (loss) on commodity contracts	12	<b>(13,715)</b>	3,308	<b>(27,516)</b>	11,529
Unrealized gain (loss) on commodity contracts	12	<b>2,051</b>	(13,984)	<b>(6,600)</b>	(5,808)
Processing and other revenue	11	<b>1,088</b>	383	<b>1,936</b>	1,000
Other income	8	<b>2,319</b>	-	<b>3,464</b>	-
		<b>73,629</b>	17,364	<b>125,750</b>	87,567
<b>Expenses</b>					
Operating		<b>36,306</b>	23,526	<b>72,540</b>	62,207
Transportation		<b>495</b>	370	<b>991</b>	945
General and administrative		<b>3,783</b>	2,924	<b>6,850</b>	7,798
Share-based compensation	10	<b>981</b>	861	<b>1,745</b>	2,282
Finance		<b>5,844</b>	3,538	<b>12,054</b>	9,788
Re-measurement loss on warrant liability	9	-	-	<b>12,923</b>	-
Depletion and depreciation	3	<b>17,125</b>	14,055	<b>34,267</b>	37,562
Impairment	3	-	-	-	343,000
Loss (gain) on conversion of convertible debentures and other	6	-	(364)	<b>1,246</b>	(404)
		<b>64,534</b>	44,910	<b>142,616</b>	463,178
Earnings (loss) before deferred tax		<b>9,095</b>	(27,546)	<b>(16,866)</b>	(375,611)
Deferred tax expense		-	-	-	102,879
<b>Earnings (loss) and comprehensive earnings (loss) for the period</b>					
		<b>\$ 9,095</b>	\$ (27,546)	<b>\$ (16,866)</b>	\$ (478,490)
<b>Earnings (loss) per share</b>					
Basic and diluted	9	<b>\$ 0.06</b>	\$ (0.24)	<b>\$ (0.12)</b>	\$ (4.22)

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

## CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Unaudited, thousands except number of common shares)</i>	Common Shares, net of treasury shares	Share Capital <i>(note 9)</i>	Treasury Shares <i>(note 9)</i>	Warrants <i>(note 9)</i>	Equity Component of Convertible Debentures <i>(note 6)</i>	Contributed Surplus <i>(note 10)</i>	Deficit	Total Shareholders' Equity
<b>As at January 1, 2020</b>	113,657,247	\$ 1,062,194	\$ (5,182)	\$ -	\$ 1,556	\$ 26,429	\$ (347,095)	\$ 737,902
Purchase of common shares for RAs <sup>(1)</sup> settlements	(303,495)	-	(700)	-	-	-	-	(700)
Settlement of RAs <sup>(1)</sup>	925,548	-	2,580	-	-	(3,348)	-	(768)
Purchase of common shares for cancellation	(897,500)	(8,526)	-	-	-	6,040	-	(2,486)
Share-based compensation	-	-	-	-	-	2,554	-	2,554
Tax adjustment on excess value of RAs <sup>(1)</sup>	-	-	-	-	-	(697)	-	(697)
Dividends (\$0.03 per share)	-	-	-	-	-	-	(3,511)	(3,511)
Loss for the period	-	-	-	-	-	-	(478,490)	(478,490)
<b>As at June 30, 2020</b>	<b>113,381,800</b>	<b>\$ 1,053,668</b>	<b>\$ (3,302)</b>	<b>\$ -</b>	<b>\$ 1,556</b>	<b>\$ 30,978</b>	<b>\$ (829,096)</b>	<b>\$ 253,804</b>
<b>As at January 1, 2021</b>	121,348,705	\$ 1,054,169	\$ (3,041)	\$ -	\$ 1,582	\$ 33,502	\$ (713,364)	\$ 372,848
Purchase of common shares for RAs <sup>(1)</sup> and PAs <sup>(2)</sup> settlements	(823,046)	-	(2,000)	-	-	-	-	(2,000)
Reclassification of warrants to equity	-	-	-	16,453	-	-	-	16,453
Settlement of RAs <sup>(1)</sup> and PAs <sup>(2)</sup>	1,235,539	-	2,783	-	-	(4,915)	-	(2,132)
Convertible debentures conversion and redemption	22,410,400	29,596	-	-	(1,582)	-	-	28,014
Share-based compensation	-	-	-	-	-	1,955	-	1,955
Share issue costs	-	(125)	-	-	-	-	-	(125)
Loss for the period	-	-	-	-	-	-	(16,866)	(16,866)
<b>As at June 30, 2021</b>	<b>144,171,598</b>	<b>\$ 1,083,640</b>	<b>\$ (2,258)</b>	<b>\$ 16,453</b>	<b>\$ -</b>	<b>\$ 30,542</b>	<b>\$ (730,230)</b>	<b>\$ 398,147</b>

