



CARDINAL
ENERGY LTD.

**MANAGEMENT'S DISCUSSION
&
ANALYSIS
Q2 2014**

ADVISORIES

The following management's discussion and analysis ("MD&A") is a review of operations, financial position and outlook for Cardinal Energy Ltd. ("Cardinal" or the "Company") for the three and six months ended June 30, 2014 and should be read in conjunction with the unaudited interim condensed financial statements of Cardinal for the three and six months ended June 30, 2014 and the audited financial statements of Cardinal for the year ended December 31, 2013. Cardinal was incorporated on December 21, 2010 and commenced operations on May 30, 2012. There have been no significant changes to the critical estimates disclosed in the Company's audited financial statements for the year ended December 31, 2013. This MD&A is dated August 13, 2014.

All figures in tables are stated in thousands of Canadian dollars (except operational and per share amounts and as noted).

Non-GAAP Financial Measures

Cardinal uses terms within the MD&A that do not have a standardized prescribed meaning under GAAP and these measurements may not be comparable with the calculation of similar measurements of other entities.

The terms "cash flow from operations", "cash flow from operations per share", "netback" or "netback per boe", "net debt", "free cash flow", "simple payout ratio" and "total payout ratio" in this MD&A are not recognized measures under GAAP. Management believes that in addition to net earnings and cash flow from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage. Users are cautioned however, that these measures should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP as an indication of Cardinal's performance.

Management utilizes "cash flow from operations" as a key measure to assess the ability of the Company to generate the funds necessary to finance dividends, operating activities and capital expenditures. All references to cash flow from operations throughout this MD&A are based on cash from operating activities before 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. A reconciliation of cash from operating activities to cash flow from operations is as follows:

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Cash flow from operating activities	25,703	12,530	4,061	38,233	5,304
Decommissioning expenditures	117	148	62	265	62
Change in non-cash working capital	(2,298)	6,551	(1,252)	4,253	156
Cash flow from operations	23,522	19,229	2,871	42,751	5,522

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

"Netback" or "netback per boe" is calculated on a per Boe basis and is determined by deducting royalties and operating expenses from petroleum and natural gas revenue. 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 or minus working capital (adjusted for the fair value of financial instruments). Net debt is used by management to analyze the financial position and leverage of Cardinal.



"Free cash flow" represents cash flow from operations less dividends declared and less management's expectation of the amount of capital expenditures necessary to maintain the Company's base production. "Total payout ratio" represents the ratio of the sum of dividends declared plus management's expectation of the amount of capital expenditures necessary to maintain the Company's base production divided by cash flow from operations. "Simple payout ratio" represents the ratio of the amount of dividends declared, divided by cash flow from operations. Free cash flow, total payout ratio and simple payout ratio are other key measures to assess Cardinal's ability to finance dividends, operating activities and capital expenditures.

Forward-Looking Statements

Please refer to our disclaimer on forward looking statements at the end of this MD&A.

51-101 Advisory

In conformity with National Instrument 51-101, *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. **Readers are cautioned that the term "boe" may be misleading, particularly if used in isolation.**

HIGHLIGHTS

As of the date of this MD&A Cardinal has declared a total of \$14.2 million of dividends (\$0.37919 per common share). On July 28, 2014, the Board of Directors approved an increase in the monthly dividend to \$0.07 per share for the September 2014 dividend. In determining the amount of the dividend and any increases in the dividend the Board of Directors considers a variety of factors and conditions. Cardinal has targeted a simple payout ratio of 30 – 35% and a total payout ratio of between 50 – 60%.

During the second quarter of 2014 Cardinal increased production 4% to 6,501 boe/d from 6,235 boe/d in the first quarter of 2014. This increase in production combined with an increase in crude oil prices and lower operating costs generated cash flow from operations of \$23.5 million for the second quarter of 2014, a 22% increase compared to \$19.2 million in the first quarter of 2014. Netbacks for the corresponding periods increased by 16% to \$48.15/boe compared to \$41.49/boe.

As of the date of this MD&A Cardinal has drilled, completed and tied-in 5 (5.0 net) Glau horizontal wells at Bantry in 2014. It is Cardinal's intention to only release drilling results when wells have at least 30 days of production history and we do not have the required production data on all 5 wells to report. The Company expects to provide information on its drilling results as soon as the minimum production history is achieved. Wells and facilities in the area of the SE Alberta acquisition assets were optimized and in the first quarter the Company completed two tuck-in acquisitions of petroleum and natural gas properties at Bantry. In connection with these acquisitions Cardinal closed a private placement of 2,187,500 common shares for total gross proceeds of \$28.0 million on February 10, 2014.

