



CARDINAL
ENERGY LTD.



Q1 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 months ended March 31, 2018 and is dated May 10, 2018. The MD&A should be read in conjunction with Cardinal's unaudited interim condensed financial statements as at and for the three months ended March 31, 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", "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 incurrence of these items involves a high degree of discretion and as such may not be useful for evaluating Cardinal's operating performance. Funds flow excludes the change in non-cash operating working capital. Funds flow and adjusted funds flow are not intended to represent net cash provided by (used in) operating activities calculated in accordance with IFRS. The following table reconciles cash flow from operating activities to funds flow and adjusted funds flow:

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Cash flow from operating activities	32,492	15,383	111
Change in non-cash working capital	(10,517)	(1,228)	n/m
Funds flow	21,975	14,155	55
Decommissioning expenditures	3,217	431	n/m
Transaction costs	359	-	-
Adjusted funds flow	25,551	14,586	75

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

"Development capital expenditures" represent expenditures on property, plant and equipment (excluding corporate and other assets and acquisitions) to maintain and grow the Company's base production.

"Free cash flow" represents adjusted funds flow less dividends declared, net of participation in the Dividend Reinvestment Program ("DRIP") and Stock Dividend Program ("SDP"), and less development capital expenditures.

"Netback" is calculated on a boe basis and is determined by deducting royalties and operating expenses from petroleum and natural gas revenue in accordance with the Canadian Oil and Gas Evaluation ("COGE") Handbook. Netback is utilized by Cardinal to better analyze the operating performance of its petroleum and natural gas assets against prior periods.

The term "net debt" is not recognized under GAAP and is calculated as bank debt plus the principal amount of convertible unsecured subordinated debentures ("convertible debentures") and current liabilities less current assets (adjusted for the fair value of financial instruments and the current portion of the decommissioning obligation). Net debt is used by management to analyze the financial position, liquidity and leverage of Cardinal.

"Net debt to adjusted funds flow" is calculated as net debt divided by adjusted funds flow for the trailing twelve month period. The ratio of net debt to adjusted funds flow is used to measure the Company's overall debt position and to measure the strength of the Company's balance sheet. Cardinal monitors this ratio and uses this as a key measure in making decisions regarding financing, capital expenditures and dividend levels.

"Net bank debt" is calculated as net debt less the principal amount of convertible debentures.

"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 first quarter 2018 production by 40% over the same period in 2017 which included a 40% increase in crude oil production.

Cash flow from operating activities and adjusted funds flow increased by 111% and 75%, respectively, in the first quarter of 2018 compared to the first quarter of 2017.

Increased production and oil pricing resulted in a 51% increase in revenues comparing first quarter 2018 to first quarter 2017.

First quarter 2018 operating costs per boe decreased by 9% over the same period in 2017.

Reduced March 31, 2018 net debt to adjusted funds flow ratio by 15% compared to December 31, 2017 and decreased net debt by 5% over closing 2017 levels.

OPERATIONS

PRODUCTION

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Crude oil (bbl/d)	17,832	12,708	40
NGL (bbl/d)	660	301	119
Crude oil and NGL (bbl/d)	18,492	13,009	42
Natural gas (mcf/d)	16,505	12,952	27
boe/d	21,243	15,168	40
% Crude oil and NGL production	87%	86%	1

Production in the first quarter of 2018 increased 40% over the same period in 2017 due to incremental production from two acquisitions that closed in March 2017 and June 2017. In March 2017, the Company added 1,600 boe/d of light oil and natural gas production in its North Alberta core area at Grande Prairie (“Grande Prairie Acquisition”) and 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”). In addition, successful drilling results throughout 2017 at Bantry, Mitsue, and Grande Prairie increased first quarter 2018 production as compared to the same period in 2017.