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

*(2) Performance Awards ("PAs")*

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

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

<i>(Unaudited, thousands)</i>	<i>Note</i>	Three months ended June 30,		Six months ended June 30,	
		<b>2021</b>	2020	<b>2021</b>	2020
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Earnings (loss) for the period		\$ 9,095	\$ (27,546)	\$ (16,866)	\$ (478,490)
Adjustments for					
Share-based compensation	10	981	861	1,745	2,282
Depletion and depreciation	3	17,125	14,055	34,267	37,562
Impairment	3	-	-	-	343,000
Re-measurement loss of warrant liability	9	-	-	12,923	-
Unrealized (gain) loss on commodity contracts	12	(2,051)	13,984	6,600	5,808
Unrealized foreign exchange gain		-	(1,132)	-	(23)
Other income	8	(2,319)	-	(3,464)	-
Deferred tax expense		-	-	-	102,879
Accretion	6,8	1,849	2,207	3,786	4,399
Interest on secured notes	5	620	-	1,212	-
Loss (gain) on conversion of convertible debentures and other	6	-	(364)	1,246	(404)
Decommissioning obligation settled	8	(977)	(543)	(2,708)	(2,015)
Change in non-cash working capital		(1,860)	(11,798)	(3,003)	(3,233)
		<b>22,463</b>	<b>(10,276)</b>	<b>35,738</b>	<b>11,765</b>
<b>Investing activities</b>					
Exploration and evaluation expenditures		-	-	-	(11)
Property, plant and equipment expenditures	3	(10,305)	(1,056)	(16,506)	(23,186)
Property acquisitions		(8)	-	(3,334)	-
Change in non-cash working capital		105	(19,061)	3,300	(19,285)
		<b>(10,208)</b>	<b>(20,117)</b>	<b>(16,540)</b>	<b>(42,482)</b>
<b>Financing activities</b>					
Dividends		-	-	-	(3,511)
Repayment of lease liabilities	7	(471)	(497)	(952)	(978)
Share issue costs	9	-	-	(125)	-
Purchase of common shares for cancellation		-	-	-	(2,486)
Purchase of common shares for RA and PA settlements and withholding tax	9	(801)	(252)	(4,132)	(1,468)
Purchase of convertible debentures for cancellation		-	(141)	-	(170)
Convertible debentures redeemed	6	-	-	(194)	-
Increase (decrease) in bank debt		(10,745)	31,321	(13,876)	41,091
Change in non-cash working capital		(238)	(38)	81	(1,761)
		<b>(12,255)</b>	<b>30,393</b>	<b>(19,198)</b>	<b>30,717</b>
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

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

*(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, 2020 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, 2020.

The financial statements were authorized for issue by the Board of Directors on July 28, 2021.

#### 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.

During the first six months of 2021, there has been improvement in the stability of the global crude oil prices as Organization of the Petroleum Exporting Countries ("OPEC") have begun to gradually return production to the market while continuing to adhere to agreed upon production limits. Governments have begun to ease restrictions relating to the coronavirus pandemic ("COVID-19") while continuing the distribution of vaccines which has fueled optimism in the outlook for crude oil demand. Although the Company has benefited as a result of the improvement in crude oil prices, there continues to be uncertainty and risk related to OPEC production curtailments and COVID-19.