On July 29, 2014, Cardinal entered into a definitive purchase and sale agreement to acquire certain petroleum and natural gas properties in Wainwright for \$170 million in cash before closing adjustments. The assets to be acquired consist of approximately 1,900 boe/d (99% crude oil) low decline production and proved plus probable reserves of 9,778 Mboe (99% crude oil) as at December 31, 2013. The assets are expected to increase cash flow from operations by \$31 million on an annualized basis and provide additional support to the dividend increase. The expectation for cash flow from operations for these assets is based on, but not limited to, a WTI oil price of US\$100, a Cdn\$/US\$ exchange rate of 0.92, operating costs of \$27/boe, an average royalty rate of 9% and an oil quality adjustment of \$29 per boe.



On July 29, 2014 Cardinal entered into a bought deal financing with a syndicate of underwriters to issue 8 million common shares at \$18.50 per common share for gross proceeds of \$148 million. In connection with the bought deal financing the underwriters were granted an over-allotment option to acquire an additional 800,000 common shares at \$18.50 per common share and if exercised would result in additional gross proceeds of \$14.8 million.

OPERATIONS

PRODUCTION

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Crude Oil (bbl/d)	5,773	5,497	1,083	5,636	1,106
NGL (bbl/d)	27	16	-	21	-
Oil and NGL (bbl/d)	5,800	5,513	1,083	5,657	1,106
Natural Gas (mcf/d)	4,208	4,333	23	4,269	25
boe/d	6,501	6,235	1,087	6,369	1,110
% Oil and NGL production	89%	88%	100%	89%	100%

Cardinal's production increased to 6,501 boe/d in the second quarter of 2014 compared to 6,235 boe/d in the first quarter of 2014, and 1,087 boe/d in the second quarter of 2013. Production increased to 6,369 boe/d for the six months ended June 30, 2014 compared to 1,110 boe/d in 2013. The increase in production for all periods reflects the contribution from the SE Alberta acquisition properties, the success of Cardinal's drilling at Bantry, its well optimization programs and the tuck-in acquisitions that closed in the first quarter of 2014.

REVENUE

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Crude Oil	46,034	39,140	7,651	85,174	14,137
NGLs	185	103	-	288	-
Oil and NGL	46,219	39,243	7,651	85,462	14,137
Natural Gas	1,975	2,044	7	4,019	14
Petroleum and natural gas revenue	48,194	41,287	7,658	89,481	14,151

Cardinal average prices

Crude Oil (\$/bbl)	\$ 87.62	\$ 79.11	\$ 77.59	\$ 83.49	\$ 70.61
Natural Gas (\$/mcf)	\$ 5.16	\$ 5.24	\$ 3.53	\$ 5.20	\$ 3.01
\$ per boe	\$ 81.46	\$ 73.58	\$ 77.39	\$ 77.63	\$ 70.41

Benchmark pricing

Crude Oil - WTI (US \$/bbl)	\$ 102.96	\$ 98.68	\$ 94.29	\$ 100.82	\$ 94.32
Crude Oil - WCS (Cdn \$/bbl)	\$ 91.39	\$ 85.82	\$ 76.57	\$ 88.60	\$ 69.77
Natural Gas - AECO Spot (Cdn \$/mcf)	\$ 4.71	\$ 5.63	\$ 3.49	\$ 5.17	\$ 3.29
Exchange Rate - (US/CAD)	0.92	0.91	1.02	0.91	1.02

Petroleum and natural gas revenue increased to \$48.2 million (\$81.46/boe) in the second quarter of 2014 compared to \$41.3 million (\$73.58/boe) in the first quarter of 2014 and \$7.7 million (\$77.39/boe) in the second quarter of 2013. The increases are due to increases in production and crude oil prices.



Petroleum and natural gas revenue increased to \$89.5 million (\$77.63/boe) for the six months ended June 30, 2014 compared to \$14.2 million (\$70.41/boe) for the same period in 2013. The increase is due to increased production and commodity prices.

ROYALTIES

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Royalties	6,570	4,636	790	11,206	1,545
As a percentage of oil and gas revenue	14%	11%	10%	13%	11%
\$/boe	\$ 11.11	\$ 8.26	\$ 7.98	\$ 9.72	\$ 7.69

Royalties consist of royalties paid to the provincial government, freehold land owners and overriding royalty owners. Royalty rates are generally dependent on commodity prices and well productivity. Royalties were \$6.6 million (14% of revenue) for the second quarter of 2014 compared to \$4.6 million (11% of revenue) in the first quarter of 2014 and \$0.8 million (10% of revenue) in the second quarter of 2013. The increase in royalties is primarily due to increased production and the increase in the royalty rate in the second quarter is primarily due to higher crown royalties on crude oil production and higher freehold royalty rates for the new wells drilled at Bantry.