REVENUE

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Crude oil	90,030	58,444	54
NGL	2,201	879	150
Crude oil and NGL	92,231	59,323	55
Natural gas	2,548	3,251	(22)
Petroleum and natural gas revenue	94,779	62,574	51
Cardinal average prices			
Crude oil (\$/bbl)	56.10	51.10	10
Natural gas (\$/mcf)	1.72	2.79	(38)
Equivalent (\$/boe)	49.57	45.84	8
Benchmark pricing			
Crude oil - WTI (US \$/bbl)	62.87	51.90	21
Crude oil - WCS (Cdn \$/bbl)	48.76	49.40	(1)
Natural gas - AECO Spot (Cdn \$/mcf)	2.06	2.69	(23)
Exchange rate - (US/CAD)	0.79	0.76	4

Revenue increased 51% in the first quarter of 2018 as compared to 2017 due to the 40% increase in production combined with an 8% increase in average commodity prices. The Company’s average oil price increased by 10% due to a 21% increase in the West Texas Intermediate (“WTI”) CAD\$ benchmark price partially offset by a 1% decrease in the Western Canadian Select (“WCS”) benchmark price. During the first quarter of 2018, the WCS differential to WTI increased to average US\$24.28/bbl (2017 - US\$14.58/bbl) due to restricted takeaway capacity and the shutdown of a major pipeline in November 2017 which caused inventories to build driving down spot prices and led to the widening of the WCS differential. As bottlenecks were alleviated, more recently, the WCS differential has narrowed closer to historical levels.

FINANCIAL INSTRUMENTS

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Average crude oil volumes hedged (bbls/d)	12,167	6,250	95
Realized gain (loss) - commodity contracts	(5,023)	(3,200)	57
Unrealized gain (loss) - commodity contracts	(18,778)	19,906	(194)

Managing the variability in funds flow and adjusted funds flow is an integral component of Cardinal's business strategy. Changing business conditions are monitored regularly and reviewed with our Board of Directors to establish risk management guidelines used by management in carrying out the Company's risk management program. The risk exposure inherent in movements in the price of crude oil, natural gas and power are all proactively managed by Cardinal through the use of derivatives with investment-grade counterparties. The Company considers these derivative contracts to be an effective means to manage funds flow and adjusted funds flow.

Cardinal utilizes a variety of derivatives including swaps and collars to protect against downward commodity price movements and avoids entering into more complex derivative structures. Contracts settled in the period result in realized gains or losses based on the market price compared to the contract price. Changes in the fair value of the contracts, as measured at the balance sheet date, are reported as unrealized gains or losses in the period as the forward markets for commodities and currencies fluctuate and as new contracts are executed. For commodities, Cardinal's risk management program allows for hedging a forward profile of 3 years, of up to 75% of gross average forward 12 months production and up to 50% and 30% of the following 12 and 24 months, respectively.

As of the date of this MD&A Cardinal had the following commodity derivatives, referenced to WTI, WCS and AECO outstanding:

Commodity Derivative Traded	Period	Average Volume	Average Strike Price
Crude Oil			
CDN WTI Swap	Apr - Dec 2018	8,722 bbl/d	\$ 70.55
CDN WTI Swap	Jan - Jun 2019	1,334 bbl/d	\$ 77.92
CDN WTI Collar	Apr - Dec 2018	3,665 bbl/d	Put \$ 66.69 Call \$ 76.95
CDN WTI Collar	Jan - Jun 2019	1,500 bbl/d	Put \$ 70.00 Call \$ 83.33
WCS Differential	Apr - Dec 2018	2,109 bbl/d	\$ 19.99
Natural Gas			
AECO Swap	Apr - Dec 2018	7,442 gj/d	\$ 2.12
	Jan - Mar 2019	2,000 gj/d	\$ 1.74
AECO Collar	Apr - 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		
	Mar 31, 2018	Mar 31, 2017	Change %
Royalties	16,139	8,727	85
Percent of revenue	17.0%	13.9%	22
\$/boe	8.44	6.39	32

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 first quarter as compared to the same period in 2017 due to increased commodity prices and the incremental production added through the Grande Prairie Acquisition and 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 lighter oil properties. In addition, the Company's royalty rate increased in 2018 due to 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.

