CARDINAL
ENERGY LTD.

Q2 2020
FINANCIAL STATEMENTS

CONDENSED INTERIM BALANCE SHEET

As at *(Unaudited, thousands)*	*Note*		**June 30, 2020**		December 31, 2019
ASSETS					
Current assets					
Trade and other receivables		**$**	**26,839**	$	39,724
Deposits and prepaid expenses			**2,144**		2,794
Fair value of financial instruments	13		**638**		261
			29,621		42,779
Non-current assets					
Exploration and evaluation assets	3		**283**		272
Property, plant and equipment	4		**646,656**		1,003,200
Deferred tax	4		**-**		103,576
			646,939		1,107,048
Total Assets		**$**	**676,560**	$	1,149,827
LIABILITIES					
Current liabilities					
Trade and other payables		**$**	**33,995**	$	69,871
Bank debt	5		**217,206**		-
Dividends payable	10		**-**		1,938
Liability component of convertible debentures	6		**44,025**		44,158
Lease liabilities	7		**1,970**		1,850
Decommissioning obligation	8		**3,300**		6,450
Fair value of financial instruments	13		**6,701**		3,407
			307,197		127,674
Non-current liabilities					
Lease liabilities	7		**2,913**		3,581
Bank debt	5		**-**		173,308
Fair value of financial instruments	13		**61**		-
Decommissioning obligation	8		**112,585**		107,362
			115,559		284,251
Total Liabilities			**422,756**		411,925
SHAREHOLDERS' EQUITY					
Share capital	9		**1,053,668**		1,062,194
Treasury shares	9		**(3,302)**		(5,182)
Equity component of convertible debentures	6		**1,556**		1,556
Contributed surplus			**30,978**		26,429
Deficit			**(829,096)**		(347,095)
Total Shareholders' Equity			**253,804**		737,902
Total Liabilities and Shareholders' Equity		**$**	**676,560**	$	1,149,827
Future operations	2				
Contractual obligations	14				

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

CONDENSED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(Unaudited, thousands except per share amounts)	*Note*	Three months ended June 30, **2020**	2019	Six months ended June 30, **2020**	2019
Revenue					
Petroleum and natural gas revenue	12	**$ 31,711**	$ 106,166	**$ 95,184**	$ 200,216
Royalties		**(4,054)**	(16,797)	**(14,338)**	(30,336)
Realized gain (loss) on commodity contracts	13	**3,308**	(7,554)	**11,529**	(9,006)
Unrealized gain (loss) on commodity contracts	13	**(13,984)**	11,096	**(5,808)**	(14,390)
Processing and other revenue	12	**383**	805	**1,000**	1,350
		17,364	93,716	**87,567**	147,834
Expenses					
Operating		**23,526**	38,789	**62,207**	80,901
Transportation		**370**	913	**945**	1,263
General and administrative		**2,924**	3,781	**7,798**	7,930
Share-based compensation	11	**861**	1,962	**2,282**	3,642
Finance		**3,538**	5,751	**9,788**	11,417
Depletion and depreciation	4	**14,055**	23,054	**37,562**	45,390
Impairment	4	**-**	-	**343,000**	-
Gain on settlement of convertible debentures and other	6	**(364)**	(134)	**(404)**	(360)
		44,910	74,116	**463,178**	150,183
Earnings (loss) before deferred tax		**(27,546)**	19,600	**(375,611)**	(2,349)
Deferred tax expense		**-**	22,699	**102,879**	17,256
Loss and comprehensive loss for the period		**$ (27,546)**	$ (3,099)	**$ (478,490)**	$ (19,605)
Loss per share	9				
Basic and diluted		**$ (0.24)**	$ (0.03)	**$ (4.22)**	$ (0.17)