Royalties for the six months ended June 30, 2014 were \$11.2 million (13% of revenue) compared to \$1.5 million (11% of revenue) in the same period in 2013. Royalties and royalties as a percentage of revenue increased primarily due to increased production and higher royalty rates associated with the Bantry and SE Alberta acquisitions that closed in late 2013.

FINANCIAL INSTRUMENTS

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Average crude oil volumes hedged (bbls/d)	2,967	2,107	533	2,533	367
Realized loss - commodity contracts	2,681	1,549	13	4,230	20
Unrealized loss - commodity contracts	2,001	3,873	32	5,874	310

Managing the variability in cash flow from operations is an integral component of Cardinal's business strategy. Changing business conditions are monitored regularly and reviewed with the 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 cash flow from operations.

The Company's crude oil and natural gas derivatives are referenced to WTI and AECO, unless otherwise noted. Cardinal utilizes a variety of derivatives, including swaps and collars to protect against downward commodity price movements. For commodities, Cardinal's risk management program allows for hedging a forward profile of 3 years, of up to 60% of gross average forecast production in the current year and up to 40% and 30% of the following 2 years.

OPERATING EXPENSES

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Operating expenses	13,134	13,374	2,763	26,508	4,994
\$/boe	\$ 22.20	\$ 23.83	\$ 27.93	\$ 23.00	\$ 24.85



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 second quarter of 2014, operating expenses decreased to \$13.1 million (\$22.20/boe) compared to \$13.4 million (\$23.83/boe) in the first quarter of 2014 and increased compared to \$2.8 million (\$27.93/boe) in the second quarter of 2013. The increases in operating expenses compared to 2013 are due to increases in production and the decrease compared to the first quarter of 2014 is due to lower power costs. Operating expenses on a per boe basis decreased from the first quarter of 2014 due to decreases in power costs and incremental low operating expenses associated with the horizontal wells drilled at Bantry.

Operating expenses for the six months ended June 30, 2014 increased to \$26.5 million (\$23.00/boe) from \$5.0 million (\$24.85/boe) in the same period in 2013. The increase in operating expenses is primarily due to increased production.

NETBACK

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Petroleum and natural gas revenue	\$ 81.46	\$ 73.58	\$ 77.39	\$ 77.63	\$ 70.41
Royalties	11.11	8.26	7.98	9.72	7.69
Operating expenses	22.20	23.83	27.93	23.00	24.85
Netback per boe	\$ 48.15	\$ 41.49	\$ 41.48	\$ 44.91	\$ 37.87
Realized gain (loss)	(4.53)	(2.76)	(0.14)	(3.67)	(0.10)
Netback after risk management	\$ 43.62	\$ 38.73	\$ 41.34	\$ 41.24	\$ 37.77

Cardinal's netback increased by 16% to \$48.15 in the second quarter of 2014 compared to \$41.49 in the first quarter of 2014 and \$41.48 in the second quarter of 2013. For the six months ended June 30, 2014, Cardinal's netback increased to \$44.91 compared to \$37.87 in the same period in 2013. Netbacks increased due to increases in commodity prices and decreases in unit operating expenses. Netbacks after risk management reflect realized losses on commodity contracts.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Gross G&A	2,196	2,294	1,004	4,490	1,695
Capitalized G&A and overhead recovery	(288)	(151)	(60)	(439)	(120)
G&A (after recoveries and capitalization)	1,908	2,143	944	4,051	1,575
\$/boe	\$ 3.22	\$ 3.82	\$ 9.54	\$ 3.51	\$ 7.84

G&A for the second quarter of 2014 was \$1.9 million (\$3.22/boe) compared to \$2.1 million (\$3.82/boe) in the first quarter of 2014 and \$0.9 million (\$9.54/boe) in the second quarter of 2013. G&A decreased slightly compared to the first quarter of 2014 and 16% per boe due to increases in recoveries and production.

For the six months ended June 30, 2014, G&A was \$4.1 million (\$3.51/boe) compared to \$1.6 million (\$7.84/boe) for the same period in 2013. G&A increased due to additional staff and other costs required to manage the SE Alberta and Bantry acquisitions that closed in 2013. G&A per boe decreased due to the increase in production.



SHARE-BASED COMPENSATION

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Share-based compensation	2,085	1,575	456	3,660	869
\$/boe	\$ 3.53	\$ 2.81	\$ 4.60	\$ 3.18	\$ 4.32

For the second quarter of 2014 Cardinal recorded \$2.1 million (\$3.53/boe) of share-based compensation compared to \$1.6 million (\$2.81/boe) in the first quarter of 2014 and \$0.5 million (\$4.60/boe) in the second quarter of 2013. Share-based compensation increased in the second quarter compared to the first quarter of 2014 due to forfeitures in the first quarter which decreased the expense recorded. The increase compared to the second quarter of 2013 is primarily due to restricted bonus awards granted in the first quarter of 2014.

