



CARDINAL
ENERGY LTD.



Q1 2017

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, 2017 and is dated May 4, 2017. 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, 2017 and the audited financial statements for the years ended December 31, 2016 and 2015. 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 all season access areas of Alberta. 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", "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 and decommissioning expenditures 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, 2017	Mar 31, 2016	Change %
Cash flow from operating activities	15,383	17,975	(14)
Change in non-cash working capital	(1,228)	(10,343)	(88)
Funds flow	14,155	7,632	85
Decommissioning expenditures	431	126	242
Adjusted funds flow	14,586	7,758	88

"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 DRIP and 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 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

Achieved cash flow from operating activities of \$15.4 million and adjusted funds flow of \$14.6 million for the first quarter of 2017. Adjusted fund flow increased 88% compared to the first quarter of 2016.

Increased production for the three months ended March 31, 2017 by 6% to 15,168 boe/d (86% liquids) from 14,245 boe/d in the first quarter of 2016.

Drilled and completed its first three (1.9 net) horizontal wells at Mitsue. The wells were brought on production in the second quarter of 2017 and preliminary results are exceeding our expectations.

Closed an acquisition of assets in our Northwest Alberta core area for total consideration of \$31.6 million, before closing adjustments, on March 17, 2017. The acquisition is expected to add to the Company's light oil drilling inventory.

Netback for the first quarter of 2017 increased by 11% to \$16.49/boe compared to \$14.86/boe in the fourth quarter of 2016. Netback for the first quarter of 2016 was \$0.71/boe.

OPERATIONS

PRODUCTION

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Crude oil (bbl/d)	12,708	12,326	3
NGL (bbl/d)	301	271	11
Crude oil and NGL (bbl/d)	13,009	12,597	3
Natural gas (mcf/d)	12,952	9,886	31
boe/d	15,168	14,245	6
% Crude oil and NGL production	86%	88%	(3)

On December 6, 2016, Cardinal closed an acquisition in our Central Alberta core area at Wainwright which added approximately 450 boe/d of low decline crude oil production.

On March 17, 2017, Cardinal closed an acquisition in our Northwest Alberta core area at Grande Prairie which added approximately 1,600 boe/d of production and light oil development opportunities.

Cardinal's production in the first quarter of 2017 increased by 6% to 15,168 boe/d compared to 14,245 boe/d in the first quarter of 2016. The increase is primarily due to the Wainwright acquisition and development drilling at Bantry which more than offset the low decline of the Company's base production. As of the date of this MD&A production was 17,000 boe/d.

REVENUE

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Crude oil	58,444	31,365	86
NGL	879	293	200
Crude oil and NGL	59,323	31,658	87
Natural gas	3,251	1,766	84
Petroleum and natural gas revenue	62,574	33,424	87
Cardinal average prices			
Crude oil (\$/bbl)	51.10	27.96	83
Natural gas (\$/mcf)	2.79	1.96	42
Equivalent (\$/boe)	45.84	25.78	78
Benchmark pricing			
Crude oil - WTI (US \$/bbl)	51.90	33.45	55
Crude oil - WCS (Cdn \$/bbl)	49.40	26.29	88
Natural gas - AECO Spot (Cdn \$/mcf)	2.69	1.83	47
Exchange rate - (US/CAD)	0.76	0.73	4

Petroleum and natural gas revenue increased by 87% to \$62.6 million (\$45.84/boe) in the first quarter of 2017 compared to \$33.4 million (\$25.78/boe) in the first quarter of 2016. The increase is primarily due to an 83% increase in Cardinal's average realized crude oil price combined with a 3% increase in crude oil production. Realized oil prices for the quarter increased slightly relative to the WCS benchmark due to warmer winter weather which reduced tariffs on the Company's medium quality crude oil production.

Crude oil and natural gas prices continued to improve in 2017 from the fourth quarter of 2016. In November of 2016 OPEC announced that it would reduce its production by approximately 1.2 MMbbl/d, effective January 1, 2017, in order to improve the supply/demand imbalance and ensure stable markets.