### 3 PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Right-of-use assets	Corporate assets	Total
<b>Cost</b>				
As at January 1, 2020	\$ 1,664,876	\$ 6,178	\$ 4,233	\$ 1,675,287
Additions	31,886	469	128	32,483
Changes in decommissioning obligation	(31,473)	-	-	(31,473)
Disposition	(1,980)	(33)	-	(2,013)
As at December 31, 2020	1,663,309	6,614	4,361	1,674,284
Additions	16,648	516	69	17,233
Acquisition	4,033	-	-	4,033
Dispositions	(117)	(1,124)	-	(1,241)
<b>At June 30, 2021</b>	<b>\$ 1,683,873</b>	<b>\$ 6,006</b>	<b>\$ 4,430</b>	<b>\$ 1,694,309</b>
<b>Accumulated depletion and depreciation</b>				
As at January 1, 2020	\$ (668,044)	\$ (1,708)	\$ (2,335)	\$ (672,087)
Depletion and depreciation	(64,775)	(1,871)	(434)	(67,080)
Disposition	688	33	-	721
Impairment	(220,348)	-	-	(220,348)
As at December 31, 2020	(952,479)	(3,546)	(2,769)	(958,794)
Depletion and depreciation	(33,221)	(838)	(207)	(34,266)
Dispositions	35	1,124	-	1,159
<b>At June 30, 2021</b>	<b>\$ (985,665)</b>	<b>\$ (3,260)</b>	<b>\$ (2,976)</b>	<b>\$ (991,901)</b>
<b>Net book value</b>				
At December 31, 2020	\$ 710,830	\$ 3,068	\$ 1,592	\$ 715,490
<b>At June 30, 2021</b>	<b>\$ 698,208</b>	<b>\$ 2,746</b>	<b>\$ 1,454</b>	<b>\$ 702,408</b>

The calculation of depletion for the six months ended June 30, 2021 includes estimated future development costs of \$218.1 million (December 31, 2020 - \$219.3 million) associated with the development of the Company's proved and probable oil and gas reserves.

For the six months ended June 30, 2021, Cardinal capitalized \$0.5 million of general and administrative expenses (2020 - \$0.5 million) and \$0.2 million (2020 - \$0.3 million) of share-based compensation.

#### Impairment and impairment reversal

At June 30, 2021, there were no indicators of impairment or impairment reversal for oil and gas properties in any of the Company's CGUs.

2020:

At December 31, 2020, Cardinal determined that the estimated recoverable amounts of the Alberta Central, Alberta South, and Alberta North CGUs exceeded the carrying amounts of \$116.7 million, \$90.7 million, and \$222.9 million, respectively. Accordingly, an aggregate non-cash impairment reversal of \$122.7 million was recorded. The impairment reversal was the result of a partial recovery of the forecasted oil and gas commodity prices, increased economic stability, and certainty in the oil and gas industry. The estimated recoverable amounts were based on proved and probable oil and gas reserves as evaluated by the Company's independent third party reserve evaluators as at December 31, 2020.

At March 31, 2020, Cardinal determined that the carrying amounts of the Alberta Central, Alberta South, and Alberta North CGUs exceeded the estimated recoverable amounts of \$131.4 million, \$103.4 million, and \$250.4 million, respectively. Accordingly, an aggregate non-cash impairment loss of \$343.0 million was recorded. The impairment recognized was the result of a significant decline in forecasted oil and gas commodity prices due to oil demand issues caused by COVID-19.

## 4 BANK DEBT

The Company's reserves-based revolving credit facility of \$225 million is comprised of a \$205 million syndicated term credit facility and a \$20 million non-syndicated operating line credit facility (the "Facilities"). The Facilities are available on a revolving basis until May 31, 2022 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 31, 2023. On a redetermination date, lenders could reduce the borrowing base to below amounts drawn, in which case, any short fall would have to be repaid within 30 days.

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. The next scheduled review date will be on or before November 30, 2021.

Advances under the Facilities are available by way of either prime rate loans, which bear interest at the banks' prime lending rate plus 1.75% to 5.25%, and bankers' acceptances, which are subject to fees and margins ranging from 2.75% to 6.25%. 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 covenants related to the Facilities, provided that Cardinal is not in default of the terms of the Facilities.

Letters of credit for \$1.6 million were outstanding at June 30, 2021 (2020 – \$1.6 million) that reduced the amount otherwise available to be drawn on the operating line credit facility.

Cardinal was in compliance with the terms of the Facilities at June 30, 2021. For the six months ended June 30, 2021 the effective interest rate on the Company's bank debt was 6.2% (2020 – 3.5%).

## 5 SECURED NOTES

		Secured notes
As at January 1, 2020	\$	-
Issued		16,204
Interest		13
As at December 31, 2020	\$	16,217
Interest		1,212
<b>As at June 30, 2021</b>	<b>\$</b>	<b>17,429</b>

On December 30, 2020, Cardinal entered into a subscription agreements for a non-brokered private placement ("Private Placement") of \$16.9 million principal amount of second lien secured notes ("Secured Notes") issued at a 4% discount for net proceeds of \$16.2 million.