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

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, thousands except number of common shares)	**Common Shares, net of treasury shares**	**Share Capital**	**Treasury Shares**	**Equity Component of Convertible Debentures**	**Contributed Surplus**	**Deficit**	**Total Shareholders' Equity**
		(note 9)	*(note 9)*	*(note 6)*	*(note 11)*		
January 1, 2019	116,197,095	$ 1,072,284	$ -	$ 1,729	$ 13,365	$ (294,756)	$ 792,622
Purchase of common shares for RA [1] settlements	(2,161,039)	-	(6,200)	-	-	-	(6,200)
Settlement of RAs [1]	1,167,401	5,800	587	-	(6,874)	-	(487)
Purchase of convertible debentures for cancellation	-	-	-	(173)	-	(76)	(249)
Share-based compensation	-	-	-	-	4,149	-	4,149
Tax adjustment on excess value of RAs [1]	-	-	-	-	650	-	650
Dividends ($0.06 per share)	-	-	-	-	-	(7,225)	(7,225)
Loss for the period	-	-	-	-	-	(19,605)	(19,605)
June 30, 2019	**115,203,457**	**$ 1,078,084**	**$ (5,613)**	**$ 1,556**	**$ 11,290**	**$ (321,662)**	**$ 763,655**
January 1, 2020	113,657,247	$ 1,062,194	$ (5,182)	$ 1,556	$ 26,429	$ (347,095)	$ 737,902
Purchase of common shares for RA [1] settlements	(303,495)	-	(700)	-	-	-	(700)
Settlement of RAs [1]	925,548		2,580	-	(3,348)	-	(768)
Purchase of common shares for cancellation	(897,500)	(8,526)	-	-	6,040	-	(2,486)
Share-based compensation	-	-	-	-	2,554	-	2,554
Tax adjustment on excess value of RAs [1]	-	-	-	-	(697)	-	(697)
Dividends ($0.03 per share)	-	-	-	-	-	(3,511)	(3,511)
Loss for the period	-	-	-	-	-	(478,490)	(478,490)
June 30, 2020	**113,381,800**	**$ 1,053,668**	**$ (3,302)**	**$ 1,556**	**$ 30,978**	**$ (829,096)**	**$ 253,804**

(1) Restricted Bonus Awards ("RAs")

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

CONDENSED INTERIM STATEMENT OF CASH FLOWS

(Unaudited, thousands)	*Note*	Three months ended June 30, **2020**	2019	Six months ended June 30, **2020**	2019
Cash provided by (used in)					
Operating activities					
Loss for the period		**$ (27,546)**	$ (3,099)	**$ (478,490)**	$ (19,605)
Adjustments for					
Share-based compensation	11	**861**	1,962	**2,282**	3,642
Depletion and depreciation	4	**14,055**	23,054	**37,562**	45,390
Impairment	4	**-**	-	**343,000**	-
Unrealized (gain) loss on commodity contracts	13	**13,984**	(11,096)	**5,808**	14,390
Unrealized foreign exchange gain		**(1,132)**	-	**(23)**	-
Deferred tax expense		**-**	22,699	**102,879**	17,256
Accretion	6,8	**2,207**	2,350	**4,399**	4,662
Gain on settlement of convertible debentures and other	6	**(364)**	(134)	**(404)**	(360)
Decommissioning obligation settled	8	**(543)**	(1,498)	**(2,015)**	(2,389)
Change in non-cash working capital		**(11,798)**	1,685	**(3,233)**	443
		(10,276)	35,923	**11,765**	63,429
Investing activities					
Exploration and evaluation expenditures	3	**-**	(38)	**(11)**	(51)
Property, plant and equipment expenditures	4	**(1,056)**	(17,396)	**(23,186)**	(28,967)
Property acquisitions		**-**	(232)	**-**	(232)
Change in non-cash working capital		**(19,061)**	964	**(19,285)**	1,740
		(20,117)	(16,702)	**(42,482)**	(27,510)
Financing activities					
Dividends	10	**-**	(3,606)	**(3,511)**	(7,225)
Repayment of lease liabilities	7	**(497)**	(490)	**(978)**	(922)
Purchase of common shares for cancellation	9	**-**	-	**(2,486)**	-
Purchase of common shares for RAs settlements and withholding tax	9	**(252)**	(4,212)	**(1,468)**	(6,687)
Purchase of convertible debentures for cancellation	6	**(141)**	-	**(170)**	(4,846)
Increase (decrease) in bank debt		**31,321**	(10,683)	**41,091**	(15,975)
Change in non-cash working capital		**(38)**	(230)	**(1,761)**	(264)
		30,393	(19,221)	**30,717**	(35,919)
Change in cash and cash equivalents		**-**	-	**-**	-
Cash and cash equivalents, beginning of period		**-**	-	**-**	-
Cash and cash equivalents, end of period		**$ -**	$ -	**$ -**	$ -

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

1 REPORTING ENTITY

Cardinal Energy Ltd. ("Cardinal" or the "Company") was incorporated pursuant to the Business Corporations Act (Alberta) on December 21, 2010 and commenced activity on May 30, 2012. The Company's principal business activity is the acquisition, exploration and production of petroleum and natural gas in the provinces of Alberta and Saskatchewan. Cardinal's principal place of business is located at 600, 400 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 4H2.

2 BASIS OF PREPARATION

Statement of Compliance

These condensed interim financial statements ("financial statements") have been prepared in accordance with statement IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The financial statements were prepared using the same accounting policies, critical judgments and key estimates, except as noted below, which the Company applied in its annual financial statements for the year ended December 31, 2019 and do not include certain disclosures that are normally required to be included in annual financial statements which have been condensed or omitted. Accordingly, these financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019.