To mitigate commodity price risks Cardinal has an active 3 year hedging program for Canadian dollar denominated WTI prices. Cardinal is also exposed to medium crude oil differentials at its properties in Bantry and Wainwright. To mitigate this exposure the Company has entered into WCS differential swaps.

FINANCIAL INSTRUMENTS

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Average crude oil volumes hedged (bbls/d)	6,250	5,000	25
Realized gain (loss) - commodity contracts	(3,200)	10,838	(130)
Unrealized gain (loss) - commodity contracts	19,906	(4,296)	n/m

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 and AECO (unless otherwise noted) outstanding:

Commodity Derivative Traded	Period	Average Volume	Average Strike Price
Crude Oil			
CAD WTI Swap	Apr - Dec 2017	5,192 bbl/d	\$ 62.73
	Jan - Dec 2018	2,244 bbl/d	\$ 67.72
CAD WTI Collar	Jul 2017 - Dec 2017	1,500 bbl/d	Put \$ 65.67
			Call \$ 77.00
	Jan - Dec 2018	1,244 bbl/d	Put \$ 63.40
			Call \$ 76.20
WCS Differential	Apr - Dec 2017	6,778 bbl/d	\$ 18.96
	Jan - May 2018	2,000 bbl/d	\$ 19.75
Natural Gas			
CAD AECO Swap	Apr - Dec 2017	4,831 gj/d	\$ 2.44
	Jan - Dec 2018	4,329 gj/d	\$ 2.59
CAD AECO Collar	Apr - Dec 2017	2,782 gj/d	Put \$ 2.45
			Call \$ 2.94
	Jan - May 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 fiscal 2018 at \$70 CAD WTI.

ROYALTIES

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Royalties	8,727	4,623	89
Percent of revenue	13.9%	13.8%	1
\$/boe	6.39	3.57	79

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 increased by 89% to \$8.7 million (13.9% of revenue) for the first quarter of 2017 from \$4.6 million (13.8% of revenue) in the first quarter of 2016. The increase in royalties for the first quarter of 2017 is primarily due to increased commodity prices and production. Royalties as a percentage of revenue were consistent as higher royalty rates on crude oil production at Mitsue that resulted from increases in Alberta reference prices were offset by lower royalty rates on new wells drilled at Bantry in 2016.

OPERATING EXPENSES

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Operating expenses	31,347	27,871	12
\$/boe	22.96	21.50	7

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat, store and ship production. Cardinal manages the variability in its power costs using financial derivative contracts.

For the first quarter of 2017, operating expenses were \$31.3 million (\$22.96/boe) compared to \$27.9 million (\$21.50/boe) in the first quarter of 2016. The increase in operating expenses is due to the increase in production and an increase in workovers initiated in the fourth quarter of 2016 and continuing into the first quarter of 2017 when poor weather conditions affected the on-stream date of wells drilled at Bantry and Mitsue. Operating costs per boe are expected to decrease in 2017 to meet our guidance target of \$19.75/boe to \$20.25/boe.

NETBACK

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Petroleum and natural gas revenue	45.84	25.78	78
Royalties	6.39	3.57	79
Operating expenses	22.96	21.50	7
Netback ⁽¹⁾	16.49	0.71	n/m

(1) See non-GAAP measures.

Cardinal's netback increased to \$16.49 in the first quarter of 2017 compared to \$0.71 in the first quarter of 2016. The increase in netback is primarily due to the increase in the average realized crude oil price.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Gross G&A	3,744	2,930	28
Capitalized G&A and overhead recoveries	(361)	(329)	10
Net G&A	3,383	2,601	30
\$/boe	2.48	2.01	23

G&A for the first quarter of 2017 was \$3.4 million (\$2.48/boe) compared to \$2.6 million (\$2.01/boe) in the first quarter of 2016. The increase in G&A is primarily due to the reinstatement of salaries that were decreased in 2016 due to low commodity prices and an increase in insurance premiums. These increases more than offset the increase in production resulting in an increase in G&A per boe. G&A per boe is expected to decrease in 2017 to meet our guidance target of \$2.10/boe to \$2.30/boe as further increases in production are realized.