The Secured Notes bears interest at 12% per annum with an effective interest rate of 14.6%, with interest compounded and accrued semi-annually and added to the principal amount outstanding, payable on maturity. The Secured Notes mature on June 30, 2022, and contains an extension provision, exercisable by either Cardinal or the holders on 30 days' prior written notice, to extend the maturity date to November 30, 2022. The fair value of the Secured Notes approximate their face value at June 30, 2021.



## 6 CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component	Equity component
<b>8.0% Convertible debentures</b>			
As at January 1, 2020	-	\$ -	\$ -
Issuance	28,207	26,625	1,582
Accretion	-	261	-
<b>Balance at December 31, 2020</b>	<b>28,207</b>	<b>\$ 26,886</b>	<b>\$ 1,582</b>
Accretion	-	100	-
Loss on conversion	-	1,221	-
Converted	(28,013)	(28,013)	(1,582)
Redeemed	(194)	(194)	-
<b>Balance at June 30, 2021</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>

On February 4, 2021, Cardinal issued a notice of redemption for all of the outstanding convertible debentures with a principal amount of \$28.2 million, effective March 11, 2021. Prior to the redemption date, the majority of the holders of the convertible debentures exercised their conversion option whereby Cardinal issued 22,410,000 common shares upon the conversion of \$28.0 million of principal amount of the convertible debentures, with a conversion price of \$1.25 per share, representing approximately 99.3% of the outstanding debentures. The redemption of the remaining \$0.2 million principal amount of the convertible debentures was funded through the Company's credit facility.

For the six months ended June 30, 2021 Cardinal recognized \$0.3 million of interest (2020 - \$1.2 million), \$0.1 million of accretion (2020 - \$0.4 million), and a loss on conversion of \$1.2 million related to the convertible debentures (2020 - nil).

## 7 LEASE LIABILITIES

	Six months ended		Year ended
	June 30, 2021		December 31, 2020
Balance, beginning of period	\$	3,914	\$ 5,431
Additions		516	469
Finance cost		112	306
Lease payments		(1,064)	(2,292)
Balance, end of period	\$	3,478	\$ 3,914

At June 30, 2021, the Company had future commitments relating to lease liabilities as follows:

	As at		As at
	June 30, 2021		December 31, 2020
Less than 1 year	\$	1,748	\$ 1,877
1 - 3 years		1,984	2,351
4 - 5 years		-	9
Total undiscounted future lease payments		3,732	4,237
Amounts representing interest		(254)	(323)
Present value of net lease payments		3,478	3,914
Less current portion of lease liabilities		(1,585)	(1,687)
<b>Non-current portion of lease liabilities</b>	<b>\$</b>	<b>1,893</b>	<b>\$ 2,227</b>

The Company has lease liabilities for contracts related to office space, vehicles, and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rates during the six months ended June 30, 2021 were between 6% and 8% (2020 - between 6% and 8%), depending on the duration of the lease term.

## 8 DECOMMISSIONING OBLIGATION

	Six months ended		Year ended
	June 30, 2021		December 31, 2020
Balance, beginning of period	\$	82,787	\$ 113,812
Liabilities incurred		1	131
Liabilities acquired		699	-
Liabilities disposed		(57)	(67)
Change in estimates		-	(31,604)
Government subsidy for decommissioning expenditures		(3,464)	(4,563)
Decommissioning expenditures		(2,708)	(2,849)
Accretion		3,686	7,927
Balance, end of period	\$	80,944	\$ 82,787

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, 2021, the total estimated amount to settle Cardinal's decommissioning obligation was \$328 million (December 31, 2020 - \$331 million) on an uninflated and undiscounted basis and \$438 million (December 31, 2020 - \$440 million) on an inflated and undiscounted basis.

The decommissioning obligation was determined by applying an inflation factor of 1.0% (2020 – 1.0%) and discounting the inflated amount using Cardinal's credit-adjusted rate of 9.0% (2020 – 9.0%) over the expected useful life of the underlying assets of 20 to 50 years (2020 – 20 to 50 years).

## 9 SHARE CAPITAL

At June 30, 2021, 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.

### Treasury Shares

RAs and PAs may be settled in cash, common shares issued from treasury or common shares acquired by an independent trustee in the open market for such purposes. During the six months ended June 30, 2021, the trustee purchased 823,046 common shares (2020 – 303,495) for \$2.0 million (2020 - \$0.7 million) for the potential settlement of future vesting RAs and PAs.

During the six months ended June 30, 2021, the Company utilized 1,235,539 (2020 – 925,548) treasury shares to settle vesting RAs and PAs. As at June 30, 2021, 936,631 (December 31, 2020 – 1,349,124) common shares remained classified as treasury shares to be potentially used for future settlements.