The financial statements were authorized for issue by the Board of Directors on July 30, 2020.

Significant Accounting Policies

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If a grant is received but compliance with any attached condition is not achieved, the grant is recognized as a deferred liability until such conditions are met and fulfilled. When the grant relates to an expense item, it is recognized as a reduction to the related expense in the period in which the costs are incurred. When the grant relates to an asset, it is recognized as a reduction to the net book value of the related asset and then subsequently in net income (loss) over the expected useful life of the related assets through lower charges to impairment and/or depletion, depreciation and amortization.

Future Operations

The Company’s existing revolving credit facilities were available on a revolving basis until May 23, 2020. The Company has since received approval from the syndicate to extend the revolving period to August 5, 2020, subject to certain conditions. Among others, the conditions include a cap on the drawings available under the facilities to $250 million and that no drawings can be used to redeem or repay the Company’s outstanding convertible debentures. The date for the re-determination of the borrowing base has also been extended to August 5, 2020 in order to provide all parties additional time to finalize negotiations and obtain required approvals. The maturity date of the credit facilities remains May 23, 2021. Due to the maturity date, the total outstanding amount drawn under the facilities has been reclassified to current liabilities as at June 30, 2020.

The available lending limits are based on the syndicate's interpretation of the Company's reserves, future commodity prices and costs. Forecasted commodity prices decreased significantly due to the continued adverse impact created by coronavirus (“COVID-19”) which will significantly influence the syndicate’s interpretation of the future value of the Company’s reserves. No assurance can be provided that the amount of the facilities will not be adjusted on August 5, 2020. In addition, no assurance can be provided that the Company will be able to further renew or extend or replace the current facilities on terms that are favorable to the Company. The Company and its lenders continue to work towards a long-term solution on the facilities. The volatile economic environment due to severe negative global commodity price pressures and COVID-19 implications continues to negatively impact current and forecasted operating cash flows.

The federal government has announced liquidity support programs for the junior and intermediate exploration and production industry that the Company feels it would be eligible for however there is no assurance that Cardinal will be successful in obtaining assistance under any of these programs.

The Company's ability to continue as a going concern is dependent upon the Company's ability to maintain the credit facility at or above amounts currently drawn and its ability to renew the credit facility prior to its repayment/maturity date. These matters cause material uncertainties which may cast significant doubt with respect to the Company's ability to continue as a going concern, if the Company's credit facilities mature and become payable.

These financial statements have been prepared on a going concern basis, which presumes Cardinal will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if Cardinal was unable to continue as a going concern.

Use of Estimates and Judgements

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. As such, actual results may differ from these estimates as future confirming events occur. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In March 2020, the World Health Organization declared a global pandemic due to the rapid outbreak of the COVID-19. The measures taken in response to the outbreak such as quarantine and travel restrictions have led to an unprecedented disruption to the global economy and significantly reducing worldwide demand for crude oil resulting in a buildup of supply and inventory. The continued uncertainty created by COVID-19 has had an adverse impact on the global economy and the impact is anticipated to be far-reaching.

Consequently, the effect of the COVID-19 pandemic has created a dramatic decrease in commodity prices which resulted in a decline in Cardinal's share price and market capitalization since year-end 2019. The potential risk and impact of COVID-19 relating to the Company has been taken into consideration in management's estimates used for the period end. However, there could be a further prospective material impact in future periods.

COVID-19 also poses a risk on the financial capacity of Cardinal's contract counterparties and potentially their ability to perform contractual obligations.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial results.

A full list of the key sources of estimation uncertainty can be found in the Company's annual financial statements for the year ended December 31, 2019. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the interim Financial Statements, particularly related to the following key sources of estimation uncertainty:

Recoverable Amounts

Determining the recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices.

Decommissioning Costs

Provisions are recorded for the future decommissioning and restoration of the Company's production facilities, wells and pipelines at the end of their economic lives. Management uses judgment to assess the existence and to estimate the future liability. Market volatility at June 30, 2020 increased the measurement uncertainty inherent in determining the appropriate credit-adjusted discount rate that is used in the estimation of decommissioning liabilities.

Income Tax Provisions

Income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss. In the current economic environment, the expected total annual earnings or expected earnings is subject to measurement uncertainty. Changes to these assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Accounts receivable

The Company has increased its monitoring of receivables due from petroleum and natural gas marketers and from joint asset partners to manage credit risk. The Company historically has not experienced any collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers. To protect against credit losses from joint asset partners, the Company has the ability to withhold production in the event of non-payment and the ability to obtain the partners' share of capital expenditures in advance of a project. The Company continues to expect that its receivables are substantially collectible at June 30, 2020.