For the six months ended June 30, 2014, stock-based compensation expense was \$3.7 million (\$3.18/boe) compared to \$0.9 million (\$4.32/boe) in the same period in 2013. Share-based compensation increased primarily due to restricted bonus awards granted to an increased amount of staff in 2014.

FINANCE

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Interest	25	140	209	165	383
Accretion	773	748	113	1,521	224
Other finance charges	358	216	68	574	76
Finance income	(4)	-	-	(4)	-
Finance expense	1,152	1,104	390	2,256	683
Interest rate	4%	4%	4%	4%	4%
\$/boe	\$ 1.95	\$ 1.97	\$ 3.93	\$ 1.96	\$ 3.40

Finance expense for the second quarter of 2014 increased to \$1.2 million (\$1.95/boe) compared to \$1.1 million (\$1.97/boe) in the first quarter of 2014 and \$0.4 million (\$3.93/boe) in the second quarter of 2013. For the six months ended June 30, 2014, finance expense was \$2.3 million (\$1.96/boe) compared to \$0.7 million (\$3.40/boe) in the same period in 2013. The increases in finance expense are primarily due to increases in accretion and standby fees associated with the Company's credit facility.

DEPLETION AND DEPRECIATION ("D&D")

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Depletion and depreciation	12,661	11,729	2,239	24,390	4,534
\$/boe	\$ 21.40	\$ 20.90	\$ 22.62	\$ 21.16	\$ 22.56

Depletion is calculated based upon capital expenditures incurred since inception of the Company, production rates, proved plus probable reserves and future development costs associated with 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 expense recorded in the second quarter of 2014 increased to \$12.7 million (\$21.40/boe) compared to \$11.7 million (\$20.90/boe) in the first quarter of 2014 and \$2.2 million (\$22.62/boe) in the second quarter of 2013. For the six months ended June 30, 2014, D&D was \$24.4 million (\$21.16/boe) compared to \$4.5 million (\$22.56/boe) in the same period in 2013. The increases in D&D expense are due to the increases in production and depletion rates are relatively consistent.



NET EARNINGS (LOSS), CASH FLOW FROM OPERATING ACTIVITIES AND CASH FLOW FROM OPERATIONS

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Net earnings (loss)	3,780	897	(92)	4,677	(581)
\$/share					
Basic	\$ 0.10	\$ 0.02	\$ (0.01)	\$ 0.13	\$ (0.05)
Diluted	\$ 0.10	\$ 0.02	\$ (0.01)	\$ 0.12	\$ (0.05)
Cash flow from operating activities	25,703	12,530	4,061	38,233	5,304
Cash flow from operations	23,522	19,229	2,871	42,751	5,522
\$/share					
Basic	\$ 0.62	\$ 0.53	\$ 0.25	\$ 1.15	\$ 0.49
Diluted	\$ 0.60	\$ 0.51	\$ 0.25	\$ 1.12	\$ 0.49

For the second quarter of 2014 the Company had net earnings of \$3.8 million compared to net earnings of \$0.9 million for the first quarter of 2014 and a net loss of \$0.01 million for the second quarter of 2013. Cash flow from operations for the second quarter of 2014 increased to \$23.5 million compared to \$19.2 million in the first quarter of 2014 and \$2.9 million in the second quarter of 2013. For the six months ended June 30, 2014 earnings and cash flow from operations increased to \$4.7 million and \$42.8 million respectively compared to a net loss of \$0.6 million and cash flow from operations of \$5.5 million in 2013.

Net earnings and cash flow from operations have increased primarily due to increases in production volumes and commodity prices.

CAPITAL EXPENDITURES

PP&E Expenditures

Property Acquisitions

On **April 28, 2014**, Cardinal closed an acquisition of petroleum and natural gas properties in Chauvin, Alberta. Total consideration provided was \$5.2 million in cash, before closing adjustments, with an associated decommissioning obligation of \$0.1 million. These assets were acquired with full tax pools and no working capital items.

On **January 28, 2014**, Cardinal closed two tuck-in acquisitions of petroleum and natural gas properties in its core area at Bantry, Alberta. Total consideration provided was \$27.0 million in cash, before closing adjustments, with an associated decommissioning obligation of \$0.2 million. These assets were acquired with full tax pools and no working capital items.