### Warrants

On December 30, 2020, as part of the Private Placement, Cardinal issued 8,122,000 Units consisting of one common share and one warrant at \$0.50 per unit for net proceeds of \$4.0 million. The warrants are exercisable at \$0.55 per warrant for one common share. The warrants vest six months subsequent to the issuance date and expire on December 30, 2023. As at June 30, 2021, 8,122,000 warrants were outstanding.

The fair value of the warrants was determined using the Black-Scholes pricing model with the following inputs:

As at	March 18 - 31, 2021	December 31, 2020
Share Price	\$2.04 - \$2.68	\$ 0.83
Risk-free interest rate	0.25%	0.25%
Expected life (years)	2.75	3
Expected volatility	60%	60%

The warrants issued were classified as a financial liability as a result of a cashless exercise provision. All of the warrant holders waived their right to cashless exercise the warrants in the first quarter of 2021. As a result, on the date when the warrant holders relinquished their right to cashless exercise, the Company fair valued the warrant liability and recorded the resulting re-measurement expense of \$12.9 million and reclassified the warrant liability to shareholders equity.

### Earnings (loss) per share

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Earnings (loss) for the period	\$ 9,095	\$ (27,546)	\$ (16,866)	\$ (478,490)
Earnings (loss) per share				
- Basic and diluted	\$ 0.06	\$ (0.24)	\$ (0.12)	\$ (4.22)
Weighted average number of common shares				
- Basic	144,357,058	113,373,854	137,294,225	113,268,188
- Diluted	154,173,745	113,373,854	137,294,225	113,268,188

The weighted average number of common shares is adjusted for shares purchased and cancelled and treasury shares purchased and held by the trustee.

For the three months ended June 30, 2021, 2,701 RAs (2020 – 4,484,242), nil PAs (2020 – 846,369), nil convertible debentures (2020 – 4,233,429) and nil warrants (2020 – nil) were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

For the six months ended June 30, 2021, 3,776,610 RAs (2020 – 4,484,242), 1,536,246 PAs (2020 – 846,369), nil convertible debentures (2020 – 4,233,429) and 8,122,000 warrants (2020 – nil) were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

## 10 SHARE-BASED COMPENSATION

The maximum number of common shares issuable under the Company's 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 \$2.30 (2020 - \$1.07) during the six months ended June 30, 2021.

### Bonus Awards

The Company has a bonus award plan whereby RAs and PAs may be granted to directors, officers, employees and other service providers. 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. In the case of PAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period. 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 PAs	Number of RAs
As at January 1, 2020	-	4,613,495
Granted	846,369	1,732,385
Settled	-	(2,089,340)
Adjustment for dividends declared	-	45,610
Forfeited	-	(307,777)
Expired	-	(1,714)
As at December 31, 2020	846,369	3,992,659
Granted	972,000	1,788,464
Settled	(282,123)	(1,885,132)
Forfeited	-	(119,381)
<b>As at June 30, 2021</b>	<b>1,536,246</b>	<b>3,776,610</b>

For the six months ended June 30, 2021, upon the vesting of 1,885,132 (2020 – 1,697,096) RAs and 282,123 (2020 – nil) PAs, when taking into account the performance multiplier for PAs, the Company issued 1,235,539 (2020 – 925,548) treasury shares and a payment of \$2.1 million (2020 - \$0.8 million) for withholding taxes.

The fair value of the granted awards 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 \$2.17 (2020 – \$0.46) and PAs granted was \$2.12 (2020 – \$0.43).

#### Share-based Compensation

For the three and six months ended June 30, 2021 of \$1.0 million (2020 - \$0.8 million) and \$1.7 million (2020 - \$2.3 million), respectively, of share-based compensation was expensed and \$0.1 million (2020 - \$0.1 million) and \$0.2 million (2020 - \$0.3 million), respectively, was capitalized.

## 11 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. Under its contracts, the Company is required to deliver fixed or variable volumes of crude oil, natural gas and natural gas liquids to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable consideration is considered constrained.

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, and processing and other revenue generated by processing third party volume at facilities where the Company has an ownership interest:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Crude oil	92,534	29,415	170,613	89,362
NGL	2,645	840	5,871	2,464
Natural gas	3,927	1,456	8,169	3,358
<b>Petroleum and natural gas revenue</b>	<b>99,106</b>	<b>31,711</b>	<b>184,653</b>	<b>95,184</b>
<b>Processing and other revenue</b>	<b>1,088</b>	<b>383</b>	<b>1,936</b>	<b>1,000</b>

Included in accounts receivable at June 30, 2021 is \$34.8 million (2020 - \$19.8 million) of accrued petroleum and natural gas revenue.