3 EXPLORATION AND EVALUATION ASSETS

	Exploration and Evaluation Assets
At December 31, 2018	$ 251
Additions	21
At December 31, 2019	272
Additions	11
At June 30, 2020	**$ 283**

Cardinal's E&E assets consist of undeveloped land and exploration projects which are pending technical feasibility and commercial viability.

4 PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Right-of-use assets	Corporate assets	Total
Cost				
At January 1, 2019	$ 1,607,752	$ -	$ 4,080	$ 1,611,832
Initial recognition	-	5,461	-	5,461
Additions	56,728	1,449	153	58,330
Acquisitions	396	-	-	396
Disposition	-	(732)	-	(732)
At December 31, 2019	1,664,876	6,178	4,233	1,675,287
Additions	23,486	430	102	24,018
Disposition	-	(33)	-	(33)
At June 30, 2020	**$ 1,688,362**	**$ 6,575**	**$ 4,335**	**$ 1,699,272**
Accumulated depletion and depreciation				
At January 1, 2019	$ (555,418)	$ -	$ (1,885)	$ (557,303)
Depletion and depreciation	(89,226)	(2,406)	(450)	(92,082)
Disposition	-	698	-	698
Impairment	(23,400)	-	-	(23,400)
At December 31, 2019	(668,044)	(1,708)	(2,335)	(672,087)
Depletion and depreciation	(36,409)	(933)	(220)	(37,562)
Disposition	-	33	-	33
Impairment	(343,000)	-	-	(343,000)
At June 30, 2020	**$ (1,047,453)**	**$ (2,608)**	**$ (2,555)**	**$ (1,052,616)**
Net book value				
At December 31, 2019	$ 996,832	$ 4,470	$ 1,898	$ 1,003,200
At June 30, 2020	**$ 640,909**	**$ 3,967**	**$ 1,780**	**$ 646,656**

The calculation of depletion for the six months ended June 30, 2020 includes estimated future development costs of $263.1 million (December 31, 2019 - $270.3 million) associated with the development of the Company's proved plus probable reserves.

For the six months ended June 30, 2020, Cardinal capitalized $0.5 million of general and administrative expenses (2019 - $0.8 million) and $0.3 million (2019 - $0.5 million) of share-based compensation.

Impairment

March 31, 2020:

At March 31, 2020 Cardinal determined that the carrying value of certain CGUs exceeded the recoverable amount and recorded an impairment of $343.0 million. The impairment recognized is the result of significant decline in forecast forward commodity prices due to oil demand issues caused by the COVID-19 virus. The impairment at March 31, 2020 specifically relates to the Company's Alberta Central ($165.0 million), Alberta South ($132.5 million), and Alberta North ($45.5 million) CGUs. The recoverable amount of Cardinal's impaired CGUs at March 31, 2020 was Alberta Central ($131.4 million), Alberta South ($103.4 million), and Alberta North ($250.4 million).

The recoverable value of the Company's CGUs was estimated as the value in use based on the net present value of before tax cash flows from crude oil and natural gas proved plus probable reserves estimated by Cardinal's third party reserve evaluator internally updated to March 31, 2020 for production and forward prices at March 31, 2020 and discounted between 10% and 20% depending on the reserves composition. The recoverable amount is sensitive to commodity price, discount rate, production volumes, royalty rates, operating costs and future capital expenditures. In determining the appropriate discount rate, Cardinal considered various characteristics and risks of the assets.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at March 31, 2020. The forecast commodity prices are based on the average used by three external reserve evaluators at March 31, 2020 and are a key assumption in assessing the recoverable amount.

	WTI (US $/bbl)[(1)]	WCS (CAD $/bbl)[(1)]	AECO (CAD $/mmbtu)[(1)]	Exchange rate (US/CAD)
2020	$ 29.17	$ 19.21	$ 1.74	0.71
2021	$ 40.45	$ 34.65	$ 2.20	0.73
2022	$ 49.17	$ 46.34	$ 2.38	0.75
2023	$ 53.28	$ 51.24	$ 2.45	0.75
2024	$ 55.66	$ 54.28	$ 2.53	0.75
Thereafter (inflation percentage and exchange rate)	2.0%	2.0%	2.0%	0.75

(1) Three Consultants' average, GLJ Petroleum Consultants, McDaniel & Associates Consultants, and Sproule Associates price forecasts, effective April 1, 2020.

A one percent change in the discount rate or a five percent change in the forward price over the life of the reserves would result in changes in impairment of $5.7 million and $63.6 million, respectively.

The external reserve evaluators also assess many other financial assumptions regarding royalty rates, operating costs and future development costs along with several other non-financial assumptions that affect reserve volumes. Management considered these assumptions for the impairment test at March 31, 2020, however, it should be noted that all estimates are subject to uncertainty.