Other PP&E expenditures

In the second quarter of 2014 Cardinal drilled, completed and tied-in 2 (2.0 net) horizontal wells and spud a third well at Bantry for a total of 5 (5.0 net) horizontal wells drilled in 2014.



	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Land	\$ 151	\$ -	\$ 129	\$ 151	\$ 129
Geological and geophysical	167	950	-	1,117	-
Drilling and completion	6,065	6,641	445	12,706	2,956
Equipment, facilities and pipelines	2,364	1,157	441	3,521	2,048
Capitalized overhead and other	126	133	43	259	55
Total exploration and development	8,873	8,881	1,058	17,754	5,188
Other assets	4	-	223	4	280
Acquisitions	5,103	26,634	(74)	31,737	4,144
Total cash expenditures	13,980	35,515	1,207	49,495	9,612
Non-cash expenditures ⁽¹⁾	-	-	-	-	550
PP&E expenditures	\$ 13,980	\$ 35,515	\$ 1,207	\$ 49,495	\$ 10,162

Exploration and Evaluation (“E&E”) Expenditures

	Three months ended			Six months ended	
	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Undeveloped land	\$ -	\$ 1,179	\$ 1	\$ 1,179	\$ 2,490
Other	1	-	32	1	114
Total cash expenditures	1	1,179	33	1,180	2,604
Non-cash expenditures	-	-	254	-	254
E&E expenditures	\$ 1	\$ 1,179	\$ 287	\$ 1,180	\$ 2,858
TOTAL CAPITAL EXPENDITURES ⁽²⁾	\$ 13,981	\$ 36,694	\$ 1,494	\$ 50,675	\$ 13,020

(1) Non-cash expenditures relate to the shares issued to the vendor as partial consideration for the Wainwright acquisition in the first quarter of 2013.

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

DECOMMISSIONING OBLIGATION

The decommissioning obligation increased by \$1.7 million during the six months ended June 30, 2014 from \$40.4 million at December 31, 2013 to \$42.1 million. The increase relates to \$0.1 million of obligations incurred, \$0.4 million for acquisitions and \$1.5 million of accretion, offset by \$0.3 million for decommissioning obligations settled.

LIQUIDITY AND CAPITAL RESOURCES

Capitalization table	As at	
	Jun 30, 2014	Dec 31, 2013
Net debt	(518)	9,200
Shares outstanding	37,804,824	34,875,532
Market price at end of period (\$ per share)	\$ 18.00	\$ 11.53
Market capitalization	680,487	402,115
Total capitalization	679,969	411,315

The Company’s net debt is calculated as current liabilities (excluding the current portion of bank debt and fair value of commodity contracts) plus bank debt less current assets.



CAPITAL FUNDING

As at June 30, 2014 Cardinal had a \$115 million syndicated revolving term credit facility and a \$10 million non-syndicated revolving operating term credit facility (the “Facilities”). The Facilities are available on a revolving basis until the term out date of May 29, 2015 and may be extended for a further 364 day period, subject to approval by the syndicate. As at June 30, 2014 Cardinal had a working capital surplus of \$0.5 million (excluding the fair value of commodity contracts) and unused capacity of \$125 million on its Facilities.

The next scheduled review of the borrowing base is to be completed on or before October 30, 2014. 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. Pursuant to an amending agreement dated May 29, 2014 the syndicate determined that the borrowing base had increased to \$145 million but the total commitment was unchanged at \$125 million.

Advances under the Facilities are available by way of prime rate loans which bear interest at the banks’ prime lending rate plus 1.0 to 2.5% (depending on certain financial ratios) and standby fees are charged on the undrawn amounts of the Facilities. The Facilities are secured by a general security agreement over all of the Company’s assets and Cardinal must maintain a working capital ratio of not less than 1 to 1 at all times. The working capital ratio is defined as current assets (including the undrawn amount under the Facilities) to current liabilities (excluding the current portion of bank debt and the fair value of commodity contracts). Cardinal was in compliance with the terms of the Facilities at June 30, 2014.

During the first quarter of 2014, the Company raised new equity pursuant to a private placement for gross proceeds of \$28 million at \$12.80 per common share.

On July 29, 2014, Cardinal entered into a bought deal financing with a syndicate of underwriters to issue 8 million common shares at \$18.50 per common share for gross proceeds of \$148 million. In connection with the bought deal financing the underwriters were granted an over-allotment option to acquire an additional 800,000 common shares at \$18.50 per common share and if exercised would result in additional gross proceeds of \$14.8 million.

Cardinal’s development capital budget for 2014 is \$17.5 million and we expect cash flow from operations to be substantially in excess of the development capital budget and dividends.