OPERATING EXPENSES

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Operating expenses	40,024	31,347	28
\$/boe	20.93	22.96	(9)

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat, store and ship production.

For the first quarter of 2018, operating expenses per boe decreased 9% over the first quarter of 2017 due to the Grande Prairie and House Mountain/Midale Acquisitions which have lower operating costs per boe compared to Cardinal's previous corporate average. In addition, fewer workovers further reduced the Company's costs per boe in the first quarter of 2018 compared to the same period of 2017. These reductions in costs were partially offset by an increase in environmental, regulatory and power costs experienced within the Company's Alberta properties in 2018.

NETBACK

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Petroleum and natural gas revenue	49.57	45.84	8
Royalties	8.44	6.39	32
Operating expenses	20.93	22.96	(9)
Netback ⁽¹⁾	20.20	16.49	22

(1) See non-GAAP measures.

Cardinal's netback increased by 22% to average \$20.20/boe in the first quarter of 2018 compared to \$16.49/boe in the first quarter of 2017 primarily due to a decrease in operating expenses, increased average light oil realized prices, and an increased weighting of lighter oil to our production mix.

GENERAL AND ADMINISTRATIVE ("G&A")

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Gross G&A	6,323	3,744	69
Capitalized G&A and overhead recoveries	(1,297)	(361)	259
Net G&A	5,026	3,383	49
\$/boe	2.63	2.48	6

In the first quarter of 2018, G&A and G&A costs per boe increased over the same period in 2017 due to additional staff and related compensation to manage the effect 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 first quarter of 2018 as compared to 2017.

SHARE-BASED COMPENSATION ("SBC")

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Gross SBC	1,634	2,871	(43)
Capitalized SBC	(308)	(248)	24
Net SBC	1,326	2,623	(49)
\$/boe	0.69	1.92	(64)

SBC expense decreased in the first quarter of 2018 compared to the same period in 2017 due to a decline in the fair value of recently 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 March 31, 2018, Cardinal had 3.9 million RAs outstanding.

FINANCE

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Interest - bank debt	2,153	510	n/m
Other finance charges, net	173	131	32
Interest - convertible debentures	690	690	-
Accretion	2,459	2,148	14
Finance expense	5,475	3,479	57
\$/boe	2.86	2.55	12
Average bank debt	228,334	74,685	206
Interest rate - bank debt	3.8%	2.7%	42

Finance expense for the first quarter of 2018 increased 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		
	Mar 31, 2018	Mar 31, 2017	Change %
Depletion and depreciation	22,524	19,694	14
\$/boe	11.78	14.43	(18)

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 first quarter of 2018 as compared to the same period in 2017 due to increased 2017 year-end proved plus probable reserve bookings combined with the acquisition of lower depletion rate properties from the Grande Prairie Acquisition and 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 March 31, 2018, the Company recorded a deferred tax asset of \$143.9 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		
	Mar 31, 2018	Mar 31, 2017	Change %
Earnings (loss)	(13,314)	7,562	(276)
\$/share			
Basic and diluted	(0.12)	0.10	(220)
Cash flow from operating activities	32,492	15,383	111
Adjusted funds flow	25,551	14,586	75
\$/share			
Basic and diluted	0.23	0.19	21
Total payout ratio	98%	196%	(50)
Simple payout ratio	48%	50%	(5)

For the first quarter of 2018, the Company had a loss of \$13.3 million compared to earnings of \$7.5 million in the first quarter of 2017 due to an unrealized loss on commodity contracts in Q1 2018 compared to an unrealized gain for the same period in 2017. The increases in cash flow from operating activities and adjusted funds flow during the first quarter of 2018 predominantly related to increased production and light oil prices.