SHARE-BASED COMPENSATION ("SBC")

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Gross SBC	2,871	2,724	5
Capitalized SBC	(248)	(292)	(15)
Net SBC	2,623	2,432	8
\$/boe	1.92	1.88	2

For the first quarter of 2017 Cardinal recorded \$2.6 million (\$1.92/boe) of share-based compensation compared to \$2.4 million (\$1.88/boe) in the first quarter of 2016. The increase is due to additional restricted bonus awards ("RAs") granted to staff and executives in the first quarter of 2017 which was partially offset by a decrease in share-based compensation for warrants and options that had fully vested.

As at March 31, 2017, Cardinal had 2.6 million RAs outstanding.

FINANCE

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Interest - bank debt	510	604	(16)
Other finance charges, net	131	80	64
Interest - convertible debentures	690	688	0
Accretion	2,148	2,237	(4)
Finance expense	3,479	3,609	(4)
\$/boe	2.55	2.78	(8)
Average bank debt	74,685	89,066	(16)
Interest rate - bank debt	2.7%	2.7%	0

Finance expense for the first quarter of 2017 was \$3.5 million (\$2.55/boe) compared to \$3.6 million (\$2.78/boe) in the first quarter of 2016. Finance expense for the first quarter of 2017 decreased due to decreases in accretion and interest on bank debt.

DEPLETION AND DEPRECIATION ("D&D")

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Depletion and depreciation	19,694	19,988	(1)
\$/boe	14.43	15.43	(6)

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 recorded in the first quarter of 2017 was \$19.7 million (\$14.43/boe) compared to \$20.0 million (\$15.43/boe) in the first quarter of 2016. D&D in 2017 is consistent with 2016 and the lower depletion rate is due to the impairment at Jenner recognized in 2016.

DEFERRED TAXES

At March 31, 2017 the Company recorded a deferred tax asset of \$114.8 million (2016 – \$115.1 million). The deferred tax asset was recognized as management considered it probable that there will be sufficient future taxable income to utilize the benefits.

The Company has approximately \$1.2 billion of tax pools (\$1.1 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 approximately 2021. Taxes payable beyond 2021 will be primarily a function of commodity prices, capital expenditures and production.

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

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Earnings (loss)	7,562	(15,644)	(148)
\$/share			
Basic and diluted	0.10	(0.24)	(142)
Cash flow from operating activities	15,383	17,975	(14)
Adjusted funds flow	14,586	7,758	88
\$/share			
Basic and diluted	0.19	0.12	58
Total payout ratio	196%	109%	80
Simple payout ratio	50%	82%	(38)

For the first quarter of 2017, the Company had earnings of \$7.6 million compared to a loss of \$15.6 million in the first quarter of 2016. Cash flow from operating activities for the period was \$15.4 million compared to \$18.0 million in the first quarter of 2016 and adjusted funds flow for the first quarter of 2017 was \$14.6 million compared to \$7.8 million in the first quarter of 2016. The earnings for the first quarter of 2017 is primarily due to a \$19.9 million unrealized gain on commodity contracts. The increase in adjusted funds flow is primarily due to the increase in production and continued recovery of commodity prices.

Cardinal's total payout ratio for the first quarter of 2017 increased to 196% from 109% in 2016 primarily due to an increase in development capital expenditures before spring break up. The total payout ratio is expected to decrease to approximately 100% by the end of the year.

CAPITAL EXPENDITURES

Property Acquisitions

On **March 17, 2017**, Cardinal acquired petroleum and natural gas properties to expand its Northwest Alberta core area and to increase its light oil development opportunities. Total consideration provided was \$31.6 million, before closing adjustments, consisting of approximately 4.0 million common shares valued at \$6.85 per share and \$4.0 million in cash with an associated decommissioning obligation of \$5.6 million. The Company recorded a deferred tax asset related to temporary differences in the carrying amount of the acquired properties and their tax bases which resulted from a decrease in the value of share consideration that was provided and an adjustment to the fair value of the properties acquired. There were no working capital items associated with this acquisition.

Other Capital Expenditures

In the first quarter of 2017 Cardinal drilled, completed and tied-in 6 (4.9 net) horizontal wells including the well at Mitsue that was spud in the fourth quarter of 2016. The Company drilled an additional two (2.0 net) wells at Bantry that were not completed by the end of the quarter and optimized certain wells and facilities in its core areas.