Management believes that with the Company’s high quality reserve base and development inventory, excellent balance sheet and hedging program, Cardinal is well positioned to meet its planned growth and development activities and generate strong operating and financial results through 2014 and beyond.

CAPITAL STRUCTURE

Cardinal manages its capital to provide a flexible structure to support capital programs, stability of dividends, production maintenance 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 ratio of net debt to cash flow from operations and the credit available from the syndicate in relation to the Company’s budgeted capital expenditure program. This ratio is calculated as net debt, defined as bank debt plus or minus working capital (excluding the fair value of commodity contracts), divided by cash flow from operating activities before changes in non-cash working capital and decommissioning obligation expenditures for the most recent quarter, annualized.



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

As at June 30, 2014 the Company had no net debt and a calculation of net debt to cash flow from operations for the three months ended June 30, 2014 was not required.

	Three months ended	
	Jun 30, 2014	Dec 31, 2013
Bank debt	\$	9,318
Working capital deficiency (surplus)		(118)
Net debt	\$	9,200
Cash provided from operating activities	\$	584
Decommissioning obligation expenditures		200
Change in non-cash working capital		427
Cash flow from operations	\$	1,211
Cash flow from operations, annualized	\$	4,844
Net debt to cash flow from operations		1.9

Had the SE Alberta acquisition closed on October 1, 2013 cash flow from operations would have increased so that the ratio of net debt to annualized cash flow from operations would have been 0.2 to 1 for the three months ended December 31, 2013.

There were no changes in the Company's approach to capital management during the three months ended June 30, 2014.

SHARE CAPITAL

On September 9, 2013 Cardinal consolidated its common shares on the basis of three pre-consolidation common shares for one post-consolidation share. All common shares, per share amounts, stock options and warrants have been restated retrospectively to give effect to the consolidation.

On January 7, 2014, Cardinal granted 981,121 notional share awards to certain officers, directors and employees pursuant to the Company's restricted bonus award plan. On February 28, 2014 and March 27, 2014, Cardinal granted 36,903 and 5,891 notional share awards respectively, to new employees.

On February 10, 2014, Cardinal closed a private placement of 2,187,500 common shares for total gross proceeds of \$28 million.

As at June 30, 2014, the Company had a total of 37,804,824 common shares, 294,167 options, 820,929 warrants (adjusted for dividends during the period), 933,431 Restricted Bonus Awards ("RA's"), and 96,500 Stock Appreciation Rights ("SAR's") outstanding. The warrants have an exercise price of \$2.97 per share and the stock options have an average exercise price of \$7.35 per share. As of the date of this MD&A the only change to share capital since June 30, 2014 was the issue of an additional 15,177 common shares related to the DRIP and SDP for the June 2014 dividend.



DIVIDENDS

On January 10, 2014 the Company adopted a dividend reinvestment plan (“DRIP”) and a stock dividend program (“SDP”) which enable shareholders to receive dividends in common shares rather than cash.

During the six months ended June 30, 2014 \$12.1 million of dividends (\$0.32502 per common share) were declared of which \$8.8 million was paid in cash, \$2.0 million was recognized as a liability at June 30, 2014 and 84,891 common shares were issued pursuant to the Company’s DRIP and SDP valued at \$1.3 million. The dividend payable was settled on July 15, 2014 with cash of \$1.8 million and the issue of 15,177 Cardinal common shares pursuant to the DRIP and SDP valued at \$0.3 million. On July 28, 2014, the Board of Directors approved an increase in the monthly dividend to \$0.07 per share for the September 2014 dividend.

For the six months ended June 30, 2014 the simple payout ratio was 28% compared to the Company’s target of 30-35%. The increase in the dividend is expected to reset the simple ratio to Cardinal’s target.

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 lease summarized in *Commitments and Contractual Obligations*.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company has an operating lease commitment for its office premises expiring December 31, 2014 of approximately \$1.0 million per annum. Cardinal has entered into an operating lease commitment for its office premises expiring December 30, 2023 of approximately \$1.0 million per annum once the current lease expires.

On March 31, 2013 Cardinal issued 113,333 flow-through common shares pursuant to a private placement for gross proceeds of \$1,020,000. The Company is committed to incur the qualifying expenditures prior to December 31, 2014.

SUBSEQUENT EVENTS

Subsequent to June 30, 2014 Cardinal entered into additional derivative commodity contracts (all commodity contracts were indexed to WTI in Canadian dollars). Cardinal entered into collars for 500 bbl/d from January 1, 2015 to December 31, 2015 at a floor price of \$95.00 and a ceiling price of \$108.25.