Cardinal's deferred tax asset was derecognized at March 31, 2020 as there is not sufficient certainty the tax asset can be utilized given the current environment which resulted in a deferred tax expense of $102.9 million. Management considered many assumptions in this analysis at March 31, 2020, however, it should be noted that all estimates are subject to uncertainty.

As at June 30, 2020, there were no triggers to perform an impairment test or reversal of prior impairments.

2019:

As at December 31, 2019 Cardinal determined that the carrying value of the Alberta Central CGU exceeded the recoverable amount and recorded an impairment of $23.4 million. The impairment recognized was the result of lower forward pricing and higher future costs within the Company's Alberta Central CGU. The recoverable amount of Cardinal's impaired CGU at December 31, 2019 was $299.6 million. The Company did not identify any further indicators of impairment or impairment reversals for its other CGUs.

5 BANK DEBT

The Company's reserves-based revolving credit facility of $325 million is comprised of a $295 million syndicated term credit facility and a $30 million non-syndicated operating line credit facility (the "Facilities"). The Facilities were available on a revolving basis until May 23, 2020. The available lending limits of the Facilities are reviewed semi-annually based on the syndicate's interpretation of the Company's reserves, future commodity prices and costs. As the available lending limit of the Facilities is based on the syndicate's interpretation of the Company's reserves and future commodity prices and costs, there can be no assurance that the amount of the Facilities will not decrease at the next scheduled review.

As noted in Note 2, the Company has since received approval from the syndicate to extend the revolving period and the date for the re-determination of the borrowing base to August 5, 2020, subject to certain conditions. Among others, the conditions include a cap on the drawings of the Facilities at $250 million and that no drawings can be used to redeem or repay convertible debentures.

If the Facilities are not amended, the Facilities will cease to revolve, the applicable margins will increase by 0.5% and all outstanding advances will be repayable on May 23, 2021. The lenders could reduce the borrowing base to below the current drawn amount, in this case, the short fall would have to be repaid within 60 days.

Advances under the Facilities are available by way of either prime rate loans, which bear interest at the banks' prime lending rate plus 0.5 to 2.5%, and bankers' acceptances and/or London Inter-bank Offered Rate ("LIBOR") loans, which are subject to fees and margins ranging from 1.5 to 3.5%. Interest and standby fees on the undrawn amounts of the Facilities depend upon certain ratios. The Facilities are secured by a general security agreement over all of the Company's assets. There are no financial covenants related to the Facilities, provided that Cardinal is not in default of the terms of the Facilities.

Letters of credit for $1.6 million were outstanding at June 30, 2020 (2019 – $1.6 million) that reduced the amount otherwise available to be drawn on the operating term credit facility.

Cardinal was in compliance with the terms of the Facilities at June 30, 2020. For the six months ended June 30, 2020 the effective interest rate on the Company's bank debt was 3.5% (2019 – 4.5%).

Please see note 15 for details of the Facilities re-determination and revolving period extension.

6 CONVERTIBLE DEBENTURES

	Number of Convertible Debentures		Liability Component		Equity Component
Balance at December 31, 2018	50,000	$	48,146	$	1,729
Purchase of convertible debentures for cancellation	(5,000)		(4,823)		(173)
Accretion	-		835		-
Balance at December 31, 2019	45,000	$	44,158	$	1,556
Purchase of convertible debentures for cancellation	(549)	$	(549)		-
Accretion	-		416		-
Balance at June 30, 2020	**44,451**	**$**	**44,025**	**$**	**1,556**

The Company has subordinated unsecured convertible debentures (the "convertible debentures") that bear interest at 5.5% payable semi-annually and have a maturity date of December 31, 2020. The convertible debentures are convertible into common shares of the Company at the option of the holder at a conversion price of $10.50 per common share at any time prior to the maturity date. The convertible debentures are repayable by the Company in cash or common shares at the Company's discretion.

The convertible debentures have been classified as a liability, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as shareholders' equity. The liability component will accrete up to the principal balance at maturity. The accretion of the liability component and interest payable are expensed on the statements of loss and comprehensive loss. If the convertible debentures are converted to common shares, a portion of the value of the conversion feature included in shareholders' equity and the liability component will be reclassified to shareholders' equity along with the conversion price.

The normal course issuer bid ("NCIB") previously announced in 2018 was renewed on December 18, 2019 with an expiry of December 18, 2020. In the renewed NCIB, the Company can purchase up to $4.5 million aggregate principal with a daily purchase limit of $10,000 aggregate principal amount of convertible debenture. All other terms are the same.

For the six months ended June 30, 2020, the Company repurchased and cancelled convertible debentures of $0.5 million under the 2019 NCIB at an average rate of 31.072 for a gain of $0.4 million.