In connection with the 2016 farm-out agreement the Farmee drilled, completed and brought on production two vertical wells in the first quarter of 2017. In this non-monetary exchange, the value of the royalties that Cardinal expects to receive of \$0.5 million was recorded as an acquisition of petroleum and natural gas properties with an after tax gain on the farm-out of \$0.4 million.

Capital Expenditures

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Land	273	142	92
Geological and geophysical	103	-	n/m
Drilling and completion	14,785	584	n/m
Equipment, facilities and pipelines	6,058	1,351	n/m
Total exploration and development ⁽¹⁾	21,219	2,077	n/m
Capitalized overhead	175	152	15
Other assets	140	2	n/m
Acquisitions, net	4,001	175	n/m
Total cash capital expenditures	25,535	2,406	n/m
Non-cash expenditures ⁽²⁾	24,709	-	n/m
Total capital expenditures ⁽³⁾	50,244	2,406	n/m

(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) Share consideration and fair value adjustment associated with the Northwest Alberta acquisition and the value of the farm-out recognized in 2017.

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

DECOMMISSIONING OBLIGATION

The decommissioning obligation increased by \$7.2 million from \$111.9 million at December 31, 2016 to \$119.1 million at March 31, 2017. The increase primarily relates to \$5.6 million for acquisitions and \$1.9 million of accretion partially offset by \$0.4 million for decommissioning obligations settled.

LIQUIDITY AND CAPITAL RESOURCES

Capitalization table	As at		
	Mar 31, 2017	Dec 31, 2016	Change %
Net bank debt ⁽¹⁾	94,374	70,300	34
Convertible debentures	50,000	50,000	-
Shares outstanding	79,262,192	74,151,719	7
Market price at end of period (\$ per share)	\$ 7.30	\$ 10.59	(31)
Market capitalization	578,614	785,267	(26)
Total capitalization	722,988	905,567	(20)

(1) See non-GAAP measures.

CAPITAL FUNDING

As at March 31, 2017 Cardinal had a \$130 million syndicated revolving term credit facility and a \$20 million non-syndicated revolving operating term credit facility (the "Facilities") with a borrowing base of \$250 million. The Facilities are available on a revolving basis until May 26, 2017 and may be extended for a further 364 day period, subject to approval by the syndicate. 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, 2017.

The next scheduled review of the borrowing base is to be completed on or before May 26, 2017. 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). In accordance with the agreements governing the Facilities, Cardinal may request an increase in the Facilities up to the borrowing base.

Advances under the Facilities are available by way of either prime rate loans which bear interest at the banks' prime lending rate plus 0.7 to 2.0% and bankers' acceptances and/or LIBOR loans, which are subject to fees and margins ranging from 1.7 to 3.0%. Interest and standby fees on the undrawn amounts of the Facilities depend upon 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	
	Mar 31, 2017	Dec 31, 2016
Bank debt	\$ 82,978	\$ 61,272
Principal amount of Convertible Debentures	50,000	50,000
Working capital deficiency ⁽¹⁾	11,396	9,028
Net debt	\$ 144,374	\$ 120,300
Cash provided from operating activities	\$ 58,370	\$ 60,962
Change in non-cash working capital	4,530	(4,585)
Funds flow	\$ 62,900	\$ 56,377
Decommissioning obligation expenditures	3,032	2,727
Adjusted funds flow	65,932	59,104
Net debt to adjusted funds flow	2.2	2.0

(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, 2017 was 2.2 : 1, above the Company's target of less than 2 : 1. The ratio is expected to decrease in 2017 with additional increases in production and adjusted funds flow. Excluding the convertible debentures the ratio at March 31, 2017 would have been 1.4 : 1 (2016 – 1.2 : 1).

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, 2017 Cardinal had a working capital deficiency of \$11.4 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) of \$55.6 million on its Facilities.

Since Cardinal's total Facilities are set at 60% of the borrowing base, management believes that there will not be a reduction in the amount of the Facilities available to the Company at the next scheduled review.

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 currently anticipated to be sufficient to satisfy the Company's capital program and dividend payments for the 2017 fiscal year.