On **July 14, 2014**, the Company confirmed that a dividend of \$0.05417 per common share will be paid on August 15, 2014 to shareholders of record on July 30, 2014. The total amount of dividends declared at July 31, 2014 was \$2.0 million. On **July 28, 2014**, the Board of Directors approved an increase in the monthly dividend to \$0.07 per share for the September 2014 dividend.

On **July 24, 2014**, Cardinal made an offer to acquire all of the issued and outstanding shares of a private company (“Privateco”) for total consideration of \$12 million less Privateco’s net debt at closing. The offer is subject to approval by 90% of Privateco’s shareholders.

On **July 29, 2014**, Cardinal entered into a definitive purchase and sale agreement to acquire certain petroleum and natural gas properties in Wainwright for \$170 million in cash before closing adjustments. The Company paid the vendor a non-refundable deposit of \$17 million representing the amount of damages owed to the vendor should closing of the agreement not occur due to a default by Cardinal.



On **July 29, 2014**, Cardinal entered into a bought deal financing with a syndicate of underwriters to issue 8 million common shares at \$18.50 per common share for gross proceeds of \$148 million. In connection with the bought deal financing the underwriters were granted an over-allotment option to acquire an additional 800,000 common shares at \$18.50 per common share and if exercised would result in additional gross proceeds of \$14.8 million.

ADDITIONAL INFORMATION

CRITICAL ACCOUNTING ESTIMATES

A summary of Cardinal's significant accounting policies is contained in Note 3 to the audited financial statements as at and for the year ended December 31, 2013. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Company's control.

FINANCIAL RISKS

A summary of certain financial risks for Cardinal is contained in Note 13 to the audited financial statements as at and for the year ended December 31, 2013.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Internal control over financial reporting ("ICOFR"), as defined in National Instrument 52-109, includes those policies and procedures that: a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Cardinal; b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of Cardinal; and c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

The CEO and the CFO are responsible for establishing and maintaining ICOFR for Cardinal and evaluating the effectiveness of the design and operation of the Company's DC&P. As at the date of this MD&A the CEO and CFO certify that they have designed, or caused to be designed, appropriate ICOFR and DC&P to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Cardinal's officers used to design the Company's ICOFR is the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

As of the date of this MD&A the CEO and CFO have not yet evaluated the effectiveness of the Company's ICOFR or DC&P. It is anticipated that they will be able to complete their evaluation prior to the release of the Company's financial statements for the three and nine months ended September 30, 2014. The CEO and CFO have reviewed the interim filings for the three and six months ended June 30, 2014 and have concluded that the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is



necessary to make a statement not misleading in light of the circumstances under which it was made, for the periods covered by the interim filings. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

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 has had significant growth in 2013 and 2014 by completing five major acquisitions since the Company commenced operations in May of 2012. The Company expects to close its recently announced acquisition at Wainwright in the third quarter of 2014 which will significantly increase the Company's production base and cash flow from operations. The proposed acquisition in Wainwright will maintain the Company's annual decline rate at or below 15% and increase cash flow from operations by \$31 million on an annualized basis. The expectation for cash flow from operations for these assets is based on, but not limited to, a WTI oil price of US\$100, a Cdn\$/US\$ exchange rate of 0.92, operating costs of \$27/boe, an average royalty rate of 9% and an oil quality adjustment of \$29/boe. Combined with the Company's existing base production, this transaction further enables Cardinal to realize its business plan and be well positioned to sustain and/or increase dividends to its shareholders. Cardinal will focus on successfully integrating this acquisition with its existing operations and hiring additional field and office staff necessary to manage this growth in operations.

Cardinal has had continued success drilling in the Company's core area of Bantry which allowed the Company to grow its base production with high capital efficiencies. Development drilling will be balanced with acquisitions to maintain a low production decline portfolio of assets while paying a dividend.

The Company believes its management team is one of its core competitive strengths relative to industry peers due to the team's track record of identifying, sourcing and executing accretive transactions. Management will continue to evaluate and pursue other acquisition opportunities available in the market in the Company's core area in order to maintain its dividend and production growth. Over the next twelve to 24 months it is management's intention to continue to grow through acquisitions to 10,000 – 12,000 boe/d of low decline, oil focused production.