For the six months ended June 30, 2020 Cardinal recognized $1.2 million of interest (2019 - $1.2 million) and $0.4 million of accretion (2019 - $0.4 million) related to the convertible debentures. At June 30, 2020, the fair value of the convertible debentures was $31.1 million (December 31, 2019 - $45.0 million).

On June 19, 2020, Cardinal announced that 99.54% of the holders of our 5.50% convertible debentures that voted at an extraordinary meeting of debenture holders have voted in favour of a resolution approving certain amendments to the convertible debentures. As a result, all debenture holders have the right to exchange their debentures for a new series of 8.00% convertible debentures by July 20, 2020. Approximately 62% of the outstanding principal amount of the convertible debenture exercised their right by July 20, 2020. Subsequently, Cardinal has elected to extend the right to exchange period to August 4, 2020. The new debentures will be similar in all material ways to the existing debentures except that, the new debentures:

- will have a maturity date of December 31, 2022, compared to December 31, 2020, for the existing debentures;
- will bear interest at the rate of 8.00% per annum, payable in equal instalments semi-annually in arrears on June 30 and December 31 in each year, compared to 5.50% for the existing debentures;
- will be convertible into our common shares at a conversion price (as defined in the Indenture) of $1.25 per share, compared to $10.50 per share for the existing debentures; and
- will not be redeemable by Cardinal prior to December 31, 2020.

7 LEASE LIABILITIES

	Six months ended June 30, 2020	Year ended December 31, 2019
Balance, beginning of period	**$ 5,431**	$ 6,478
Additions	**430**	1,449
Dispositions	**-**	(33)
Finance cost	**165**	372
Lease payments	**(1,143)**	(2,835)
Balance, end of period	**$ 4,883**	$ 5,431

At June 30, 2020, the Company had future commitments relating to lease liabilities as follows:

		As at June 30, 2020		As at December 31, 2019
Less than 1 year	$	**2,160**	$	2,137
1 - 3 years		**2,670**		2,858
4 - 5 years		**513**		1,020
Total undiscounted future lease payments		**5,343**		6,015
Amounts representing interest		**(460)**		(584)
Present value of net lease payments		**4,883**		5,431
Less current portion of lease liabilitles		**(1,970)**		(1,850)
Non-current portion of lease liabilities	**$**	**2,913**	$	3,581

The Company has lease liabilities for contracts related to office space, vehicles, and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rates during the six months ended June 30, 2020 were between 6% and 8% (2019 – between 6% and 8%), depending on the duration of the lease term.

8 DECOMMISSIONING OBLIGATION

		Six months ended June 30, 2020		Year ended December 31, 2019
Balance, beginning of period	$	**113,812**	$	121,672
Liabilities incurred		**130**		372
Liabilities acquired		**-**		-
Liabilities disposed		**(25)**		(235)
Change in estimates		**-**		(10,049)
Decommissioning expenditures		**(2,015)**		(6,571)
Accretion		**3,983**		8,623
Balance, end of period	$	**115,885**	$	113,812

The Company's decommissioning obligation results from its ownership interest in crude oil and natural gas assets including well sites, and facilities. At June 30, 2020, the total estimated amount to settle Cardinal's decommissioning obligation was $336 million (December 31, 2019 - $336 million) on an uninflated and undiscounted basis and $629 million (December 31, 2019 - $629 million) on an inflated and undiscounted basis.

The decommissioning obligation was determined by applying an inflation factor of 2.0% (2019 – 2.0%) and discounting the inflated amount using Cardinal's credit-adjusted rate of 7.0% (2019 – 7.0%) over the expected useful life of the underlying assets of 20 to 50 years (2019 – 20 to 50 years).

9 SHARE CAPITAL AND TREASURY SHARES

At June 30, 2020, the Company was authorized to issue an unlimited number of common voting shares without nominal or par value. Holders of common shares are entitled to one vote per share.

NCIB

On July 30, 2019, the Company announced that the Toronto Stock Exchange ("TSX") had accepted the Company's intention to commence an NCIB. Pursuant to the NCIB, the Company is permitted to purchase up to 11,128,148 common shares representing approximately 10% of its public float as of July 23, 2019 between August 2, 2019 and August 2, 2020. During the six months ended June 30, 2020, the Company repurchased and cancelled 897,500 common shares (2019 – nil) at an average price of $2.77 per common share, for a total cost of $2.5 million. Share capital was reduced by the average carrying value of the shares repurchased with the difference between carrying value and purchase cost, including commissions and fees, being included in contributed surplus.

Treasury Shares
RAs may be settled in cash, common shares issued from treasury or common shares acquired by an independent trustee in the open market for such purposes. During the six months ended June 30, 2020, the trustee purchased 303,495 common shares for $0.7 million for the potential settlement of future vesting RAs and Performance Awards ("PAs").