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

Capital Expenditures

In the first quarter of 2018, Cardinal drilled 10 (10.0 net) stratigraphic test wells in the Company's Bantry area. In addition, the Company drilled one (1.0 net) well and completed two (2.0 net) wells in the North Alberta core area. During the first quarter of 2018, Cardinal continued to invest in infrastructure and upgrade its pipelines and facilities spending \$6.7 million predominantly in its North and Central core areas.

	Three months ended		
	Mar 31, 2018	Mar 31, 2017	Change %
Land	23	273	(92)
Geological and geophysical	29	103	(72)
Drilling and completion	6,012	14,785	(59)
Equipment, facilities and pipelines	6,736	6,058	11
Total exploration and development ⁽¹⁾	12,800	21,219	(40)
Capitalized overhead	470	175	169
Other assets	38	140	(73)
Acquisitions, net	(16,278)	4,001	n/m
Total cash capital expenditures	(2,970)	25,535	(112)
Non-cash expenditures ⁽²⁾	11,250	24,166	-
Total capital expenditures ⁽³⁾	8,280	49,701	(83)

(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 first quarter of 2018 as the Company settled \$3.2 million of liabilities which was partially offset by \$0.9 million of acquired liabilities, \$0.2 million of incurred liabilities and accretion of \$2.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Capitalization table	As at		
	Mar 31, 2018	Dec 31, 2017	Change %
Net bank debt ⁽¹⁾	213,341	225,967	(6)
Convertible debentures	50,000	50,000	-
Shares outstanding	113,985,058	110,838,321	3
Market price at end of period (\$ per share)	\$ 4.35	\$ 5.09	(15)
Market capitalization	495,835	564,167	(12)
Total capitalization	759,176	840,134	(10)

(1) See non-GAAP measures.

CAPITAL FUNDING

As at March 31, 2018, Cardinal had a reserves-based revolving credit facility of \$325 million comprised of a \$295 million syndicated term credit facility and a \$30 million non-syndicated operating term credit facility (the "Facilities"). The Facilities are available on a revolving basis until May 25, 2018 and may be extended for a further 364 day period, subject to approval by the syndicate. There are no financial or other restrictive covenants related to the Facilities provided that Cardinal is not in default of the terms of the Facilities. Cardinal was in compliance with the terms of the Facilities at March 31, 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 25, 2018. As the available lending limit of the Facilities is based on the syndicate's interpretation of the Company's reserves and future commodity prices and costs, there can be no assurance that the amount of the Facilities will not decrease at the next scheduled review (see Liquidity).

Advances under the Facilities are available by way of either prime rate loans, which bear interest at the banks' prime lending rate plus 0.7 to 2.0%, and bankers' acceptances and/or LIBOR loans, which are subject to fees and margins ranging from 1.7 to 3.0%. Interest and standby fees on the undrawn amounts of the Facilities depend upon certain ratios. The Facilities are secured by a general security agreement over all of the Company's assets.

Cardinal has \$50 million of convertible debentures which have a maturity date of December 31, 2020. The convertible debentures have a conversion price of \$10.50 per common share and bear interest at 5.5% per annum, payable semi-annually on June 30 and December 31 each year. The convertible debentures are redeemable by the Company after January 1, 2019 subject to certain conditions.

In order to reduce bank debt, on March 7, 2018, the Company disposed of fee title lands at Weyburn area and a new gross overriding royalty on the Mitsue Gilwood Unit for net proceeds of \$24 million plus additional working interests in certain producing wells in the Wainwright area.

CAPITAL STRUCTURE

Cardinal manages its capital to provide a flexible structure to support production maintenance, capital programs, stability of dividends and other operational strategies. Maintaining a strong financial position enables the capture of business opportunities and supports Cardinal's strategy of providing shareholder return through growth of the business and dividend payments.

The key measures that the Company utilizes in evaluating its capital structure are the credit available from the syndicate in relation to the Company's budgeted capital expenditure program and the ratio of net debt to adjusted funds flow (see non-GAAP measures).