DIVIDENDS

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change %
Dividends declared	8,018	6,917	16
Reinvested dividends (DRIP and SDP)	(670)	(574)	17
Net cash dividends	7,348	6,343	16
Dividends declared per share	\$ 0.105	\$ 0.105	(0)

During the first quarter of 2017, \$8.0 million of dividends (\$0.105 per common share) were declared of which \$4.9 million was paid in cash, \$2.8 million was recognized as a liability at March 31, 2017, and \$0.3 million was settled on the issuance of 47,565 common shares pursuant to the Company's DRIP and SDP. The dividend payable was settled on April 18, 2017 with cash of \$2.7 million and \$0.1 million was recognized on the issuance of 11,994 Cardinal common shares pursuant to the DRIP and SDP.

On March 13, 2017, Cardinal announced the suspension of the DRIP and SDP, effective for the April 2017 dividend to be paid on May 15, 2017. The suspension of these plans will eliminate the dilution that these programs have had on Cardinal's per share performance.

SHARE CAPITAL

On January 9, 2017, Cardinal granted 980,178 Restricted Bonus Awards ("RAs") to officers, directors and employees pursuant to the Company's restricted bonus award plan. The market value of Cardinal's common shares at the grant date was \$10.50.

On March 17, 2017 Cardinal issued 4.0 million common shares valued at \$6.85 as partial consideration for the acquisition in Northwest Alberta.

Equity Instruments as at	May 4, 2017	Mar 31, 2017
Common shares	79,274,186	79,262,192
Convertible debentures (\$50.0 million convertible at \$10.50)	4,761,905	4,761,905
RAs	2,524,353	2,591,093
Warrants (adjusted for dividends)	363,385	363,385
Stock options	144,726	144,726

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, 2017, the Company had contractual obligations and commitments as follows:

	2017	2018	2019	2020	2021	Thereafter
Head office lease	826	1,870	1,870	1,870	1,909	3,819
Field office lease	98	130	22	-	-	-
Trade and other payables	39,579	-	-	-	-	-
Dividends payable	2,774	-	-	-	-	-
Bank debt	-	82,978	-	-	-	-
Convertible debentures	2,750	2,750	2,750	52,750	-	-
	\$ 46,027	\$ 87,728	\$ 4,642	\$ 54,620	\$ 1,909	\$ 3,819

Cardinal is also committed to incur qualifying Canadian Exploration Expense of \$0.8 million prior to December 31, 2017.

SUBSEQUENT EVENTS

On **April 7, 2017**, the Company confirmed that a dividend of \$0.035 per common share would be paid on May 15, 2017 to shareholders of record on April 28, 2017. The total amount of dividends declared at April 28, 2017 was \$2.8 million.

On **May 4, 2017**, the Company confirmed that a dividend of \$0.035 per common share would be paid on June 15, 2017 to shareholders of record on May 31, 2017.

ADDITIONAL INFORMATION

CRITICAL ACCOUNTING ESTIMATES

There have been no changes in Cardinal's critical accounting estimates in the three months ended March 31, 2017. 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, 2016.

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 2017.

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.

OUTLOOK

Cardinal continues to follow its business strategy of being a low decline, low risk oil producer. We continue to pursue conventional light oil acquisitions and drilling opportunities which in time will increase our operating netbacks and further enhance our sustainability.

Our goal is to create long term shareholder value through accretive growth and regular dividends. We recognize that the public markets are transitioning capital to larger producers and are evaluating several options that would give us increased market capitalization in an accretive manner.

Our drilling program in Mitsue has increased our knowledge of the play types. We are confident that the next round of Mitsue drilling will produce even better results and further set up the property for long term developments.

Cardinal experienced service company challenges in the first quarter of 2017 which we believe will be addressed on a go forward basis. We look forward to reporting a much stronger second quarter and building on those results through the balance of 2017.