SELECTED QUARTERLY DATA

	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013
Production				
Oil and NGL (bbl/d)	5,800	5,513	1,965	1,099
Natural gas (mcf/d)	4,208	4,333	1,139	71
Oil equivalent (boe/d)	6,501	6,235	2,155	1,111
Financial				
Revenue	48,194	41,287	12,246	9,353
Net earnings (loss)	3,780	897	36,433	(654)
Basic per share (\$)	\$ 0.10	\$ 0.02	\$ 2.47	\$ (0.06)
Diluted per share (\$)	\$ 0.10	\$ 0.02	\$ 2.33	\$ (0.06)
Cash flow from operating activities	25,703	12,530	584	3,025
Cash flow from operations	23,522	19,229	1,211	3,081
Basic per share (\$)	\$ 0.62	\$ 0.53	\$ 0.08	\$ 0.27
Diluted per share (\$)	\$ 0.60	\$ 0.51	\$ 0.08	\$ 0.27
Working capital (deficiency)	518	135	118	342
Total assets	447,980	439,391	403,174	112,670
Bank debt	-	4,002	9,318	36,274
Total long-term liabilities	53,111	53,886	58,359	8,263
Shareholders' Equity	363,943	362,866	336,863	63,268
Weighted average shares (basic)	37,733,848	36,501,986	14,751,309	11,304,104
Common shares outstanding	37,804,824	37,675,910	34,875,532	11,304,104
Diluted shares outstanding	39,949,851	39,901,401	36,828,679	13,142,751
	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012
Production				
Oil and NGL (bbl/d)	1,083	1,129	642	7
Natural gas (mcf/d)	23	27	-	-
Oil equivalent (boe/d)	1,087	1,133	642	7
Financial				
Revenue	7,658	6,493	3,916	69
Net loss	92	489	850	2,905
Per share (\$)	\$ 0.01	\$ 0.04	\$ 0.10	\$ 1
Cash flow from (used in) operating activities	4,061	1,243	1,041	(311)
Cash flow from (used in) operations	2,871	2,651	1,068	(189)
Basic and diluted per share (\$)	\$ 0.25	\$ 0.24	\$ 0.13	\$ (0)
Working capital (deficiency)	132	(698)	(2,103)	5,690
Total assets	91,813	93,939	81,933	14,630
Bank debt	19,233	19,971	11,267	-
Total long-term liabilities	5,921	5,861	4,801	624
Shareholders' Equity	63,410	62,757	61,309	13,899
Weighted average shares (basic)	11,284,112	11,142,503	8,126,199	2,804,856
Common shares outstanding	11,304,104	11,273,271	11,091,671	4,333,335
Diluted shares outstanding	13,142,751	13,093,603	12,883,318	5,749,989

The Company commenced activity in the second quarter of 2012 but did not have producing properties until the third quarter. Quarterly petroleum and natural gas revenue has fluctuated with commodity prices and production. Quarterly cash flow from operations has increased compared to 2012 primarily due to acquisitions of producing properties. Cardinal's quarterly net earnings (loss) has varied significantly due to changes in operations including gains on acquisitions of \$39.0 million in the fourth quarter of 2013, a combined \$1.6 million realized and unrealized loss on commodity contracts in the third quarter of 2013 and a one-time charge of \$2.4 million for share-based compensation in the third quarter of 2012.



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:

- the timing of closing and expected purchase price of the proposed acquisition at Wainwright and the benefits to be obtained therefrom;
- the timing of closing of the bought-deal financing and the use of proceeds of the financing;
- the exercise of the over-allotment option;
- drilling and development budget, plans and the timing thereof;
- expectations regarding the release of future drilling results;
- anticipated production and growth in our production base;
- expectations regarding a balanced capital allocation between acquisitions and development drilling in order to maintain a low production decline;
- Cardinal's development drilling inventory;
- Cardinal's acquisition and growth plans and the source of funding;
- anticipated future production and operating costs;
- plans to maintain a conservative leverage profile through a targeted net debt to annualized cash flow from operations multiple of less than one;
- anticipated decline rates;
- expectations with respect to cash flow from operations; simple payout ratio and other financial results;
- expectations regarding drilling prospects on the Bantry lands;
- Cardinal's business strategy, goals and management focus;
- Cardinal's dividend plans, the amount and timing of the payment of future dividends, the consistency of our dividend policy and targeted simple payout ratio and total payout ratio;
- 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 including the assets to be acquired in Wainwright and future prospects for development and growth therefrom;
- expectations regarding the business environment, industry conditions and future commodity prices;
- expectations regarding the timing and results of the review of the borrowing base of the Facilities;
- Cardinal's capital management strategies;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws; and
- Cardinal's ICOFR and DC&P plans.

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 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: completion of the acquisition and the offering and on the timing planned; the receipt in a timely manner of required approvals in connection with the acquisition and the offering; 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.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about our prospective results of operations, cash flows, and components thereof, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A were made as of the date of this MD&A and is provided for the purpose of describing the anticipated effects of the acquisition and the offering on our business operations. We disclaim any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

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
"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
"NGLs"	Natural gas liquids
"n/m"	Not meaningful (certain per unit or per share calculations)
"US"	United States
"WCS"	Western Canadian Select
"WTI"	West Texas Intermediate