To manage its capital structure, Cardinal considers its net debt to adjusted funds flow ratio, its capital expenditures program, the current level of credit available from the Facilities, the level of credit that may be attainable due to increases in petroleum and natural gas reserves and new equity if available on favourable terms. The Company prepares an annual capital expenditure budget, which is monitored quarterly and updated as necessary.

	Twelve months ended	
	Mar 31, 2018	Dec 31, 2017
Bank debt	\$ 200,836	\$ 218,905
Principal amount of Convertible Debentures	50,000	50,000
Working capital deficiency ⁽¹⁾	12,505	7,062
Net debt	\$ 263,341	\$ 275,967
Cash flow from operating activities	\$ 93,639	\$ 76,530
Change in non-cash working capital	(7,764)	1,525
Funds flow	\$ 85,875	\$ 78,055
Decommissioning obligation expenditures	6,719	3,933
Transaction costs	2,043	1,684
Adjusted funds flow	94,637	83,672
Net debt to adjusted funds flow	2.8	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 at March 31, 2018 was 2.8 to 1, above the Company's target of less than 2 to 1 due to additional debt incurred for the House Mountain/Midale Acquisition. The ratio is expected to decrease after four consecutive quarters of adjusted funds flow with these properties. 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 March 31, 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 \$111.7 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		
	Mar 31, 2018	Mar 31, 2017	Change %
Dividends declared	12,281	8,018	53
Reinvested dividends (DRIP and SDP)	-	(670)	(100)
Net cash dividends	12,281	7,348	67
Dividends declared per share	\$ 0.105	\$ 0.105	-

During the three months ended March 31, 2018, \$12.3 million (2017 – \$8.0 million) of dividends (\$0.105 per common share) (2017 - \$0.105 per common share) were declared of which \$8.0 million (2017 - \$4.9 million) was paid in cash, \$4.3 million (2017 - \$2.8 million) was recognized as a liability at March 31, 2018. The dividend payable was settled on April 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%.

In the first quarter 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 March 31, 2018, Cardinal has incurred \$2.3 million of eligible expenditures.

Equity Instruments as at	May 10, 2018	Mar 31, 2018	Dec 31, 2017
Common shares	114,213,787	113,985,058	110,838,321
Convertible debentures (\$50.0 million convertible at \$10.50)	4,761,905	4,761,905	4,761,905
RAs	3,578,298	3,931,782	3,008,987
Stock options	77,782	79,449	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 March 31, 2018, the Company had contractual obligations and commitments as follows:

	2018	2019	2020	2021	2022	Thereafter
Head office lease	1,077	1,436	1,436	1,475	1,475	1,475
Field office lease	98	130	22	-	-	-
Trade and other payables	54,763	-	-	-	-	-
Dividends payable	4,323	-	-	-	-	-
Bank debt	-	200,836	-	-	-	-
Capital commitments	511	-	-	-	-	-
Convertible debentures	2,750	2,750	52,750	-	-	-
	\$ 63,522	\$ 205,152	\$ 54,208	\$ 1,475	\$ 1,475	\$ 1,475

SUBSEQUENT EVENTS

On **April 16, 2018**, the Company confirmed that a dividend of \$0.035 per common share would be paid on May 15, 2018 to shareholders of record on April 30, 2018. The total amount of dividends declared at April 30, 2018 was \$4.0 million.

ADDITIONAL INFORMATION

CRITICAL ACCOUNTING ESTIMATES

There have been no changes in Cardinal's critical accounting estimates in the three months ended March 31, 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 first 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 March 31, 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 March 31, 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. The quantitative impact of the adoption of IFRS 16 is currently being evaluated.

OUTLOOK

The combination of improved realized pricing on hedges, the increase in WTI and the reduction of the WCS differential along with reduced spending on ARO, environmental and exploration throughout the balance of 2018 is expected to result in an increase to free cash flow throughout the year. Cardinal expects to use the free cash flow to reduce its bank indebtedness to reach its targeted net debt to adjusted funds flow.