QUARTERLY DATA

	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	16,247	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
	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Production				
Oil and NGL (bbl/d)	12,597	12,176	10,321	10,430
Natural gas (mcf/d)	9,886	9,696	5,390	5,179
Oil equivalent (boe/d)	14,245	13,792	11,220	11,294
Financial				
Revenue	33,424	43,300	42,949	53,442
Earnings (loss)	(15,644)	938	(105,674)	21,685
Basic per share (\$)	(0.24)	0.01	(1.83)	0.38
Diluted per share (\$)	(0.24)	0.01	(1.83)	0.37
Cash flow from operating activities	17,975	9,121	32,497	21,469
Adjusted funds flow	7,758	17,955	24,810	29,937
Basic per share (\$)	0.12	0.29	0.43	0.52
Diluted per share (\$)	0.12	0.28	0.43	0.51
Working capital deficiency ⁽¹⁾	(10,225)	(4,368)	(14,673)	(9,205)
Total assets	945,998	964,333	812,378	920,025
Bank debt	86,797	91,817	56,724	53,227
Principal amount of convertible debentures	50,000	50,000	-	-
Total long-term liabilities ⁽²⁾	249,318	251,445	140,347	136,509
Shareholders' equity	661,463	680,446	634,612	743,034
Weighted average shares - basic (000's)	65,725	62,957	57,760	57,438
Weighted average shares - diluted (000's)	65,725	64,280	57,760	58,814
Common shares outstanding (000's)	65,936	65,124	58,334	57,586
Diluted shares outstanding (000's)	74,309	72,357	60,849	60,084

(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 in 2015 was consistent at approximately 11,000 boe/d until the fourth quarter of 2015 when the Company closed the Mitsue acquisition. Production increases in 2016 were due to the Mitsue acquisition and successfully drilling at Bantry. Production in the first quarter of 2017 increased due to the Wainwright acquisition and drilling at Bantry. Revenue decreased from the second quarter of 2015 until the second quarter of 2016 due to decreases in commodity prices. Commodity prices have since improved and combined with increases in production have resulted in increases in revenue.

Adjusted funds flow for the first quarter of 2016 decreased significantly compared to prior quarters due to a significant decrease in crude oil prices and a widening of the WCS differential. Adjusted funds flow for the second and third quarters of 2016 increased compared to the first quarter of 2016 due to a partial recovery in commodity prices and increases in production and decreased in the fourth quarter of 2016 due to reduction in realized gains on commodity contracts. Adjusted funds flow increased in the first quarter of 2017 due to the increase in production and continued recovery of commodity prices.

Cardinal's quarterly earnings (loss) have varied significantly due changes in operations and commodity prices including a gain on acquisition in the second quarter of 2015 of \$27.8 million, an impairment of \$156.9 million in the third quarter of 2015, an unrealized loss of \$39.9 million in the second quarter of 2016, an impairment of \$12.8 million in the fourth quarter of 2016 and an unrealized gain of \$19.9 million in the first 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 and growth plans and the source of funding;
- anticipated future production;
- pursuit of light oil development opportunities, drilling inventory and light oil acquisitions;
- estimated tax pools, future taxability and future taxable income;
- expectations to maintain the Facilities at \$150 million at the next scheduled review and the timing of this review;
- plans to maintain a conservative leverage profile through a targeted net debt to adjusted funds flow ratio of less than 2.0;
- anticipated decline rates;
- expectations with respect to payout ratios, adjusted funds flow, net debt to adjusted funds flow ratio and other financial results;
- anticipated operating and G&A expenses per boe;
- Cardinal's business strategy, goals and management focus;
- achieving the Company's guidance for 2017;
- Cardinal's dividend plans, the amount, timing and sources of funding of the payment of future dividends and the consistency of our dividend policy;
- the benefits to be obtained from the suspension of the DRIP and SDP;
- Cardinal's risk management strategy and the benefits to be obtained therefrom;
- sources of funds for the Company's operations, capital expenditures and decommissioning obligations;
- 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 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
"m" preceding a volumetric measure	1,000 units of the volumetric measure
"mcf"	Thousand cubic feet
"mcf/d"	Thousand cubic feet per day
"MW"	Megawatt
"NGL"	Natural gas liquids
"n/m"	Not meaningful ie absolute value greater than 300 %
"OPEC"	Organization of the Petroleum Exporting Countries
"SDP"	Stock dividend program
"US"	United States
"USD"	United States dollars
"WCS"	Western Canadian Select
"WTI"	West Texas Intermediate