During the six months ended June 30, 2020, the Company utilized 925,548 (2019 – 218,421) treasury shares to settle vesting RAs. As at June 30, 2020, 1,194,029 (December 31, 2019 – 1,816,082) common shares remained classified as treasury shares to be potentially used for future settlements.

Loss per share

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Loss for the period	**$ (27,546)**	$ (3,099)	**$ (478,490)**	$ (19,605)
Loss per share				
- Basic and diluted	**$ (0.24)**	$ (0.03)	**$ (4.22)**	$ (0.17)
Weighted average number of common shares				
- Basic	**113,373,854**	115,293,496	**113,268,188**	116,132,647
- Diluted	**113,373,854**	115,293,496	**113,268,188**	116,132,647

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

For the six months ended June 30, 2020, 4,484,242 RAs (2019 – 5,015,391), 846,369 PAs (2019 – nil), 4,233,429 ($44.5 million at $10.50) convertible debentures (2019 – 4,285,714) and nil stock options (2019 – 833) were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

10 DIVIDENDS

In March 2020, the Company announced a suspension of its dividend program. During the three months ended June 30, 2020, no dividends were declared (2019 - $3.6 million, $0.3 per common share). During the six months ended June 30, 2020, $3.5 million (2019 - $7.2 million) of dividends ($0.03 per common share) (2019 - $0.06 per common share) were declared.

11 SHARE-BASED COMPENSATION

The maximum number of common shares issuable under the Company's bonus award plan, in aggregate, cannot exceed five percent of the outstanding common shares. The Company's common shares traded at a weighted average share price of $1.07 (2019 - $2.60) during the six months ended June 30, 2020.

Bonus Awards
The Company has a bonus award plan whereby RAs and PAs may be granted to directors, officers, employees and other service providers. Awards granted according to the plan vest equally over three years from the date of grant and expire on December 15th of the third year following the year in which the award was granted. In the case of PAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 1.5 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period. Awards are adjusted for dividends declared, either with a cash payment or incremental common shares, and are to be settled with either cash, common shares or a combination thereof at the Company's discretion.

	Number of PAs	Number of RAs
Balance at December 31, 2018	-	3,444,409
Granted	-	2,860,780
Settled	-	(1,746,064)
Adjustment for dividends declared	-	180,909
Forfeited	-	(126,539)
Balance at December 31, 2019	-	4,613,495
Granted	846,369	1,683,263
Settled	-	(1,697,096)
Adjustment for dividends declared	-	29,423
Forfeited	-	(144,843)
Balance at June 30, 2020	**846,369**	**4,484,242**

For the six months ended June 30, 2020 the Company settled 1,697,096 (2019 – 1,353,676) RAs by issuing nil (2019 – 948,980) common shares, 925,548 (2019 – 218,421) treasury shares and a payment of $0.8 million (2019 – $0.5 million) for withholding tax in exchange for the remaining balance of 771,548 RAs (2019 – 186,275). There were no PAs settled in 2020.

The fair value of the granted awards was determined based on the value of the Company's common shares at the grant date. The weighted average market price of the Company's common shares used to value the RAs and PAs granted was $0.46 (2019 - $2.45) and $0.43 (2019 – N/A), respectively.

Share-based Compensation

For the three and six months ended June 30, 2020, $0.8 million (2019 - $2.0 million) and $2.3 million (2019 - $3.6 million), respectively, of share-based compensation was expensed and $0.1 million (2019 - $0.3 million) and $0.3 million (2019 - $0.5 million), respectively, was capitalized.

12 REVENUE

Cardinal sells its production pursuant to variable-priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Under its contracts, the Company is required to deliver fixed or variable volumes of crude oil, natural gas and natural gas liquids to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company’s efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable consideration is considered constrained.

Crude oil, natural gas, and natural gas liquids are sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company’s petroleum and natural gas sales by product and processing and other revenue generated by processing third party volume at facilities where the Company has an ownership interest:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Crude oil	**29,415**	103,076	**89,362**	192,074
NGL	**840**	1,486	**2,464**	3,133
Natural gas	**1,456**	1,604	**3,358**	5,009
Petroleum and natural gas revenue	**31,711**	106,166	**95,184**	200,216
Processing and other revenue	**383**	805	**1,000**	1,350

Included in accounts receivable at June 30, 2020 is $19.8 million (December 31, 2019 - $30.8 million) of accrued petroleum and natural gas revenue.

13 FINANCIAL RISK MANAGEMENT

Cardinal's financial assets and liabilities consist of trade and other receivables, trade and other payables, risk management assets and liabilities, dividends payable, bank debt and convertible debentures. Risk management assets and liabilities arise from the use of derivative financial instruments.