## 12 FINANCIAL RISK MANAGEMENT

Cardinal's financial assets and liabilities consist of trade and other receivables, trade and other payables, risk management assets and liabilities, bank debt, and secured notes. 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.

Derivatives are recorded on the balance sheet at fair value at each reporting period with the change in fair value being recognized as an unrealized gain or loss in the statement of loss. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted volumes and a credit adjusted interest rate. The fair value of options and collars is based on option models that use published information with respect to volatility, prices and interest rates.

The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. However, the Company may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet the Company's expected sale requirements.

As at June 30, 2021 and December 31, 2020, the only assets or liabilities measured at fair value were the fair value of financial instruments which are classified as level 2, bank debt which is classified as level 2, and secured notes which are classified as level 2.

### *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, secured notes, 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, and trade and other payables 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 values of secured notes fluctuates in response to changes in the market rates of interest payable on similar instruments and credit changes.

### *Risk management*

Cardinal is exposed to normal market risks inherent in the oil and natural gas business, including, but not limited to, commodity price risk, foreign currency rate risk, credit risk, liquidity risk and interest rate risk. The Company seeks to mitigate these risks through various business processes and management controls and from time to time by using various derivative financial instruments and physical delivery sales contracts.

### Commodity price risk

The Company is exposed to commodity price risk on petroleum and natural gas sales. 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, 2021 Cardinal had the following commodity financial derivative contracts outstanding:

Type of instrument	Remaining term	Average quantity	Average strike price	Fair value
CDN WTI Swap	July 1, 2021 - September 30, 2021	1,000 bbl/d	\$ 59.00	(2,824)
CDN WTI Swap	July 1, 2021 - December 31, 2021	1,500 bbl/d	\$ 55.83	(8,925)
AECO Swap	July 1, 2021 - December 31, 2021	11,000 gj/d	\$ 2.64	(1,760)
				<u>(13,509)</u>

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, 2021 commodity prices, a \$1 per barrel change in the price of crude oil would have changed the unrealized loss by \$0.4 million (2020 – \$2.6 million) and a \$0.10 per gigajoule change in the price of natural gas would have changed the unrealized loss by \$0.2 million (2020 – \$0.1 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 secured notes. Trade and other payables are considered due within one year. The fair value of financial instruments, bank debt (see note 4), and secured notes (see note 5) are considered due between one and two years. 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 as at June 30, 2021 or during the period ended.

## 13 CONTRACTUAL OBLIGATIONS

As at June 30, 2021, the Company had contractual obligations as follows:

	2021	2022	2023	2024	2025	Thereafter
Trade and other payables	55,502	-	-	-	-	-
Lease liabilities	941	1,489	1,228	72	2	-
Bank debt <sup>(1)</sup>	-	-	178,239	-	-	-
Secured notes	-	20,156	-	-	-	-
<b>Total contractual obligations</b>	<b>\$ 56,443</b>	<b>\$ 21,645</b>	<b>\$ 179,467</b>	<b>\$ 72</b>	<b>\$ 2</b>	<b>\$ -</b>

(1) Amount excludes interest

## 14 SUBSEQUENT EVENT

On July 15, 2021, the Company closed the acquisition of Venturion Oil Limited (“Venturion”) for a purchase price of approximately \$47.5 million. The consideration consisted of 6.3 million of Cardinal’s common shares and approximately \$27.5 million of cash, subject to certain holdbacks. The cash was utilized to repay Venturion’s outstanding net debt at closing (including closing costs) with the residual being allocated to the shareholders on a pro-rata basis.

Concurrently, Cardinal issued \$12.5 million principal amount of subordinated second lien secured notes (the "Notes") which will bear interest at 10% per annum and have a three year term (the "Note Financing"). Interest will accrue semi-annually and be added to the principal amount and will be payable on maturity. As part of the Note Financing, Cardinal has also agreed to issue one common share purchase warrant ("Warrant") for each \$5.00 principal amount of Notes. Each Warrant will entitle the holder to acquire one common share of Cardinal at an exercise price equal to the deemed price of the common shares being issued pursuant to the Acquisition for a period of 36 months commencing six months from issue date. The Note Financing was fully funded by insiders of the Company.