Cardinal expects to complete its final divestment of a small non-core asset in the second quarter of 2018. The proceeds of which are expected to further reduce the amount drawn on our Facility. With increased commodity prices, Cardinal is in a position to achieve its targeted debt to adjusted funds flow organically and no further asset sales are expected.

QUARTERLY DATA

	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
Production				
Oil and NGL (bbl/d)	18,492	17,943	18,355	13,817
Natural gas (mcf/d)	16,505	18,032	18,650	20,021
Oil equivalent (boe/d)	21,243	20,949	21,463	17,154
Financial				
Revenue	94,779	97,646	86,022	67,602
Earnings (loss)	(13,314)	(54,308)	(12,070)	1,218
Basic per share (\$)	(0.12)	(0.49)	(0.11)	0.02
Diluted per share (\$)	(0.12)	(0.49)	(0.11)	0.02
Cash flow from operating activities	32,492	24,442	23,719	12,986
Adjusted funds flow	25,551	28,421	23,521	17,144
Basic per share (\$)	0.23	0.26	0.21	0.22
Diluted per share (\$)	0.23	0.26	0.21	0.21
Working capital deficiency ⁽¹⁾	(12,505)	(7,062)	(4,098)	(5,423)
Total assets	1,216,075	1,228,596	1,301,832	1,310,125
Bank debt	200,836	218,905	239,418	233,229
Principal amount of convertible debentures	50,000	50,000	50,000	50,000
Total long-term liabilities ⁽²⁾	380,859	397,980	428,774	420,227
Shareholders' equity	737,201	749,962	813,407	834,532
Weighted average shares - basic (000's)	113,397	110,446	110,278	79,612
Weighted average shares - diluted (000's)	113,397	110,446	111,046	80,511
Common shares outstanding (000's)	113,985	110,838	110,324	110,184
Diluted shares outstanding (000's)	122,758	118,718	118,287	117,984
	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Production				
Oil and NGL (bbl/d)	13,009	12,586	13,027	12,870
Natural gas (mcf/d)	12,952	12,178	11,578	10,506
Oil equivalent (boe/d)	15,168	14,616	14,957	14,621
Financial				
Revenue	62,574	58,721	53,673	50,124
Earnings (loss)	7,562	(31,995)	(4,366)	(35,317)
Basic per share (\$)	0.10	(0.43)	(0.06)	(0.52)
Diluted per share (\$)	0.10	(0.43)	(0.06)	(0.52)
Cash flow from operating activities	15,383	9,728	22,092	11,167
Adjusted funds flow	14,586	16,284	18,177	16,922
Basic per share (\$)	0.19	0.22	0.25	0.25
Diluted per share (\$)	0.19	0.22	0.25	0.25
Working capital deficiency ⁽¹⁾	(11,396)	(9,028)	(12,056)	(6,891)
Total assets	982,602	946,237	931,041	941,999
Bank debt	82,978	61,272	23,092	25,017
Principal amount of convertible debentures	50,000	50,000	50,000	50,000
Total long-term liabilities ⁽²⁾	249,806	228,437	197,282	200,381
Shareholders' equity	675,505	651,080	681,250	689,987
Weighted average shares - basic (000's)	75,557	73,728	73,501	67,356
Weighted average shares - diluted (000's)	76,919	73,728	73,501	67,356
Common shares outstanding (000's)	79,262	74,152	73,518	73,482
Diluted shares outstanding (000's)	87,123	82,515	81,886	81,845

(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 acquisitions and drilling at Bantry and Mitsue and this was further increased and sustained in the third and fourth quarter of 2017 with the House Mountain/Midale Acquisition. 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 loss on risk management contracts of \$39.9 million in the second quarter of 2016 versus an unrealized gain of \$19.9 million in the first quarter of 2017 and an unrealized gain of \$15.3 million in the second quarter of 2017. The Company's earnings can also fluctuate with non-cash impairment charges on its assets as shown with a fourth quarter 2016 impairment charge of \$12.8 million and an impairment charge of \$61.0 million in the fourth quarter of 2017.

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating, but not limited to:

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