The Company classifies fair value according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 - Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
Level 2 - Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 - Fair value is based on inputs for the asset or liability that are not based on observable market data.

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

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

As at June 30, 2020 and 2019, the only assets or liabilities measured at fair value were the fair value of financial instruments which are classified as level 2, bank debt which is classified as level 2, and the convertible debentures which are classified as Level 1.

Carrying amount and fair value of financial assets and liabilities
Trade and other receivables are classified as financial assets at amortized cost and are reported at amortized cost. Trade and other payables, dividends payable, liability component of the convertible debentures and bank debt are classified as financial liabilities at amortized cost and are reported at amortized cost. The fair values of trade and other receivables, trade and other payables and dividends payable approximate their carrying amount due to the short-term maturity of these instruments. The fair value of bank debt approximates the carrying amount due to the floating rate of interest and the margin charged by the syndicate is indicative of current credit spreads. The fair value of convertible debentures was determined based on the trading value on the Toronto Stock Exchange at the reporting date.

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

Commodity price risk

The Company is exposed to commodity price risk on petroleum and natural gas sales. Commodity prices for crude oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand.

At June 30, 2020 Cardinal had the following commodity financial derivative contracts outstanding:

Type of Instrument	Remaining Term	Average Quantity			Average Strike Price	Fair Value
CDN WTI Swap	July 1, 2020 - July 31, 2020	2,000	bbl/d		$ 47.00	(393)
CDN WTI Swap	July 1, 2020 - August 31, 2020	1,000	bbl/d		$ 41.23	(748)
CDN WTI Swap	July 1, 2020 - September 30, 2020	3,500	bbl/d		$ 53.48	3
CDN WTI Swap	July 1, 2020 - December 31, 2020	4,000	bbl/d		$ 52.16	(1,111)
CDN WTI Swap	October 1, 2020 - December 31, 2020	2,000	bbl/d		$ 54.30	75
CDN WTI Swap	September 1, 2020 - January 31, 2021	1,000	bbl/d		$ 43.80	(1,541)
CDN WTI Swap	January 1, 2021 - December 31, 2021	1,000	bbl/d		$ 55.00	25
CDN WCS Swap	July 1, 2020 - September 30, 2020	1,000	bbl/d		$ 37.00	(247)
CDN WCS Swap	July 1, 2020 - December 31, 2020	750	bbl/d		$ 28.93	(960)
CAD WCS Basis Swap	August 1, 2020 - August 31, 2020	2,000	bbl/d		$ (12.86)	65
USD WCS Basis Swap	July 1, 2020 - September 30, 2020	500	bbl/d	US	$ (16.50)	(364)
USD WCS Basis Swap	July 1, 2020 - December 31, 2020	1,000	bbl/d	US	$ (15.10)	(668)
CDN MSW Swap	July 1, 2020 - July 31, 2020	250	bbl/d		$ 27.50	(173)
AECO Swap	July 1, 2020 - December 31, 2020	2,000	gj/d		$ 1.74	(87)
						(6,124)

Cardinal limits its credit risk by executing counterparty risk procedures which include transacting only with members of the syndicate for our credit facilities or institutions with high credit ratings and by obtaining financial security in certain circumstances. Based on June 30, 2020 commodity prices, a $1 per barrel change in the price of crude oil would have changed the unrealized loss by $2.6 million (2019 – $2.5 million of unrealized gain) and a $0.10 per gigajoule change in the price of natural gas would have changed the unrealized loss by $0.1 million (2019 – $0.2 million of unrealized gain).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The financial liabilities on the balance sheet consist of trade and other payables, fair value of financial instruments, bank debt, and convertible debentures. Trade and other payables and bank debt (see note 5), and the convertible debentures (see note 6) are considered due within one year. The fair value of financial instruments are considered due between one and two years. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities. The Company has had no defaults or breaches on its financial liabilities.

Due to the recent economic downturn caused by the COVID-19 pandemic, it has significantly increased Cardinal's exposure to its risks. The Canadian federal government announced various programs designed to help ease and stabilize the impact on its economy. Cardinal continues to pursue avenues of liquidity including those with our current lenders as well as more subordinated, alternative and Mezzanine options that still appear to be available to market participants to support our business through the current environment (see note 2).

14 CONTRACTUAL OBLIGATIONS

At June 30, 2020, the Company had contractual obligations as follows:

	2020	2021	2022	2023	2024	Thereafter
Trade and other payables	33,995	-	-	-	-	-
Lease liabilities	1,141	1,862	1,293	1,038	9	-
Bank debt	-	217,206	-	-	-	-
Convertible debentures	46,896	-	-	-	-	-
Total contractual obligations	**$ 82,032**	**$ 219,068**	**1,293**	**1,038**	**9**	**-**